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The *Mercury News* posted a transcript of an interview that staff writer Paul Rogers had with PG&E's Anthony Earley.

Transcript: Mercury News interview with PG&E CEO Anthony Earley

By Paul Rogers
Mercury News, September 12, 2011

Here is a transcript of Mercury News staff writer Paul Rogers' interview with new PG&E CEO Anthony Earley, who starts his job on Tuesday.

Earley's opening remarks: "I start on Tuesday at PG&E and I am looking forward to it. I'm really looking forward to this opportunity. I know it is going to be a challenge, but PG&E has been one of the iconic companies in our industry for as long as I've been involved. And this is an industry where one company has problems it affects every company, and the ability to come in and try and use some of the things I have learned in my 25-plus years in the industry to help a name like PG&E with a service territory like California is something that you dream about in your career, and this is I think an opportunity to do that."

Mercury News: PG&E has just concluded one of the most difficult years in its 106-year history. It has come under criticism from policy makers and from the public. As the incoming CEO, what message do you have for the public and political leaders here in California?

Earley: "The message is that we are going to be focusing on delivering safe, reliable and affordable electric and gas service to our customers. That's what they want from us. We have an absolutely unique business. When I look out my window here in Detroit, and when I look out my window there in San Francisco, virtually every single person is one of our customers. Their lives and their businesses are very different if we don't supply safe, reliable and affordable natural gas and electricity to them. And that's where our focus has to be. It's one of

the things I've done in my career and that I intend to do. The tragedy of San Bruno was just that. It was tragic. And we want to make sure that, as best we can, say it's never going to happen again."

Mercury News: How do you regain public trust in the company?

Earley: "It's something that doesn't happen overnight. It's going to take a while. 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 commitment 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. It is communicating openly. I've always been an advocate of frequent and open communications with our customers, with political leaders -- I think if you talk to people who've dealt with me that's one of the things I've done over the years. It's not going to change tomorrow, it's not going to change next week, and maybe not even next year, but I think if we keep delivering on our commitments to our customers, eventually our customers are going to say this company deserves our respect. Because it plays an absolutely vital role in every community that we are in."

Mercury News: Are you moving to the Bay Area, or maintaining two houses? And how long do you expect to stay as CEO?

Earley: "I am going to be moving to the Bay Area. My initial commitment to the PG&E board was that I'd be there three to five years, and we're looking forward to it. Actually, my wife and I got engaged in the Bay Area when I was a Naval officer stationed at Mare Island Naval Shipyard, so we're very familiar with the area."

"We're going to be living in San Francisco, right close to the office so I don't have a long commute."

Mercury News: In terms of where we go from here, the NTSB just concluded an investigation into San Bruno, and Deborah Hersman, the chairman, said "this tragedy began years ago with PG&E's 1956 installation of a woefully inadequate pipe. It was compounded over the years by a litany of failures -- including poor record keeping, inadequate inspection programs, and an integrity management program without integrity." Did you watch that hearing? And what is your reaction to the NTSB's findings?

Earley: "I did not watch that hearing. I have read the reports of that hearing. Over the last couple of weeks, my commitment has been to wrap up all the things I was involved in here and then fully dive in when I get to San Francisco and understand the details of that."

"But from a very high level, clearly there were mistakes made in the installation and from there, a series of mistakes. And what we have to do is look forward as to how do we make sure we have a system in place that is going to ensure the integrity of our pipelines going forward?"

Mercury News: One of the most important issues facing the company in the coming year will be how to pay for the \$2.2 billion in improvements that the company is planning to make

during the next three years. What do you say to folks, including congresswoman Jackie Speier, whose district includes San Bruno, who have been critical of the idea that ratepayers should not have to pay 90 percent of those costs, as PG&E has proposed?

Earley: "I know PG&E has made a filing. I was not involved in that. But here's my perspective: There clearly are costs that are associated directly with the San Bruno incident, and other operations that are going to be the company's responsibility -- incremental costs that we caused because we didn't do the right thing. On the other end of the spectrum, there are clearly costs that are new requirements to take pipeline safety not only at PG&E, but nationally - because pipeline safety is a national issue and there have been other incidents around the country that suggest we need to re-look at safety issues -- and those new requirements, installing new technologies, there's talk about the automatic shutoff valves, those are new requirements that clearly ought to be included in the rate base. And then there's going to be a gray area that we'll have to discuss where costs that we should have incurred, that would have been appropriate to put in the rate base in years past, that now we're going to do, and the question is well, you know, either you pay for it then or you pay for it now through rates. And I think that's where a lot of the discussion would be.

"To say you shouldn't put any of this in rates, I think is an unreasonable approach. 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."

Mercury News: How firm is the 90 percent?

Earley: "As I said, I don't know what a good number is. I'm going to take a look at that when I get there."

Mercury News: Our winters aren't anything like Detroit's, thankfully, but there have been some concerns from PG&E to the public utilities commission that it will need to increase the pressure on some gas lines this winter or customers could suffer, or may even be endangered. I'm wondering if you've followed that much, and if so, how big of a concern this is for the company and if you have any thoughts about when it might need to raise the pressure or how serious an issue that is.

Earley: "That's a detail that I'm just not prepared to get into. I do know that gas flow through pipes is related to the pressure in the pipes. But obviously increasing the pressure in the pipes increases the forces, and if you've got concern about the integrity of the pipes that's an issue and it has to be looked at. But Nick Stavropoulos and his team, and by the way, I've known Nick from the industry and he was a great addition to the team there, they're going to have to look at that and make some technical judgments about what would be appropriate to do. But I'm just not close to those details yet."

Mercury News: Four days after the San Bruno blast, PG&E president Chris Johns set up a \$100 million "Rebuild San Bruno" fund. To date, only \$12 million of that \$100 million has been spent on the families and the victims, and some of them are saying that the company is being too tough in haggling over the value of each of their possessions and the value of their

property. I'm wondering if you have any thoughts about that, or any idea how long it might be before those people are made whole again?

Earley: "I do have some thoughts. First of all, it's a good time to really remember those victims. It is an awful tragedy. I just can't imagine how difficult it is for those families to have lost loved ones, lost their possessions, lost their houses. 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. For me personally coming into the company I want to focus on the future, and so I'm going to be very interested in asking 'How do we make sure that we treat these people in the right way, and get it done as soon as possible so we can move on to the other important issues we've got to deal with?'"

Mercury News: In a Republican presidential debate, Rick Perry, who is the leading candidate in national polls for the Republican nomination for president, was asked about climate change. Certainly that's an issue that PG&E has dealt with a lot, and the whole utility industry has dealt with in recent years. The Republican front-runner said "The science is not settled on this. The idea that we would put America's economy at jeopardy based on scientific theory that's not settled yet to me is just nonsense." Do you agree?

Earley: "You know, it's interesting. I really led the electric utilities trade association, Edison Electric Institute, the year that climate change legislation went through the House of Representatives and went over to the Senate and ultimately died over in the Senate.

We never were able to get a compromise. So I'm intimately familiar with that process.

"My personal view is that there are some things that we do know. We do know that fossil fuels emit carbon dioxide in the atmosphere. We do know that carbon dioxide does have the tendency to trap heat in the atmosphere. What we don't know is whether the effects of that are really driving higher temperatures on the planet or whether it is overwhelmed by the normal cycle of temperature changes in the environment. We've seen ice ages and we've seen times when it's been very hot on earth, and we don't know and I don't think we can know.

"So my position is if there are reasonable cost-effective ways of reducing the amount of carbon dioxide that our industry is emitting into the atmosphere, we ought to be trying to do that. And that's what I tried to do leading Edison Electric Institute. I was able to broker an agreement among all utilities -- and that's utilities that are heavily coal powered, utilities that have a lot of nuclear plants, hydro plants. We had a common industry position, and then were able to drive that, to get the legislation through the House, but unfortunately we weren't able to be successful on the Senate side. Because what our industry needs is certainty. We need to know what the rules are going forward. And if this issue comes up again, I look forward to the opportunity to playing a leadership role in trying to broker some kind of reasonable agreement."

Mercury News: Certainly, as you know, California has been ahead of the rest of the country. We have the AB32 process that kicks in in about a year with a mandatory cap and trade program, and also the 33 percent renewable portfolio standard that Gov. Brown signed recently. Do you have any thoughts about how difficult it's going to be, or how eager PG&E is

to participate in that kind of a regulatory regime that you haven't been involved with in Michigan?

Earley: "Well, the policy is set, and we're going to be eager to comply with the policy. A 33 percent renewable requirement is very aggressive. I think anyone who says 'oh no, it's easy to do that' would be lying to you. And it's going to cost money to do that. But we've set that target, and I think PG&E is on track to hitting that target. We'll have to figure out how you operate a system, because remember not only are there costs associated with renewables, but also just the day-to-day operating the system. I know in West Texas, which has a lot of wind power, when the climate changes quickly and you lose the wind you have to scramble around to get other resources online. So just the mechanics of running a system aren't easy when anything starts to get over 20 percent renewables. But this is a company that has strong technical capabilities that we want to bring to bear to follow the policy that's been set."

Mercury News: Let me ask about one other issue that's been in the news in the past year or two. PG&E has rolled out millions of Smart Meters in California. Have you followed that and do you have any thoughts on that issue?

Earley: "I have. At DTE here, we're not as far along as California. But of our 2 million electric customers, we're probably going to be approaching halfway done by the end of this year. Smart Meters allow us to provide much better service to our customers. They are a great technology innovation. And in the future there are going to be even more opportunities to provide unique features to the customer -- being able to turn on and turn off and adjust appliances remotely, and the like. But the biggest issue, and a lot of people don't realize this, is that utilities around the country do not know if you are out of power, with a normal meter, unless you call us up. People think we know. But with a Smart Meter, it is able to tell the utility that you're out of power, even if you are out on vacation, or at work. So we can get people dispatched to do the job before you even know that you're out of power. The other thing we can do is turn on and turn off customers.

Particularly in our area, with the University of Michigan, and I'm sure it's true at Stanford and Cal Berkeley, a lot of apartment owners have this issue that when new students are coming in, they've got to turn it on, and at the end of the year they've got to turn it off. It takes days to do that. People have to sit around and wait for the utility crews to come. We can do that remotely with Smart Meters. So there are incredible operational benefits to smart meters.

"I know there has been some objection to them. 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, and cell phones and TVs and everything else. So I think they are a great benefit for our customers. It's a program we ought to be embracing."

Mercury News: One final question: Any time a new CEO comes into any corporation there are changes. What are the biggest changes that we should look for from you during the first year or two.

Earley: "I think one of the things that I've told the PG&E folks is that if we want to be the best-operated utility in the country, we're going to have to be able to prove that. And the only way to prove that is to figure out what best-in-class utilities are doing, measure where we are versus the best-in-class utilities, and then put together plans to close those gaps. Some of this work is already going on. (PG&E President) Chris Johns and his team are working on it. But I will continue to push that notion that we're going to need to be able to prove that we really are performing at a very high level.

"In terms of the organization, there's been a lot of turnover in the organization, a lot of new people have been brought in. And I think the last thing the organization needs is somebody stirring the pot for the sake of stirring the pot. So I'm going to take a hard look at the team there. One of the things I've done in my career is develop strong teams. I'm on the board at Ford Motor Company, and I've watched (CEO) Alan Mulally as he came in and transformed the company with virtually the same team, the same people that he had there at the company. He just got them in the right place, and all pulling in the right direction. I think we've got good people at the company, and now we just have to make sure they have the vision of operational excellence stamped on their brain. I think they understand that."

Mercury News: Do you have any sense of how it was that PG&E got away from being the best-in-class in some of these areas?

Earley: "I think that's a mystery to everyone in our industry. They were a leader in innovation. 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 everyone's list.

"If you look back, some of the things were outside of their control, such as the whole California energy crisis, which ended up forcing the company through bankruptcy. Others were inside their control, and I think the NTSB report from San Bruno highlights that. So, I wish I could figure that out. I'll be looking at some of that. But my main focus will be looking ahead. What do we need to do to really get ourselves on track towards operation excellence?"

Mercury News: Any final thoughts, either on San Bruno, or the year ahead, that we haven't talked about and that you'd like to add?

Earley: "On San Bruno, we really would like to resolve that in a way that really respects the victims there, and make sure that we treat them fairly and we resolve things as quickly as possible so that we can move on.

"In moving ahead, I want to really re-establish PG&E as a major player and contributor to the California economy. Because our economy doesn't operate without energy. Computers don't run. Factories don't run. You can't heat your homes. And so we need to make sure that we're a partner with government, with industry, with our customers in making sure that we're providing products that are going to make their lives easier and better and at an affordable price. And that's going to be my focus."