From: Cherry, Brian K
Sent: 11/18/2013 12:17:27 PM
To: Terrie Prosper (tdp@cpuc.ca.gov)
Cc:
Bcc:
Subject: Fwd: LA Bus Journal Op-ed

Sent from my iPad

Begin forwarded message:

From: "Cooper, Shawn" <Shawn.Cooper@pge-corp.com>
Date: November 18, 2013, 3:14:09 PM EST
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Subject: LA Bus Journal Op-ed

Officers:

Dr. Brad Cornell, a professor of financial economics at Caltech placed an Opinion article in today's Los Angeles Business Journal on the pending penalty and fine proposed by the CPUC staff on the company.

Shawn

Shawn Cooper

Senior Director

Federal Affairs & Corporate Relations

PG&E Corporation

Pipeline Penalties Could Leave California in Hole

Los Angeles Business Journal

OP-ED

By Bradford Cornell

November 18, 2013

The California Public Utilities Commission appears to be gearing up to levy penalties against the Pacific Gas and Electric Co. in connection with a pipeline accident in Northern California that are a whopping 30 times more than any ever imposed involving similar accidents anywhere in the country. Such a draconian fine against PG&E might make for good political theater, but it would be neither fair nor wise public policy. And it ultimately could affect utilities in Southern California and have a broadly chilling effect on the state's fragile economy.

As both a Californian and an economist, I have watched with great interest the simmering controversy over the CPUC's proposed action against PG&E related to the pipeline accident in San Bruno. As did others, I saw images of the tragedy and read stories about how it happened. Clearly, PG&E must be penalized for its actions. Imposing civil penalties on companies that do the wrong thing is not only legitimate, but necessary.

At the same time, as a matter of sound public and economic policy, penalties should be fair and proportionate as well as properly structured to bring about desired behavior and prevent future transgressions by the offending party – not exact revenge. If the CPUC approves its staff recommendation to boost combined penalties against PG&E to more than $4 billion, it will fail to meet those criteria. Even more troubling is the possibility, if not the likelihood, that such an excessive penalty would inflict financial damage on many who are not at fault and ultimately undermine the state's anemic economic recovery. Moreover, bloated and poorly targeted sanctions also could have the unintended consequence of diverting resources that might otherwise be used by PG&E for additional safety enhancements and renewable energy and sustainability initiatives.

Even though the CPUC does not intend to penalize PG&E customers, they will ultimately pay – along with the company's current and future employees, and PG&E stockholders, who include many individuals and our pension funds. The California Public Employees Retirement System, for example, owns more than 1.25 million PG&E shares, and it surely was not in any way responsible for the accident.

But even if we don't particularly care about our neighbors to the north, PG&E's employees or its stockholders, we all should be concerned about the effects of such an extraordinary fine on the state's economy. Such a fine would impede PG&E's ability to make investments in much needed infrastructure and other areas. This has the potential to threaten jobs at PG&E as well as at vendors and suppliers throughout the state.

Wide-ranging impact

A more subtle but very serious concern is the effect such a disproportionately large penalty would have on Wall Street investors' assessments not just of PG&E but Southern California Edison, Sempra and California utilities in general. Given the seriousness of the accident, few might be shedding tears for the 12 percent loss in value PG&E sustained in the past three years (as it invested heavily in pipeline safety upgrades and maintenance) or the higher cost of funds the company will face if its bond rating is downgraded. But, if the CPUC creates a hostile regulatory environment by the imposition of this mammoth fine, it's a safe bet that many Wall Street investors will be looking for other places to put their money.

This could put other California utilities and possibly other regulated companies at a disadvantage in raising capital. That means less money available for investment in upgrades to the grid, infrastructure and renewable energy programs. And it could mean fewer jobs at a time when our unemployment rate is substantially above the national average.

Curiously, the CPUC is proposing the mother of all penalties against a company that has very publicly taken responsibility for the San Bruno accident and shown clear signs that it is mending its ways. Since San Bruno, several senior officers, including PG&E's chairman and chief executive, have been replaced, and it appears the changes are having a substantially positive impact on the corporate culture. More tangibly, PG&E reports that it spent $900 million in 2012 on pipeline safety improvements and plans to spend an additional $1 billion during 2013 and beyond.

Vengeance does not make good public or economic policy. The CPUC should take a balanced approach to imposing a penalty that results in what is truly needed: a safer pipeline system and a more accountable company.

Bradford Cornell, Ph.D., is visiting professor of financial economics at

Caltech.