



December 19, 2012

President Michael R. Peevey
Commissioner Timothy Alan Simon
Commissioner Michel Peter Florio
Commissioner Catherine J.K. Sandoval
Commissioner Mark Ferron

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: R.11-02-019 – Pacific Gas and Electric Company’s (“PG&E”) Phase 1 Pipeline Safety Enhancement Plan (“PSEP”) (Item 50, December 20, 2012 Agenda)

Dear Commissioners:

San Bruno supports those aspects of the Proposed Decision (“PD”) that direct PG&E to make urgent, long overdue safety improvements to its natural gas transmission system. It is essential that the Commission exercise meaningful oversight of PG&E’s PSEP implementation, with the benefit of assistance from an Independent Monitor.¹ In response to the Commissioner Simon and Florio’s requests during ex parte meetings with San Bruno, please see the attached proposal regarding the Independent Monitor. In addition, San Bruno respectfully requests that the Commission direct PG&E to expedite installation of fully automated valves now, rather than defer consideration of these essential safety tools until PG&E’s next Rate Case.

The September 9, 2010 explosion of PG&E Line 132 claimed the lives of eight San Bruno residents, injured sixty-six more and completely destroyed thirty-eight homes in the Crestmoor Neighborhood. PG&E took ninety-three (93) minutes to cut the flow of gas and isolate the rupture. The damage to the community was unprecedented. In the wake of that devastation, it is not a contradiction, or “mixed message,”² to suggest that PG&E, rather than ratepayers should shoulder the full financial burden of necessary safety improvements, particularly given that the dramatic scope of such improvements and aggressive timeline arises primarily as a result of PG&E’s well-documented pattern of gross neglect and mismanagement of its system. Instead, rejection of PG&E’s cost recovery requests appropriately delivers a strong message, in terms the

¹ In a December 12, 2012 Letter to the Commission, PG&E suggests the PSEP has “undergone sufficient scrutiny over the past year. Allow us to proceed now with the regulatory certainty.....” For San Bruno, this is yet another example of PG&E’s tone deaf response to the Commission’s ongoing oversight role in PSEP implementation.

² PG&E Letter at 1 (December 12, 2012).

utility will understand and take seriously, that neither the Commission, nor PG&E can return to “business as usual” when it comes to infrastructure investment and system safety. Given PG&E’s clear culpability for the Line 132 explosion, the choice between encouraging future investment in safety and rejection of PG&E requests for cost recovery is a false one. The Commission should not fall prey to PG&E’s faulty logic.

PG&E complains that “the ongoing investigations are the appropriate place for penalty determinations,” however, the Scoping Memorandum in this proceeding clearly provides for development and adoption of “safety-related changes to the Commission’s regulation of natural gas transmission and distribution pipelines, including requirements for construction...and the application of penalties.”³ PG&E may wish that penalties be addressed exclusively in the investigations, but that does not make it so. PG&E’s expression of deep concern about “unjustly bearing double or triple penalties” fails to acknowledge the Commission’s authority to take official notice of its actions in other related proceedings to avoid any such result.

PG&E should not simply pay a fine, as it did following the 2008 Rancho Cordova explosion,⁴ and move on. PG&E cannot continue to have unfettered discretion to shift resources away from infrastructure investment and make risky decisions that jeopardize safety in the name of financial performance. PG&E should not assume that its customers are there to bail the utility out if something goes wrong. PG&E shareholders should not earn a return on equity (“ROE”) for PSEP investments. In an abstract sense, reducing ROE may cause equity investors to insist on a higher return; however, before the Commission entertains any ROE for PSEP investments, the Commission should demand specific evidence that in practice, in this instance, a ROE reduction for this program alone, for the five (5) years specified in the PD, or longer, would have a materially adverse effect on PG&E’s overall financial health, and on customers in particular.⁵

The Commission must acknowledge that the PG&E Line 132 explosion represents a new chapter in its regulatory relationship with PG&E. San Bruno respectfully requests that the Commission make forcing a meaningful change in PG&E’s corporate culture its central task in this proceeding, even if it means rejecting PG&E cost recovery requests to ensure such a message is received by the utility.

Sincerely,



Connie Jackson, City Manager
City of San Bruno

³ Scoping Memo and Ruling of the Assigned Commissioner at 2 (June 16, 2011).

⁴ Decision 11-12-021.

⁵ The Commission should also consider opportunities to (1) clearly tie executive compensation to service and safety metrics first, and earnings metrics second; and (2) make PG&E’s actual and authorized rate of return results more public and transparent.

CC: Paul Clanon, Executive Director
Maribeth Bushey, Administrative Law Judge
Service List, R.11-02-019

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City of San Bruno's Proposal for the Establishment of an Independent Monitor

In order for there to be meaningful oversight of PG&E's Pipeline Safety Enhancement Plan (PSEP), it is the City of San Bruno's (San Bruno) position that the decision includes the requirement of an Independent Monitor to oversee the execution of the PSEP. The Independent Monitor and necessary consultants would be highly experienced in gas pipeline engineering and pipeline safety. San Bruno proposes that PG&E shareholders will pay for an Independent Monitor and any necessary consultants. San Bruno envisions that the Independent Monitor will be selected through a proposal approved by the non-PG&E stakeholders (including San Bruno) within 45 days after the effective date of the PSEP decision. San Bruno also believes that the Independent Monitor and necessary consultants shall be prohibited from seeking work from PG&E while performing their duties and that, at a minimum, the proposal should include the requirement that the Independent Monitor and necessary consultants will comprehensively evaluate and review whether PG&E is complying with the PSEP.

In order for the Independent Monitor to be effective, there should be a requirement that PG&E permit the Independent Monitor to inspect, inquire, review, examine, and participate in all activities of any kind related to the PSEP. There should also be the requirement that the Independent Monitor should report to the Commission, the parties in OIR 11.02.019, and the public regarding the status and quality of PG&E's compliance with the PSEP on a quarterly basis in order to keep PG&E accountable for complying with the PSEP.

In order to enhance public safety, if the Independent Monitor and necessary consultants identify an immediate threat to public safety, the Independent Monitor should promptly report the potential violation within 24 hours to the presiding Administrative Law Judge in OIR 11.02.019, parties in OIR 11.02.19, and the Consumer Protection Safety Division. As well, if the Independent Monitor and necessary consultants identify potential non-compliance with the requirements of the PSEP, the Independent Monitor will promptly report the potential violation within 5 days to the presiding Administrative Law Judge in OIR 11.02.019, parties in OIR 11.02.19, and the Consumer Protection Safety Division.