

From: Cherry, Brian K
Sent: 5/12/2012 5:22:27 PM
To: Michael Peevey (mpl@cpuc.ca.gov)
Cc:
Bcc:
Subject: Fwd: San Francisco Chronicle: CEO Tony Earley tries to reform PG&E at vital time
FYI. Interview with Tony.

Begin forwarded message:

From: "Foley, Beth" <BMF8@pge.com>
Date: May 12, 2012 3:48:35 PM PDT
To: Officers - All <AllPGEOfficers@exchange.pge.com>
Cc: All PGE Chiefs of Staff <PG&EChiefofStaffs@exchange.pge.com>
Subject: San Francisco Chronicle: CEO Tony Earley tries to reform PG&E at vital time

Officers –

Below is a profile story in the *San Francisco Chronicle* on Tony and his reflections about PG&E. It is the result of an interview that Tony recently conducted with *San Francisco Chronicle* staff writer David Baker and Business Editor Kevin Keane.

It's a positive article that focuses on Tony's reasons for taking the job, his first impressions and PG&E's progress to date. Tony presents an honest and human face of the "new" PG&E that should resonate very well with our customers and other stakeholders.

This online piece should appear in tomorrow's (Sunday's) print version. The timing is excellent with the Annual Meeting set for Monday.

We're working to leverage this piece through additional internal and external channels.

-bmf

Here's the link, which includes pictures - <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2012/05/12/BUUE10FNQN.DTL>

CEO Tony Earley tries to reform PG&E at vital time

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Images

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Tony Earley arrived in San Francisco last summer to clean up one of the city's most prominent, powerful and troubled businesses - PG&E Corp.

It's still a work in progress.

As the new chief executive officer, Earley took charge of a company reeling from the fatal 2010 explosion of a natural gas pipeline owned by its subsidiary, Pacific Gas and Electric Co. Nor were PG&E's problems confined to the San Bruno explosion. A failed California ballot measure and stubborn resistance to the company's new, wireless SmartMeters had strained relationships with customers, regulators and politicians.

Earley, a veteran utility executive who was nearing retirement when PG&E called, turned the company's natural gas operations into their own business unit and brought in new executives to run it. The first outsider to lead PG&E, he is trying to reform a company with 20,000 employees at a time when it faces the possibility of more than \$200 million in fines related to San Bruno.

The Chronicle spoke with Earley, 62, about his reasons for taking the job, his first impressions and PG&E's progress to date. The interview has been edited for space and clarity.

Q: When you got here, did you find that PG&E employees were demoralized?

A: Employees were demoralized, and in some sense were in a state of shock. But on the other hand, I found that one of the strongest resources this company has is its employee base. They're incredibly dedicated. And it's a very capable workforce. I mean, I've met more Ph.D.s from Stanford, from Cal, that work for us.

I also found that this is a textbook, business-school case of organizational

structure driving dysfunctional conduct. In our business, it's pretty much standard lore that if you own a combination company - electric and gas - you do not try to combine them at the operating level. The electric business tends to be a much larger business. So if you're a really smart, up-and-coming employee, what part of the business do you want to go to? If you're a manager, and you have \$100 million in capital to allocate between your two businesses, where does that capital go?

If you look at all of the outside reports, that's what screams at you - this was a natural gas business that was under-resourced from a financial standpoint, from a human capital standpoint. So actually one of the easiest fixes was we pulled apart the two businesses, electric and natural gas.

Q: When PG&E recruited you, you had already stepped down as CEO of Michigan's DTE Energy, although you still chaired the company's board. Did you think, "Do I really want to step back into the day-to-day running of a utility?"

A: Absolutely. I think if it had been any other company, I would not have thought twice - I would have said no. As I listened to what had happened here, and what I thought needed to be done, the parallels with my two other utility positions were incredible.

I became general counsel of Long Island Lighting Co. in 1985 and in '89 became president. There, it was a situation of a midsize utility building one of the very expensive, 1980s-vintage nuclear plants. It was a \$3 (billion) or \$4 billion market-cap company building a \$5 billion power plant. So, virtually, the company was running out of money, but you couldn't stop building it because it was almost done.

The plant was wildly unpopular. If you told someone at the time you worked for Long Island Lighting Co., you would get in an argument at the grocer.

We got the plant licensed and then leveraged that to get a deal with the state of New York. [Editors' note: The company agreed not to run the plant, and the state passed most of its costs on to Long Island residents.] When it was finished, my boss said to me, "Well, how'd you like to be president?" I realized I had to fix all those relationships. We had terrible customer service, because every dollar we had coming in was going to the nuclear plant. We had terrible governmental relationships. My strategy there was let's just hunker down and provide really good service to customers, and eventually they'll start to give us the benefit of the doubt.

Did that for five years. That's when I got recruited to DTE. And it was very similar. Literally, weeks before I joined the company, their nuclear plant threw a turbine blade. Broke every line into the turbine - all the cooling-water lines. So

you end up with 10,000 to 15,000 gallons of radioactive water in the basement of the turbine building. They cleaned it up to the point where it met their discharge permits. They legally discharged it into Lake Erie. A firestorm of controversy breaks out. I arrived two weeks after they had this pumping. I had to fix the relationships with the local government, the state government.

So I looked at this. We have to fix San Bruno and do a good job in dealing with that tragedy. But the bigger issue now is, how do we rebuild those relationships? How do we get back to where we're providing really great service to our customers, which we're not doing right now?

Q: One of the complaints people have had about PG&E, even before San Bruno, was that the company placed profits over operations. The incident a lot of people go back to was in the 1990s, when the company was caught funneling money from its tree-trimming program into boosting profits. Is that an accurate characterization of at least part of the way the company used to work?

A: I wasn't here then and can't go back. Every company has to focus on financial health as well as operations. There's no unlimited pot of money. But what I have found is that there didn't seem to be an awareness of where the company stood from an operational standpoint. They thought of themselves as the best-operated company. In fact, in many cases they were a long way from where they needed to be. If you're hitting on all cylinders operationally, then you ought to be focusing on then getting financially strong. But if you're not hitting on all cylinders operationally, that's where you need to focus. Because my theory is, if you provide great service to customers, the financials will fall into place. You can't work it the other way around.

Q: Did PG&E's bankruptcy in 2001 have something to do with it?

A: It obviously did. One of the first things that you have to do coming out of bankruptcy is convince investors that you're a decent investment. And it's particularly true in our industry. Our industry is very capital intensive. We're always going to the market and selling bonds and issuing stock. And so it's natural, coming out of a bankruptcy, to think, "Gee, I've got to hit those financial numbers, because I have to keep access to the market."

Q: To what degree is it frustrating to have all the revelations about San Bruno roll out one by one? To what degree do those ongoing revelations detract from your goal?

A: You'd love to say, "I know what the scope is that I've got to work with." But I guess I'm happy that people are willing, particularly internally, to surface those issues. And that's the message that we keep trying to give: let's identify them, and let's get on with it. These issues are going to come out, but you've got to

keep your eyes focused on what the ultimate goal is.

Q: It's been my impression that unlike former CEO Peter Darbee, who saw himself with an ongoing career possibly leading to things beyond PG&E, you're approaching this as a very specific, concrete job. Like you're fixing a machine that needs to be fixed, and that's all you're focused on. Is that accurate?

A: I think that's accurate. I'm at the end of my career. This is kind of the capstone. And if I can be successful here, it will mean a lot to me personally, but it will mean a lot to the industry. That's important. This is an incredibly important industry for this country.

Q: Any idea how long you'd like to be here?

A: Well, when I talked to the board about coming, I told them that I would stay three to five years. One of my jobs, I think, is to make sure we've got a leadership team in place that can be sustainable. One of the things that I am proud of in my career, in all the moves I've made, no one has ever had to go outside the company to hire my successor.