

From: Bottorff, Thomas E
Sent: 9/12/2011 8:29:46 PM
To: 'Peevey, Michael R.' (michael.peevey@cpuc.ca.gov)
Cc:
Bcc:
Subject: RE: [WCEA list] E&E: House Republicans summon all-FERC panel to askif EPA rules will hurt grid

Mike,
Thanks for sharing this. I'll let him know this week.

fyi; Tony's moving quickly to contact various stakeholders, including the press. Here are the Mercury News articles that will run tomorrow.
Tom

First Day at Work for New PG&E CEO

By Paul Rogers

Mercury News, September 12, 2011

In 1971, a young Navy officer proposed to his wife on the north overlook of the Golden Gate Bridge. Now, 40 years later, Anthony Earley is returning to the Bay Area, facing a new set of questions -- along with challenges, pressures and decisions that will affect millions of California residents.

Earley, 62, starts his first day of work today as CEO of PG&E, moving into an office on the 24th floor of PG&E headquarters on Market Street in San Francisco during one of the most difficult periods in the utility's 106-year history.

In a wide-ranging interview, Earley said his top priorities will be improving safety and rebuilding public trust a year after a PG&E gas transmission line exploded in San Bruno, killing eight people and destroying 38 houses.

"It's something that doesn't happen overnight. It's going to take a while," he said. "But what it is, is delivering on your commitments to customers -- whether it's delivering on the commitment to make sure your system is safe, whether it's delivering on the commitments to supply good information to customers, or just the day-to-day stuff. One customer at a time is what it is going to take."

Earley, the former CEO and chairman of DTE Energy, which runs Detroit Edison and Michigan Consolidated Gas Company, succeeds Peter Darbee, who stepped down in April.

He said much of his focus will be working with the victims of San Bruno and restoring PG&E's reputation. Four days after the explosion, PG&E created a \$100 million fund to help victims

and the city recover. But to date, only \$12 million has been spent on the victims and their families, with many saying that PG&E lawyers have spent too much time haggling with them over the value of their destroyed homes.

"I just can't imagine how difficult it is for those families to have lost loved ones, lost their possessions, lost their houses," said Earley. "And we need to acknowledge that it was a tragedy. And it's in the company's interest and their interest to resolve this as soon as possible."

Bill Magoolaghan, whose family home was destroyed in the San Bruno blast, said he wants the disaster to usher in permanent safety reforms. And he said Earley must understand the human toll it continues to take.

"If he wants to come and meet my family and look out my window to my devastated neighborhood and look at the pictures we took," Magoolaghan said, his voice trailing off,

"I hope PG&E and Mr. Earley appreciate the heartache this caused us."

The company is facing a financial headache that could easily eclipse \$1 billion. More than 300 plaintiffs have sued. State regulators are considering massive fines. And PG&E has proposed a major upgrade of its gas system to address problems found by the National Transportation Safety Board.

"The financial house has to be put in order. You have to figure out how you are going to pay for all this stuff," said Andrew Levi, a utility analyst with Caris & Co., in New York.

"Wall Street-wise, the image of the company has been hurt as well."

Levi said Earley is a respected name in the utility industry whose job is to reassure the public, investors and state lawmakers that PG&E is starting a new era. The company has \$1 billion in insurance, but it is still swirling in uncertainty.

"They aren't going to go bankrupt or anything like that, but the question is, what is the earnings power of the company?" Levi said. "Stability will be the key word. I'm sure that's his goal. Stabilize everything."

Last month, PG&E submitted a \$2.2 billion plan to state regulators to upgrade more than 1,000 miles of gas lines and install more than 220 automatic shutoff valves. But it ran into a buzz saw of criticism when it suggested ratepayers pay 90 percent of the costs.

Asked how much the company is willing to budge on that figure, Earley deferred. He said PG&E should have to pay for upgrades "that we caused because we didn't do the right thing." But new government requirements like automatic shutoff valves, which can cost hundreds of thousands of dollars each to install, should be funded by ratepayers, he said.

"To say you shouldn't put any of this in rates, I think is an unreasonable approach," he said. "But the company has to acknowledge that we bear responsibility and we're going to have to

pick up some of those costs. What the right number is, I don't know yet."

Earley, an engineer and former ensign at Mare Island Naval Shipyard in Vallejo, said he has committed to the PG&E board to stay "three to five years." Overseeing more than 20,000 employees, Earley will be paid a \$1.25 million salary, and receive a \$1.5 million signing bonus, along with \$6 million in stock awards.

Looking at other major issues, he said PG&E will continue rolling out smart meters, a technology he said modernizes the gas and electrical system by allowing, for example, the utility to more quickly start and stop service, and to respond faster to outages.

"I know there has been some objection to them," he said of smart meters. "Quite honestly, I think the objections are misplaced. The electromagnetic emissions from a smart meter are minuscule compared to what you get from all the other electronic equipment around your house."

Earley, who also sits on Ford Motor Company's board, was chairman of the industry's Edison Electric Institute when it negotiated a global warming bill that passed the Democratic-controlled House of Representatives in 2009. He called California's new law requiring 33 percent of electricity to come from renewable sources by 2020 "very aggressive," but said PG&E will meet the target, and will comply with the state's new regulations in 2013 requiring mandatory limits on greenhouse gases.

In a wider sense, he said, he hopes to restore PG&E's image and reputation.

"For most of my career, if you asked anyone in our industry to write down the three best companies in our industry, write down the three companies you would really like to be at, PG&E would have been on every one's list," he said, adding moments later: "My main focus will be looking ahead. What do we need to do to really get ourselves on track towards operational excellence?"

O'Brien: New PG&E CEO needs to focus on fixing utility, not profits

By Chris O'Brien, columnist
Mercury News, September 12, 2011

My advice to PG&E's new CEO, Anthony Earley, is simple: Focus on fixing the long list of things that ail Northern California's largest utility.

If that sounds obvious, well, it hasn't been to the folks sitting in the executive suites at PG&E for the past decade. The company has made investors a priority over we, the ratepayers.

Rather than building safe and reliable natural gas and electricity systems, executives have seemed restless, downright bored with running a utility. They appeared to be more interested in

pursuing schemes to generate higher profits.

Meanwhile, the core of the business itself was neglected. Records kept on paper scattered around shoeboxes tucked behind couches. Crucial infrastructure rotting away unnoticed.

So far, Earley is saying the right things.

"The message is that we are going to be focusing on delivering safe, reliable and affordable electric and gas service to our customers," Earley said to my colleague, Paul Rogers. "That's what they want from us."

But Earley faces an enormous challenge in trying to reform the profit-driven culture that took hold of PG&E in the late 1990s as California entered its doomed experiment with deregulation.

The utility spent several years pumping cash into a unit called the New Energy Group, home to exciting if risky, and unregulated, business like energy trading and buying power plants in other states (like Enron, actually). PG&E executives expected NEG to be a source of almost limitless growth and new profits -- and big bonuses.

That didn't work out as planned: Both the core utility and NEG eventually filed for separate bankruptcies, with PG&E eventually abandoning NEG.

But PG&E has kept the door open to moving back into new non-regulated businesses.

Indeed, when I was discussing this several months ago with Severin Borenstein, an energy policy and business expert at the University of California at Berkeley, he expected PG&E to begin pursuing non-regulated business at some point.

"I wouldn't be surprised if they decided to get back into other energy markets either in the U.S., or outside the U.S.," he said.

That should make anyone shudder. PG&E doesn't need such distractions when there's so much to do right here at home.

Even after the collapse of NEG, PG&E's appetite for higher profits wasn't curbed. In January 2005, the company elevated Peter Darbee, its chief financial officer and a former investment banker at Goldman Sachs, to CEO.

Darbee subsequently made a bold promise to shareholders: The company was going to deliver 8 percent annual growth in profits. First, Darbee laid out an ambitious program called "Transformation" that was going to cut expenses by \$2 billion through better use of technology and other efficiencies.

The company fell well short, only hitting \$1 billion.

Undeterred, PG&E proposed in 2008 a massive spending plan called "Cornerstone

Improvement Project." The company wanted permission to spend \$2 billion to upgrade its electricity distribution network. Utilities are guaranteed profits on money they spend, so more spending equals more profits.

In May 2010, an administrative law judge at the California Public Utilities Commission said the company had not demonstrated it needed the money, and denied the request. The judge did allow the company to spend about \$360 million.

Despite these failures, PG&E still managed to deliver the promised profits thanks to the rollout of smart meters and the natural growth in the number of ratepayers.

Of course, the company even bungled the smart meter program by ignoring customer complaints. In other words, the company failed to do exactly what Darbee had promised: Treat people like customers whose loyalty they had to earn.

"We were going to transition the company to run more like a competitive company," Darbee said early in his tenure as CEO. "A customer is someone you have to go out and win every day. A ratepayer is someone who is a prisoner."

Then, of course, came San Bruno.

Can Earley turn this around?

Yes, by making clear that ratepayers are the priority. PG&E has left the door open to new non-regulated businesses by maintaining a complex corporate shell it created in the late 1990s. Earley should close that door on his way in.

Next, he needs to reexamine the plan PG&E proposed for paying for the necessary upgrades to the company's natural gas system. The company wants ratepayers to pay \$2 billion of the \$2.2 billion in proposed fixes. Earley needs to dramatically lower the ratepayers' share.

From there, there's a to-do list to last a lifetime. Rebuild infrastructure. Repair tattered relationships with politicians and regulators. Restore the company's battered reputation.

If he can really convince us that PG&E can put people over profits, that it can be satisfied with trying to be the best utility it can be, then Earley will have taken the most important step toward regaining our trust.

Michigan Leaders Before They Were Stars

Rick Snyder, Dave Bing, Tony Earley, Mary Sue Coleman and Others Talk of Formula for Success

By Carol Cain

WWJ-TV CBS Detroit's "Michigan Matters", September 12, 2011

It wasn't always champagne wishes and caviar dreams or roar of sports fans or voters for some

of our state's most successful leaders. These captains of industry, government, sports and education were like thousands of other young people starting out with big dreams. It was experiences they had early on that shaped them and spurred them on to the road of success.

For Anthony Earley it was while in the Navy he learned about facing crisis. "Those were Cold War years," said Earley, who starts a new job this week as chair/president and CEO of PG&E Corp. in San Francisco leaving behind his position of executive chairman at DTE Energy.

"American and Soviet submarines played a dangerous game of cat and mouse." Earley recalled that experience as he talked about facing the power blackout of 2003 when he was CEO of DTE Energy.

"Someone asked me why I looked so calm during that crisis," he said. "I told them as a 25 year old submarine officer, I monitored Soviet fleet exercises or trailed Soviet subs. When you are doing that, you realize the lives of 100 sailors and an expensive ship are in your hands. If you screw up, you create a major international incident. You mature pretty fast."

Rick Snyder mentioned three jobs that shaped his leadership style he still uses today as governor of Michigan. He worked at Gun Lake Northside Grocery in Battle Creek at age 14. He also worked as a resident advisor in the dorms at University of Michigan and teaching assistant to. Snyder, whose mantra as governor is "relentless positive action" said those jobs taught him to "solve problems and not assign blame or take credit."

For Mary Sue Coleman, she learned about people while delivering Des Moines Register newspapers early every morning to fellow students at Grinnell College.

The way they treated me as a newspaper delivery person was illuminating," said Coleman, president at the University of Michigan. "It brought home how important it is to be respectful of everyone," she said. "And I learned the lengths some were willing to go to avoid paying their bills when I came to collect," she laughed.

The studious-minded Coleman was a finalist in a science contest as a teen and had a chance to meet former President John F. Kennedy and Vice President Lyndon Johnson at the White House as part of it.

Detroit Mayor Dave Bing was another who delivered newspapers and mowed lawns. He worked as an apprentice brick layer for his late father, Hasker Bing, and as a janitor in college. "My parents instilled in me the value of a good work ethic at a young age," Bing said. He hit pay dirt as an NBA player with the Detroit Pistons and made \$15,000 in his first year.

"My parents used to joke it was too bad I wasn't born 15 years later," said Bing when NBA superstars made millions.

Others mentioned time spent in the military as leaving an indelible impact. Peter Secchia, Grand Rapids job businessman and former U.S. Ambassador to Italy, made his first trip to Europe while in the U.S. Marines. He learned about rigors and discipline which he used in his

first job and as he rose through the ranks to become CEO of Universal Forest Products. "The toughest job at Universal Forest Products was during my training when I was unloading box cars in British Columbia, Canada in the winter of 1963 during 40 below zero temperatures," said Secchia. "I was there to learn the lumber business," which he did and stayed 40 years until retiring as CEO.

Blue Cross Blue Shield President and CEO Daniel Loepp won a job as an overnight billing clerk at Merrill Lynch over other students at De La Salle Collegiate High. "My advice? Don't be bashful," said Loepp. "It's the reason I got that first job over 15 other guys."

Rod Alberts, executive director of the Detroit Auto Dealers Association and the North American International Auto Show, learned persistence as he competed as an arm wrestler in college and professionally. He wrestled Alan Fisher (a 26 time World Champion) in 1985 which appeared in the Sylvester Stallone movie "Over the Top". "It's okay to get your butt kicked a few times on the way to the top. As a matter a fact, it is a requirement," said Alberts.

And as leader of UM, Coleman oversees an institution dedicated to educating people for their future. She had one piece of advice. "Take the job you can get even if it isn't your first choice," she said. "You will learn from it. Put everything you have in it."

From: Peevey, Michael R. [mailto:michael.peevey@cpuc.ca.gov]
Sent: Monday, September 12, 2011 6:08 PM
To: Bottorff, Thomas E
Subject: FW: [WCEA list] E&E: House Republicans summon all-FERC panel to askif EPA rules will hurt grid

FYI. Keep confidential. Just tell Early California is very interested in the topic and doesn't believe EPA rules are harmful.

From: marynichols04@yahoo.com [mailto:marynichols04@yahoo.com]
Sent: Mon 9/12/2011 5:58 PM
To: Peevey, Michael R.
Subject: Re: [WCEA list] E&E: House Republicans summon all-FERC panel to askif EPA rules will hurt grid

We should find a way to let Mr Early know we will be watching and listening.
Sent via an ARB BlackBerry by AT&T

-----Original Message-----

From: "V. John White" <vjw@ceert.org>
Date: Mon, 12 Sep 2011 13:49:41
To: Jan McFarland<janmcfar@sonic.net>
Cc: Mary<marynichols04@yahoo.com>
Subject: FW: [WCEA list] E&E: House Republicans summon all-FERC panel to ask

if EPA rules will hurt grid

-----Original Message-----

From: western-clean-energy-advocates@googlegroups.com [mailto:western-clean-energy-advocates@googlegroups.com] On Behalf Of Fred Heutte

Sent: Monday, September 12, 2011 1:25 PM

To: wcea

Subject: [WCEA list] E&E: House Republicans summon all-FERC panel to ask if EPA rules will hurt grid

Note: Anthony Early is the "newly departed" CEO of DTE (Detroit Edison) because he is the incoming CEO at Pacific Gas & Electric. -- fh

House Republicans summon all-FERC panel to ask if EPA rules will hurt grid

Gabriel Nelson, E&E reporter

Published: Monday, September 12, 2011

When they were called upon this summer to keep air conditioners running through a heat wave, U.S. power companies largely handled the spike in demand for electricity. There were no outages close to the scale of last week's blackout in California, which was inadvertently caused by a utility worker and left 3.5 million people in the dark.

But critics of U.S. EPA's new pollution rules for power plants are questioning what will happen a few summers from now.

This week, House Republicans will turn their attention to the power grid, holding a hearing to ask the Federal Energy Regulatory Commission whether the suite of rules will make electricity service less reliable by causing aging power plants to shut down.

All five members of FERC will testify Wednesday before a House Energy and Commerce subcommittee, where Republicans are expected to argue that the rules are too aggressive and that the top regulators of the nation's electricity delivery system are not doing enough to ensure a smooth transition.

Most pressing are a set of air pollution standards from U.S. EPA meant to cut down on soot, smog and toxic emissions. At a cost of tens of billions of dollars, many of the country's largest power plants would need to be taken offline for upgrades between now and 2015, and other plants -- most of them 40 to 60 years old -- would shut down.

The rules are at the heart of a raging debate inside the Beltway, mainly focusing on whether the health benefits of cleaning up older power plants is worth the price that power companies would pay and pass along to customers on their monthly electric bills.

To public health groups, the changes cannot come soon enough. By contributing to air pollution, which also tends to be at its worst in

the summer, coal plants are linked to tens of thousands of early deaths, heart attacks and asthma flare-ups each year, according to EPA, which says the benefits of its rules would outweigh the costs by more than 10 to 1.

But critics are worried the rules will make the grid more unstable by shutting down coal plants that are now used to meet demand during a heat wave, without a clear picture of what will replace them.

The Department of Energy can order power plants to keep running if they are needed, and grid operators can pay them just to keep their power available. New power plants, added transmission lines and energy efficiency measures could also help fill the void.

A preliminary study by FERC found that as much as 81 gigawatts of existing power plants -- 8 percent of all U.S. electricity generation capacity -- was likely to be retired once the new rules take effect. But no updated study has been released since EPA proposed its rules for toxic emissions and cooling water, which are expected to drive most of the decisions on plant retirements.

In recent letters to Alaska Sen. Lisa Murkowski, the top Republican on the Senate Energy and Natural Resources Committee, the five commissioners of FERC were split on the need for a new analysis of retirements. Chairman Jon Wellinghoff, a George W. Bush appointee who was promoted to chairman by President Obama, has argued that regional grid reliability authorities are better equipped to do the planning.

But they generally agreed that the power grid will be able to absorb the upcoming retirements, if EPA treads carefully (E&ENews PM, Aug. 3).

"I do not foresee a need to require utilities to operate in violation of federal environmental laws or regulations," Wellinghoff and two other commissioners wrote. "As it has in the past, the commission would seek to find ways to require or allow utilities to operate when needed for reliability or other purposes while being compensated adequately and without violating other federal laws."

The grid's stress test

In late July and early August, when a heat wave sent temperatures into the triple digits in parts of the country, the grid got its annual stress test: the midsummer days of peak electricity use, when most power plants get a call from dispatchers and hum to life.

Power companies were largely able to stand the heat this time, even as four regional power grids that deliver electricity to more than 136 million people in the mid-Atlantic states, Midwest, Great Plains and Texas snapped their old records for electricity use.

Among them is the PJM Interconnection, a Pennsylvania-based grid that covers parts of 13 states and Washington, D.C.

At about 5 p.m. on July 22, with temperatures above 100 degrees in parts of the East, the PJM grid carried 158,450 megawatts of

electricity -- roughly 90 percent of what the grid's plants could generate. Outages were few and far between.

"Ten years in advance, we look out in our long-term reliability assessment and we see if the industry will be prepared to have enough generation resources to ensure that we have enough capacity on our system," said John Moura, manager of reliability assessments at the North American Electric Reliability Corp., in an interview as the heat wave started to subside. "We saw just a couple days ago that we do, and that's an amazing story."

But grid operators are getting particularly nervous when they look ahead a few summers. New environmental rules from the Obama administration, meant to clean up the nation's aging fleet of coal-fired power plants, have power companies and regulators scrambling to make sure the grid will keep running smoothly, even on the hottest days of the year.

Critics say there won't be enough time to prepare. A top attorney from Columbus, Ohio-based American Electric Power Co. Inc. warned lawmakers at a House Oversight Committee hearing last month that the rules will cause reliability problems, especially from 2014 to 2016, when the stricter emissions limits take effect.

Janet Henry, the company's associate general counsel, said she hopes there won't be blackouts if the company has to shut down 6,000 megawatts of coal plants, some of which were already slated to be retired a few years later than that.

"We'll work diligently day and night to make sure that doesn't happen," Henry said after the hearing. "But I do think that it will come at a cost, and the cost need not be as great if we have a more reasonable period of time."

Moura said he is confident the new rules won't cause power outages. But getting ready won't be an easy task.

Regulators will have to avoid the local snags that could occur if companies shut down key power plants. And because the rules will lead many coal-fired boilers to be taken offline for about four months of a time, grid operators will have their hands full scheduling outages to make sure they will have enough electricity at their disposal.

"Timing is not our friend on this one," Moura said. "We only have one chance at it, and there's no time to fail."

Strains of summer

What will make the transition easier is that grid operators have learned to predict, with remarkable accuracy, how much power they will need on any given day.

For the federally owned Tennessee Valley Authority, which sells its electricity to customers over a power grid that it manages itself, demand usually reaches 27,000 or 28,000 megawatts on days with highs in

the upper 80s, spokesman Scott Brooks said. But when temperatures top 95 degrees, demand can soar beyond 30,000 megawatts.

"It's simple human nature," Brooks said. "The hotter it gets, the more people want to stay cool in the air conditioning."

Utilities plan for the worst. The heat got so severe this month that the Tennessee River's temperature climbed to 90 degrees, forcing TVA to dial down half of the power at the Browns Ferry nuclear plant in northern Alabama. Still, the utility met the demand it knew was coming.

The electric grid, with its vast network of cables and power stations, tends to go unnoticed by the public until something goes wrong. And so, when outages hit southeastern Michigan last month, it was DTE Energy Co. that had to explain itself to unhappy customers.

One percent of the Detroit-based utility's ratepayers, or perhaps 1.5 percent, lost power at a time, spokesman John Austerberry said. But it was enough. Local news stories quoted angry locals who had to leave home to escape the 90-plus-degree heat, going to community centers for the air conditioning and picking up free bags of ice that DTE was giving away.

"There was a hysteria around this," Austerberry said. Considering that it was one of the hottest stretches seen in years, he added, "Our system actually performed very well."

Customers did not lose power because of a shortage of electricity but rather because of scattered distribution problems. The stretch of unusually high heat was simply too much for some transformers to handle, Austerberry said.

But utilities such as DTE argue these events could become more commonplace. A few months ago, the company's newly departed CEO, Anthony Earley, visited Capitol Hill to explain why he was worried about EPA's new rules, saying that shifting away from coal without a clear strategy for the transition would raise costs and make electricity less reliable.

"Electricity is the lifeblood of our economy. We only have to think back to the blackout of 2003 to remember how nearly everything comes to a sudden halt without it," his testimony said, referring to the summertime outage that left 50 million people without power in New York City and many other parts of the Northeast.

On the hottest days in the summer, grid operators tell just about all of DTE's power plants to run. But if some of them are not worth upgrading and need to be retired within a few years, it is unclear exactly what will replace them.

DTE is increasingly turning to renewable energy -- mainly wind -- and has submitted an application to the Nuclear Regulatory Commission for a 1,520-megawatt nuclear reactor at the existing Enrico Fermi station near Monroe, Mich. But the nuclear plant could take five or 10 years to license and build, and there are drawbacks to the windmills, which now

total 310 megawatts with another 200 to 300 megawatts on the way to help DTE meet the state's renewable energy standard.

"Wind is not dispatchable," Austerberry said. "It can help meet peak demand, but frankly, the winds were pretty darn low during this heat wave, and that's typically the situation. You can't count on wind to be there during a heat wave."

Other utilities are more optimistic.

Brooks, the TVA spokesman, said a variety of new power sources will keep the utility's grid stable, even after TVA retires dozens of coal-fired boilers under an air pollution settlement struck earlier this year with EPA, neighboring states and environmental groups.

"We realize that demand is only going to increase, but between what we're purchasing and what we're doing with energy efficiency and demand response, we're not expecting to lose any capability," Brooks said.

Schedule: The hearing is Wednesday, Sept. 14, at 9 a.m. in 2322 Rayburn.

Witnesses: FERC Chairman Jon Wellinghoff; and Commissioners Philip Moeller, Marc Spitzer, John Norris and Cheryl LaFleur.

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Please consider the content of this email confidential unless otherwise stated.

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