

From: Cherry, Brian K  
Sent: 10/17/2011 10:27:30 AM  
To: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3);  
pac@cpuc.ca.gov (pac@cpuc.ca.gov)  
Cc:  
Bcc:  
Subject: FW: Physical Asset Management Practices and Cost Recovery

FYI. Interesting discussion of where we may need to go here in CA rate cases.

**From:** OLoughlin, Matthew [<mailto:Matthew.OLoughlin@brattle.com>]  
**Sent:** Monday, October 17, 2011 9:34 AM  
**To:** Cherry, Brian K  
**Cc:** Carpenter, Paul; Brown, Toby  
**Subject:** Physical Asset Management Practices and Cost Recovery

Brian:

Paul and I enjoyed our breakfast conversation in SF, it was good to catch up. We understand from Ahmad that the two of you also had a nice lunch recently.

This email follows up on our discussion about natural gas infrastructure investment and cost recovery. The attached paper provides a brief summary of the British regulator's ("Ofgem") approach to asset investment plans, asset performance, and incentive cost recovery schemes. It stems from an Ofgem concern back in 2000 that the network companies may not be managing their assets as carefully as they should – blindly replacing them at standard engineering end of life, not doing any condition monitoring, not targeting high risk assets. Ultimately, a technical management standard was developed and implemented by the British Standards Institute while Ofgem developed its asset risk management survey.

We are interested in meeting with you and your colleagues to continue our conversation of these topics. It so happens that one of our SF colleagues, Toby Brown, previously worked for Ofgem and has some familiarity with its approach to these issues. We will follow up with you in the near future to see if a meeting can be arranged the next time we are in San Francisco.

-Matt

**Matthew O'Loughlin**

Principal

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