BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company to Determine Violations of Public Utilities Code Section 451, General Order 112, and Other Applicable Standards, Laws, Rules and Regulations in Connection with the San Bruno Explosion and Fire on September 9, 2010.	I.12-01-007 (Filed January 12, 2012) (Not Consolidated)
Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company with Respect to Facilities Records for its Natural Gas Transmission System Pipelines.	I.11-02-016 (Filed February 24, 2011) (Not Consolidated)
Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company's Natural Gas Transmission Pipeline System in Locations with Higher Population Density	I.11-11-009 (Filed November 10, 2011) (Not Consolidated)

CITY OF SAN BRUNO'S AMENDED REQUEST FOR OFFICIAL NOTICE

STEVEN R. MEYERS
BRITT K. STROTTMAN
JESSICA R. MULLAN
Meyers, Nave, Riback, Silver & Wilson
555 12th Street, Suite 1500
Oakland, CA 94607
Phone: (510) 808-2000
Fax: (510) 444-1108
E-mail: smeyers@meyersnave.com
Attorneys for CITY OF SAN BRUNO

May 13, 2013

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company to Determine Violations of Public Utilities Code Section 451, General Order 112, and Other Applicable Standards, Laws, Rules and Regulations in Connection with the San Bruno Explosion and Fire on September 9, 2010.	I.12-01-007 (Filed January 12, 2012) (Not Consolidated)
Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company with Respect to Facilities Records for its Natural Gas Transmission System Pipelines.	I.11-02-016 (Filed February 24, 2011) (Not Consolidated)
Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Pacific Gas and Electric Company's Natural Gas Transmission Pipeline System in Locations with Higher Population Density	I.11-11-009 (Filed November 10, 2011) (Not Consolidated)

CITY OF SAN BRUNO'S AMENDED REQUEST FOR OFFICIAL NOTICE

I. INTRODUCTION

Pursuant to Rule 13.9 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Commission Rules"), the City of San Bruno ("San Bruno") requests that the Commission take official notice of the following documents:

- PG&E Corporation Earnings Conference Call, Quarter 1, 2013, (Thursday, May 2, 2013 11:00 a.m. ET) in its entirety[1]

[1] Available at: http://edge.media-server.com/m/p/4qw4msxk/lan/en and http://www.pge.com/en/about/index.page; screenshots of links are attached as Exhibit 2. Transcript of PG&E Corporation Earnings Conference Call is attached as Exhibit 3.

SB_GT&S_0176240

- CPUC Memorandum and Associated Report re: Safety Culture: "CPUC Safety Culture Change Initial Discovery Report"[2]

Commission Rule 13.9 authorizes the Commission to take official notice of "such matters as may be judicially noticed by the courts of the State of California pursuant to Evidence Code section 451 *et seq*." When determining the propriety of taking judicial notice, a court can look to "any source of pertinent information."[3]

Judicial notice by the courts, and official notice by this Commission, may be taken when a fact is not subject to dispute and is accurate.[4] In other words, judicial or official notice is proper for: "facts and propositions that are not reasonably subject to dispute and are capable of immediate and accurate determination by resort to sources of reasonably indisputable accuracy."[5]

Furthermore, a request for judicial notice by the courts, and, by extension a request for official notice by the Commission *must* be granted where the requestor: "(a) gives each adverse party sufficient notice of the request, through the pleadings or otherwise, to enable such adverse party to prepare to meet the request; and (b) furnishes the court with sufficient information to enable it to take judicial notice of the matter."[6]

II. DISCUSSION

A. PG&E Corporation's First Quarter 2013 Earnings Conference Call Held May 2, 2013

Pacific Gas and Electric Corporation's Earnings Conference Call regarding the First Quarter of 2013 ("PG&E Q1 2013 Earnings Call") is highly pertinent to the

---

[2] Attached hereto as Exhibit 1 and available at: *http://www.sfgate.com/file/504/504-Safety%20Culture%20Change%20Project%20Report.pdf*
[3] Cal. Evidence Code section 454.
[4] Cal. Evidence Code section 452(h).
[5] Cal. Evidence Code section 452(h).
[6] Cal. Evidence Code section 453.

Commission's consideration of applicable fines, remedies or other penalties in the three ongoing Commission investigations into Pacific Gas and Electric Company's (PG&E) past and present violations of applicable laws and regulations in connection with the Line 132 Explosion: the Root Cause Order Instituting Investigation ("OII") ("I.12-01-007"), the Recordkeeping OII ("I.11-02-016") and the High Consequence Area ("HCA") OII ("I.11-11-009") (the "Line 132 Explosion Proceedings").

In order to assess fines and penalties in the Line 132 Explosion Proceedings, the Commission must consider "...the appropriateness of such penalty to the size of the business of the person charged."[7] Commission decisions further mandate that the "financial resources of the utility" also be considered in connection with the assessment of fines and penalties.[8] For these reasons, PG&E's current financial status and stability, and the utility's own interpretation of its financial status and stability are directly pertinent to the Commission's determination of the scope, magnitude and structure of the fines and penalties imposed in the Line 132 Explosion Proceedings.[9]

The PG&E Q1 2013 Earnings Call is "accurate" and "not subject to dispute." San Bruno requests official notice of the audio recording of the PG&E Q1 2013 Earnings Call. The PG&E Q1 2013 Earnings Call is "accurate" and "not subject to dispute" because it (1) is a recording derived directly from PG&E Corporation's website; and (2) is based on public, audited reports that PG&E has filed with the United States Securities and Exchange Commission, further enhancing its accuracy and veracity. For these

[7] Cal. Pub. Util. Code section 2104.5.
[8] Commission Decision 98-12-075.
[9] Section 2104.5 of the California Public Utilities Code also requires the Commission to consider the "good faith of the person charged," when assessing fines and penalties in these Line 132 Explosion Proceedings. PG&E's continued reference on the Q1 2013 Earnings Call to San Bruno, and the other Intervenors as "extreme" is directly pertinent to PG&E's good faith, or lack thereof, towards San Bruno, the Intervenors and these proceedings in general.

reasons, the PG&E Q1 2013 Earnings Call and all information contained therein is also properly the subject of official notice.

Finally, each adverse party has sufficient notice of San Bruno's request based on the content of section 2104.5 of the California Public Utilities Code. PG&E, and the other Intervenors in the Line 132 Explosion Proceedings are well aware that the utility's financial status, stability and capacity would be a central issue in resolution of the fines and penalties phase of the Line 132 Explosion Proceedings. In addition, San Bruno is providing PG&E with notice of its request for Official Notice by filing this motion two weeks before PG&E's brief on the fines and remedies is due, and within a week of the broadcast of the PG&E Q1 2013 Earnings Call. The audio recording of the PG&E Q1 2013 Earnings Call is readily available to all Intervenors and this Commission, providing sufficient information to enable the Commission to take judicial notice of the matter.

B. The "CPUC Safety Culture Change Initial Discovery Report"

On April 17, 2013, the Committee No. 3 (Resources and Transportation) of the California Assembly Budget Committee held a hearing concerning Safety Culture Changes at the Commission. (the "Budget Committee Hearing")[10] According to the Assembly Budget Committee Agenda, the CPUC engaged an independent consulting firm to facilitate its "Safety Culture Change" project in Fall, 2012, which released its "CPUC Safety Culture Change Initial Discovery Report" (the "CPUC Safety Culture Report") report to the Commission on January 25, 2013.[11] The Assembly Budget

[10] Assembly Budget Committee No. 3 (Resources and Transportation), Agenda, Item No. 8660 (April 17, 2013) available at: http://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/April%2017-Agenda.pdf
[11] *Id.* at 14.

Committee Agenda makes clear that the CPUC Safety Culture Report would be a central focus of the Budget Committee Hearing.[12]

The CPUC Safety Culture Report is pertinent to the Line 132 Explosion Proceedings and is therefore a proper subject for official notice. San Bruno, and other Intervenors expressly request that the Commission direct PG&E shareholders to pay for an Independent Monitor to evaluate the utility's compliance with its Pipeline Safety Enhancement Plan ("PSEP"), and any and all fines and remedies imposed by the Commission in the Line 132 Explosion Investigatory Proceedings. The City of San Bruno requested an independent monitor because PG&E's failure to operate and manage a safe system and the Commission's inability to supervise PG&E are well documented.[13] The CPUC Safety Culture Report bears directly on the (1) Commission's past history and current capacity for actively monitoring compliance in these areas independently; and (2) the need for an independent monitor to supplement the Commission's oversight role going forward. In short, CPUC Safety Report concerns whether the Commission has adequate resources *and the administrative will* to oversee and regulate PG&E in the future.

The CPUC Safety Report is "accurate" and "not subject to dispute." The sources for the CPUC Safety Culture Report are Commission employees themselves. Furthermore, the CPUC Safety Culture Report was the subject of proceedings before the State Assembly.

Finally, each adverse party has been provided with sufficient notice of San Bruno's request based on the City's Opening Brief in the Root Cause OII (I.12-01-007).

---

[12] *Id.* at 14.
[13] Opening Brief of San Bruno in I.12-01-007 at Section IV (Commission's Failure to Oversee PG&E Operations), Section V (PG&E Violations and Misconduct) (March 11, 2013).

In San Bruno's Opening Brief, the City specifically made the Commission's dysfunctional safety culture a central factor in the Line 132 Explosion. For this reason, the Commission, PG&E and the other Intervenors to the Line 132 Explosion Proceedings were well aware that San Bruno would not only raise the independent monitor remedy, but also rely on evidence such as the CPUC Safety Culture Report in making its argument. As with the PG&E Q1 2013 Earnings Call, San Bruno provides PG&E with notice of its request for Official Notice of the CPUC Safety Culture Report by filing this motion almost two weeks before PG&E's brief on the fines and remedies is due. The Consumer Protection and Safety Division has notice of the same nearly a month before its reply brief is due.

San Bruno has attached a copy of the CPUC Safety Culture Report to this Request for Official Notice as Exhibit 1. In addition, the Commission itself commissioned the report, possesses the report, selected the consultants to prepare the report, and is aware of the facts and employees upon which the report is based. Finally, the CPUC Safety Culture Report is readily available to all Intervenors and this Commission, and the Commission has been provided with sufficient information to enable it to take official notice thereof.

///

///

///

///

///

///

III. CONCLUSION

For the reasons set forth herein, San Bruno respectfully requests that the Commission take official notice of the above-cited documents.

Respectfully submitted,

/s/ Steven R. Meyers

Steven R. Meyers
Britt K. Strottman
Jessica R. Mullan
Meyers, Nave, Riback, Silver & Wilson
555 12th Street, Suite 1500
Oakland, CA 94607
Phone: (510) 808-2000
Fax: (510) 444-1108
E-mail: smeyers@meyersnave.com
Attorneys for CITY OF SAN BRUNO

May 13, 2013

2080752

EXHIBIT 1

State of California

Memorandum

Executive Sponsors
Paul Clanon
Michelle Cooke

Date: February 11, 2013

To: Directors

From: Paul Clanon, Executive Director
Amanda Hult, Safety Culture Change Project Co-Lead
Richard Oppenheim, Safety Culture Change Project Co-Lead

Subject: *CPUC Safety Culture Change Initial Discovery Report*

The attached report, completed by Business Advantage Consulting, outlines the results of the Initial Discovery stage of the Safety Culture Change project. This first stage involved two steps: interviews with senior leadership and focus groups with managers and staff. We are asking that you treat this report as Confidential and do not distribute to anyone else.

Business Advantage Consulting will be attending the Director's Meeting on Friday, February 15 to engage the Directors in a discussion about the results. As you review the report, consider the following questions as they will be discussed in the Director's Meeting:

- What surprised you about the report?
- What resonated for you?
- What can we do to maximize our chances of successfully changing the culture of the PUC?

As a recap, this project involves identifying safety culture issues; developing a strategy that identifies safety culture goals, objectives and action plans; and finally providing coaching to identified CPUC Leaders to help meet goals, objectives and action plans. The specific steps of the safety culture change project scope include six stages:

1. Initial Discovery
2. Develop Strategy/Approach
3. Assessment
4. Initial Coaching Sessions
5. Follow-Up Coaching Sessions
6. Results of Safety Culture Change

Now that we have completed the Initial Discovery Stage, we will be moving into the Strategy/ Approach stage of the Safety Culture Change project.

CONFIDENTIAL

Business Advantage Consulting

California Public Utilities Commission
Safety Culture Change Project

Initial Discovery Report

January 25, 2013

CONFIDENTIAL

SB_GT&S_0176249

What Does A Safety Culture Look Like?

"If this were a safety culture, when we found something that is an unsafe practice, we would take action and the Commissioners would support us."

"Everyone at PUC would know what their role is regarding safety."

"We'll know we have a safety culture when Commissioners say 'yes' to our recommendations and 'no' to utilities when they ask for things that do not include safety considerations."

"We would be making hard decisions about prioritizing safety beyond other priorities."

"We will know that safety has become a priority when a safety decision is made by the Commissioners with a 5-0 vote."

"If we were enforcing the rules, we would not have to worry about a safety culture. If we were holding the utilities accountable and doing what we were supposed to be doing, San Bruno would never have happened."

CONFIDENTIAL

INTRODUCTION

The California Public Utilities Commission (PUC) is seeking to change its culture to one of enhanced commitment, focus, and accountability to safety throughout the organization. The desire to change its culture was sparked by the recent gas pipeline disaster in San Bruno, which revealed cultural shortcomings in safety enforcement and oversight at the PUC.

The PUC has engaged Business Advantage Consulting (BAC) to facilitate its Safety Culture Change project, which will undertake an immediate and sustained effort to help PUC leadership in a guided process of culture change to apply the lessons of San Bruno to all of the agency's regulatory programs, and leave a PUC safety culture that permeates all of the agency's work. This project began with Phase 1, Initial Discovery, which consisted of a document review, interviews and focus groups. The purpose of the Initial Discovery Phase was to uncover the culture changes needed and to develop a draft problem statement that would allow the PUC to plan its culture change strategy.

This report includes the following sections:

Introduction - this section briefly describes the Safety Culture Change Project.

Draft Safety Culture Problem Statement - this section presents the draft Safety Culture Problem Statement, developed based on the findings from the Initial Discovery Phase.

Cultural Issues and Challenges - this section presents respondent identified safety culture issues and challenges related to PUC culture.

Structural Issues and Challenges - this section presents respondent identified structural issues and challenges related to a PUC safety culture.

External Pressure Issues and Challenges - this section presents respondent identified issues and challenges to a PUC safety culture that come from external pressures.

Participants Ideas and Suggestions - this section includes respondent ideas and suggestions for creating a safety culture at PUC.

Next Steps - this section presents BAC's recommendations for next steps.

Appendix - the Appendix includes interview and focus group protocols used during the Initial Discovery Phase.

As the first step in the Initial Discovery Phase, BAC team members reviewed recent internal and external assessments relating to the PUC's culture and functioning. Some of these documents focused directly on the PUC's strengths and challenges as a safety promoting and regulating entity (*Report of the Independent Panel: San Bruno Explosion (2011)*), while others assessed the PUC's strengths and challenges more broadly (*The Training Needs Assessment,* (June 2011); The *Pulse Employee Opinion Survey,* (February 2012).

During October through December 2012, BAC, in collaboration with PUC staff, developed an interview protocol to gather insights and observation from PUC leaders about safety at the PUC. BAC used the interview protocol to conduct fifteen interviews of PUC executives including the PUC Executive Director, Division Directors, and Legal Counsel during October, November and December of 2012. In January 2013, BAC team members conducted four focus groups comprised of PUC line staff, supervisors, and managers. BAC worked with PUC staff to develop three focus group protocols: one protocol for supervisor/manager focus groups, one protocol for line staff focus groups, and a separate protocol for Safety and Enforcement Division (SED) staff focus groups that addressed SED's unique mandate and issues regarding maintaining and sustaining a safety culture. The interview and focus group protocols can be found in the Appendix of this report.

The Initial Discovery Phase harvested a large amount of data and uncovered a wide range of issues and challenges to establishing a culture of safety at the PUC. BAC has organized these issues into three broad categories: cultural, structural and external pressures. We do not mean to imply that the issues are separate and discreet from each other. In fact, they are overlapping and interdependent. These categories are meant to organize the data into a high level structure to allow meaningful discussion, analysis, and strategic problem solving by PUC leadership.

DRAFT SAFETY CULTURE PROBLEM STATEMENT

The information gathered during the Initial Discovery Phase provides the backdrop and scope for the following problem statement:

> The current PUC culture has contributed to its past success. Leadership has determined that some aspects of this culture, however, need to change in order to promote a culture of safety. To make meaningful progress toward this goal, PUC leadership must confront issues in three categories of barriers to a culture of safety: cultural, structural and external pressures. PUC leadership must analyze these issues, develop strategic safety goals, and take strong, effective, consistent and sustained action to achieve these safety goals.

Each issue is discussed in more detail in the body of this report. Where appropriate, issues are followed by illustrative comments from PUC interviewees or focus group participants. We wish to make clear that the issues identified in this report represent the views and perceptions of the respondents. This report is not an evaluation of the objective truth of those views and perceptions. To summarize, a non-prioritized list of all issues is included below:

I. Cultural
   A. A pragmatic culture that sees safety as "one of three competing priorities"
   B. Safety is considered less compelling than other priorities
   C. An "open" and "casual" culture sends conflicting messages about accountability
   D. Lack of follow up mechanisms and follow through consequences
   E. Lack of consistent safety modeling and messaging from PUC leadership
   F. Excessive process inhibits staff initiative
   G. The perception that safety culture is the "flavor of the month"
   H. Lack of individual assessment and accountability
   I. Lack of a unifying strategic vision
   J. PUC staff lack an understanding and appreciation of the goals, objectives, roles and responsibilities of divisions outside of their own
   K. Divergent views among PUC employees regarding the effectiveness of "carrot" versus "stick" regulatory approaches leads to a lack of consistency
   L. The Executive Director's aversion to conflict discourages PUC staff from taking "tough issues" head on
   M. An historic lack of advocacy for safety at the Commissioner level

II. Structural
   A. Staff lack the necessary tools and supports for effective safety analysis
   B. There are insufficient mechanisms for cross divisional communication and collaboration
   C. Cross divisional promotion depletes content-area expertise and experience
   D. PUC is not evaluating the outcomes of its policies and decisions
   E. Some staff believe that it is the PUC's failure to thoroughly "check the boxes" and enforce existing regulation that is at the root of the safety crises
   F. SED has lacked the power and influence necessary to serve as a safety leader
   G. Director meetings do not address shared safety goals
   H. PUC databases do not support effective analysis or information sharing
   I. PUC managers lack both supervisory and leadership skills

III. External Pressures
   A. An overly-cozy relationship with regulated utilities
   B. Pressure from the legislature and large number of environmental and rate payer lobbyists and activists keep focus on those areas

A detailed description of each issue is included in the next three sections of the report.

I. CULTURAL ISSUES & CHALLENGES

Cultural issues and challenges that emerged during the Initial Discovery Phase include basic assumptions, norms, behaviors, actions, and values that have developed over time.

A. **A pragmatic organizational culture in which safety is viewed as "one of three competing priorities":** Many PUC staff view themselves as analysts and pragmatists who understand accidents to be "inevitable". These respondents insist that safety goals and interests must be carefully balanced against the competing goals and interests of affordability and reliability in order for the PUC to succeed.

   "We can't focus on one element of our mission to the detriment of the others."

   Throughout the focus groups and interviews, respondents posed the question: "How much money are we willing to spend to save one life?"

B. **Safety is considered less compelling than other priorities:** For many years, the PUC has been celebrated as a leader in representing ratepayers and for promoting innovative and green technologies. There has been little attention and limited resources directed toward reliability, and even fewer toward safety by the Legislature and the Commissioners. Historically, SED has received less personnel allocations and other resources and has brought fewer issues before the Commissioners than the Energy Division (Energy) or the Division of Ratepayer Advocates (DRA). Because safety is considered to be "off the radar screen" of most Commissioners and legislators, it is considered to have little cache for PUC staff and managers.

   "We get focused on hot projects and priorities and safety does not usually get that much attention."

   "Our values really get focused on ensuring low prices and supporting environmental attributes. We are very enamored with clean energy and low rates. They drive policy making, not safety concerns."

   "For the past ten years we have been mostly focused on climate changes policies. Everything else takes a back seat. We have not been focused on creating the safest infrastructure."

C. **An "open" and "casual" culture sends conflicting messages about accountability:** While the PUC's open and casual culture (e.g. dress code, the Executive Director's open-door policy, San Francisco address, lack of employee evaluations, industry's easy access to the PUC), is credited with promoting open communication and innovation, it is also blamed for sending the wrong message to

CONFIDENTIAL

both staff and regulated industries about accountability. Respondents reported that regulated industries have too much access to the PUC building, documents and personnel, and see too little in terms of significant fines and consequences to view the PUC as a serious regulator. Similarly, the casual approach of the Executive Director and other PUC senior leaders sends the message to staff that they will not be held accountable for their actions.

> *"The regulated industries and lobbyists come to the PUC and see how casual the attitude and culture is here. As a result, they don't feel that they have to comply – they are not worried. The message to them is that we are not paying attention."*

> *"We are not disciplined. How can we expect to see discipline in the utilities?"*

D. **Lack of follow up mechanisms and follow through consequences:** While the PUC can be highly effective at gathering and tracking essential safety data, identifying safety issues, and creative problem-solving, there is a lack of clear processes for following up and a lackadaisical attitude toward follow through. Respondents reported that meetings (from line staff meetings, to Division Director meetings to commission meetings) do not include sufficient mechanisms for tracking the implementation and outcomes of previous decisions, [redacted]e. review of how utilities actually spent money allocated to them for safety improvement projects). In addition, respondents report that there is little-to-no consequences for employees who fail to follow up, or for utilities who fail to follow through.

> *"We must make consequences more than a slap on the hand."*

E. **Lack of consistent safety modeling and messaging from PUC leadership:** While most respondents believe that the Executive Director has a sincere desire to improve the safety outcomes of the PUC, many believe that he and other leaders are not providing the consistent messaging and behavior necessary to support fundamental change. Respondents point to several attitudes and behaviors displayed by the Executive Director that they consider to be "anti-safety". These include: resistance to challenging utilities, resistance to levying fines, unwillingness to re-allocate organizational resources, failure to complete employee evaluations, failure to provide consequences to staff, resistance to confronting internal conflicts.

> *"You lead from the top. Paul is not doing his evaluations and the people under him are not doing theirs."*

> *"If Paul does not insist on change, there will be no change. There must be a constant reminder. We need to bring concrete and relevant information to the staff. We need to continually broach the issue – there is always a safety aspect to everything we do. It needs to be considered in all of our decisions."*

"You need to have disciplined leadership – employees pick up on the cues and emulate what they see."

"We need consistent messaging from senior management that things need to be changed and management needs to show us support by responding to our needs and complaints…"

"There has been a lot of lip service for safety. I have not yet seen enough action yet to back up the talk."

F. **Excessive process inhibits staff initiative:** According to respondents, when staff identify issues or propose new approaches, those decisions/recommendations must be reviewed by numerous layers of management before reaching top leadership. Bottlenecks occur regularly in middle management and the initial issues or recommendations are considered too late in the process or else never reach decision-makers at all. Failing to see their ideas acknowledged, staff lose their initiative to be innovative or proactive in the future.

G. **The perception that safety culture is the "flavor of the month":** According to several respondents, PUC's culture is often resistant to change. Staff report receiving directives from upper management that they consciously ignore, believing that if they wait, "this too shall pass."

When presented with the Safety Culture Change Project several respondents indicated their belief, that it was a superficial response to outside pressures and, as a result, would be gone from the radar before long.

"Once there are no accidents again, safety will go on the back burner for the other divisions."

"There is a disincentive for staff to tackle safety, it would mean taking on more work by myself for no reason and without support."

H. **Lack of individual evaluations and accountability**: The majority of directors interviewed had not received a personnel evaluation in several years and had not conducted evaluations of their own staff. Neither staff nor leadership who participated in the discovery phase reported experiencing consequences for failure to complete employee evaluations outside of the probationary timeframe.

I. **Lack of a unifying strategic vision:** Many respondents believe that the PUC determines its priorities and allocates its resources solely in reaction to legislative

SB_GT&S_0176256

and media pressures, and that there is no larger, long-term vision guiding and unifying staff around safety and other shared goals.

Many of the staff and leadership interviewed expressed the belief that enforcing safety is strictly the job of the Commissioners and the SED.

> *"Commissioners should be watching the regulatory and safety piece. We shouldn't be doing this."*

Outside of the SED, many staff and managers do not believe they have a role in creating and sustaining a safety culture. Many PUC staff and managers see their division's individual goals as mutually exclusive from other divisions.

> *"In each division there's a different focus – for DRA it's cost, for Energy it's reliability, for Water, it's cost. Safety isn't inherent. Cost first, reliability second, safety is last. We need to change how we think. We need guidelines, we need to revise the mission."*

> *"There isn't enough about safety in our vision." We have to show people the importance of safety. We must make it relevant to people."*

> *"The problem here is not the staff, it is the system. Need to have a strategic plan about safety goals."*

J. **PUC staff lack an understanding and appreciation of the goals, objectives, roles and responsibilities of divisions outside of their own:** According to respondents, at the staff, supervisor, manager and even director level, there is a general lack of understanding of what other divisions do and why they do it. This lack of understanding reinforces silos, hording of resources, and the lack of communication currently experienced among PUC's divisions.

K. **Divergent perspectives among PUC employees regarding the effectiveness of "carrot" versus "stick" regulatory approaches leads to a lack of consistency:** PUC's employees do not agree on the most effective method for achieving compliance among the regulated utilities. While some staff firmly believe the PUC must use its significant financial and regulatory power to extract compliance, others believe that punishing the utilities with heavy fines does not work to either parties' benefit.

> *"If you punish your child (i.e., PG&E) all the time for speaking up, they're not going to come to you when there's a fire in the closet (a risk)."*

> *"If we don't levy real fines, this sends the messages to the utilities that they don't have to take us seriously."*

CONFIDENTIAL

This inconsistency in vision and approach is seen throughout the PUC's divisions. Many employees consider compliance in very "black and white" terms. This schism appears to be due in part to an incomplete vision and message from PUC leadership regarding compliance:

> *"We are not being proactive. We are just dragging them (the utilities) with us."*
>
> *"We were told to issue citations. We issued citations. Then we are told that we should meet with them to discuss how they could comply without complying to the law. We are told to be inconsistent. No matter what we do, they change it."*

L. **The Executive Director's aversion to conflict discourages PUC staff from taking tough issues head on:** Several respondents reported that the Executive Director is hesitant to intervene in internal conflicts such as in disagreements over personnel and other resource allocations among division directors. In general, respondents report that PUC culture is very "risk averse" and works against "sticking your neck out".

> *"A don't 'upset the apple cart' mentality leads to people not challenging things, underperforming and not paying close attention, not showing the regulated industries that they are being watched and that the PUC is serious."*
>
> *"I, as a director am told not to say anything, don't cause problems, how are we to regulate the utilities?"*
>
> *"We need to be more transparent – open up to whistleblowers. Get away from 'the old boys network.' "*

M. **An historic lack of advocacy for safety at the Commissioner level:** According to respondents, most Commissioners express minimal interest in or support for safety initiatives. Commissioners review few cases regarding safety on a pro-active basis and have minimal contact with SED personnel. The Commissioners' policy analysis and decision-making processes have historically not considered safety impacts, and there has been no evaluation of previous decisions to evaluate their long-term impacts on safety. In addition, the Commissioners have decided against several SED recommendations due to cost, political, and other considerations.

> *"Commissioners consider safety issues routine. They are not interested in discussing it."*
>
> *"Commissioners need more political backbone to fine or punish utilities. They need to see its not just a cost of doing business."*

"When Commissioners vote, they don't support safety, so there's no incentive for the utilities to be safer. If they knew they were 100% liable for safety problems, they'd take it more seriously. If the commission lets them put the burden on ratepayers, rather than shareholders, there is no incentive for the utilities to change."

II. STRUCTURAL ISSUES & CHALLENGES

Structural issues and challenges identified during the Initial Discovery Phase include resource, policy, process, communication, training, and technology barriers to creating a safety culture.

A. **Staff lack the necessary tools and supports for effective safety analysis:** Respondents indicated that PUC staff and managers lack the training, time, processes and management support to effectively identify, analyze and move forward safety concerns and considerations. There are no existing mechanisms for inserting safety concerns into the record. Often, when safety is considered in a case proceeding it is at the end of the process, when it is too late to make necessary changes. In addition, there are imbalances in personnel classifications. The PUC was previously staffed primarily by engineers, but over the past few decades, engineers have been replaced by policy experts, many of whom lack the training and orientation to conduct risk assessment/risk management.

"I don't know who to call when I don't understand a safety issue."

"Other divisions haven't been given a clear enough directive on what safety is."

"We have lack of expertise within the commission to evaluate safety. We prioritize for rates and affordability. DRA doesn't know how to analyze a dam. "

B. **There are insufficient mechanisms for cross-divisional communication and collaboration:** This was the most common complaint among division directors, managers, supervisors and staff. According to respondents, the PUC offers few opportunities for staff to collaborate across divisions on issues that affect them, Lack of cross divisional communication and collaboration was blamed for several of the PUCs current safety woes including: lack of access to critical data, ineffective risk assessment and planning, ineffective oversight, duplication of effort, and delays in response times. Respondents also noted that cross divisional collaboration is prevented in some case by inherent conflicts within the system, such as between SED, Energy and DRA when they are parties to a proceeding.

SB_GT&S_0176259

"If we all knew better what we were doing, we could share the load better. We could work smarter."

"Energy, DRA and SED need to interact with each other. They need to understand how they are all connected."

C. **Cross divisional promotion depletes content-area expertise and experience:** The regular practice of promoting across divisions rather than within divisions means that PUC staff take their subject matter expertise and insight out of the divisions to which it relates. Because there are few mechanisms supporting cross-divisional communication and collaboration, significant content knowledge is not often transferred to incoming staff members, making meaningful safety assessments more difficult.

D. **PUC is not evaluating the outcomes of its policies and decisions:** Respondents indicated that, from the Commissioners down to the staff level, there are few mechanisms for assessing or evaluating the outcomes of previous actions and decisions. There is no process or model for evaluating what worked and what did not and for creating recommendations regarding what should be done differently in the future. This is true both for decisions regarding issues internal to the PUC and for issues regarding external entities (utilities). While audits are regularly completed by SED and other divisions, there is no sharing of or follow up to findings.

"Commissioners don't see follow up regarding the decisions they make. They make a decision and then move on."

"If you are promoting safety, you have to have mechanisms for implementing safety strategies and evaluating them. You must have an auditing mechanism."

E. **Some staff believe that it is the PUC's failure to thoroughly "check the boxes" and enforce existing regulation that is at the root of the safety crises:** While most respondents concurred that the PUC must move towards a risk assessment approach, several respondents expressed their belief that it has been PUC's failure to adequately enforce compliance with current regulations that has been the true source of poor safety outcomes. Examples of this failure include failure to hire sufficient numbers of inspectors, failure to provide inspectors adequate training, and failure to place swift and significant fines on utilities that are out of compliance.

"It is not rocket science to do regulations. We have clear and explicit guidelines."

"PUC inspectors were not being trained properly. They were not even 'checking the boxes' because if they did, they would have noticed something was amiss."

"We need to check the box, before you can walk outside the box."

F. **SED has lacked the power and influence necessary to serve as a safety leader:** Respondents report that for many years, power and resources have been allocated inequitably at the PUC. While some divisions such as Energy and DRA have received significant resources and attention from the Commissioners, other divisions (namely SED and Water), have been treated as undervalued, and at times, invisible stepchildren.

> *"Safety staff doesn't feel like they are a valued part of the agency. Commissioners don't talk to them."*

According to several respondents, SED has been at times, both the perpetrator and the victim of this dynamic. By several accounts, SED has functioned for many years without the necessary staffing, resources and access to the Commissioners that it has needed to bring safety to the fore. At the same time, some respondents believe that SED has perpetrated its outsider status by functioning as a rigid and closed system. SED staff have been resistant to sharing data, enhancing processes, working proactively, and are reluctant to collaborate with other divisions.

> *"SED needs to realize that their role is to advocate for safety and think beyond doing safety inspections. They need to think more deeply about who needs the data they have collected."*

> *"When SED takes sole responsibility for safety, everyone else takes it off their plate."*

> *"SED needs to be telling us on a daily basis what they are finding. They should always be communicating what they are finding in terms of inspection."*

> *"SED has not been trained in risk assessment and mitigation, and is not geared in that direction."*

G. **Director meetings do not address shared safety goals:** Director meetings are viewed as ineffective in promoting cross division sharing, analyses or problem solving regarding safety issues. For example, according to one respondent:

> *"Paul has not led the directors in any shared goal setting or strategic planning" Safety is not an agenda item at the meetings."*

H. **PUC databases do not support effective analysis or information sharing:** According to respondents, PUC divisions host a set of disparate databases that are difficult to utilize for effective data sharing and data analysis. Challenges include: duplicate entries, difficulty in pulling clear and succinct reports, and data being input into different parts of the system where it cannot be seen together. To support safety

SB_GT&S_0176261

planning goals, staff require more flexible and integrated systems that are able to initiate data analysis. For example, staff should be able to give the system parameters of what types of data constitute an elevated risk to safety. When these parameters are reached from data entered by a regulator, the system should automatically generate and send out a report to key decision makers to flag a potential safety issue. Staff should be able to request risk profiles and receive notifications of potential issues.

I. **PUC managers lack both supervisory and leadership skills:** Respondents indicated that technical expertise, rather than leadership effectiveness has been the primary reason for promotion at the PUC. Following promotion to supervisory positions, new PUC managers do not participate in the mandatory supervisory training required by the State.

> *"Managers here are very weak. They are technical experts who don't know basic management skills. Many have not taken the mandatory 40 hour supervisor training, and most don't do evaluations."*

III. EXTERNAL PRESSURE ISSUES & CHALLENGES

External pressure raises issues and challenges to a safety culture. Issues identified by respondents include the low priority placed on safety by external PUC stakeholders as well as the influence of powerful industry and other advocates on PUC decision-makers.

A. **An overly-cozy relationship with regulated utilities:** Several respondents report that both Commissioners and PUC staff members have close ties to the industries they are supposed to be regulating. This has resulted in a reluctance on the part of t Commissioners and the PUC to impose significant fines and other consequences:

> *"For years, the Commissioners did not want to levy fines for safety violations. The culture was 'we will work with the utilities without using the stick...A decade of no fines."*

> *"Safety staff did not feel empowered to suggest large fines because the Commissioners would not approve them."*

B. **Pressure from the legislature and large number of environmental and rate payer lobbyists and activists keep focus on those areas.** There are numerous advocates for utilities and ratepayers. Substantial resources are devoted to safeguarding the interests of these groups and advocating for affordable rates and environmental concerns. There is not the same strength of advocacy for safety coming from outside the organization. According to respondents, safety is not

SB_GT&S_0176262

handled proactively. Rather, it tends to be addressed reactively after events. The current focus on job creation and boosting the economy makes over-regulation unpopular.

PARTICIPANT IDEAS AND SUGGESTIONS

The following is a list of ideas and suggestions for creating a safety culture gathered from PUC interviewees and focus group participants.

- Develop cross functional and cross divisional workgroups
- Develop safety panels within each division
- Develop an orientation program for new employees that introduces them to each of the PUCs divisions.
- Expand the risk assessment group to other divisions outside of the SED.
- Early in case proceedings, identify the need for cross-divisional participation. Provide access to needed staff.
- Hold regular inter-divisional meetings where staff can discuss the breadth of issues before the Commission.
- Utilize SED staff to provide training on safety analysis risk management.
- Make SED an active role in Administrative Law Judge (ALJ) cases. To get around legal barriers, have SED hire consultants to keep clear wall around cases.
- ALJ has been looking at procedures to support safety consideration at every step. To create a record to capture safety issues for each decisions. This will require that Commissioners are aware of the safety impacts.
- Hold a forum for SED to discuss issues on a regular basis with the energy and legal division. Build this into SED's strategic plan.
- Utilize the Safety Council as a clearinghouse for reviewing safety-related decisions and workplanning next steps.
- Provide training for all employees in risk assessment and risk analysis approach, philosophy and practices.
- Look at revamping the auditing process. SED is doing a lot of work with audits but they have not done follow up on their initial audits and looked at what are the

CONFIDENTIAL

SB_GT&S_0176263

longer term results that their policies and decisions have created. It is very important that SED communicate with their state and federal colleagues regarding what they are finding and develop a collaborative strategy for responding to issues.

- All PUC leaders need help in translating the larger PUC goals and mission into their day-to-day work plans and connecting their work plans to larger goals and mission.

- Best Practice: Energy holds "First Friday Forum" in which one of its 15 sections does a "deep dive" into their topic.

- Look at ratio of PUC inspectors to other states in terms of pipeline to see if PUC is making the correct allocations in this area.

- Look closely at how the Safety Council is functioning and optimize its effectiveness. (e.g. make sure to include key players, provide processes and support for implementing decisions, needs an evaluation mechanism, needs process for communicating decisions to staff)

- Build protocol into the Commission's policy analysis and decision-making processes that looks at the longer term connections to impacts on safety ("the flow through to safety impacts")

- Set expectation by including safety in job descriptions, evaluations etc. Reward staff who meet safety goals/ display ideal safety behaviors.

- Provide directors, managers and supervisors training in, support for and consequences for not completing employee evaluations.

- Create a stronger integration between Commissioners and safety staff.

- Hold inter-division forums/meetings to educate staff on the goals and objectives of each PUC division.

- Require safety to be part of every work product. Embed safety criterion/considerations/analyses in all decision-making templates. Must be weighted equally to financial considerations.

- Hold additional directors meetings (once every 6 weeks) where directors can brainstorm and problem solve together regarding H.R.-related issues. This would take these issues off the table at the regular directors meetings.

- Connect the dots between what happened in San Bruno and the decisions that led to the accident. Expand staff understanding of what "safety" really is and their connection to it. (look at National Transportation Safety Board example regarding Washington, D.C. train crash).

- Hold an off-site with the entire staff one time a year that focuses exclusively on safety and safety goals.

NEXT STEPS

The information derived from our Initial Discovery Phase will now be used in our Strategy Development Phase. During this phase, BAC will facilitate a culture change process that will help foster a safety culture at the PUC. This process will help leadership clearly define the desired change, identify strategies and actions to implement the change, and create a forum for reporting progress and ensuring accountability.

The culture of an organization is difficult to change because it is hard to see. Culture is the pattern of basic assumptions and norms developed over time in response to the specific needs of the organization. These assumptions constitute "the way we do things around here," and are taken as the facts of reality itself.

In this way, culture is like a computer's operating system. If you try to install a new program that is in conflict with an old operating system, it will be rejected. Similarly in culture change, if the change is implemented using the usual methods the organization is accustomed to ("the way we do things"), the change effort will likely be rejected by the culture.

The bottom line: you can't implement a new culture using only the typical methods of the old culture.

For these reasons, BAC will advise PUC leadership to implement its culture change using methods that may be different from those it has used in the past. These new methods will seem awkward and uncomfortable. This discomfort is actually a good sign because it means we are changing the operating system.

The Strategy Development Phase will be initiated by PUC leadership at a series of problem-solving meetings to interpret the Initial Discovery data and select safety goals. The roadmap for this process will be jointly created by BAC and PUC leadership. BAC suggests that the following change management best practices be considered as we design the change effort together:

SB_GT&S_0176265

1. Create a clear vision of what PUC is trying to achieve in a "safety culture."

2. Have a candid conversation of the current state of reality and the barriers to achieving this vision.

3. Increase the number of people, levels, divisions and units that participate in interpreting the data, selecting the goals, and planning the change.

4. Create a designated change team that guides the process and reports to the Executive Director. This team should be comprised of people who are engaged advocates for safety from multiple divisions and levels.

5. Select high level goals that if accomplished will achieve the vision. Include small wins and "low-hanging" fruit among these goals to build momentum.

6. Select metrics for each goal that will allow the organization to measure progress.

7. Ensure accountability by assigning executive level sponsors for each goal and metric and provide individual coaching as needed.

8. Develop strategies, activities and workplans for each goal with assigned staff and resources.

9. Create a forum and process for regular reporting and department-wide communication on the goal metrics. Include avenues for two-way communication to ensure that feedback is incorporated into modifications to the culture change plan.

Appendix

CONFIDENTIAL

SB_GT&S_0176267

Interview Questions for PUC Leadership

1. PUC is focused on creating a safety culture. If that was successful, what would that look like?

Probes: *What would be done differently? What would be the most significant changes that would have to take place?*

2. What is helping and what is hindering the PUC in terms of creating a safety culture?

Probes (1): *Is safety a high priority of most leadership/of most staff? Why/why not? If not, what issues resonate most with leadership and staff right now?*

Probes (2): *What role does PUC's current culture play in helping/hindering to develop a safety culture? How are decisions made? What do meetings look like? How do problems generally get solved? How do employees know if they are doing well or doing poorly? For what types of behavior are people rewarded and punished? What do people do here to deal with the unknowable and uncontrollable?*

3. What do you see as the core values of the PUC?

Probes: *Where are PUC leaders aligned with these values? What is enabling and encouraging this alignment? What best practices regarding safety culture are evident in your division? Across the organization? Where do you see leaders motivating their staff to engage in safety promoting behaviors? How are they doing this?*

4. What do you see as the greatest challenges for PUC leaders in creating a safety culture?

Probes: *Where are leaders out of alignment with PUC values? Why is this happening? What tools do PUC leaders require that they do not have? What is the most effective strategy for providing them these tools?*

5. What are the most effective strategies for fostering collaboration and shared goals across divisions?

Probes: *How challenging is the issue of silos? Are there any current contexts in which leadership is successfully working together? How can the silos at PUC be broken down? Is working together rewarded? How can we encourage cross communication across silos and focus leaders on shared goals?*

6. What will be the most effective strategies for engaging PUC leaders in promoting a safety culture?

Probes: *What will convince leaders that engaging will make a difference? What data will be persuasive? What type of language should we be using to talk about safety culture?*

7. Which staff and managers do you think would be most helpful to include in a focus group dealing with these same issues?

Focus Group Questions for Line Staff

1. PUC is focused on moving from a "check the boxes" approach to a "risk management/mitigation" approach and creating a "safety culture." What is your understanding of the main differences between these two approaches? What do you think is meant by a safety culture?

2. What changes would have to be made at the PUC to switch to this new approach and move towards a safety culture?
   Probes: *What is helping and what is hindering the PUC in terms of creating a culture focused on safety? Is safety a high priority for most staff? To your managers? To you personally? Why or why not?*

3. How has the PUC handled goal setting regarding safety as an organization?
   Probes: *Do you feel the PUC is holding itself accountable? What is Leadership's role in safety? What changes need to be made to goal setting to support a safety culture?*

4. What messages about safety are you receiving from your supervisors/managers?
   Probes: *What information regarding safety initiatives is being passed to line staff? Are these messages consistent? How are these messages backed up with actions/resources etc?*

5. How is safety behavior/safety considerations incorporated into your daily work?
   Probes: *Are you able to contribute ideas about how to include safety in daily work/goals of your division? How are you getting support for safety initiatives from your managers? Are you being held accountable for the success of these initiatives? What else do managers need to be doing to support you/ to increase staff-buy in?*

6. What tools/resources do you need to support you in creating a more safety-focused work environment? What is the most effective strategy for providing you these tools?

7. How much communication, collaboration and shared goals are taking place with regard to safety at the PUC? Across the different divisions? What communication barriers have you seen between staff, managers and leadership? Can you think of any examples of where either staff, managers or leadership are successfully working together around safety goals? Why do you think this is able to happen?

8. Should there be any changes in how the agency disseminates safety information internally? Externally, to the public? What type of communication tools should be used to talk about safety culture at the PUC? (meetings, trainings, emails, memos, poster campaign, social networking, etc.)

9. What will convince you that a safety culture is a priority? What will convince your colleagues that safety is a priority? What would be most effective for creating buy-in and people's attention?

Focus Group Questions for PUC Managers/Supervisors

6. PUC is focused on moving from a "check the boxes" approach to a "risk management/mitigation" approach and creating a "safety culture." What is your understanding of the main differences between these two approaches? What do you think is meant by a safety culture? What changes would have to be made at the PUC to switch to this new approach and move towards a safety culture?

7. In your opinion, what is helping and what is hindering the PUC in terms of creating a culture focused on safety?
Probes: *In your opinion, is safety a high priority for most leaders/managers/staff? For you personally? Why or why not?*

3, *How has the PUC handled goal setting regarding safety as an organization? Do you feel the PUC is holding itself accountable? What changes need to be made to goal setting to support a safety culture?*

4. How are you incorporating safety behavior/safety considerations into your daily work and decision-making and in the work/decision-making of your staff?
Probes: *How are you getting support for safety initiatives from staff? What information regarding safety initiatives is being passed to line staff? What else do managers need to be doing to increase staff-buy in?*

5. What do you see as the greatest challenges for yourself and other PUC managers/supervisors to supporting safety behavior/considerations?

SB_GT&S_0176270

6. Are you getting the support you need from PUC leadership? What else do you need? What else should leadership be doing to support the creation of a safety-focused culture here?

7. What tools/resources do you need to support you in creating a more safety-focused work environment? What is the most effective strategy for providing you these tools?

8. How much communication, collaboration and shared goals are taking place with regard to safety at the PUC? Across the different divisions? What communication barriers have you seen between staff, managers and leadership? Can you think of any examples of where either staff, managers or leadership are successfully working together? Why do you think this is able to happen?

9. Should there be any changes in how the agency disseminates information internally? Externally, to the public?

10. What will convince you that a safety culture is a priority? What will convince managers/supervisors and staff that safety is a priority? What would be most effective for creating buy-in and people's attention? What type of communication tools should be used to talk about safety culture at the PUC? (meetings, trainings, emails, memos, poster campaign, social networking, etc.)

Focus Group Questions for SED Staff

1. PUC is focused on moving from a "check the boxes" approach to a "risk management/mitigation" approach and creating a "safety culture." What is your understanding of the main differences between these two approaches?

2. What changes would have to be made; 1) inside of the SED and 2) across the entire PUC, to switch to this new approach and move towards a safety culture?

3. What is helping and what is hindering the PUC in terms of creating a culture focused on safety? ***Probes:*** Is safety a high priority for staff and managers outside of the SED? What needs to be done to make safety a higher priority?

4. Has there been any change in how safety issues have been handled by SED post-San Bruno? ***Probes****: Did the PUC hold itself accountable enough for the incident? What have been the major changes? How effective have these changes been? What else needs to happen?*

5. What is helping and what is hindering the SED in supporting its safety goals? ***Probes****: Does SED have the resources it needs to meet its safety goals? What else does the SED need from PUC leadership?*

SB_GT&S_0176271

6. What messages about safety are you receiving from your supervisors/managers? ***Probes*** *Are you able to contribute ideas about how to include safety in daily work/goals of your division? How are you getting support for safety initiatives from your managers? What else do managers need to be doing to support you/ to increase staff-buy in?*

7. What tools/resources do you need to support you in creating a more safety-focused work environment? What is the most effective strategy for providing you these tools?

8. How much communication, collaboration and shared goals is taking place with regard to safety at the PUC? Across the different divisions? What communication barriers have you seen between staff, managers and leadership? Can you think of any examples of where either staff, managers or leadership are successfully working together around safety goals? Why do you think this is able to happen?

9. Should there be any changes in how the agency disseminates safety information internally? Externally, to the public? What type of communication tools should be used to talk about safety culture at the PUC? (meetings, trainings, emails, memos, poster campaign, social networking, etc.)

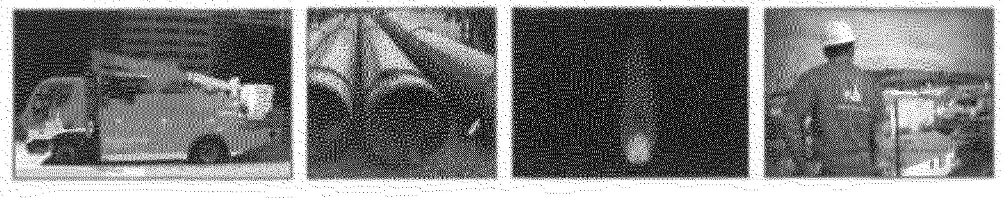
10. What will convince you that a safety culture is a priority? What will convince your colleagues that safety is a priority? What would be most effective for creating buy-in and people's attention?

CONFIDENTIAL

EXHIBIT 2

PG&E Corporation

Slide | Search Slides | Downloads



PG&E Corporation

First Quarter Earnings Call

May 2, 2013

This presentation is not complete without the accompanying statements made by management during the webcast conference call held on May 2, 2013.

This presentation, including Exhibits, and the accompanying press release, were attached to PG&E Corporation's Current Report on Form 8-K that was furnished to the Securities and Exchange Commission on May 2, 2013 and, along with the replay of the conference call, are also available on PG&E Corporation's website at www.pge-corp.com.

00:00:03:00:39:32

Introduction

Slide 1 of 28

PG&E Corporation

about us | investors | news | corporate responsibility | Search

INVESTOR INFO | EVENT DETAILS

- investors
- investor info
- financial reports
- analyst info
- stock performance
- shareholder info
- financial contacts

Q1 2013 PG&E Corporation Earnings Conference Call
Thursday, May 2, 2013 11:00 a.m. ET

Webcast Presentation Help
Click here for webcast

EVENT DETAILS

Title	Q1 2013 PG&E Corporation Earnings Conference Call
Date and Time	Thursday, May 2, 2013 11:00 a.m. ET
Supporting Materials	Press Release and Selected Exhibits Presentation Slides and Complete Earnings Exhibits

Download the Windows Media Player or Real Player plug-in in order to listen to the webcast.

FREE Windows Media Player | real player FREE

Unauthorized recording or downloading of this event is not permitted.

POWERED BY THOMSON REUTERS

© Copyright 2009 Thomson Reuters . All rights reserved.

Print Page | E-mail Page | RSS Feeds | E-mail Alerts | Financial Tear Sheet

Copyright © 2004 - 2009 PG&E Corporation. All Rights Reserved . feedback . sitemap . privacy policy

EXHIBIT 3

Seeking Alpha
Seeking Alpha Portfolio App for iPad
Finance
(1)

TD Ameritrade OPEN
$100 ACCOUNT BONUS sharebuilder GO >
Vanguard
STREET SMART EDGE SEE IT IN ACTION charles SCHWAB

- Home |
- Portfolio |
- Market Currents |
- Investing Ideas |
- Dividends & Income |
- ETFs |
- Macro View |
- ALERTS |
- PRO
- |
  User 121...

Seeking Alpha α

search by symbol, author, key

PG&E Management Discusses Q1 2013 Results - Earnings Call Transcript

May 2 2013, 14:10 | about: PCG

SB_GT&S_0176277

AdChoices

Best Dividend Stocks
wyattresearch.com/...
5 Stocks That are Cash Machines for Retirement. New Free Stock Report.

Clorox® Centennial
www.clorox.com/100..
100 Years of Making Messes a Thing Of the Past. Join the Celebration!

Best Biotech Stock
WealthDaily.com/Bio..
There's A Perfect Storm For Biotech Right Now. Get Our Investor Report.

Foam Mattress & Cushion
plus.google.com/Foa...
Foam cut to size, all densities soft to extra firm. Cushions, too!

Executives

Gabriel B. Togneri - Vice President of Investor Relations

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Christopher P. Johns - Former President and Director

Analysts

Dan Eggers - Crédit Suisse AG, Research Division

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Greg Gordon - ISI Group Inc., Research Division

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Julien Dumoulin-Smith

Travis Miller - Morningstar Inc., Research Division

Ashar Khan

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Paul Patterson - Glenrock Associates LLC

PG&E (PCG) Q1 2013 Earnings Call May 2, 2013 11:00 AM ET

Operator

Good morning, and welcome to the PG&E Corporation First Quarter Earnings 2013 Conference Call. [Operator Instructions] I would like to introduce your host, Mr. Gabe Togneri, with PG&E. Thank you and enjoy your call. You may proceed, Mr. Togneri.

Gabriel B. Togneri

Thanks, Monique, and good morning, everyone. We certainly appreciate you joining us on our call. Before you hear from Tony Earley, Chris Johns and Kent Harvey, let me remind you that our discussion will include forward-looking statements about future financial results. And those are based on assumptions and expectations reflecting information that's currently available to management. Some of the important factors that could affect the company's results are described in Exhibit 1 located in the Appendix of today's slides, and we certainly encourage you to review that. We also encourage you to review the Form 10-Q that will be filed with the SEC later today and the discussion of risk factors that appears in the 2012 annual report.

And with that, I'll hand it over to Tony.

Anthony F. Earley

Well, good morning, and thanks for joining us today. We're going to keep our prepared remarks fairly brief this morning. We had a solid quarter, consistent with our plans. Our focus continues to be on the areas I've outlined at the beginning of last year: resolving gas issues, positioning the company for long-term success and partnering effectively with stakeholders.

In the various investigations, hearings are complete, and we expect the parties to file briefs on fines and remedies in the next few days. While we remain open to settlement, the most likely path will be completion of the litigation. Even though this is a slower process involving briefings and decisions, we believe the PUC proceedings will be completed this year.

Meanwhile, we're doing extensive work throughout the utility to continue driving toward safe, reliable and affordable electric and gas service for our customers. And I'm pleased with the operational progress we're making. And as Kent will report, our financial performance for the quarter is in line with our plans.

But I'll first turn things over to Chris, who will cover regulatory and operational items in a little more detail. Chris?

Thomas E. Bottorff

Great. Thanks, Tony. So I'll start with the regulatory items and then touch on some of our operating results.

In the gas proceedings, we filed our reply briefs in the record keeping in San Bruno investigations last week. In the briefs, we addressed the violations alleged by the other parties to the cases. We challenged the legal basis of those allegations, which we consider to be flawed. On Monday, the interveners and CPUC staff are scheduled to file their recommendations for fines or other penalties related to the San Bruno accident. We'll have the opportunity to file our formal reply brief later in May. And then following rebuttal briefs from the other parties in early June, the record will be complete in all of the investigations. Then the case will be in the hands of the administrative law judges.

Let me highlight a few other regulatory items. During the first quarter, the CPUC approved the automatic adjustment mechanism for the cost of capital. This mechanism is in place through 2015 and provides good visibility to our authorized return on equity during that period as well as some protection for our customers and shareholders. More recently, the CPUC denied requests for a rehearing on their approval of Oakley. And as a reminder, Oakley is a 586 megawatt next generation gas-fired plant that will be an important resource as we ramp up renewables to 33% of total usage over the next couple of years.

And finally, on the regulatory front, tomorrow, we expect the Division of Ratepayer Advocates to file their testimony responding to our General Rate Case request. Now we have taken approach to the General Rate Case application focused on enhancing the safety of our system utilizing a risk-based process. While we hope that the DRA will also take a different approach to their testimony, they've routinely taken extreme positions in the past.

That brings me over to our operations. Over the past few years, this company has spent more than $1.4 billion in shareholder funds to improve our gas pipeline system as we focus on safety and excellence in operations. We continue to make significant and measurable progress in the first quarter of this year.

You can see on Slide 3 of the planned work, we've completed on pipeline testing, replacement and valve installation since the beginning of the year. We don't do as much work on the pipelines during the first quarter because of higher gas demand during the winter months. So you can expect to see the volume of this work increase as the year progresses.

Also during the first quarter, we closed out 3 recommendations made by the National Transportation Safety Board following the San Bruno accident. At this point, we resolved 7 of the original 12 recommendations. The remaining 5 are longer-term projects that are on target, and the D&T has -- characterizes this as open, but acceptable.

On the rights of way, we've completed more than 1,500 miles of the center line survey, which is on target with our goal for the year thus far. We started the survey in the more rural parts of the system, which means we haven't yet had to deal with remediating many material encroachments. We're still early in the surveying process. And as we move into the Bay Area and other more populated areas this spring, we'll expect to gain additional insights.

Shifting to the electric part of the business. Last quarter, we talked about our record level of electric reliability in 2012. And now during the first quarter, we had our best reliability performance ever as a company. That's not just the best first quarter ever, but the best quarter ever. Although favorable weather was a component, the investments we've been making in upgrading the infrastructure and increasing the use of technology on the system have resulted in improved performance. We know that reliability is a critical component to customer satisfaction, so it's one of the key metrics we're focused on.

And last, at Diablo Canyon, we completed a scheduled refueling outage on Unit 2 in March. This was among the most successful outages in Diablo Canyon's history given the extent of work involved. The team finished the outage in less time than planned and demonstrated exceptional attention to safety.

Based on our benchmarking, we understand what good operations look like, and we will keep reaching for top-level performance throughout our business. You can see how we're doing across a range of top-level metrics for 2013 in Exhibit C of the Appendix.

And with that, I'll turn things over to Kent.

Kent M. Harvey

Thanks, Chris, and good morning, everybody. I'm going to start by going through Q1 results, which are summarized on Slide 4.

Earnings from operations for the quarter were $0.63, and our GAAP results were $0.55. Of course, the difference is the item impacting comfortability for natural gas matters, and that's laid out in pretax dollars in the table at the bottom. You'll see the pipeline-related costs totaled $62 million pretax for the quarter. This includes our pipeline safety enhancement planned work, our right-of-way and integrity management work and then our legal costs. We expect the overall run rate to increase the rest of the year since a couple of these components are expected to ramp up. You'll remember that PSEP work is somewhat seasonal and is typically lower in Q1. And in the case of the right-of-way work, we're still ramping up that program. So those costs are also expected to increase in future quarters. You'll also see in the table that there were no additional accruals for penalties, third-party liability claims or insurance recoveries during Q1.

Slide 5 shows the quarter-over-quarter comparison for earnings from operations, including the main drivers that take us from $0.89 in Q1 last year to $0.63 in Q1 of this year. The new cost of capital that went into effect this year was the biggest driver of the year-over-year decline, totaling $0.10 negative. In addition to the reduction in ROE, there was a small impact associated with the true-up of our debt financing cost. The refueling outage for Diablo Canyon Unit 2 accounted for $0.06 negative since last year's scheduled refueling outage for Unit 1 was in the second quarter.

Increased shares outstanding resulted in a $0.04 impact, and the timing of our planned incremental expenses across the utility drove a $0.03 decline. Last year, our incremental spending was lower in Q1 since we were ramping up our programs. And this year, we expect a more even spread across the quarters. A number of other items totaled $0.08 negative

[Technical Difficulty]

Operator

Ladies and gentlemen, we ask that you can see answer -- remain on the call. The conference will begin momentarily. Again, please continue to remain on the call. The call will remain momentarily.

[Technical Difficulty]

Kent M. Harvey

I'm sorry, this is Kent. I understand that you lost me for a moment. So I'm going to just go back to guidance, and we'll take it from there. And if there are any questions about the quarterly results, we can handle those in Q&A.

So our guidance for the year is unchanged and is summarized on Slide 6. The range for earnings from operations remains at $2.55 to $2.75 per share and some of the key assumptions that underlie our guidance are provided in the Appendix of the slide deck. These assumptions have not changed since we provided them on our last call.

At the bottom of the slide, you can see our guidance for the key components of the natural gas matters item in pretax dollars, and these are also unchanged.

Finally, we continue to expect to need roughly $1 billion to $1.2 billion of equity for the year, excluding any fines or penalties beyond the $200 million we've already accrued. Of that, we issued about $430 million in Q1. This was comprised of a $300 million block issuance, about a $70 million under our 401(k) and dividend reinvestment programs and about $60 million to our continuous equity offering, or dribble program. During Q1, we completed our existing dribble program, and we're ready to file for another $400 million program later on today.

That's it for my remarks. We'll now go ahead and open up the lines for your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Dan Eggers with Credit Suisse.

Dan Eggers - Crédit Suisse AG, Research Division

Tony, in your early comments, you made reference that you're probably going to go the full distance on getting San Bruno done. Can you maybe just give a little context on, have your settlement talks effectively broken down? And is there a concern that once the briefs are out there, people's positions are going to be too far apart to be able to settle?

Anthony F. Earley

Well, as we've said, there have not been active settlement costs for some time, but we continue to indicate we are open to those talks. Obviously, as people have to file briefs, positions become a little more hardened. And that's why I think the most likely outcome, Dan, is that we just continue through the litigation process. And we're getting now towards the end, briefs are getting filed. So we can see the light at the end of the tunnel. We can work our way through the process and certainly get it done this year.

Dan Eggers - Crédit Suisse AG, Research Division

Okay. And then just on the $1 billion to $1.2 billion of equity, just to make sure I understand that. That number does not assume that there is any sort of fine or penalty so whatever gets settled in this case will have to get addressed toward year end or whenever the case gets resolved. Is that fair?

Kent M. Harvey

Dan, this is Kent. So the $1 billion to $1.2 billion includes the $200 million that we've already accrued. So if a fine were larger than that, then that would be incremental to the $1 billion to $1.2 billion.

Dan Eggers - Crédit Suisse AG, Research Division

Okay. And then, Kent, what I had lost off on the call is when you started talking about the $0.08 of drag from Other. So, I mean, I don't know if everybody else missed that or not. But could you just explain what was in the $0.08 year-over-year drag, and how we should frame that up from a recurring basis?

Kent M. Harvey

Yes, Dan, and sorry about the technical difficulties, and I wasn't sure when you lost me. But the $0.08 was really kind of a number of Other items, and it included things like lower gas transmission revenues. And we really had last year during the first quarter, a little bit higher gas utilization for generation. And then it had other items, including our higher below-the-line costs as well.

Dan Eggers - Crédit Suisse AG, Research Division

So that -- is that the gas storage business and kind of where you make some extra profits, is that what you're referring to from the transmission piece? Or this is just a flow-through number?

Kent M. Harvey

In this case on the gas business, it was more the backbone revenues. And it just was associated with the throughput for gas generation.

Dan Eggers - Crédit Suisse AG, Research Division

And then the storage business was -- how was that year-on-year?

Kent M. Harvey

I don't believe that was a major driver quarter-over-quarter.

Operator

Our next question comes from the line of Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Just a quick one on the -- I maybe should know this, but I wanted to clarify. The Centerline survey where you talk about having done the 1,500 miles, is that really the -- linked to the encroachment analysis? Are these the same thing effectively? Or are they separate?

Christopher P. Johns

Jonathan, this is Chris. They're the same thing. The Centerline survey is going through the process of major -- or putting on GPS exactly where the center of the pipe is. And that takes into consideration then our ability to know the encroachment on top of our right-of-ways.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Okay. So the 1,500 is out of a total of --

Christopher P. Johns

About 6,700.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Okay, and then I think I heard you say that you've started off in the more -- the less densely-populated areas.

Christopher P. Johns

That's correct. And we're just now starting to get movement towards the more highly-populated areas.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So do you -- that not withstanding, do you have -- do you feel any better about the quality of the estimate now than you did last time?

Christopher P. Johns

Obviously, we haven't changed it. And that's our best estimate at this point in time.

Kent M. Harvey

And Jonathan, I'll just add, we really have not yet gotten in to the Bay area and stuff. We've been out in more remote rural areas. So it's going to be a while, I think, before we have additional insights there.

Operator

Our next question comes from the line of Greg Gordon with ISI Group.

Greg Gordon - ISI Group Inc., Research Division

My question's for Tony. As you think about the way that the pipeline matter's proceedings work their way to a conclusion, does the fact that you now are looking or your opinion that you're now looking at a litigated outcome versus a settlements narrow the potential for the type of decision that you ultimately get from the CPUC, i.e. are they limited in a -- in their decision-making process to just either fining you or not fining you? Or do they have the flexibility to determine the way in which they deem the penalty should be applied, i.e. through reinvesting in the system and getting lower returns or things like that? Or is there just a fundamental -- is there a fundamental difference between the flexibility that can be put to bear in a settlement versus the flexibility that can be put to bear in a final decision?

Anthony F. Earley

Greg, we think with respect to penalties versus disallowances, which would be in the form of requiring us to do work that we wouldn't get recovery of, we think they've got the same kind of flexibility that we have in a settlement. Probably the only difference is those other parties, who in a settlement might be able to get some concessions, are not going to be able to get anything in a litigated decision because the litigated decision will just impact us. But in terms of the big-ticket items of whether it's a fine or whether it's in a form of some sort of disallowance, I think the commission ultimately has all the flexibility that they need.

Operator

Our next question comes from the line of Anthony Crowdell with Jefferies.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I guess, I'm referring to Slide 3. Quick question is, I guess, when I get to the gas investigations, we get fine and remedy recommendations May 6. I think you guys have a couple of weeks before you file, I guess, your rebuttal testimony. Roughly, a timeframe, I would guess when we get an ALJ, I guess, recommendation, do we get 1 or we get 3 separate ones? And then from there, just a rough window of when does the CPUC come out with an order.

Thomas E. Bottorff

This is Tom Bottorff in Regulatory Affairs. The PUC -- the judges are expected to issue a consolidated decision. The uncertainty is whether they issue 2 separate opinions: one on the violations and one on the fines. They could, for example, issue an interim decision on whether or not we violated any rules or regulations and subsequently, issue a decision on the fines; or alternatively, they could just do it all at once. At either event, all 3 investigations will be consolidated in those opinions.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And is there -- I'm just trying to come up with a rough calendar, from when an ALJ recommendation possibly could come. Are they like a 60-day window or something, and then a CPUC decision?

Thomas E. Bottorff

Yes, it's at least 60 days. So we wouldn't expect to see any decision probably until July or August of this year.

Again, it depends on whether they choose to do 2 opinions, in which case, the -- an interim opinion on the violations could come as early as July. If they choose to wait and issue a consolidated opinion on both the violations and the fines, you probably wouldn't see anything until mid- to late-August.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And then from there, from the ALJ, then it subsequently goes to the CPUC, the commission and that's when you get a final order?

Thomas E. Bottorff

Potentially, the difference in an investigation is the administrative law judges could issue what's called a presiding officer decision. And if no one protests the judge's decision, then it becomes final. However, if there are protests, then it would go to the commission for a final order. And that would add probably, at least, 30 days to any final outcome.

Operator

Our next question comes from the line of Michael Lapides with Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Tony, one question for you, one for Kent. Just a bigger, broader picture, the fact that you've been unable to settle from the San Bruno-related fines and investigation tied to the OII, do you think there's a read across to the broader regulatory environment and the broader regulatory treatment of PG&E, especially given the fact that there's some other key dockets, like the General Rate Case outstanding? That's kind of the first question. And then, a Kent question. General Rate Cases in California have, over the last 3 or 4 years, gone well beyond the normal 12- or 14-month time horizon. I know the commission is trying to kind of rectify that with your case a little bit. But if your case were to extend similar to the same timeframe that the SoCal Ed and San Diego gas cases have done so, what would that mean for balance sheet and capital needs kind of next year?

Anthony F. Earley

Michael, let me start off. We've asked ourselves that question or ask whether there is spillover. We're fairly confident that there won't be. The San Bruno cases are very complex. They have multiple proceedings. We've got civil cases. We've got U.S. attorney and Attorney General involved. And I think the complexity of multiple jurisdictions, multiple cases and also in my view, how interveners are funded in California, all that contributes to the fact that we haven't been able to resolve the cases. All other indications in terms of regulatory relations seem to be moving in a positive trend. We've gotten good feedback from the commission on the work we've done on the system. I think they're pleased with the fact we've been able to deliver 2 years in a row on our commitments to -- just a massive testing and analysis program of our gas system. We got good results in the return on equity proceeding, and we've had a number of other cases where we think we've gotten some good treatment. So I don't think there is going to be that spillover. I think just the complexities of San Bruno contribute to the inability to have an early resolution to it. Kent, you want to comment on rate cases?

Kent M. Harvey

Yes. Michael, in terms of the General Rate Case and the potential for delays, certainly, we've seen that happen with the other utilities of late in the state, but I also think that the commission is aware of the problems that, that creates. And I think there is a lot of interest in trying to get back on schedule. We have to acknowledge the fact that over the last year, between 2 General Rate Cases from the other utilities, the San Bruno proceedings, there has been a lot on the PUC's plate. So we're actually hopeful that we're going to have a more normal experience with the General Rate Case. And we certainly have a schedule that looks very reasonable. And even should there be a few months delay from the schedule, it would still be quite early in 2014, which has been kind of our experience over the last few proceedings. So we're hopeful that's really the future that we're going to face. If, in fact, we ended up under your scenario with a significant delay in the decision, that also makes it very difficult to run the company. And my guess is that it would put pressure on us to hold off on our planned increases that we'd like to make because we've obviously filed for a higher CapEx level than we've been currently spending and obviously higher expenses as well as we want to really improve the safety and the reliability of our system. And a significant delay would probably cause us to have to consider holding off on a lot of that.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Got it. And finally, Tony, when -- and just remind us a little bit how you're thinking about when you think you can position PG&E. Whether it's your gas transmission, electric transmission, the distribution businesses, when do you think you'll be in a position to talk about being able to kind of earn a normalized return on equity invested in your rate base?

Anthony F. Earley

Well, our objective is for the parts of the business that are subject to the current GRC, that when we get that decision, we will earn, be able to earn the allowed return there. We've got 1 additional year delay because the gas transmission and storage case is 1-year beyond the GRC. So it's kind of a stepped attainment of that goal to earn our allowed return. But I think when those cases come in, we're committed to working to earn the returns allowed in those cases.

Operator

Our next question comes from the line of Julien Dumoulin-Smith with UBS.

Julien Dumoulin-Smith

So a little bit different change in tact here. Back on electric transmission, I'd be curious where the status of your own settlement conversations are going, and how you see that shaping up through the course of the year.

Thomas E. Bottorff

Yes, this is Tom Bottorff again. We continue to engage in settlement discussions with the parties. And some of you may have seen a recent note from the judge requesting parties to engage in a conference call on May 28. So we continue to exchange proposals, and those discussions are certainly challenging, given the debate over the rate of return. But nonetheless, a settlement does remain possible. And we really won't know for sure probably until mid-June.

Julien Dumoulin-Smith

And then ultimately, if that isn't resolved, do you think you bring up the issue of ROE methodology here? I mean how did -- is that something that you bring back to the table if that settlement isn't reached?

Thomas E. Bottorff

Well, we already filed an application for rehearing on that issue. We'll wait for FERC to act on that. If we don't receive a favorable opinion there, we do have the opportunity to pursue it in the courts. But again, there's still the opportunity to settle the proceeding, and hopefully that's where we end up.

Anthony F. Earley

This is Tony. I'll also add, the industry is taking that issue up. And as a whole, the industry believes it's inconsistent with FERC encouraging -- be able to build new transmission, that unless the policy goes back to where it was, it is going to inhibit that investment. So it's a broader issue than just our rate case.

Operator

Our next question comes from the line of Travis Miller with MorningStar.

Travis Miller - Morningstar Inc., Research Division

We've -- there's obviously been a lot of talk on the GRC investments, the pipeline investments. I was wondering if we look longer term out beyond 2016, what are some areas where you see investment potential? Is it transmission, distribution, gas, electric? Longer term, what do you think are areas? Or are we just going to get down to a maintenance level?

Anthony F. Earley

Well, I think the answer to all of those things is, yes. We continue to look at our long-term strategy and our commitment to really be top quartile in all facets of operations. We're going to see higher-than-traditional levels of capital investment for the foreseeable future. I mean, we are working on our next 5-year plan internally, and I think we'll continue to see investment in the infrastructure. You'll recall that a lot of our infrastructure,certainly, the electric and gas infrastructure was really built in a post-World War II boom years, '50s, '60s and into the '70s, and a lot of that just -- we need replacement work. We've got a fabulous hydro system of 4,000 megawatts. Some of that was built right after the turn of the last century. We've done a very detailed analysis and are doing investment in those assets because they're great assets. They help us meet our renewable requirements. So for the foreseeable future, certainly, our planning horizon, we see a higher-than-historical levels of capital investment.

Travis Miller - Morningstar Inc., Research Division

When you say that, is that more on those lines of what we're seeing on the 2016 run rate? Or would that be even higher, $4.5 billion to $6 billion range?

Kent M. Harvey

Travis, this is Kent. I think we're going to be determining those years going forward beyond '16, once we complete our -- this year's planning process.

Operator

Our next question comes from the line of Ashar Khan with Visium.

Ashar Khan

Just wanted to check, Tony, how should we look at the, I guess, the fines coming? They'll be done by, of course, different parties, and there will be different numbers. As investors, how should we look at which is the more credible number? How should we judge this information coming next week?

Anthony F. Earley

Well it's hard to say without seeing them, but traditionally, some of the parties are known for taking extreme positions. I think probably the most important recommendation comes from the staff of the commission, but even there in the PSEP proceeding, we're able to get changes in the commission final decision, so none of them are final. There'll be a range, but I would say probably that the staff, the commission will be one that we're certainly going to be looking at very closely.

Ashar Khan

And then, can I ask you, once we get these recommendations, does your -- I know you have not accrued anything beyond what you have, but will that be a data point that, that disclosure could change, and hence, there could be more accruals at that period of time, or no?

Anthony F. Earley

Well it certainly will be a relative data point. We've got to take a look at it. I think we've said in the past, if they all come in and are really extreme, it doesn't help us narrow the gap. And we may not be able to make a change, but if some of them come in, in ranges that are helpful in trying to gather where the ultimate decision will be, we will be taking a hard look at that disclosure and what we've reserved, certainly, once we get those numbers.

Ashar Khan

And then my final question, Kent, can you just -- I apologize, I came in a little late into the call. Can you tell us how much equity has been issued to date out of what was projected for the year?

Kent M. Harvey

Yes. We issued in the first quarter, $430 million, and that's out of our guidance for the year of $1 billion to $1.2 billion. And I'll just remind you that the guidance, that $1 billion to $1.2 billion reflects the $200 million accrual we've taken for a fine or penalty, so anything in excess of that, would affect our expectations for the year.

Ashar Khan

Can I ask you, Kent, I know the range is pretty large. When does that range get narrowed down? I know that what gets a fine is on top of that, but it's a pretty wide range of $1 billion to $1.2 billion. What is the determining factor when we know whether it's $1.5 billion, it's $1 billion or $2 billion? I'm just trying to get a sense.

Kent M. Harvey

I wouldn't expect that we're going to be narrowing that range this year. I actually think that, that amount of range is not that wide, given all the different factors that affect your financing needs because it's not only just on recovered gas costs, it's not only just capital expenditures, but it's all of our cash flows that happened during the year as well. There are a number of factors that can affect your equity need and the timing of your equity needs during a calendar year. So I don't consider the $200 million to be very wide, and I think it will probably stay in that range.

Gabriel B. Togneri

And Ashar, this is Gabe. I may have misheard you but I think I heard you say 1 --

Ashar Khan

No, I said it wrong. I apologize, I said it wrong.

Operator

Our next question comes from the line of Hugh Wynne with Sanford Bernstein.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Just going back, quickly, to your gas progress. You describe on Page 3 the progress you've made in closing the NTSB recommendation. Apparently, there are 5 left to close out. Can you remind us, are any of those material in terms of cost? And if so, could you remind us what they are?

Christopher P. Johns

Yes. This is Chris. I don't have the list of all 5 of them, but what they are, they're the longer-term projects, like the hydrostatic testing and the insertion of the automatic and remote shutoff valves. So those are the longer-term projects, and the costs of all those are already incorporated in what our projections have been over the last couple of years. So all of that has already been taken into consideration.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Yes, these are already in your PSEP 1 and 2.

Christopher P. Johns

Right, exactly.

Operator

Our next question comes from the line of Michael Lapides with Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Just a follow-up cash flow question. Just curious, I'm trying to think about the cash flow statement for this year and beyond. Outside of items that flow through the income statement and outside of CapEx, dividends, debt issuances, retirement, equity issuances, are there other things, like either significant pension contributions or the environmental remediation costs or maybe generator settlements or other items, working capital, that are significant either sources or uses of cash during 2013 and beyond?

Kent M. Harvey

Well, this is Kent. Michael, I mean obviously, we have amounts of everything. It's a complicated business with lots of cash flows. I would say the generator settlements, I don't see that happening near term and being a big impact on our cash flows. And in the case of pension contributions, for example, we recover those through rates and we basically fund those as their recovered through rates. I don't see, at least, the items that you mentioned as being out of the ordinary for us this year. One thing that does move for us significantly for cash flows is just collateral requirements associated with the commodity purchases and hedging we do on behalf of customers. And that's something that we get in the normal course. And if gas prices go down from current levels, we tend to have to post more collateral. If they go up, we actually reduce the amount of collateral. And that's probably the most obvious fluctuation that we tend to see quarter-over-quarter.

Operator

Our next question comes from the line of Paul Patterson with Glenrock Associates.

Paul Patterson - Glenrock Associates LLC

Just really quickly, just back to the San Bruno schedule, you guys said the ALJ decisions you were expecting sort of in July, is that right? Could you just review those very briefly for me.

Thomas E. Bottorff

Yes. This is Tom Bottorff again. What I was commenting on with respect to the decisions is that if there is an interim decision on the violations piece of the proceeding, that, that could come out as early as July. However, if the judges decide to wait to issue a ruling on both level of the violations and the fines and these [ph] associated with them, we may not see that decision until mid- to late-August.

Paul Patterson - Glenrock Associates LLC

Okay. And then just in general, in terms of resolution of the San Bruno schedule and everything, we've noticed that there's been some legislative inquiry and sort of, I guess, questions about the CPUC, in general. Do you see that as having any impact? Just in general, as you guys know, the California scheduling seems to be kind of a moving target, and I'm just sort of wondering if there's any potential here for slippage as a result of some of these issues that have been sort of brought up in the media and what have you. How should we think about that?

Anthony F. Earley

Yes. I don't think it's going to have any impact on the schedule. The schedule will move along. I think, as Tom laid out, that's what we -- our best guess is to what the schedule would look like. I don't think these other things will impact that.

Operator

There are currently no additional questions waiting from the phone lines.

Anthony F. Earley

All right, well in that case, I'll -- I know it's a very busy day with earnings season. But I will mention before we end the call that we'll see a number of you over the course of the month. We'll be at the ISI Conference next week, the Deutsche Conference the week following that and the Bernstein Conference at the end of the month. So there'll be other opportunities to talk to you, and we'll look forward to that at that point in time. Have a great day.

Operator

Thank you, ladies and gentlemen, for attending the PG&E Corporation First Quarter Earnings 2013 Conference Call. This will now conclude the conference. Please enjoy the rest of your day.

Copyright policy: All transcripts on this site are the copyright of Seeking Alpha. However, we view them as an important resource for bloggers and journalists, and are excited to contribute to the democratization of financial information on the Internet. (Until now investors have had to pay thousands of dollars in subscription fees for transcripts.) So our reproduction policy is as follows: **You may quote up to 400 words of any transcript on the condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to www.SeekingAlpha.com. All other use is prohibited.**

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

If you have any additional questions about our online transcripts, please contact us at: transcripts@seekingalpha.com. Thank you!

Executives

Gabriel B. Togneri - Vice President of Investor Relations

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Christopher P. Johns - Former President and Director

Analysts

Dan Eggers - Crédit Suisse AG, Research Division

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Greg Gordon - ISI Group Inc., Research Division

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Julien Dumoulin-Smith

Travis Miller - Morningstar Inc., Research Division

Ashar Khan

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Paul Patterson - Glenrock Associates LLC

PG&E (PCG) Q1 2013 Earnings Call May 2, 2013 11:00 AM ET

Operator

Good morning, and welcome to the PG&E Corporation First Quarter Earnings 2013 Conference Call. [Operator Instructions] I would like to introduce your host, Mr. Gabe Togneri, with PG&E. Thank you and enjoy your call. You may proceed, Mr. Togneri.

Gabriel B. Togneri - Vice President of Investor Relations

Thanks, Monique, and good morning, everyone. We certainly appreciate you joining us on our call. Before you hear from Tony Earley, Chris Johns and Kent Harvey, let me remind you that our discussion will include forward-looking statements about future financial results. And those are based on assumptions and expectations reflecting information that's currently available to management. Some of the important factors that could affect the company's results are described in Exhibit 1 located in the Appendix of today's slides, and we certainly encourage you to review that. We also encourage you to review the Form 10-Q that will be filed with the SEC later today and the discussion of risk factors that appears in the 2012 annual report.

And with that, I'll hand it over to Tony.

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well, good morning, and thanks for joining us today. We're going to keep our prepared remarks fairly brief this morning. We had a solid quarter, consistent with our plans. Our focus continues to be on the areas I've outlined at the beginning of last year: resolving gas issues, positioning the company for long-term success and partnering effectively with stakeholders.

In the various investigations, hearings are complete, and we expect the parties to file briefs on fines and remedies in the next few days. While we remain open to settlement, the most likely path will be completion of the litigation. Even though this is a slower process involving briefings and decisions, we believe the PUC proceedings will be completed this year.

Meanwhile, we're doing extensive work throughout the utility to continue driving toward safe, reliable and affordable electric and gas service for our customers. And I'm pleased with the operational progress we're making. And as Kent will report, our financial performance for the quarter is in line with our plans.

But I'll first turn things over to Chris, who will cover regulatory and operational items in a little more detail. Chris?

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Great. Thanks, Tony. So I'll start with the regulatory items and then touch on some of our operating results.

In the gas proceedings, we filed our reply briefs in the record keeping in San Bruno investigations last week. In the briefs, we addressed the violations alleged by the other parties to the cases. We challenged the legal basis of those allegations, which we consider to be flawed. On Monday, the interveners and CPUC staff are scheduled to file their recommendations for fines or other penalties related to the San Bruno accident. We'll have the opportunity to file our formal reply brief later in May. And then following rebuttal briefs from the other parties in early June, the record will be complete in all of the investigations. Then the case will be in the hands of the administrative law judges.

Let me highlight a few other regulatory items. During the first quarter, the CPUC approved the automatic adjustment mechanism for the cost of capital. This mechanism is in place through 2015 and provides good visibility to our authorized return on equity during that period as well as some protection for our customers and shareholders. More recently, the CPUC denied requests for a rehearing on their approval of Oakley. And as a reminder, Oakley is a 586 megawatt next generation gas-fired plant that will be an important resource as we ramp up renewables to 33% of total usage over the next couple of years.

And finally, on the regulatory front, tomorrow, we expect the Division of Ratepayer Advocates to file their testimony responding to our General Rate Case request. Now we have taken approach to the General Rate Case application focused on enhancing the safety of our system utilizing a risk-based process. While we hope that the DRA will also take a different approach to their testimony, they've routinely taken extreme positions in the past.

That brings me over to our operations. Over the past few years, this company has spent more than $1.4 billion in shareholder funds to improve our gas pipeline system as we focus on safety and excellence in operations. We continue to make significant and measurable progress in the first quarter of this year.

You can see on Slide 3 of the planned work, we've completed on pipeline testing, replacement and valve installation since the beginning of the year. We don't do as much work on the pipelines during the first quarter because of higher gas demand during the winter months. So you can expect to see the volume of this work increase as the year progresses.

Also during the first quarter, we closed out 3 recommendations made by the National Transportation Safety Board following the San Bruno accident. At this point, we resolved 7 of the original 12 recommendations. The remaining 5 are longer-term projects that are on target, and the D&T has -- characterizes this as open, but acceptable.

On the rights of way, we've completed more than 1,500 miles of the center line survey, which is on target with our goal for the year thus far. We started the survey in the more rural parts of the system, which means we haven't yet had to deal with remediating many material encroachments. We're still early in the surveying process. And as we move into the Bay Area and other more populated areas this spring, we'll expect to gain additional insights.

Shifting to the electric part of the business. Last quarter, we talked about our record level of electric reliability in 2012. And now during the first quarter, we had our best reliability performance ever as a company. That's not just the best first quarter ever, but the best quarter ever. Although favorable weather was a component, the investments we've been making in upgrading the infrastructure and increasing the use of technology on the system have resulted in improved performance. We know that reliability is a critical component to customer satisfaction, so it's one of the key metrics we're focused on.

And last, at Diablo Canyon, we completed a scheduled refueling outage on Unit 2 in March. This was among the most successful outages in Diablo Canyon's history given the extent of work involved. The team finished the outage in less time than planned and demonstrated exceptional attention to safety.

Based on our benchmarking, we understand what good operations look like, and we will keep reaching for top-level performance throughout our business. You can see how we're doing across a range of top-level metrics for 2013 in Exhibit C of the Appendix.

And with that, I'll turn things over to Kent.

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Thanks, Chris, and good morning, everybody. I'm going to start by going through Q1 results, which are summarized on Slide 4.

Earnings from operations for the quarter were $0.63, and our GAAP results were $0.55. Of course, the difference is the item impacting comfortability for natural gas matters, and that's laid out in pretax dollars in the table at the bottom. You'll see the pipeline-related costs totaled $62 million pretax for the quarter. This includes our pipeline safety enhancement planned work, our right-of-way and integrity management work and then our legal costs. We expect the overall run rate to increase the rest of the year since a couple of these components are expected to ramp up. You'll remember that PSEP work is somewhat seasonal and is typically lower in Q1. And in the case of the right-of-way work, we're still ramping up that program. So those costs are also expected to increase in future quarters. You'll also see in the table that there were no additional accruals for penalties, third-party liability claims or insurance recoveries during Q1.

Slide 5 shows the quarter-over-quarter comparison for earnings from operations, including the main drivers that take us from $0.89 in Q1 last year to $0.63 in Q1 of this year. The new cost of capital that went into effect this year was the biggest driver of the year-over-year decline, totaling $0.10 negative. In addition to the reduction in ROE, there was a small impact associated with the true-up of our debt financing cost. The refueling outage for Diablo Canyon Unit 2 accounted for $0.06 negative since last year's scheduled refueling outage for Unit 1 was in the second quarter.

Increased shares outstanding resulted in a $0.04 impact, and the timing of our planned incremental expenses across the utility drove a $0.03 decline. Last year, our incremental spending was lower in Q1 since we were ramping up our programs. And this year, we expect a more even spread across the quarters. A number of other items totaled $0.08 negative

[Technical Difficulty]

Operator

Ladies and gentlemen, we ask that you can see answer -- remain on the call. The conference will begin momentarily. Again, please continue to remain on the call. The call will remain momentarily.

[Technical Difficulty]

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

I'm sorry, this is Kent. I understand that you lost me for a moment. So I'm going to just go back to guidance, and we'll take it from there. And if there are any questions about the quarterly results, we can handle those in Q&A.

So our guidance for the year is unchanged and is summarized on Slide 6. The range for earnings from operations remains at $2.55 to $2.75 per share and some of the key assumptions that underlie our guidance are provided in the Appendix of the slide deck. These assumptions have not changed since we provided them on our last call.

At the bottom of the slide, you can see our guidance for the key components of the natural gas matters item in pretax dollars, and these are also unchanged.

Finally, we continue to expect to need roughly $1 billion to $1.2 billion of equity for the year, excluding any fines or penalties beyond the $200 million we've already accrued. Of that, we issued about $430 million in Q1. This was comprised of a $300 million block issuance, about a $70 million under our 401(k) and dividend reinvestment programs and about $60 million to our continuous equity offering, or dribble program. During Q1, we completed our existing dribble program, and we're ready to file for another $400 million program later on today.

That's it for my remarks. We'll now go ahead and open up the lines for your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Dan Eggers with Credit Suisse.

Dan Eggers - Crédit Suisse AG, Research Division

Tony, in your early comments, you made reference that you're probably going to go the full distance on getting San Bruno done. Can you maybe just give a little context on, have your settlement talks effectively broken down? And is there a concern that once the briefs are out there, people's positions are going to be too far apart to be able to settle?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well, as we've said, there have not been active settlement costs for some time, but we continue to indicate we are open to those talks. Obviously, as people have to file briefs, positions become a little more hardened. And that's why I think the most likely outcome, Dan, is that we just continue through the litigation process. And we're getting now towards the end, briefs are getting filed. So we can see the light at the end of the tunnel. We can work our way through the process and certainly get it done this year.

Dan Eggers - Crédit Suisse AG, Research Division

Okay. And then just on the $1 billion to $1.2 billion of equity, just to make sure I understand that. That number does not assume that there is any sort of fine or penalty so whatever gets settled in this case will have to get addressed toward year end or whenever the case gets resolved. Is that fair?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Dan, this is Kent. So the $1 billion to $1.2 billion includes the $200 million that we've already accrued. So if a fine were larger than that, then that would be incremental to the $1 billion to $1.2 billion.

Dan Eggers - Crédit Suisse AG, Research Division

Okay. And then, Kent, what I had lost off on the call is when you started talking about the $0.08 of drag from Other. So, I mean, I don't know if everybody else missed that or not. But could you just explain what was in the $0.08 year-over-year drag, and how we should frame that up from a recurring basis?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Yes, Dan, and sorry about the technical difficulties, and I wasn't sure when you lost me. But the $0.08 was really kind of a number of Other items, and it included things like lower gas transmission revenues. And we really had last year during the first quarter, a little bit higher gas utilization for generation. And then it had other items, including our higher below-the-line costs as well.

Dan Eggers - Crédit Suisse AG, Research Division

So that -- is that the gas storage business and kind of where you make some extra profits, is that what you're referring to from the transmission piece? Or this is just a flow-through number?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

In this case on the gas business, it was more the backbone revenues. And it just was associated with the throughput for gas generation.

Dan Eggers - Crédit Suisse AG, Research Division

And then the storage business was -- how was that year-on-year?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

I don't believe that was a major driver quarter-over-quarter.

Operator

Our next question comes from the line of Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Just a quick one on the -- I maybe should know this, but I wanted to clarify. The Centerline survey where you talk about having done the 1,500 miles, is that really the -- linked to the encroachment analysis? Are these the same thing effectively? Or are they separate?

Christopher P. Johns - Former President and Director

Jonathan, this is Chris. They're the same thing. The Centerline survey is going through the process of major -- or putting on GPS exactly where the center of the pipe is. And that takes into consideration then our ability to know the encroachment on top of our right-of-ways.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Okay. So the 1,500 is out of a total of --

Christopher P. Johns - Former President and Director

About 6,700.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Okay, and then I think I heard you say that you've started off in the more -- the less densely-populated areas.

Christopher P. Johns - Former President and Director

That's correct. And we're just now starting to get movement towards the more highly-populated areas.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So do you -- that not withstanding, do you have -- do you feel any better about the quality of the estimate now than you did last time?

Christopher P. Johns - Former President and Director

Obviously, we haven't changed it. And that's our best estimate at this point in time.

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

And Jonathan, I'll just add, we really have not yet gotten in to the Bay area and stuff. We've been out in more remote rural areas. So it's going to be a while, I think, before we have additional insights there.

Operator

Our next question comes from the line of Greg Gordon with ISI Group.

Greg Gordon - ISI Group Inc., Research Division

My question's for Tony. As you think about the way that the pipeline matter's proceedings work their way to a conclusion, does the fact that you now are looking or your opinion that you're now looking at a litigated outcome versus a settlements narrow the potential for the type of decision that you ultimately get from the CPUC, i.e. are they limited in a -- in their decision-making process to just either fining you or not fining you? Or do they have the flexibility to determine the way in which they deem the penalty should be applied, i.e. through reinvesting in the system and getting lower returns or things like that? Or is there just a fundamental -- is there a fundamental difference between the flexibility that can be put to bear in a settlement versus the flexibility that can be put to bear in a final decision?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Greg, we think with respect to penalties versus disallowances, which would be in the form of requiring us to do work that we wouldn't get recovery of, we think they've got the same kind of flexibility that we have in a settlement. Probably the only difference is those other parties, who in a settlement might be able to get some concessions, are not going to be able to get anything in a litigated decision because the litigated decision will just impact us. But in terms of the big-ticket items of whether it's a fine or whether it's in a form of some sort of disallowance, I think the commission ultimately has all the flexibility that they need.

Operator

Our next question comes from the line of Anthony Crowdell with Jefferies.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I guess, I'm referring to Slide 3. Quick question is, I guess, when I get to the gas investigations, we get fine and remedy recommendations May 6. I think you guys have a couple of weeks before you file, I guess, your rebuttal testimony. Roughly, a timeframe, I would guess when we get an ALJ, I guess, recommendation, do we get 1 or we get 3 separate ones? And then from there, just a rough window of when does the CPUC come out with an order.

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

This is Tom Bottorff in Regulatory Affairs. The PUC -- the judges are expected to issue a consolidated decision. The uncertainty is whether they issue 2 separate opinions: one on the violations and one on the fines. They could, for example, issue an interim decision on whether or not we violated any rules or regulations and subsequently, issue a decision on the fines; or alternatively, they could just do it all at once. At either event, all 3 investigations will be consolidated in those opinions.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And is there -- I'm just trying to come up with a rough calendar, from when an ALJ recommendation possibly could come. Are they like a 60-day window or something, and then a CPUC decision?

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Yes, it's at least 60 days. So we wouldn't expect to see any decision probably until July or August of this year. Again, it depends on whether they choose to do 2 opinions, in which case, the -- an interim opinion on the violations could come as early as July. If they choose to wait and issue a consolidated opinion on both the violations and the fines, you probably wouldn't see anything until mid- to late-August.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And then from there, from the ALJ, then it subsequently goes to the CPUC, the commission and that's when you get a final order?

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Potentially, the difference in an investigation is the administrative law judges could issue what's called a presiding officer decision. And if no one protests the judge's decision, then it becomes final. However, if there are protests, then it would go to the commission for a final order. And that would add probably, at least, 30 days to any final outcome.

Operator

Our next question comes from the line of Michael Lapides with Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Tony, one question for you, one for Kent. Just a bigger, broader picture, the fact that you've been unable to settle from the San Bruno-related fines and investigation tied to the OII, do you think there's a read across to the broader regulatory environment and the broader regulatory treatment of PG&E, especially given the fact that there's some other key dockets, like the General Rate Case outstanding? That's kind of the first question. And then, a Kent question. General Rate Cases in California have, over the last 3 or 4 years, gone well beyond the normal 12- or 14-month time horizon. I know the commission is trying to kind of rectify that with your case a little bit. But if your case were to extend similar to the same timeframe that the SoCal Ed and San Diego gas cases have done so, what would that mean for balance sheet and capital needs kind of next year?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Michael, let me start off. We've asked ourselves that question or ask whether there is spillover. We're fairly confident that there won't be. The San Bruno cases are very complex. They have multiple proceedings. We've got civil cases. We've got U.S. attorney and Attorney General involved. And I think the complexity of multiple jurisdictions, multiple cases and also in my view, how interveners are funded in California, all that contributes to the fact that we haven't been able to resolve the cases. All other indications in terms of regulatory relations seem to be moving in a positive trend. We've gotten good feedback from the commission on the work we've done on the system. I think they're pleased with the fact we've been able to deliver 2 years in a row on our commitments to -- just a massive testing and analysis program of our gas system. We got good results in the return on equity proceeding, and we've had a number of other cases where we think we've gotten some good treatment. So I don't think there is going to be that spillover. I think just the complexities of San Bruno contribute to the inability to have an early resolution to it. Kent, you want to comment on rate cases?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Yes. Michael, in terms of the General Rate Case and the potential for delays, certainly, we've seen that happen with the other utilities of late in the state, but I also think that the commission is aware of the problems that, that creates. And I think there is a lot of interest in trying to get back on schedule. We have to acknowledge the fact that over the last year, between 2 General Rate Cases from the other utilities, the San Bruno proceedings, there has been a lot on the PUC's plate. So we're actually hopeful that we're going to have a more normal experience with the General Rate Case. And we certainly have a schedule that looks very reasonable. And even should there be a few months delay from the schedule, it would still be quite early in 2014, which has been kind of our experience over the last few proceedings. So we're hopeful that's really the future that we're going to face. If, in fact, we ended up under your scenario with a significant delay in the decision, that also makes it very difficult to run the company. And my guess is that it would put pressure on us to hold off on our planned increases that we'd like to make because we've obviously filed for a higher CapEx level than we've been currently spending and obviously higher expenses as well as we want to really improve the safety and the reliability of our system. And a significant delay would probably cause us to have to consider holding off on a lot of that.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Got it. And finally, Tony, when -- and just remind us a little bit how you're thinking about when you think you can position PG&E. Whether it's your gas transmission, electric transmission, the distribution businesses, when do you think you'll be in a position to talk about being able to kind of earn a normalized return on equity invested in your rate base?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well, our objective is for the parts of the business that are subject to the current GRC, that when we get that decision, we will earn, be able to earn the allowed return there. We've got 1 additional year delay because the gas transmission and storage case is 1-year beyond the GRC. So it's kind of a stepped attainment of that goal to earn our allowed return. But I think when those cases come in, we're committed to working to earn the returns allowed in those cases.

Operator

Our next question comes from the line of Julien Dumoulin-Smith with UBS.

Julien Dumoulin-Smith

So a little bit different change in tact here. Back on electric transmission, I'd be curious where the status of your own settlement conversations are going, and how you see that shaping up through the course of the year.

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Yes, this is Tom Bottorff again. We continue to engage in settlement discussions with the parties. And some of you may have seen a recent note from the judge requesting parties to engage in a conference call on May 28. So we continue to exchange proposals, and those discussions are certainly challenging, given the debate over the rate of return. But nonetheless, a settlement does remain possible. And we really won't know for sure probably until mid-June.

Julien Dumoulin-Smith

And then ultimately, if that isn't resolved, do you think you bring up the issue of ROE methodology here? I mean how did -- is that something that you bring back to the table if that settlement isn't reached?

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Well, we already filed an application for rehearing on that issue. We'll wait for FERC to act on that. If we don't receive a favorable opinion there, we do have the opportunity to pursue it in the courts. But again, there's still the opportunity to settle the proceeding, and hopefully that's where we end up.

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

This is Tony. I'll also add, the industry is taking that issue up. And as a whole, the industry believes it's inconsistent with FERC encouraging -- be able to build new transmission, that unless the policy goes back to where it was, it is going to inhibit that investment. So it's a broader issue than just our rate case.

Operator

Our next question comes from the line of Travis Miller with MorningStar.

Travis Miller - Morningstar Inc., Research Division

We've -- there's obviously been a lot of talk on the GRC investments, the pipeline investments. I was wondering if we look longer term out beyond 2016, what are some areas where you see investment potential? Is it transmission, distribution, gas, electric? Longer term, what do you think are areas? Or are we just going to get down to a maintenance level?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well, I think the answer to all of those things is, yes. We continue to look at our long-term strategy and our commitment to really be top quartile in all facets of operations. We're going to see higher-than-traditional levels of capital investment for the foreseeable future. I mean, we are working on our next 5-year plan internally, and I think we'll continue to see investment in the infrastructure. You'll recall that a lot of our infrastructure,certainly, the electric and gas infrastructure was really built in a post-World War II boom years, '50s, '60s and into the '70s, and a lot of that just -- we need replacement work. We've got a fabulous hydro system of 4,000 megawatts. Some of that was built right after the turn of the last century. We've done a very detailed analysis and are doing investment in those assets because they're great assets. They help us meet our renewable requirements. So for the foreseeable future, certainly, our planning horizon, we see a higher-than-historical levels of capital investment.

Travis Miller - Morningstar Inc., Research Division

When you say that, is that more on those lines of what we're seeing on the 2016 run rate? Or would that be even higher, $4.5 billion to $6 billion range?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Travis, this is Kent. I think we're going to be determining those years going forward beyond '16, once we complete our -- this year's planning process.

Operator

Our next question comes from the line of Ashar Khan with Visium.

Ashar Khan

Just wanted to check, Tony, how should we look at the, I guess, the fines coming? They'll be done by, of course, different parties, and there will be different numbers. As investors, how should we look at which is the more credible number? How should we judge this information coming next week?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well it's hard to say without seeing them, but traditionally, some of the parties are known for taking extreme positions. I think probably the most important recommendation comes from the staff of the commission, but even there in the PSEP proceeding, we're able to get changes in the commission final decision, so none of them are final. There'll be a range, but I would say probably that the staff, the commission will be one that we're certainly going to be looking at very closely.

Ashar Khan

And then, can I ask you, once we get these recommendations, does your -- I know you have not accrued anything beyond what you have, but will that be a data point that, that disclosure could change, and hence, there could be more accruals at that period of time, or no?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Well it certainly will be a relative data point. We've got to take a look at it. I think we've said in the past, if they all come in and are really extreme, it doesn't help us narrow the gap. And we may not be able to make a change, but if some of them come in, in ranges that are helpful in trying to gather where the ultimate decision will be, we will be taking a hard look at that disclosure and what we've reserved, certainly, once we get those numbers.

Ashar Khan

And then my final question, Kent, can you just -- I apologize, I came in a little late into the call. Can you tell us how much equity has been issued to date out of what was projected for the year?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Yes. We issued in the first quarter, $430 million, and that's out of our guidance for the year of $1 billion to $1.2 billion. And I'll just remind you that the guidance, that $1 billion to $1.2 billion reflects the $200 million accrual we've taken for a fine or penalty, so anything in excess of that, would affect our expectations for the year.

Ashar Khan

Can I ask you, Kent, I know the range is pretty large. When does that range get narrowed down? I know that what gets a fine is on top of that, but it's a pretty wide range of $1 billion to $1.2 billion. What is the determining factor when we know whether it's $1.5 billion, it's $1 billion or $2 billion? I'm just trying to get a sense.

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

I wouldn't expect that we're going to be narrowing that range this year. I actually think that, that amount of range is not that wide, given all the different factors that affect your financing needs because it's not only just on recovered gas costs, it's not only just capital expenditures, but it's all of our cash flows that happened during the year as well. There are a number of factors that can affect your equity need and the timing of your equity needs during a calendar year. So I don't consider the $200 million to be very wide, and I think it will probably stay in that range.

Gabriel B. Togneri - Vice President of Investor Relations

And Ashar, this is Gabe. I may have misheard you but I think I heard you say 1 --

Ashar Khan

No, I said it wrong. I apologize, I said it wrong.

Operator

Our next question comes from the line of Hugh Wynne with Sanford Bernstein.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Just going back, quickly, to your gas progress. You describe on Page 3 the progress you've made in closing the NTSB recommendation. Apparently, there are 5 left to close out. Can you remind us, are any of those material in terms of cost? And if so, could you remind us what they are?

Christopher P. Johns - Former President and Director

Yes. This is Chris. I don't have the list of all 5 of them, but what they are, they're the longer-term projects, like the hydrostatic testing and the insertion of the automatic and remote shutoff valves. So those are the longer-term projects, and the costs of all those are already incorporated in what our projections have been over the last couple of years. So all of that has already been taken into consideration.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Yes, these are already in your PSEP 1 and 2.

Christopher P. Johns - Former President and Director

Right, exactly.

Operator

Our next question comes from the line of Michael Lapides with Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Just a follow-up cash flow question. Just curious, I'm trying to think about the cash flow statement for this year and beyond. Outside of items that flow through the income statement and outside of CapEx, dividends, debt issuances, retirement, equity issuances, are there other things, like either significant pension contributions or the environmental remediation costs or maybe generator settlements or other items, working capital, that are significant either sources or uses of cash during 2013 and beyond?

Kent M. Harvey - Chief Financial Officer, Senior Vice President and Treasurer

Well, this is Kent. Michael, I mean obviously, we have amounts of everything. It's a complicated business with lots of cash flows. I would say the generator settlements, I don't see that happening near term and being a big impact on our cash flows. And in the case of pension contributions, for example, we recover those through rates and we basically fund those as their recovered through rates. I don't see, at least, the items that you mentioned as being out of the ordinary for us this year. One thing that does move for us significantly for cash flows is just collateral requirements associated with the commodity purchases and hedging we do on behalf of customers. And that's something that we get in the normal course. And if gas prices go down from current levels, we tend to have to post more collateral. If they go up, we actually reduce the amount of collateral. And that's probably the most obvious fluctuation that we tend to see quarter-over-quarter.

SB_GT&S_0176301

Operator

Our next question comes from the line of Paul Patterson with Glenrock Associates.

Paul Patterson - Glenrock Associates LLC

Just really quickly, just back to the San Bruno schedule, you guys said the ALJ decisions you were expecting sort of in July, is that right? Could you just review those very briefly for me.

Thomas E. Bottorff - Senior Vice President of Regulatory Relations-Pacific Gas & Electric Company

Yes. This is Tom Bottorff again. What I was commenting on with respect to the decisions is that if there is an interim decision on the violations piece of the proceeding, that, that could come out as early as July. However, if the judges decide to wait to issue a ruling on both level of the violations and the fines and these [ph] associated with them, we may not see that decision until mid- to late-August.

Paul Patterson - Glenrock Associates LLC

Okay. And then just in general, in terms of resolution of the San Bruno schedule and everything, we've noticed that there's been some legislative inquiry and sort of, I guess, questions about the CPUC, in general. Do you see that as having any impact? Just in general, as you guys know, the California scheduling seems to be kind of a moving target, and I'm just sort of wondering if there's any potential here for slippage as a result of some of these issues that have been sort of brought up in the media and what have you. How should we think about that?

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

Yes. I don't think it's going to have any impact on the schedule. The schedule will move along. I think, as Tom laid out, that's what we -- our best guess is to what the schedule would look like. I don't think these other things will impact that.

Operator

There are currently no additional questions waiting from the phone lines.

Anthony F. Earley - Chairman, Chief Executive Officer, President and Chairman of Executive Committee

All right, well in that case, I'll -- I know it's a very busy day with earnings season. But I will mention before we end the call that we'll see a number of you over the course of the month. We'll be at the ISI Conference next week, the Deutsche Conference the week following that and the Bernstein Conference at the end of the month. So there'll be other opportunities to talk to you, and we'll look forward to that at that point in time. Have a great day.

Operator

Thank you, ladies and gentlemen, for attending the PG&E Corporation First Quarter Earnings 2013 Conference Call. This will now conclude the conference. Please enjoy the rest of your day.

Copyright policy: All transcripts on this site are the copyright of Seeking Alpha. However, we view them as an important resource for bloggers and journalists, and are excited to contribute to the democratization of financial information on the Internet. (Until now investors have had to pay thousands of dollars in subscription fees for transcripts.) So our reproduction policy is as follows: **You may quote up to 400 words of any transcript on the condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to www.SeekingAlpha.com. All other use is prohibited.**

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE

COMPANY'S CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

If you have any additional questions about our online transcripts, please contact us at: transcripts@seekingalpha.com. Thank you!

Never miss a critical update on your stocks!
Download the Free Seeking Alpha Portfolio App Now!
About this transcript
Emailed to: 663 people who get PCG real-time alerts and 18,625 people who get Today's Transcripts daily.

- **Error in this transcript?** Let us know.
- **Contact us** to add your company to our coverage or use transcripts in your business.
- **Learn more** about Seeking Alpha transcripts here.

- **Share this transcript**

Short URL: seekingalpha.com/article
1
Share Like 0 0 **Tweet** 0

Comments (0)
Track new comments on this article
Be the first to comment on this article

Username (*required)

Before you comment, why not tell people something about yourself?
Add Your Comment:

Publish

Seeking Alpha's Earnings Center -- Broad coverage. Powerful search.
And it's free... Why are you paying for something less good?

PCG vs. ETF alternatives

ETFs	Today	3 Mths	1 Yr	YTD
SSO	0.2%	15.9%	47.3%	31.7%
SPY	0.1%	7.5%	20.6%	14.9%
PRF	0%	8.0%	26.2%	17.0%
SDY	0%	9.1%	23.6%	18.0%
PCG	0%	9.3%	5.4%	15.9%
RWL	-0.1%	8.2%	27.4%	17.5%
EPS	-0.1%	7.0%	19.5%	14.7%
IPU	-0.2%	8.8%	9.2%	6.2%
XLU	-0.3%	7.5%	10.5%	13.7%

ETF Alternatives

sponsored by SPDR

Search transcript

This Transcript e.g. "this quarter" Find

All Transcripts e.g. "this quarter" Find

Compare to:

- All PCG Transcripts
- Other Companies in this sector

TOP AUTHORS: The Opinion Leaders
TOP USERS: StockTalkers | Instablogs
RSS Feeds | Contact Us | About Us | Premium Program
Terms of Use | Privacy | Xignite quote data | © 2013 Seeking Alpha
Like 5.7k
Follow @SeekingAlpha