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Subject: CPUC Receives Report on PG&E San Bruno Pipeline Rupture From Independent Review Panel: CPUC Press Release

FOR IMMEDIATE RELEASE **PRESS RELEASE**

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CPUC RECEIVES REPORT ON PG&E SAN BRUNO PIPELINE RUPTURE FROM INDEPENDENT REVIEW PANEL

SAN FRANCISCO, June 9, 2011 - The California Public Utilities Commission (CPUC) today said that the Independent Review Panel it formed to investigate the September 9, 2010, explosion of a Pacific Gas and Electric Company (PG&E) pipeline in San Bruno has issued its report. The report concludes that the pipeline rupture was "a consequence of multiple weaknesses in PG&E's management and oversight of the safety of its gas transmission system," and that the CPUC "did not have the resources to monitor PG&E's performance in pipeline integrity management adequately or the organizational focus that would have elevated concerns about PG&E's performance in a meaningful way."

Because the National Transportation Safety Board (NTSB) has principal jurisdiction over the investigation of the failure of the pipeline, the Panel did not make a finding regarding the root cause of the rupture. However, the panel and its consultants reviewed the NTSB's materials and a report released by the Interstate Natural Gas Association of America Pipeline Safety Committee. The Panel's expert, Dr. Robert Nickell, also conducted an independent analysis. As a result, the Panel believes third-party construction activity could have played a key role in transforming a fabrication flaw in the pipeline from a "stable" to an "unstable" threat, ultimately triggering the incident. The Panel's investigation and findings are not tied to any root cause. The report focuses on PG&E's operation of the pipeline and the CPUC's oversight of PG&E.

The five-member Panel's report details numerous shortcomings in PG&E's Pipeline Integrity Management Program, including a lack of management focus on how system integrity would be managed; the lack of an overarching effort to centralize diffuse sources of data; not taking programmatic actions to prevent or mitigate threats; not embracing the spirit of pipeline integrity regulations; lack of organizational effectiveness, including no clear divisions of responsibility between gas transmission and gas distribution functions; poor resource allocation; lack of a quality assurance program; and lack of a strategic plan to improve the integrity of its gas transmission system. The Panel believes that some form of separation of PG&E's gas business from its electric business is needed to sharpen the company's focus on the gas business, and noted that it would have recommended PG&E create a top leadership position for its gas business had the company not announced such an action during the period of the investigation. The Panel also reviewed PG&E's "Pipeline 2020" program, which the company announced following the pipeline rupture, and did not find it to be well reasoned or based on a thoughtful examination of alternatives.

The Panel's report discusses issues that it says contribute to a dysfunctional company culture at PG&E, including excessive levels of management, inconsistent presence of subject matter expertise in the management ranks, appearance-led strategy-setting, an insular mindset, and an overemphasis on financial performance.

The Panel made a number of recommendations for PG&E to consider, including:

•□□□□□□□ Undertake an immediate and thorough review of the integrity management threat assessment methodology and consider changes to the default assumptions and interactive and cumulative threat analysis.

•□□□□□□□ Commission an independent operations and management audit of the gas transmission and gas distribution functions, including an organizational, staffing, and skills assessment of the two distinct functions.

•□□□□□□□ Establish a multi-year program that collects, corrects, digitizes, and effectively manages all relevant design, construction, and operating data for the gas transmission system and which leads to a multi-year capital program, based on sound risk criteria.

•□□□□□□□ Conduct a study of its gas operations supervisory control and data acquisition needs with the goals of improving: 1) the visibility of the transmission operations to system operators, 2) the ability of automation to sense line breaks, 3) the ability to model failure events, and 4) the capability to transmit schematic and real-time information to pipeline field personnel. When completed, establish a multi-year program to implement the results of the study.

•□□□□□□□ Ensure all individuals in top management, who have direct responsibility for

managing the operation of the natural gas system, have thorough knowledge of gas transmission and distribution operations, and those individuals also have the management experience and style to engage with all levels of the organization in a meaningful way.

•□□□□□□□ Improve the risk management maturity of the organization by re-examining the entirety of the work done to date, including review by the Board of Directors, of the framework of management programs, actions, monitoring, and compensation that should be in place to ensure meaningful progress in reducing the risk of a catastrophic failure of the natural gas system.

Turning to the CPUC, the Panel's report notes several operational challenges within the CPUC's safety program, including a need for more engineers with U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration integrity management training; a need for staff work to be supported by a core set of highly qualified independent consultants with specialized expertise in gas integrity management; the challenges in ability to hire; an enforcement regime that lacks staff authority to fine large operators; and California laws mandating that extensive staff resources be devoted to inspections of mobile home parks and propane systems.

The report also notes areas where the CPUC's culture serves as an impediment to effective regulation, including challenges to keeping up with changing technology and regulations and moving to a regulatory model based on performance and effectiveness; the need for a renewal of commitment to the CPUC's mission and a re-examination of agency priorities; and specializations and silos that limit creative thinking.

The Panel made the following recommendations regarding the CPUC:

•□□□□□□□ Adopt as a formal goal, the commitment to move to performance-based regulatory oversight of utility pipeline safety.

•□□□□□□□ Commission an independent management audit of the CPUC's Utility Safety and Reliability Branch (USRB).

•□□□□□□□ Retain independent industry experts in the near term to provide needed technical expertise as PG&E proceeds with its hydrostatic testing program.

•□□□□□□□ Improve the interaction between the gas safety organization and the Division of Ratepayer Advocates of the CPUC so there is an enhanced understanding of the costs associated with pipeline safety.

•□□□□□□□ If indicated, seek approval from the State Budget Director for an increase in gas utility user fees to implement performance-based regulatory oversight for all gas

utilities.

•□□□□□□□ Require PG&E to support its case for rate recovery of the costs of future investments in pipeline integrity by including state-of-the-art risk analysis of the full range of alternatives.

•□□□□□□□ Continue efforts commenced in January to implement the NTSB's Safety Recommendations regarding production of pipeline records by all the state's gas utilities.

•□□□□□□□ Revise the graduated enforcement framework to provide for the ability of the safety staff to levy civil penalties for violations.

•□□□□□□□ Institute a program for safety and pipeline integrity audits of the utilities.

•□□□□□□□ Examine the pipeline regulatory authority, duties, and capabilities of the Office of the State Fire Marshal (OSFM), and determine, as part of the independent management audit of the CPUC's USRB described above, if and how the enforcement responsibilities of the gas safety group of the USRB could be aligned with OSFM, including consideration of whether a transfer of the CPUC's gas transmission safety function to OSFM would improve the overall quality of the oversight of gas transmission pipeline safety.

•□□□□□□□ Upon thorough analysis of benchmark data, adopt performance standards for pipeline safety and reliability for PG&E, including the possibility of rate incentives and penalties based on achievement of specified levels of performance.

In addition, the Panel has recommended that the CPUC work with the California Legislature to enact legislation that would centralize the damage prevention authority in the CPUC by granting it the authority to adopt and enforce one-call notification, and replace the mandatory minimum five-year audit requirements with a risk-based regime that would provide the CPUC's USRB with needed flexibility in how it allocates inspection resources. The Panel declined to recommend that automated or remote shut-off valves be mandated by California law.

"I thank the Panel for their hard work and their dedication to this important endeavor," said CPUC President Michael R. Peevey. "I will recommend to my fellow Commissioners that we adopt all of the Panel's recommendations specific to the CPUC to the best of our ability and in an expeditious manner. We are committed to improving our internal processes and refining pipeline regulations in order to safeguard the public."

The Panel's report is available at www.cpuc.ca.gov/PUC/events/110609_sbpanel.htm.

The Panel is comprised of Chair Larry N. Vanderhoef, Patrick Lavin, Karl S. Pister, Paula Rosput Reynolds, and Jan Schori. More information on the Panel is available at http://docs.cpuc.ca.gov/PUBLISHED/NEWS_RELEASE/124860.htm.

For more information on the CPUC, please visit www.cpuc.ca.gov.

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