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JANE McMILLAN, anchor:

Was the California Public Utilities Commission aware of any concerns about PG&E's high pressure gas lines prior to the San Bruno explosion?

Mr. MICHAEL R. PEEVEY (President, California Public Utilities Commission): The answer to that question is yes, but that's part of a generic answer that we can get into.

Unidentified Announcer: Welcome to KCBS IN-DEPTH, a discussion of one of the topics making news this week. This is KCBS IN-DEPTH.

McMILLAN: Our guest on KCBS IN-DEPTH is Michael Peevey, president of the California Public Utilities Commission. First appointed by Governor Ray Davis in 2002, he began another six-year term in 2008 at the request of Governor Arnold Schwarzenegger. Before being appointed to the CPUC, Mr. Peevey was president of New Energy Incorporated. And for a total of 16 years, was a senior executive and then president of Edison International, a Southern California Edison company.

The California Public Utilities Commission regulates privately owned power, water, telecommunications, transportation companies and services. It has a five member governor-appointed panel of commissioners. It's now a key player in the investigation of the deadly San Bruno gas pipeline explosion and fire which all but obliterated an entire neighborhood.

Mr. Peevey, welcome to IN-DEPTH. We appreciate you being here. I am Jane McMillan with KCBS news director, Ed Cavanero. We started--

Mr. PEEVEY: Thank you.

McMILLAN: Thank you.

We started with that question about the previous concerns of any high pressure natural gas pipelines. And you said, 'Yes, but that's a much deeper question.' So let me allow you--

Mr. PEEVEY: Well, I mean, yes. And I mean by that simply that as part of our ongoing efforts at the Public Utilities Commission, as well as the Federal government, the National Transportation Safety Board, we're always concerned about pipelines, whether they're owned by PG&E or the Southern California Gas Company, or San Diego Gas & Electric, and so forth.

And there's an ongoing program to try and ensure that they are safe. And we provide the funding to do that. And the utility itself has a list of those pipelines that, let's say are most sensitive, or oldest, or probably, you know, have a--at some time in the next couple of years, have to be repaired or replaced.

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So it's an ongoing program that the--that PG&E in this case runs. And all across the United States, the gas companies that provide service to homes and businesses provide and do (sic).

ED CAVANERO, news director:

We'll get more into that relationship between the PUC and PG&E, and everything that's going on with the investigation. But before we get into that, what were your first thoughts when you heard what happened that night?

Mr. PEEVEY: I was crushed the first I heard about it. Honestly, it's so--I just came from the funeral for Jacklyn Greg (sp) at St. Cecilia's Church here in San Francisco for her and her daughter. Well over a thousand people were at the church.

Jacklyn Greg was an employee of the Public Utilities Commission. She was not only a public employee--commission employee, she worked in the gas area. So part of her job was monitoring the efforts of companies like PG&E and gas.

So to learn first, on late Thursday night, that she was missing along with her daughter. And then, you know, over the weekend, subsequent events indicated that she had died in this blast instantaneously, her and her daughter. Was not only very tragic for all obviously, but it hurt myself and many of us who knew Jackie very very deeply. And it still does. And that's why I was at the--at St. Cecilia's.

I can't get across to you the empathetic feeling that we have, where the employees of the PUC are contributing to the family. The father and the older daughter had just left the house and gone off to school. And the mother and the other younger daughter who was the 8th grade president of St. Cecilia's grammar school in San Francisco, were going to leave, too, as I understand it.

And it just shows you frankly, Ed, how all our lives hang by a thin--a thin reed, you know. At any time, something can happen as catastrophic as this, or an airplane crash, or what have you. I guess it's the luck of the draw. But it has--it's created in my--myself and, I think, many of the people at the Commission, you know, a deep seeded feeling of really discomfort and unease, and--and wanting to help the family. And realizing that when it's over, it's over.

CAVANERO: And you, as a president of the utility commission yourself, has anything like this ever happened in your career that you were this close to?

Mr. PEEVEY: Yes, it did. When I was at Southern California, I was senior officer of Southern California Edison. This is 20 plus years ago now. We had a power plant in Nevada. And the--a main--a large water pipe, scalding water ran through the employee dining area. And when much of our employees were in there in the morning on a break, on one of their breaks. The pipe burst and over six people were killed and many others injured.

And, you know, when you're an officer of a company, you take--at least, in my case (unintelligible--slurred speech), you always feel these things very personally. And so that was one.

And we also used to have--remember, the old days, I don't know what we call them any more--we used to call them manholes. And every now and then, these manholes would pop at a shopping center and fly. Oh, they weigh hundreds of pounds. And we--we had a--a couple of disks at a shopping center, at a--where an Edison manhole had blown. And I was in charge of that area at the time as a vice president of the company. And I decided this wasn't going to happen any more on my watch. And we redirected a couple million dollars to the safety of these underground vaults where they blew.

So I have been exposed to this kind of situation. And it's always the most wrenching when you know the person or people involved. But it's wrenching in any case.

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McMILLAN: Let's talk then about the relationship between the PUC and PG&E your commission regulates overseas. But if you could explain to us really what kind of authority or control the commission has over one of only two power providers in the entire state. I mean, really, what are the options?

Mr. PEEVEY: Well, there's a lot of power providers in the state. But in Northern California, it's PG&E unless you live in Marin County now and want to have what's called Community Choice Aggregator. Or Palo Alto, which--actually, there's quite a few municipals: Santa Clara, Palo Alto, Hillsburg. Sacramento, far and away, the biggest.

But we didn't--basically, in Northern California, PG&E is the monopoly provider. We are their regulator. And we have a large staff that oversees them. It's not micro management on a day to day basis, every decision that they make. But we are their--their overseers. And we have the ultimate authority over them. When we ask them or tell them, or request of them as I did a week ago Sunday, to provide certain information and documents, and to reduce--reduce the pounds per square inch in those pipes by 20 percent, they have to do it. We ordered it, they've done it. That's to reduce the pressure. That's a short-term solution to any potential additional problems in that immediate area of San Mateo County and the peninsula.

But we have ultimate authority. We can fine the company. We could fine them very--to very large amounts of money. We set the return they make, the profits. We approve their budgets.

McMILLAN: Having said all that then, before the San Bruno incident, were you, as a commissioner--

Mr. PEEVEY: Accident, not an incident. It was an accident. A terrible accident.

McMILLAN: Well, the investigation's still out, so I'll call it an incident.

Mr. PEEVEY: I don't like the word incident because it tends to make things more modest, imply that they're more modest. But we won't quibble over the words. Go ahead.

McMILLAN: Prior to the San Bruno accident or incident, were you, as the president, comfortable with the ability of your commission to exert the authority that you do have? And I ask that because we're reporting, and the Chronicle is received--gotten paperwork saying that PG&E was looking for approval from state regulators to take a look at the risk of corrosion in some of the--the Bay Area pipelines, including the segment that was involved in San Bruno?

Mr. PEEVEY: Well, PG&E spends millions of dollars a year on pipeline safety that we approve. That was on--that's ongoing. I was not overly concerned about PG&E pipeline safety. And let's not jump to conclusions here. We don't know. We honestly do not know what the cause of this particular--this eruption was.

However, there had been an accident on the PG&E system at Rancho Cordoba outside of Sacramento 18 months earlier. And the National Transportation Safety Board, the Federal body that looked into this in-depth, along with people from the PUC, concluded that there was inadequate management oversight and other things. So we have been concerned, but we didn't--I certainly didn't feel that there was any imminent danger here.

McMILLAN: Our guest on KCBS IN-DEPTH is the president of the California Public Utilities Commission, Michael Peevey. I'm Jane McMillan with Ed Cavanero.

CAVANERO: In the wake of this disaster, what concerns you most as the PUC president going forward in the whole gas line system throughout the state?

Mr. PEEVEY: Well, let's stick with the PG&E system for the moment, because we have ordered a number of things be done on the PG&E system. And there--and they are complying as quickly as--as they possibly can.

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But my biggest concern is that this is not necessarily that there'll be another pipeline explosion. That's highly unlikely, although anything is possible as we just saw, but is a more systemic problem of inadequate, perhaps, and I don't want to prejudge, but inadequate management control within the company in this area. Or another way of looking at it is that they don't have--they may not have the same level of expertise as baby boomers retire, and as the company undergoes various transformations, as they may have had in the past.

So I am interested in--and in our--actually, I'm in the throes right now, as we--not ready to publicly name any individuals--of creating a independent review panel of experts that will look at this accident, you know, both in terms of causation--and we'll share that with the Federal government--but in addition to the immediate accident, to look more systemically at the overall management and department of the company in this whole area of gas, as well as infrastructure.

The fact of the matter is that pipe was--had been there for 50 or so years. We have a problem, not only here in Northern California, all across the United States, that our infrastructure is aging. We have to make improvements in it. I think this is gonna--this accident and others will bring that more to the fore.

So I'm interested in--in seeing and putting together a group of people outside of the Public Utilities Commission, outside of the utility industry, although they have to have some knowledge of all these things, to look independently at how we--even how we at the PUC perform our job, let alone how PG&E performs its job, and make recommendations in the period of six to eight months from the time it's created. And I hope to have such a thing created in the next few weeks.

CAVANERO: One big cause of concern is how long it took the gas to be shut off, almost two hours after the explosion. Were you surprised that they were still having to use manual shutoff valves, and how long it took for them to get to them?

Mr. PEEVEY: Well, obviously, we're deeply disappointed in how long it took to get to them. It took--I think it was really an hour and 20 minutes. But the--the same two people had to go from one end of the--the pipe and then go North to turn off both ends because they were manual shutoff valves. So that's one of the--clearly the things that--automatic shutoff valves are not needed in every instance. But they certainly would have made a difference in this, in the terms of the fire and the homes--additional homes damaged. But the initial burst is what was the most deadly thing, and it wouldn't have done anything in that regard.

But yes. You know, this happened a little after 6 PM. And they--the company--this is a time when there's a changeover in the workforce. And people had to drive there. And PG&E says, 'You know, our people got caught in heavy traffic and couldn't get through quickly as they wished,' which undoubtedly is true. But--but at the same time, you would have thought and hoped that they would have had somebody that could have been dispatched at the Southern end and the Northern end of the pipe at the same time, you know. That's--these are the very practical managerial considerations that--I mean, I can't micromanage the company and be standing with them next to their truck to make sure these things happen. But you would think the culture was such, that safety was always number one.

And there's some reasons to--to--I believe that the company believes that they put safety number one, but belief in putting it number one and the actual provision of it sometimes can differ.

McMILLAN: Your commission though, as you said, has authority over PG&E. You're the controlling body. Have--has the commission asked PG&E or any other companies to present what they would do in an emergency, how they would react, where strategic shutoff valves are? I mean, I think it would be fair to say that people listening would say, 'Yeah, it's OK to hope that the company does that.' But if you're the regulatory body, don't you make sure they do?

Mr. PEEVEY: Yes, yes. It's up to us to make--that is our responsibility. But as I said, we can't micromanage every little detail of their operation. They're supposed--as part of best practices, they're

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supposed to be able to do this. I'm not saying they didn't do this. I mean, I--it's--it's a little--it's very disappointing to me that it took that long to turn off. But that was not--that's not what created the fatalities, just so we--we understand. That's not what caused the--the line to break. We're just talking about turning off the line.

And obviously, you don't--you don't need automatic shutoff valves out in the middle of the desert. But I think it's a fair thing. And let some legislators talk over about having these now, and certainly in urban areas.

McMILLAN: Hindsight is always 20/20, but...

Mr. PEEVEY: It is always 20/20.

McMILLAN: ...the questions are, you know, coming out. And there was loss of life and property, and it's a public commission that oversees this agency. So some of the questions are PG&E's cutbacks on personnel. Is this an issue for service and safety? Were there smart meters? Had there been a physical meter reader coming out, might someone have smelled gas? There's no way to know that yet. But--but are you, as the--the president of the commission concerned about a cutback in personnel for PG&E? Do you think that technology can replace those--that expertise that you mentioned?

Mr. PEEVEY: Well, let's parse this out into pieces. I just spoke, and I--and I think you implied that it would have been nice if we would have had automatic cutoff valves. That is not human beings going and turning--turning things off. I think technology is very appropriate in many cases.

I'm not concerned about the cutbacks. There hasn't been any significant cutbacks in PG&E employment. I--I'm concerned about the--the proper use of the employees they have in the most effective way. And, you know, they have a heavily unionized workforce. I think that, you know, you may want to talk to some of those people about some of these issues, too.

But I do--I do think that they have a public--they're a public utility. They're regulated by the state of California, as well as the Federal Energy Regulatory Commission. They--they are in a position of requiring public trust. And we expect the to really perform very very well in that regard.

CAVANERO: As you know, most, if not all the people affected by this were unaware that there's this big main gas line running right under their street there. Should gas lines of that size be located in densely populated neighborhoods?

Mr. PEEVEY: Well, ideally, absolutely not. But the gas pipeline was there before most of the homes were there. It's like--the constant problem we have with airports, right? You build an airport, you think it's way out in the boondocks. And 20 years later, there's houses because of the zoning and everything, that go right up to the line. To replace that line and put it on a different route, let's say, parallel to 101 or something like that, is very costly. And the safety record--I have to--I have to say, the safety record on pipelines all across the United States has been very good. It's not perfect. We do have explosions in other states in pipelines. Sometimes they happen in remote areas and nobody thinks anything about it. But you just don't just decide willy-nilly, to--to build a new pipeline. They're expensive.

And that's one of the things that--that I find, you know, kind of concerning here is that some of these--some groups and organizations that now say, 'PG&E's not doing enough or spending enough money' are the same groups coming before the Public Utilities Commission and say, 'Cut their budget. Don't let them spend the money,' you know. And that's a dilemma for people like myself where, as a public official, you try to do a bouncing act. You don't want rates going way up, but your absolutely number one has to be public safety. And trying to balance these things out is--is not easy. And, of course, we're seeing it in this instance.

It's been a week now, and it's--we're only--we're only at the beginning of this, I'm afraid. I mean, it's going to go on and on. It's gonna be--we've got the Federal government investigation. We've got the state

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government investigation. There'll be legislative hearings. There'll be congressional hearings, and on and on. What we--what concerns me most is I--I hope that this is not a systemic problem. I worry that it could be. And I want to get to the bottom of that. I--I think that's my responsibility to the public, to the state of California as president of the Public Utilities Committee; myself, and my fellow commissioners, as well as all the employees there. We have a heavy duty here to protect the public and particularly, public safety.

CAVANERO: With that concern in mind, should people who live near those big lines be notified and be made aware of that danger?

Mr. PEEVEY: That's a--that's a tricky issue. There's a selfish concern that people would have if--if all this information came out about the possibility of seeing their property values drop very sharply. So people have heard two sides of this--this question.

Then there's the home--the national--the Department of Homeland Security questions about it. Do we want to publicize where some of these high pressure gas lines are, and make--if--if we have a problem with terrorists, and I know we do, we just don't know the full dimension of it. Do we want to chance that? That's something that frankly, I think the PUC and the Federal government are going to have to work through in the next few months. Because a big part of me says people should know, absolutely do, what happened. We're not talking about the little gas line that comes into the house. We're talking about 30-inch pipes, 24-inch pipes, even 36-inch pipes. And yet, there's also the concerns that I expressed, even of homeowners themselves that concern (sic). That's the reality. I'm talking about harsh reality here. I'm not talking about the way, you know, people just pop off: Everybody ought to know everything. Put the maps out there. Show everything. That's--that sounds appealing at first blush. But if you start thinking it through, you--you say, 'Well--you pause, and that's all I'm doing is pausing. I'm not making a conclusion.

McMILLAN: Our guest on KCBS IN-DEPTH is the president of the California Public Utilities Commission, Michael Peevey. With Ed Cavanero, I'm Jane McMillan.

A moment ago, you mentioned rates and--and money, and the balancing act. Could you explain to us how the money and the rates work and the rules surrounding it? And I bring this up because earlier in the week, there was a turn the consumer group was talking about how PG&E had come before the commission requesting money to address some at risk pipelines. Not the one involved in San Bruno, but in the Bay Area. And that--that it was--a rate hike was approved for that. But then, that work was diverted or delayed. So what are the rules about when a rate hike is approved. And then, is it specifically for repair? And does it have to be done under the calendar year, or does the company have discretion?

Mr. PEEVEY: The answer to all those questions is yes. Every single one you asked, including the last one, which is, does the company have discretion? The company constantly repairs and updates--and we're going to make this public, either at the end of today or over the weekend, or Monday at the latest, 'cause we've asked PG&E to provide it to us--the hundred most critical pipelines in terms of--large ones--in terms of necessary repairs.

But that's a moving target. It changes all the time. I mean, number 96 drops off because you find something and you--because they do constant inspections, that this one that gets--replaces it, and so on and so forth. So what happened is in--in this most recent instance, PG&E spent more money on gas pipeline safety than we approved at the PUC. They did go beyond that point. I'm not saying they went way, way beyond that point, but they did go beyond that point. But they didn't spend it exactly on the things that they said they were going to spend it on because other facts intruded. And so they--they moved it--moved around their own priorities. That's the kind of thing that they should be able to do. They can't--they shouldn't have to call me or the staff up and say, 'We want to move from number 97 to number 92 right away. Can we have permission to do that?' And everybody at the PUC scratch their heads and say, 'I don't know,' and all that kind--we don't want that. You want them--that's their responsibility, and we have to hold them accountable and responsible for it. And that's what we're trying to do.

So the fact is that they spent all the money that they asked for for gas pipeline safety and more. But it

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didn't solve this, or end this. We still had this terrible explosion, whose cause, none of us know right now. It is many factors that could be involved in it, from land--movement of land, very small earthquakes that we're not even conscious of and the residents aren't conscious of.

Two, excavation, therefore, sewage treatment. All these kind--all these kinds of things could affect it.

And let me just say one other little comment. Just to give you perspective on how big some of this is in collecting data and putting all this together. We asked PG&E, of course immediately. People said that they smelled gas. Was there--what's the evidence there? There were complaints about that. They checked three million phone calls. It was one--it was one person that apparently--this is according to them--that did--that did actually complain about gas. And it was because their own oven--stove was not working properly.

So, you see the difficulties in--in grappling with some of this. We're trying to get our hands around this, just like the National Transportation Safety Board, trying--about all the various pieces in this. And every day, something new comes out. Someone looks at something new and--and says, 'What about that? What about that?' And then I have to say, 'Well, gee.' I have to turn to my staff in many cases and say, 'Did you know about that' and try to sort it out so we can have an intelligent, you know, conversation on shows like this.

McMILLAN: As all the information continues to come out, and as you said, it will for a long time, but is the commission looking at things you want to change now, having been asked so many questions? Are you looking at ways you want to change maybe the reporting system back to you from utilities and--and organizations that you oversee?

Mr. PEEVEY: I think that's a very--that's a very fair question. And the answer is I'm sure there's some improvements that can be made there. And that's why I want someone else outside the PUC that doesn't have an axe to grind, or doesn't feel a need to protect anything to take a look at this.

I mean, here, as I said earlier, I--I'm appointed by the governor. I'm at the age in my life, I have no other goals or dreams. I just want to do the right job, whether it's on renewable energy, whether it's on energy efficiency, or whether it's on pipeline safety for the people of California. I take--I take the trust that I've been given by the governor and the legislature who approved my appointment very seriously.

If there's shortcomings in what we're doing at the Public Utilities Commission, I want others who can look at it objectively to tell me.

CAVANERO: One question you have to be looking at, I'm sure you've thought about the commission and the staff are focused so much on the rate, because it's so complicated, all the calculations and the engineering. Not just for gas, but electric. Has the focus been too much on rates and not enough on safety issues?

Mr. PEEVEY: I wouldn't say that. I think that we have a--a good focus on safety issues. But here's the thing, Ed. Daily, weekly, you--people complain about rates. The tiers are too high. You got this, you got that. Smart meters, you put 'em in (unintelligible-slurred speech) county and people go, 'You know, the meters are causing the--the rates to go up.' I mean, we spent a million and a half dollars on an independent study by consultants to conclude that there's nothing--there's nothing in the meter. No little gnome, or a magician or something that's tweaking the meter. The meters are very very accurate. But there was a management problem at PG&E in doing this.

But people focus more on rates than on safety on a day to day basis. You, and I'd say all of us here, just assume the system is safe. The electric system and the gas system, we assume it's safe. And you have a right to assume that. It's my job to make sure it is. And if it's not, you know, then we have to do the kind of things we're doing.

But every day, every month, you get the bill on your rates. And you say, 'Oh, my God, it's \$30 more than

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it was last month, you know. What the hell's going on?' Excuse me, 'What the heck's going on,' and so forth.

I mean, that's the human--and for PG&E, it's particularly complicated because you have that--you're paying both gas and electric. In Southern California, you have different companies providing it. So there's a lot of hue (sp) and cry about rates. And consumer groups, bless their souls, but the consumer groups focus almost exclusively on rates because that's the thing that they can dramatize and get media coverage on and--and come out and, you know, picket the building and have signs saying, 'Don't approve this rate increase,' and all that. They don't focus on safety. It's up to those career employees to focus on safety.

CAVANERO: As we close, where do you want to focus your attention after this disaster?

Mr. PEEVEY: I want to focus our attention on making sure we don't have anything like this ever happen again in California, north or south.

McMILLAN: Mr. Peevey, thanks so much for your time and your expertise.

Our guest on KCBS IN-DEPTH has been the president of the California Public Utilities Commission, Michael Peevey. With KCBS news director, Ed Cavanero, I'm Jane McMillan.