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Sent: 11/3/2011 5:43:19 PM
To: Peevey, Michael R. (MP1@cpuc.ca.gov) (MP1@cpuc.ca.gov)
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Subject: FW: MN - PG&E Reveals Spending Plan to Improve Operations, Customer Service

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Tom

From: News Flash
Sent: Thursday, November 03, 2011 11:07 AM
Subject: MN - PG&E Reveals Spending Plan to Improve Operations, Customer Service

The *Mercury News* published a story highlighting PG&E's plan of action to improve gas and electric operations and customer service.

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PG&E Reveals Spending Plan to Improve Operations, Customer Service

By Steve Johnson

Mercury News, November 3, 2011

PG&E on Thursday said it plans to spend about \$400 million over the next two years --more than what the company expects to recover in rates --to improve its gas and electric operations and customer service.

"Fundamentally improving operations and customer service is vital to restoring trust and confidence in PG&E and returning us to the front ranks of the industry in the coming years," said PG&E's recently appointed **CEO Tony Earley** in a prepared statement. "This plan of action is the right thing to do for all of our stakeholders, and it's critical to PG&E's long term success."

Noting that about \$200 million of the expenditures are slated for 2012, with "comparable levels of additional spending" in 2013, the company said some of the money would be used to renovate its gas-line network, which has come under intense criticism following the Sept. 9, 2010 San Bruno natural gas explosion, which killed 8 people and destroyed 38 homes.

The company said it also will strengthen its electric operations, by reinforcing its utility poles, accelerating maintenance of its overhead and underground equipment, and increasing the

inspection of electrical gear that is susceptible to damage from wildfires. In addition, it said, PG&E plans to use the money to bolster "customer communication and education," improve its support of small and medium-sized businesses and expand its training programs for emergency personnel.

The announcement was included with the company's third-quarter earnings report, which showed PG&E posted a \$200 million profit on \$3.86 billion in revenue. That compares with a \$258 million profit on \$3.5 billion in revenue for the same period a year ago. The company said the change "reflects costs associated with ongoing natural gas pipeline-related actions."

Some analysts are optimistic about PG&E's future, but have serious reservations about what sort of financial penalties the company may suffer because of the San Bruno disaster.

A recent report by GlobalData, which studies corporate data and strategies, noted that PG&E could benefit from the nearly 40 percent increase in electricity demand that the U.S. Department of Energy has forecast for this country by 2030, especially since the company offers a "diverse mix of environmentally sound generating assets."

The utility also could boost its ability to serve West Coast natural gas markets by its participation in helping develop a new 234-mile interstate gas transmission pipeline through its subsidiary PG&E Strategic Capital, GlobalData added.

However, the report noted that PG&E's annual compound growth rate for revenue in recent years has lagged behind the industry average, the company's smart meters are under fire, it faces considerable competition from other power generators and it could incur "huge penalties" for the San Bruno disaster.

Bernstein Research, which does detailed financial analysis of utilities, has estimated that PG&E eventually could rack up \$2.3 billion in fines and other costs related to the explosion that it would not be able to recover from its ratepayers. During a conference last month with East Coast investors, Bernstein analyst Hugh Wynne blamed some of the criticism PG&E has drawn over its gas-line operations on former CEO Peter Darbee, who replaced many of the utility's long-time managers with outsiders.

"I think he lost a fair amount of institutional memory and expertise in that process and caused a degradation of capabilities, and maybe a sapping of morale as well," Wynne said. But he added that PG&E has a good opportunity to repair its reputation with Darbee's replacement, Earley.

Noting that the new CEO seems to have "a very intense focus on safety," Wynne said, "my gut instinct on that is that you will see a material change as a result. The direction is going to be the reverse of what we had over the prior five years."