

March 21, 2011

Paul Clanon
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. Clanon:

The San Bruno accident has been one of the most tragic and difficult events in our Company's history. It has forced every employee of the Company – including me – to ask how it could have happened and what we could have done to prevent it. We are determined to find the answer to both of these questions – whatever those answers may be.

During the past six months, my top priority and the top priority of our entire senior management team has been to take a hard look at the organization, including its culture and performance, and ask ourselves what we must do immediately and what we must do over the next several years. We are not waiting for the investigations to run their course. Nor are we waiting for the Commission to complete its rulemaking on new safety and reliability regulations. We are moving now to enhance the safety of our operations in a direct and concrete way. The purpose of this letter is to update the Commission on these activities.

Organization and Culture

More than anything, the San Bruno accident has convinced us that we need sweeping change. The change needs to be organizational and cultural.

Organizationally, we are making significant changes to our management structure. Gas and electric operations will each be overseen separately by a dedicated officer at the senior vice president level, both of whom will report directly to the utility president. This new structure will create clearer oversight and accountability for both lines of business at the senior officer rank.

Our global search to fill the position of senior vice president of gas operations is well underway. Working with a premier global executive search agency, we have interviewed three highly qualified candidates, plan to interview two more and hope to extend an offer during April or May.

Importantly, this new senior vice president will have the authority to make the additional organizational and other changes needed to change substantially the culture of our gas business. He or she will be charged with looking at all aspects of the business – from integrity management to design and engineering to operations – with a keen eye towards embedding in everything we do an unwavering commitment to public safety. We have repeatedly emphasized this critical element of the job to candidates for the position, and we will not hire any candidate unless we are convinced that they understand and fully embrace this aspect of the job.

Board Oversight and Involvement

Last November, our Board of Directors engaged the services of Process Performance Improvement Consultants, a unit of the Blacksmith Group. The firm is now conducting an independent review and evaluation of our safety practices for gas transmission and distribution. Blacksmith Group is one of the nation's leading pipeline engineering and operations firm. It will identify model practices in the industry and make recommendations to make PG&E's performance among the leading industry practices. Its recommendations will serve as the basis for undertaking longer-term steps to enhance the performance of our gas business. The Group's final report is due in August 2011, although the Board will receive interim reports as its work continues.

Enhanced Expertise

We have retained and embedded in our gas organization a number of specialized firms that will enhance the level of expertise available to support our gas business. These firms are assisting with records validation work, process improvements, efforts to improve inspection technologies and techniques, and risk management.

To assist us with developing a centralized, electronic database of records information for our pipeline system, we have retained, among others, Celerity, PRTM, Energy Experts International, Gas Transmission Services, and PriceWaterhouseCoopers.

To help us review our pipeline integrity practices, we have engaged Penspen Integrity. Penspen specializes in pipeline integrity assessment. They are assisting us as we align our practices with industry leading standards and as we look at those practices to assure they comply fully with both the letter and spirit of the regulations.

To help us develop enhanced processes and protocols for identifying, evaluating, monitoring and managing potential risks across the gas system, we have

engaged WKM Consultancy. WKM specializes in developing pipeline risk management models that assist pipeline operators in making risk-based resource allocation decisions.

To advise us on the development of criteria as to when a pipeline should be hydro tested, replaced or inspected using in line tools (pigged), we have retained DNV Consulting, RCP, and C-FER Technologies.

We have retained CH2MHill to provide program and project management services for our hydro testing program. We are also engaging our alliance of construction contractors to assist with the increased construction needs resulting from the hydro test program.

We have also retained John Kiefner who is a leading authority on hydro testing. Kiefner is acting as a technical advisor to the company on hydro testing and MAOP validation issues.

To assist us with our Pipeline 2020 Valve and Pipeline Program, we have retained a number of consultants. They include Gulf Interstate and EN Engineering, who are providing detailed outside engineering expertise to benchmark and critique this activity.

Immediate Actions to Enhance Public Safety

We have already taken a number of immediate actions to enhance public safety and are moving ahead quickly with others. In many of these cases, we have relied on the expertise of our outside consultants (described above) to bring a fresh perspective and industry-wide expertise and to help us better understand what we and the industry can learn from the San Bruno accident. In some of these cases, we have acted pursuant to Commission Orders, which we immediately agreed to satisfy. But in all of these cases, our actions are focused on improving public safety.

First, we reduced pressure to 80% of MAOP on certain of our pipelines installed prior to 1962. Implementing this pressure reduction required numerous operational modifications which we successfully implemented. As a result, this pressure reduction has had no impact on any of our customers.

Second, we completed an accelerated gas transmission system aerial and ground leak survey. We provided the Commission on October 25, 2010 with our initial report on the survey. We completed the survey on November 19, 2010. On February 1, 2010, we submitted our report on the survey, including our analysis of the trends associated with leaks identified during the survey.

Third, we took proactive steps to enhance gas control operations. We increased staffing levels, adding six new positions. We standardized the gas system operators' callout procedures, simplified and centralized contact information for personnel, and established an emergency command mode regarding critical events. And we are developing a new standard protocol for managing alarms and reviewing with an eye towards substantially revamping our operator training regimen.

Fourth, we met with first responders at the local and state level in many parts of our service territory. We also conducted benchmarking on public safety partnerships with utilities known for their expertise in emergency planning. From this work, we have defined what we believe is a best-in-class approach. We are now working to design a program based on this information. And there is a growing consensus on the value of a single, statewide approach, including a common plan and joint exercises and training. As an additional step, we are now piloting efforts to merge our GIS pipeline data with systems used by first responders. These pilots are now ongoing in San Francisco, Fremont and San Bruno. In addition, the Industrial Emergency Council is providing outside expertise as we continue to develop plans, training, and prevention programs.

Fifth, we have launched a new interactive online tool using Google technology that allows customers to find the location of gas transmission pipelines in their own neighborhoods.

Intermediate and Long-Term Actions to Enhance Public Safety

We have developed and announced a long-term initiative aimed at modernizing our pipeline infrastructure and advancing industry best practices in several areas – the Pipeline 2020 program.

As part of this program, in 2011, we plan to hydro test or replace 152 miles of HCA pipeline. These 152 miles represent the 699 pipeline segments for which we have not yet located pressure test records or for which the records contain either: 1) pre-1962 24 to 36 inch double submerged arc welded pipe or 2) pre-1974 seamless pipe greater than 24 inches in diameter. We selected these criteria for 2011 field actions because these pipeline segments have common characteristics with the records for the ruptured segment of Line 132. We have put into place a dedicated group of employees focused solely on completing these tasks. We are looking for innovative ways of expediting the permitting process associated with hydro testing and of arranging for the necessary engineering and operational coordination necessary to complete the testing in this greatly shortened period.

Starting in 2012, we will perform field work on the remaining 436 miles of HCA pipelines that have not been pressure tested or that have potential issues identified by the industry. We intend on completing this field work expeditiously.

In addition, to help address current limitations to using inline inspection techniques in some parts of our system, we are working with a leading technology company to develop a potential solution. We are exploring the use of an internal pipeline remote-controlled vehicle with a high definition camera. The tool would have the ability to negotiate pipeline diameter changes and back-to-back bends and tees. Ultimately the tool would be capable of examining lines without the need to shut down service to customers.

Finally, we plan during this year to install approximately 12 automated valves and over the next three years we anticipate installing a total of 150 valves.

Summary and Conclusions

I hope that this letter has conveyed the depth of our commitment to learn from the San Bruno accident, and to do what we must to make sure that nothing like it ever happens again. We have undertaken these activities, even as we and the Commission deal with the thousands of questions that need to be answered so that the causes of the accident are understood fully and corrective actions properly identified and implemented.

As we have emphasized already, our goal is to set a new and higher standard for safety performance among natural gas utilities in California and across the nation. The efforts we are now undertaking are the first step in this process. We know this goal will take years to fully achieve and that we cannot achieve it alone. To be successful will require ongoing engagement with the Commission and other stakeholders. You have my personal commitment that we will work collaboratively and constructively in this effort. I look forward to answering any questions you may have about our activities and to discussing with you how we can work together to achieve our common objectives.

Sincerely,

