STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

March 5, 2012

Tom Bottorff
Senior Vice President, Regulatory Affairs
Pacific Gas & Electric Company
77 Beale Street
San Francisco, CA 94105

RE: Pacific Gas & Electric Company's 2014 General Rate Case

Dear Mr. Bottorff:

In connection with Pacific Gas & Electric Company's 2014 Test Year General Rate Case (GRC), PG&E's Notice of Intent to File (NOI) the GRC should be founded on an explicit safety and security risk assessment, and PG&E's shareholders should fund a review focused on operational and public safety issues, as part of the GRC, conducted by a set of independent consultants hired by the Commission.

GRCs address not only rates but also operations, and should focus not just on costs, but also on the safety and security of the utility's physical and cyber systems. To that end, PG&E should include as part of your upcoming Notice of Intent to File a GRC the risk assessment that underlies your rate requests. As part of the capital investment planning that PG&E performs, PG&E should perform and provide a risk assessment of its entire system, both gas and electric, and a comparison to industry best practices. This should include the safety and security of PG&E's generation, electric system, and gas system.

For example, PG&E should give a risk assessment of its physical system as well as a description of and a justification for the company's risk mitigation programs and policies. PG&E should provide testimony to identify and prioritize areas of risk and include the underlying rationale for your assessments. Finally, PG&E should submit testimony detailing the overall policy of the utility's safety and security measures, including both the physical security and the cyber security of the system. The testimony should encompass how safety and security are incorporated into corporate policies, goals, and culture, and the efforts being made to bolster system safety and security.

PG&E's shareholders should fund three sets of consultants hired and overseen by Commission staff to review PG&E's safety and security proposals related to generation, the electric system, and the gas system and provide the parties and the Commission information on the quality and cost-effectiveness of the safety and security proposals made by PG&E. Additionally, these consultants will review PG&E's proposals and compare them to industry best practices and standards.

The following four elements should be part of the NOI process:

1. **Review of Filings:** Using the NOI submission, the Consumer Protection and Safety Division would hire three consultants to undertake technical reviews of the key public safety issues raised or addressed in the testimony on PG&E's generation, electric, and gas operations. The consultants undertaking these reviews would be made available to appear during evidentiary hearings, upon request by any party. The consultants would represent the perspective of the Consumer Protection and Safety Division on behalf of Commission staff.

2. **PG&E's Shareholders Would Pay for the Costs of the Reviews:** PG&E would reimburse the Commission for all reasonable costs charged to the Commission by the outside consultants for the technical reviews. PG&E would agree not to seek ratepayer recovery of such costs.

3. **Response to the Reviews:** PG&E and other parties would be given the opportunity to sponsor testimony responding to the technical reviews, as part of PG&E's application or later in the case. PG&E's responsive testimony may include a revised revenue requirement forecast that would respond to specific recommendations in the technical reviews.

4. **Timing:** The reviews would be conducted concurrent with the Division of Ratepayer Advocates' evaluation of the NOI. If the technical reviews are completed by late September (approximately three months after PG&E's target date for tendering the NOI), the Commission would ask PG&E to provide responsive testimony with the December application. Alternatively, PG&E should provide its responsive testimony after the submittal of the application, in which case the Commission may consider phasing the evaluation of the responsive testimony.

The Commission has begun a stakeholder process to integrate safety and security more fully into ratesetting processes and we anticipate future reforms resulting from this process. The Commission has historically relied heavily on the participation of intervenors like the Division of Ratepayer Advocates and TURN for guidance in judging utility safety and security proposals. Unfortunately, as the Independent Review Panel on the San Bruno Explosion noted in Finding 7.2.3 of its June 8, 2011 Report, "The various parties in the gas transmission cases appear to have assumed PG&E's plans for pipeline safety and integrity management are generally appropriate and have thus supported the company's requests."

I hope that intervenors will join us in this effort to ensure that safety and security are the principal focus of ratesetting, as they must be of all Commission decision-making.

Sincerely,

Paul Clanon.

Paul Clanon
Executive Director

cc Commissioners
Michelle Cooke, Interim CPSD Director
Karen Clopton, Chief ALJ
Ed Randolph, Energy Division Director
Service List for PG&E's 2011 GRC (A.09-12-020)