From: Cherry, Brian K
Sent: 1/12/2012 9:29:59 PM
To: 'pac@cpuc.ca.gov' (pac@cpuc.ca.gov); 'frl@cpuc.ca.gov' (frl@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Newswire, SFC, MN - PG&E Consultant Jim Hall of Hall & Associates Comments on Today's CPUC Report

Another perspective.

From: News Flash
Sent: Thursday, January 12, 2012 09:24 PM
To: Newsflash-Real-Time
Subject: Newswire, SFC, MN - PG&E Consultant Jim Hall of Hall & Associates Comments on Today's CPUC Report

The *San Francisco Chronicle* and *Mercury News* published stories about a CPUC safety division report critical of how PG&E handled system improvements. Former NTSB Chairman, and PG&E consultant Jim Hall commented on the utility's progress.

PG&E Consultant Jim Hall of Hall & Associates Comments on Today's CPUC Report

Newswire, January 12, 2012

It has been abundantly clear that **PG&E**'s past practices had serious problems – culturally and operationally.

When I arrived, I was tasked with helping **PG&E**'s new leadership advance the efforts already underway to address these issues. In the course of my work so far, I have recommended further actions which **PG&E** will be implementing to make the company a safer utility. My team and I have had complete cooperation from the company, reviewed thousands of pages of documents and have had unfiltered access to **PG&E**'s leadership at all levels.

I believe that **PG&E** is taking very seriously the recommendations given by the NTSB and CPUC, with which I wholeheartedly agree, and it has begun to make safety improvements, including:

- Refocusing its culture on safety as a priority
- Implementing a pipeline testing and replacement program
- Establishing an accurate data system for its facilities
- Improving emergency planning and response processes, and
- Committing more than $1 billion in shareholder money to fund safety improvements

PG&E still has a lot of work to do, but I believe that it is on the right path. It has accepted blame for the San Bruno accident and has allowed me to communicate my impressions of actions that it is taking to improve safety directly to the CPUC.

I believe that **PG&E** is committed to improving the safety of its pipeline system, and I am confident that the new senior leadership team has the drive and desire to establish a system safety culture throughout the company. When they do, the public, **PG&E**'s employees, and the entire industry will benefit.

____

PG&E Diverted Safety Money for Profits, Bonuses

By Eric Nalder
San Francisco Chronicle, January 12, 2012

Pacific Gas and Electric Co. diverted more than $100 million in gas safety and operations money collected from customers over a 15-year period and spent it on other purposes, including profits for stockholders and bonuses for executives, according to a pair of state-ordered reports released Thursday.

An independent audit and a staff report issued by the California Public Utilities Commission depicted a poorly led company well-heeled in its gas operations and concerned with profits over safety.

The documents link a deficient **PG&E** safety culture - with its "focus on financial performance" - to the pipeline explosion in San Bruno on Sept. 9, 2010, that killed eight people and destroyed 38 homes.

The "low priority" the company gave to pipeline safety during the three years leading up to San Bruno was "well outside industry practice - even during times of corporate austerity programs," said the audit by Overland Consulting of Overland Park, Kan.

Making money
But **PG&E** wasn't hurting for cash, according to the audit. From 1999 to 2010, the company collected $430 million more from its gas transmission and storage operations than the revenue authorized by the California Public Utilities Commission, which sets the rates the company can charge its customers.

"**PG&E** chose to use the surplus revenues for general corporate purposes" rather than improved gas safety, the Overland audit said.

The audit was unable to trace exactly how **PG&E** spent the diverted money. But in a separate report on the San Bruno explosion released Thursday, the utilities commission staff noted that in the three years leading up to San Bruno, the company spent $56 million annually on an incentive plan for executives and "non-employee directors," including stock awards, performance shares and deferred compensation.

"A cursory review reveals that a significant portion, in the millions, has been awarded to the

CEO," the commission staff report said in a reference to former **PG&E head Peter Darbee**, who retired last year.

Cutting corners

By cutting back on pipeline replacement projects and maintenance, laying off workers, using cheaper but less effective inspection techniques and trimming other pipeline costs, **PG&E** saved upwards of 6 percent of the money designated for pipeline safety, maintenance and operations programs, the Overland audit said.

Meanwhile, on a revenue side, transmission pipeline operations were "very profitable" for **PG&E** since March 1998, the audit said.

State Assemblyman Jerry Hill, D-San Mateo, whose district includes San Bruno, called the company's diversion of customers' money "criminal behavior."

"When you divert funds intended for maintenance and safety to profits, there is nothing clearer," Hill said. "It is criminal."

Hill noted that the San Mateo County district attorney, state attorney general and U.S. attorney's office are conducting a joint investigation of the San Bruno disaster. He said he would talk to them about incorporating the Overland audit in their probe.

However, it is unclear whether **PG&E** broke any criminal statutes governing its behavior at the time, unless there was fraud.

OK under state law

The utilities commission staff report said that under state law and agency regulations, **PG&E** could spend less than what it was authorized to spend "because the commission is generally precluded from asking for the money back if the company overestimated its revenue requirement."

The Legislature passed a law last year, sponsored by Hill and others, that requires a utility to account for any under-spending and explain where every dollar went.

"It is truly unconscionable that **PG&E** was allowed by the CPUC to steal ratepayer monies that should have been spent on safety and, instead, was put in the pockets of **PG&E** shareholders," said Rep. Jackie Speier, D-Hillsborough, who represents the devastated San Bruno neighborhood. "All these monies identified in the audit should be returned to ratepayers, presumably as a credit against the work that **PG&E** should have done, but didn't."

PG&E officials declined to comment on specifics of the two reports.

"Our No. 1 priority is to make our system the safest in the nation," said **PG&E President Chris Johns**.

No new money

The utilities commission issued the documents as part of a process that could lead to millions of dollars in fines. In addition, the commission recommended changes in how **PG&E** spends money on gas-system maintenance and pipeline replacement.

Before **PG&E** "seeks additional ratepayer funds," the commission said, it should:
-- Allocate $95.4 million that the company under-spent on capital expenditures since 1997 - including pipeline replacement - for those purposes.

-- Use the $430 million in additional revenue it collected since 1999 "to fund future transmission and storage operations."

-- Use $39.3 million that it collected but failed to spend for pipeline transmission operations and maintenance since 1997 for those purposes.

Those recommendations put the commission and **PG&E** on a collision course.
In August, **PG&E** outlined a plan to modernize its gas-transmission line system in response to the San Bruno disaster. Included was money to replace 185 miles of pipe segments in **PG&E**'s 5,700-mile gas transmission system and to upgrade 200 miles of other segments unable to accommodate a modern inspection tool known as a "smart pig."

The company pegged the price tag at $2.2 billion and said 90 percent of that would be paid by gas customers through rate increases, with the rest covered by company investors.

Meeting new rules?
On Wednesday, **PG&E** issued a statement promising that it won't dun customers for any expense required to upgrade its gas system to meet existing federal and state standards.

"That said, let's be just as clear about what PG&E is proposing," the company added.

"The vast majority of the pipeline safety work going forward is not about correcting issues from the past. It's about meeting entirely new standards being established by the California Public Utilities Commission."

PG&E estimated that the average residential customer will pay $1.93 per month more through 2014 to finance the plan.
A Chronicle investigation published in March revealed that in 2000, **PG&E** sharply curtailed a program started in the mid-1980s to replace hundreds of miles of aging gas-transmission pipe. Records obtained by The Chronicle showed the decision was made by **PG&E** and approved by the utilities commission's safety chief.

The Overland audit noted that **PG&E**'s transmission pipeline replacement for safety purposes all but ceased in 2000.

State Report Says PG&E Collected Millions from Ratepayers For Improvements it Never Made

By Steve Johnson, Joshua Melvin and Paul Rogers
Mercury News, January 12, 2012

PG&E could face hundreds of millions of dollars in fines stemming from the 2010 San Bruno catastrophe, after a new report Thursday from state regulators accused the company of violating numerous laws governing its natural gas operations.

The report by the California Public Utility Commission's safety division also disclosed that **PG&E** in recent years has collected more than a half billion dollars from ratepayers for system improvements that were never made or that exceeded the amount of money it was authorized to earn. That finding, from an audit, could make it harder for the utility to saddle its customers with 90 percent of the cost of its $2.2 billion pipeline-renovation plan, as it recently has proposed.

Much of the report repeats previous findings by the National Transportation Safety Board and an expert panel the commission appointed to look into the accident, which killed eight people and destroyed 38 homes. But the disclosure about the audit sparked outrage among some elected officials.

"It is truly unconscionable that **PG&E** was allowed by the CPUC to steal ratepayer monies that should have been spent on safety and, instead, was put in the pockets of **PG&E** shareholders," said Rep. Jackie Speier, D-Hillsborough. "All these monies identified in the audit should be returned to ratepayers, presumably as a credit against the work that **PG&E** should have done, but didn't."

According to the report, **PG&E** was authorized but failed to spend at least $134 million since 1997 on gas-line improvements and also collected nearly $430 million since 1999 "above and beyond" what regulators authorized.

In both cases, the report said, **PG&E** should use that money "to fund future gas transmission and storage operations before it seeks additional ratepayer funds" for future projects, apparently including its planned $2.2 billion pipeline upgrade.

The audit's revelations also outraged Assemblyman Jerry Hill, D-San Mateo.
"If the San Mateo County district attorney hasn't found criminal charges yet, this looks like a good place to start," he said, referring to an ongoing joint investigation of **PG&E** by the district attorney and federal and state prosecutors. "This money should definitely be used first before they attempt to go after ratepayers to fund any improvements in the system. We've paid for it one time already. We shouldn't have to, and won't, pay for it again."

In response to the safety division's report, **PG&E** issued a statement from its president, **Chris Johns**, that the company is "taking their findings very seriously and we will cooperate fully with the investigation. It is clear that PG&E's past gas operations practices were not what they should have been. We have admitted these shortcomings, and we are committed to raising the level of pipeline safety to new, higher standards."

The report concluded that **PG&E** "violated state law" along with various safety regulations leading up to the Sept. 9, 2010 San Bruno explosion. It said **PG&E**'s failed to comply with federal pipeline integrity management requirements, kept inadequate records, responded poorly to the San Bruno conflagration suffered from a "corporate culture that emphasized profits over safety."

As was the case with the NTSB report, the safety division faulted **PG&E** for allowing pipe to be installed in San Bruno that was so riddled with welding defects it eventually failed at a pressure level below what the company had assumed was safe. It also criticized the company for overlooking obvious leaks and other weaknesses in its pipes that should have prompted it to inspect its gas lines with robotic devices called PIGs or with water-pressure tests, instead of relying almost exclusively on a method that is primarily useful for spotting corrosion.

It also noted that while the company under-spent on pipeline improvements, it handed out generous stock options and bonuses to its managers, and spent millions "to affect ballot initiatives" and "enhance public perceptions of **PG&E**."

Other intriguing details in the report centered on the computerized equipment that failed at a Milpitas gas-line terminal, causing an uncontrolled rise in pressure prior to the San Bruno blast.

Although the terminal had been upgraded over the years, it said, "the modifications were not always executed properly, which resulted in poorly made electrical connections, improperly labeled circuits, missing wire identification labels, aging and obsolete equipment at the end of useful life and inaccurate documentation."

Moreover, the report said, "the three pressure controllers which malfunctioned on Sept. 9, 2010 are still in service and have not been replaced, despite the fact that the reason for their malfunction has not been identified."

Officials with the state commission, which plans to hold hearings to consider its safety division's findings, declined to provide an estimate of the total amount of fines the agency might assess against **PG&E**. But in a regulatory filing accompanying the report, the commission said it "is prepared to impose very significant fines" if it substantiates the safety division's findings.

Noting that it can fine companies up to $50,000 a day per violation, the commission said it would consider such penalties "for the full duration" of the violations, which the report dates to the 1950s.

PG&E also is facing the possibility of millions of dollars in civil penalties stemming from dozens of lawsuits filed by victims of the blast.

Attorney Frank Pitre, who is representing many families suing **PG&E**, said he would like to know the names of the utility's executives who signed off on decisions that led to the failings detailed in the report, because that would allow attorneys to attack what he contends is the real reason for the disaster.

"It's a corporate culture of putting profits before safety," Pitre said.