



**FILED**

02/13/19  
04:59 PM

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Order Instituting Investigation on the  
Commission's Own Motion to Determine  
Whether Pacific Gas and Electric Company  
and PG&E Corporation's Organizational  
Culture and Governance Prioritize Safety

Investigation 15-08-019  
(Filed February 25, 2015)

**OPENING COMMENTS OF CITY AND COUNTY OF SAN FRANCISCO ON ASSIGNED  
COMMISSIONER'S SCOPING MEMO AND RULING**

Dennis J. Herrera  
City Attorney  
Theresa L. Mueller  
Chief Energy and Telecommunications Deputy  
William Rostov  
Deputy City Attorney

Attorneys for  
City and County of San Francisco  
City Hall Room 234  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4682  
Telephone: (415) 554-4700  
E-mail: [william.rostov@sfcityatty.org](mailto:william.rostov@sfcityatty.org)

Dated: February 13, 2019

---

**TABLE OF CONTENTS**

INTRODUCTION ..... 1

DISCUSSION ..... 2

    I.    PG&E HAS FAILED TO PROVIDE SAFE aND RELIABLE SERVICE..... 2

        A.    San Francisco Has Had Numerous Problems With PG&E For Many  
            Years. .... 4

        B.    PG&E Fails to Meet Most f The Commission’s Criteria For Evaluating  
            Alternatives. .... 6

    II.   RESPONSES TO SCOPING MEMO QUESTIONS ..... 10

        A.    Corporate Governance – Board of Directors. Corporate Management -  
            Officers and Senior Leadership. .... 10

        B.    Corporate Structure ..... 12

            1.    Should PG&E’s gas and electric distribution and transmission  
                divisions be separated into separate companies? If so, should  
                the separate companies be controlled by a holding company?  
                Should the holding company be a regulated utility?..... 12

                Should PG&E’s corporate structure be reorganized with regional  
                subsidiaries based on regional distinctions? For example, PG&E  
                could be divided into multiple smaller utilities operating under a  
                single parent company. If so, should such a reorganization apply  
                to both gas and electric services? Do the physical characteristics  
                of the gas and electric systems lend themselves to the same  
                regional structure, or do the physical characteristics of the  
                respective systems lend themselves to different regional  
                structures? ..... 12

            2.    Should the Commission revoke holding company authorization,  
                so PG&E is exclusively a regulated utility? Should all affiliates  
                and subsidiaries be spun off or incorporated into the regulated  
                utility? ..... 13

            3.    Should the Commission form a standing working group with the  
                union leadership of PG&E to identify the safety concerns of  
                PG&E staff? ..... 13

        C.    Publicly Owned Utility, Cooperative, Community Choice Aggregation  
            or other Models ..... 13

            1.    Should some or all of PG&E be reconstituted as a publicly  
                owned utility or utilities? ..... 13

        D.    Return on Equity ..... 16

            1.    Should the Commission condition PG&E’s return on equity on  
                safety performance? ..... 16

2.	What are the safety considerations for the utility if its financial status is downgraded by the investment community?.....	16
E.	Other Proposals .....	17

## **OPENING COMMENTS OF CITY AND COUNTY OF SAN FRANCISCO ON ASSIGNED COMMISSIONER’S SCOPING MEMO AND RULING**

In accordance with the Assigned Commissioner’s Scoping Memo and Ruling, dated December 21, 2018 (“Scoping Memo”) and the Administrative Law Judge’s January 21, 2019 Order Granting an Extension of Time pursuant to Rule 11.6, the City and County of San Francisco (“San Francisco”) respectfully submits the following comments on the Scoping Memo.

### **INTRODUCTION**

The Order Instituting Investigation (“OII”) opened by the California Public Utilities Commission (“Commission”) in 2015 recognized that the multiple safety problems with Pacific Gas & Electric Company’s (“PG&E”) service amounted to more than random accidents or bad luck that could happen to any company. The Scoping Memo for this phase notes the continuing problems and the difficulty of improving PG&E’s safety performance. Since that document was issued, PG&E has filed its second bankruptcy in 18 years, ensuring that the task of improving PG&E’s operations will be even harder and more expensive for PG&E’s customers. San Francisco, along with other communities, has experienced serious problems with PG&E’s safety and reliability for many years. But the catastrophic problems of the last decade, including the San Bruno gas explosion and the multiple wildfires of the last several years, are categorically different and cannot be ignored.

The regulatory compact under which a private utility is afforded monopoly protections in exchange for regulatory oversight guaranteeing a reasonable return on investment requires a commitment from the utility to, above all else, assure the safety of the citizens it serves. PG&E has repeatedly failed to honor that responsibility by violating a variety of federal and state criminal laws and failing to meet the norms for a public utility. Although PG&E obviously want to be a safe company, PG&E’s commitment to safety competes with its commitment to maximizing financial performance, protecting its monopoly business, and promoting its public image.

This phase of the proceeding examines “PG&E’s and PG&E Corporation’s . . . current corporate governance, structure, and operations to determine if the utility is positioned to provide safe

electrical and gas service.”<sup>1</sup> The Commission asks for responses to a number of proposals it might consider, including adding disclosure requirements, replacing the Board of Directors or management, and restructuring the company in a variety of ways. Many of these proposals seem sensible and might result in some improvements. But the Commission needs to make fundamental changes to providing gas and electric service in Northern California, not just embark on another program of improvements at PG&E.

The Commission should recognize that public ownership and local control of utility service has traditionally offered safe and reliable service with greater transparency, accountability, and fiscal and societal responsibility, and all at lower rates than service from investor owned utilities. The time has come for the Commission to support and encourage the replacement of service from PG&E with service from local publicly-owned utilities who choose to provide that service.

## **DISCUSSION**

### **I. PG&E HAS FAILED TO PROVIDE SAFE AND RELIABLE SERVICE**

Public Utilities Code section 451 requires PG&E to provide safe and reliable service.<sup>2</sup> The Commission confirms that this obligation is “paramount.”<sup>3</sup> Although accidents happen even to safe companies, PG&E has consistently failed to comply with its fundamental duties.

Two reports prepared for Commission reveal that PG&E has not organized its business in a manner to provide safe service. Following the devastating incident in San Bruno in 2010, the Commission created and appointed the Independent Review Panel (the “Panel”). The Panel was asked to gather information about the San Bruno explosion and “make recommendations to the Commission for the improvement of the safe management of PG&E’s natural gas transmission lines.”<sup>4</sup>

---

<sup>1</sup> Scoping Memo, p. 2

<sup>2</sup> Section 451 states: “Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities . . . as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.”

<sup>3</sup> OII, p. 13

<sup>4</sup> Report of the Independent Review Panel: San Bruno Explosion (the “Report”), Prepared for the Commission, June 24, 2011, p. 1-2.

The Panel’s final report was a sweeping description of how a large regulated utility fundamentally lost its way. The report documented numerous failures in PG&E’s Integrity Management Program, including poor data management,<sup>5</sup> ineffective threat identification procedures,<sup>6</sup> chaotic internal organization,<sup>7</sup> a lack of coherent resource planning,<sup>8</sup> a complete breakdown in quality assurance,<sup>9</sup> and no strategic plan to improve its safety assessment capabilities.<sup>10</sup> In addition, the report demonstrated that PG&E’s corporate culture fostered such failures by, among other things, promoting the company’s image over substantive focus on safety matters,<sup>11</sup> and placing excessive emphasis on the company’s financial performance.<sup>12</sup>

Seven years later, the first phase of this proceeding initiated and adopted a second report on PG&E safety culture because serious and unacceptable safety incidents continued to occur. The Commission undertook this investigation to determine whether these incidents are “rooted in PG&E’s organizational culture and governance.”<sup>13</sup> The Commission hired Northstar Consulting Group to conduct an “Assessment of Pacific Gas And Electric Corporation and Pacific Gas And Electric Company’s Safety Culture” (“Northstar Report”).<sup>14</sup>

The Northstar Report contained findings strikingly similar to the Panel report, explaining that despite PG&E’s purported emphasis on safety and instituting safety related changes, PG&E still lacked an effective safety culture. Among other things, the Northstar Report concluded that PG&E lacked a comprehensive safety strategy and that “resulted in the lack of coordination between

---

<sup>5</sup> Report, pp. 7-8.

<sup>6</sup> Report, pp. 8-9.

<sup>7</sup> Report, pp. 9-10.

<sup>8</sup> Report, p. 10.

<sup>9</sup> Report, pp. 10-12.

<sup>10</sup> Report, pp. 12-13.

<sup>11</sup> Report, pp. 16-18.

<sup>12</sup> Report, p. 17-18.

<sup>13</sup> OII, p. 3.

<sup>14</sup> D.18-11-050, Appendix A, available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M235/K399/235399881.PDF>

corporate safety and the field functions and the introduction of numerous initiatives aimed at improving safety without a coordinated approach.”<sup>15</sup> The report confirmed that changing the safety culture of management personnel did not have a company-wide effect and explained “[f]ield personnel generally believe management is committed to safety, but in many respects it is business as usual in the field, or the field locations are working to address safety issues on their own.”<sup>16</sup> The report unearthed remarkable facts such as PG&E’s senior safety leaders had little or no safety experience.<sup>17</sup> This did not change until 2017.<sup>18</sup>

**A. San Francisco Has Had Numerous Problems With Pg&E For Many Years.**

PG&E’s operations in San Francisco, the utility’s hometown and location of its headquarters, provide numerous examples of PG&E’s failure to provide safe and reliable service. Just last week, a fire from a gas explosion in the Richmond District burned more than 2 hours because PG&E failed to shut-off the gas quickly.<sup>19</sup> City first responders noted that none of the PG&E employees at the site appeared to be in charge.

- San Francisco suffered a major power outage due to a substation error on December 8, 1998; 456,000 PG&E customers lost power when PG&E’s errors caused all of its 115 kilovolt (kV) transmission lines from the San Mateo substation to San Francisco, and the two San Francisco power plants to go off line. This cascading power outage resulted from the poor design of PG&E’s system. The subsequent Commission investigation required PG&E to improve the reliability of its transmission system.<sup>20</sup>
- PG&E designed and maintained its San Francisco transmission network in a manner that islanded San Francisco from the rest of PG&E’s grid. This poor design required PG&E to continue to operate an old polluting power plant in Hunters Point, a neighborhood that was disproportionately impacted by pollution, when it should have been shut down years earlier. Only after San Francisco and the public pushed to shut down the power plant and improve the reliability of the grid, did PG&E reconfigure its system by bringing another

---

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*, p. I-1.

<sup>17</sup> *Id.*, IV-18.

<sup>18</sup> D.18-11-050, Appendix A, p. IV-8.

<sup>19</sup> Morris, J.D, and Hernández, Lauren “NTSB investigating how long it took PG&E to turn off gas after SF blast” (Feb. 8, 2019) San Francisco Chronicle, available at <https://www.sfchronicle.com/business/article/NTSB-investigating-how-long-it-took-PG-E-to-turn-13602838.php> (last visited Feb. 13, 2019).

<sup>20</sup> D.03-02-041, pp. 1-5.

transmission line from the Jefferson-Martin substation.<sup>21</sup> The subsequent addition of the Transbay Cable DC transmission line by an independent company also improved San Francisco's reliability.

- PG&E's actions have resulted in other serious incidents in San Francisco. Among other examples:
  - PG&E's Mission District substation caught on fire on December 20, 2003. This fire led to a Commission investigation which included a previous 1996 fire at the same substation. Nine days after the Commission initiated its investigation, a third fire occurred at the same substation. PG&E, San Francisco, and the Commission's Consumer Protection and Safety Division ultimately reached a \$6.5 million settlement agreement that the Commission adopted. The settlement targeted specific reliability, public safety and environmental justice improvements within San Francisco.<sup>22</sup>
  - On August 19, 2005, an explosion in the Financial District caused a manhole cover to fly 30 feet, buckle concrete, and blow out windows at Crocker Galleria, and it started a fire. One pedestrian was seriously injured, suffering a fractured arm and third degree burns on her hands, arms and feet, and second degree burns on her face, chin, neck and ears. The explosion was caused by an electrical short in an underground power transformer.<sup>23</sup>
  - On June 5, 2009, an explosion in an electrical vault at O'Farrell and Polk Streets caused a fire that burned for almost two hours. Four blocks were closed for days and a shelter-in-place order was issued due to toxic smoke. 8,600 customers were affected.<sup>24</sup>
  - On November 8, 2009, an electrical malfunction in a vault caused an underground blast affecting 6,300 customers.<sup>25</sup>
  - On October 25, 2011 a transformer explosion in the Twin Peaks neighborhood created a fireball that shot several stories high and caused a neighborhood power outage.<sup>26</sup>

---

<sup>21</sup> See D.04-08-046.

<sup>22</sup> D.06-02-003.

<sup>23</sup> Walsh, Diana and Herel, Suzanne "Woman burned in blast sues PG&E / Firm says it will pay for her medical care, recovery" (Sept. 27, 2005) SFGate, available at <https://www.sfgate.com/bayarea/article/SAN-FRANCISCO-Woman-burned-in-blast-sues-PG-E-2567182.php> (last visited Feb. 12, 2013).

<sup>24</sup> May, Meredith "PG&E looking for cause of Tenderloin blast" (Jun. 6, 2009) available at, <https://www.sfgate.com/bayarea/article/PG-E-looking-for-cause-of-Tenderloin-blast-3229900.php> (last visited Feb. 12, 2019); See also, Baker, David "PG&E blackouts last longer than elsewhere" (Jun. 15, 2009) SF Gate, available at <https://www.sfgate.com/news/article/PG-E-blackouts-last-longer-than-elsewhere-3295061.php> (last visited Feb. 12, 2019).

<sup>25</sup> Worth, Katie, "Power restored after 6,300 customer blackout" (Nov. 9, 2009) San Francisco Examiner available at <http://www.sfexaminer.com/power-restored-after-6300-customer-blackout/> (last visited Feb. 12, 2019).

<sup>26</sup> Bay City News, "PG&E Still Trying To Figure Out What Caused Fireball-Shooting Transformer Explosion" (Oct. 26, 2011) SF Appeal Online Newsletter available at <http://sfappeal.com/2011/10/pge-still-trying-to-figure-out-what-caused-fireball-shooting-transformer-explosion/> (last visited Feb. 12, 2019).



- On June 12, 2012, a punctured plastic gas line caused a fire on San Bruno Avenue. PG&E could not reach the closest shut off valve for more than two hours. One person was severely burned and two firefighters suffered minor injuries.<sup>27</sup>
- PG&E damaged thousands of San Francisco’s sewer lines and related assets when it used trenchless directional drilling to install new gas pipelines. In September 2014, San Francisco and PG&E entered into a settlement in which PG&E agreed to repair past damaged sewer systems and implement a procedure to prevent future damage. PG&E is still inspecting San Francisco sewer systems finding 7.2 cross bores per every thousand inspections which is a higher rate than in other areas.<sup>28</sup>

**B. Pg&E Fails To Meet Most Of The Commission’s Criteria For Evaluating Alternatives.**

The Commission should use its authority under State law to ensure that PG&E’s customers receive adequate utility service. Under State law, the Commission has

broad authority to determine whether the service or equipment of any public utility poses any danger to the health or safety of the public, and if so, to prescribe corrective measures and order them into effect. Every public utility is required to furnish and maintain such ‘service . . . necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.’”<sup>29</sup>

In addition, “the PUC has the power to supervise, regulate and investigate the practices, facilities and services of public utilities.”<sup>30</sup>

In this investigation, the Commission affirms its duty to regulate “PG&E’s safe operation of its natural gas pipeline and electricity infrastructure. . . . The Commission must evaluate whether there is a better way to serve Northern California with safe and reliable electric and gas service at just and reasonable rates.”<sup>31</sup> The Commission seeks remedies for PG&E’s continued safety failures.<sup>32</sup> The

---

<sup>27</sup> Burack, Ari and Koskey, Andrea, “Gas line rupture causes four-alarm fire in Portola district” (June 13, 2012) San Francisco Examiner, available at <https://archives.sfexaminer.com/sanfrancisco/gas-line-rupture-causes-four-alarm-fire-in-portola-district/Content?oid=2200156> (last visited Feb. 12, 2019).

<sup>28</sup> Pacific Gas and Electric Company 2020 General Rate Case Prepared Testimony Exhibit (PG&E-3) Gas Distribution, pp. 2-37-2-38 and n.47.

<sup>29</sup> *San Diego Gas & Electric Co. v. Superior Court* (1996) 13 Cal.4th 893, 923-24 (“*Covalt*”) (citing § 451, original emphasis) (the Court held that Commission had exclusive jurisdiction to regulate electromagnetic frequency radiation from power lines).

<sup>30</sup> *Los Angeles Cellular Telephone Co. v. Superior Court* (1998) 65 Cal.App.4th 1013, 1017 n.6. (citing Pub. Util. Code §§ 489, 584, 702).

<sup>31</sup> Scoping Memo, p. 8.

<sup>32</sup> *Id.*, pp. 8-14.

Commission has taken this broad step in recognition that its usual methods of regulation and penalties have proven ineffective to correct the pervasive and continuing nature of PG&E's safety problems.

Safety problems have continued to impact customers and communities throughout PG&E's service area, with serious consequences to public health and safety and local economies, among other things. Despite this, changing PG&E has been difficult and unsuccessful. Because PG&E seems "too big to fail," the Commission and the Legislature seek ways to bail-out, prop-up, and nudge the company to improve. Yet, an honest accounting shows that PG&E fails to meet most of the Commission's criteria for evaluating alternatives to PG&E service:<sup>33</sup>

- **The safety and reliability of utility service** – This investigation was initiated because PG&E continues to provide unsafe and unreliable service.
- **The operational integrity and technical unity of components within PG&E's gas and electric transmission and distribution systems** – Both the gas and electricity business have caused inordinate damage. The Scoping Memo affirms that "PG&E has had serious safety problems with both its gas and electric operations for many years."<sup>34</sup>
- **The stability and adequacy of the utility workforce** – PG&E has a well-qualified and dedicated workforce. However, PG&E's pattern of bankruptcies and its continuing safety issues will likely take a toll on stability and morale.
- **The utility's relationships with and role in local communities** – While PG&E is often a good community partner, its poor service and safety record has devastated, endangered or inconvenienced local communities. PG&E contributes to many local nonprofits and good causes, but PG&E's contributions often come with strings that it uses to ensure support for its own agenda.
  - In 2018, PG&E gained the dubious distinction of being the most prolific spender on lobbying in California. PG&E spent \$9.6 million, including more than five million

---

<sup>33</sup> See Scoping Memo, p. 2.

<sup>34</sup> Scoping Memo, p. 3.

dollars “for lobbying on proposals involving wildfire safety and response.”<sup>35</sup> In the three year period since 2015, PG&E also spent over \$37 million dollars on advertising promoting its safety culture.<sup>36</sup> A recent wildfire lawsuit alleges that “PG&E’s culture pays greater attention to its reputation and performance on Wall Street, tha[n] a dedication to ensuring that it has a robust system of risk management over its operations.”<sup>37</sup>

- In San Francisco, PG&E routinely delays or refuses to relocate its facilities as required by its gas and electric franchises.<sup>38</sup> This makes City projects cost more and take longer, and requires the City to initiate litigation to require PG&E to honor the franchises that allow it to operate.
- PG&E uses its monopoly status to thwart local government energy programs, instead of working with local governments to meet shared objectives like reliable service and addressing climate change. Examples include the following:
  - PG&E spent \$46 million dollars on an unsuccessful campaign for Proposition 16, a June 2010 ballot initiative that would have made it harder for local governments to operate energy programs like Community Choice Aggregation (“CCA”) that could compete with PG&E’s electricity business.<sup>39</sup>
  - In 2010, San Francisco successfully petitioned the Commission to restrict PG&E from engaging in unfair practices related to CCAs. The Commission ordered

---

<sup>35</sup> Ronayne, Kathleen, “Embattled California utility spent most for 2018 lobbying” (Feb. 1, 2019) Associated Press, available at [https://www.apnews.com/cbbdf051368e4c34b77be127bd2f423e?utm\\_source=Sailthru&utm\\_medium=email&utm\\_campaign=Issue:%202019-02-04%20Utility%20Dive%20Newsletter%20%5Bissue:19241%5D&utm\\_term=Utility%20Dive](https://www.apnews.com/cbbdf051368e4c34b77be127bd2f423e?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202019-02-04%20Utility%20Dive%20Newsletter%20%5Bissue:19241%5D&utm_term=Utility%20Dive) (last visited Feb. 4, 2019).

<sup>36</sup> Complaint for Damages and Declaratory Relief, Butte County Superior Court, Case No. 18CV03993, filed Dec. 10, 2018, ¶222.

<sup>37</sup> *Id.*, ¶223.

<sup>38</sup> First Amended Complaint for Declaratory Judgment; Breach of Contract; Negligence; and Trespass, Case No. CGC-13-529310, San Francisco Superior Court, ¶¶ 9-101 (alleging violation of franchise agreements).

<sup>39</sup> Baker, David, “PG&E’s Prop. 16 lost big in its service area” (June 10, 2010) SFGate, available at <https://www.sfgate.com/business/article/PG-E-s-Prop-16-lost-big-in-its-service-area-3185513.php> (last visited Feb. 7, 2019).

PG&E to not use untrue or misleading commercial speech about CCA service and its competing service.<sup>40</sup>

- In 2012, the Commission adopted a Code of Conduct for PG&E and the other investor owned utilities to prevent them from using their market power to unfair advantage.<sup>41</sup> “The Code of Conduct is designed to foster fair competition by limiting utility activities that would disadvantage CCAs, and by ensuring that customers receive complete, accurate, and balanced information.”<sup>42</sup>
- PG&E has fought San Francisco’s municipal electric utility for more than 100 years, even though Hetch Hetchy Power has served only a modest amount of load, and delivered its electricity in a partnership with PG&E.
- PG&E routinely delays service to existing San Francisco’s facilities like parks, schools, homeless services, and affordable housing, unless the San Francisco agrees to install additional equipment not required by the tariff. This is a transparent effort to increase the San Francisco’s costs, delay its service, and ultimately serve those customers itself. As a result, San Francisco has a complaint pending at the Federal Energy Regulatory Commission from a 2016 trial on the terms of service under PG&E’s Wholesale Distribution Tariff.<sup>43</sup> On January 28, 2019, San Francisco filed another complaint with FERC addressing PG&E’s most recent tactics.<sup>44</sup>
- **The ability of the state to implement its energy policies, including the need to reduce greenhouse gas (GHG) emissions and local criteria pollutants in both the utility sector and the economy as a whole** – State law requires PG&E and all other load serving entities to meet portfolio content requirements and other policies. PG&E’s ratepayers pay for this compliance.
- **The ability of the utility to meet financial challenges posed by large catastrophic events such as earthquakes and wildfires** – PG&E has not been able to meet the challenge of wildfires and has initiated a bankruptcy case to limit its financial exposure.
- **The utility’s ability to raise capital and purchase gas, electricity, equipment and services** – PG&E’s financial condition and bankruptcy undermines PG&E’s ability to raise capital and to make purchases. Before the bankruptcy in 2018, the credit

---

<sup>40</sup> D.10-05-050, p. 1.

<sup>41</sup> D.12-12-036, p. 6.

<sup>42</sup> *Id.*, p. 7.

<sup>43</sup> City and County of San Francisco v. PG&E before the Federal Energy Regulatory Commission, Docket Nos. EL15-3-002.

<sup>44</sup> City and County of San Francisco v. PG&E before the Federal Energy Regulatory Commission, Docket No. EL19-38-000.

reporting agencies continued to downgrade PG&E's credit.<sup>45</sup> In December 2017, PG&E stopped paying dividends; PG&E knew that this action might affect its ability to raise capital.<sup>46</sup>

- **The cost of utility service** – PG&E's customers pay some of the highest rates in the country and the bankruptcy will likely result in even higher rates.<sup>47</sup> In fact, its present general rate case, filed even before the bankruptcy, PG&E seeks a 12.4% increase in its revenue requirement, which would result in a 6.8% increase in gas and electric rates.

## II. RESPONSES TO SCOPING MEMO QUESTIONS

### A. Corporate Governance – Board of Directors. Corporate Management - Officers and Senior Leadership.

The Scoping Memo solicits comments on several changes to PG&E's Corporate Governance. Many of these proposals seem reasonable and may have good results, but it is unclear how these changes will make PG&E a safer company. This proceeding should do more than ratify changes that PG&E has implemented or will implement. For example, PG&E has already added safety experience as a criteria for new members of the Board of Directors.<sup>48</sup> PG&E plans to restructure its Board by adding independent directors and replacing five of its ten directors at its next board meeting in May,

---

<sup>45</sup> Morris, David, "S&P cuts PG&E ratings to junk, warns of further downgrade" (Jan. 8, 2019) CNBC, available at <https://www.cnbc.com/2019/01/08/sp-cuts-pge-ratings-to-junk-warns-of-further-downgrade.html> (last visited Feb. 5, 2019); see also, McNeely Allison, "PG&E Credit Cut to Brink of Junk by Moody's on Wildfire Risk" (Nov. 15, 2018) Bloomberg, available at <https://www.bloomberg.com/news/articles/2018-11-15/pg-e-credit-cut-to-brink-of-junk-by-moody-s-on-wildfire-risk> (last visited Feb. 5, 2019).

<sup>46</sup> See 2017 Annual Report to shareholders, p. 34.

<sup>47</sup> Blunt, Katherine, "California Girds for Higher Power Prices From PG&E After Fires" (Dec. 13, 2018) Wall Street Journal, available at <https://www.wsj.com/articles/california-girds-for-higher-power-prices-from-pg-e-after-fires-11544706001> (last visited Feb. 13, 2019); see also Kasler, Dale, "PG&E plans to file bankruptcy. Will the utility go under? We've got some answers" (Jan. 15, 2019) The Sacramento Bee, available at <https://www.sacbee.com/news/business/article224188410.html> (last visited Feb. 5, 2019).

<sup>48</sup> D.18-11-050, Appendix A, p. I-12, III-1, available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M235/K399/235399881.PDF> (last visited Feb. 4, 2019).

2019.<sup>49</sup> San Francisco supports requiring PG&E to disclose more information because it can provide a foundation for more informed decisions and enhanced public scrutiny. In addition, subjecting PG&E's Board and management to a "utility-specific business judgment rule" has merit.

Similarly, the suggested changes to Corporate Management seem reasonable, but it's not clear how these changes will lead to improvement in PG&E's safety. Since the San Bruno explosion, PG&E's CEO position has changed hands three times, but safety continues to vex PG&E. PG&E replaced Peter Darbee with Anthony Earley in 2011.<sup>50</sup> PG&E's press release explained:

Earley's hiring is the latest in a series of strategic moves by PG&E to enhance and improve its gas and electric operations. Actions include hiring a new leader for PG&E's gas business, promoting a long-time electric industry executive to lead PG&E's electric business and separating the gas and electric departments to improve efficiency, reliability, safety and focus.<sup>51</sup>

Geisha Williams replaced Anthony Earley as CEO in early 2017 and as President in late 2017 after the 2017 North Bay Fires.<sup>52</sup> John Simon recently replaced Geisha Williams on an interim basis after the Camp Fire.<sup>53</sup> PG&E may have yet another CEO in 2019. These changes have not corrected the problem.

Finally, while the Northstar Report found that PG&E had successfully changed the safety culture of its management personnel, the change had not been effective company-wide.<sup>54</sup> These facts suggest that changing the management may not be the answer.

---

<sup>49</sup> Corbitt, Erin "PG&E Board of Directors Is Restructuring After the Deadly Camp Fire" (Feb. 11, 2019) *Fortune* (last visited Feb. 12, 2013).

<sup>50</sup> "PG&E Names Utility Leader Anthony F. Earley Jr. as Chairman, CEO and President" (August 11, 2019) *PG&E Currents*, available at <http://www.pgecurrents.com/2011/08/08/breaking-news-pge-names-utility-leader-anthony-earley-jr-as-chairmanceo/> (last visited Feb. 1, 2019).

<sup>51</sup> *Id.*

<sup>52</sup> Bodley, Michael, "PG&E plugs fast-rising executive Geisha Williams into CEO role" (Nov. 14, 2016) *SFGate*, available at <https://www.sfgate.com/business/article/PG-E-shakes-up-leadership-with-new-CEO-Geisha-10613878.php> (last visited Feb. 1, 2019).

<sup>53</sup> "PG&E Board of Directors Conducting Search for New Chief Executive Officer, Geisha Williams Steps Down; John Simon Named Interim Chief Executive Officer" (Jan. 13, 2019) *PG&E Currents*, available at <https://www.pgecurrents.com/2019/01/13/pg-john-simon-named-interim-chief-executive-officer/> (last visited Feb. 1, 2019).

<sup>54</sup> Northstar Report, pp. I-8, I-9.

## B. Corporate Structure

1. **Should PG&E’s gas and electric distribution and transmission divisions be separated into separate companies? If so, should the separate companies be controlled by a holding company? Should the holding company be a regulated utility?**

**Should PG&E’s corporate structure be reorganized with regional subsidiaries based on regional distinctions? For example, PG&E could be divided into multiple smaller utilities operating under a single parent company. If so, should such a reorganization apply to both gas and electric services? Do the physical characteristics of the gas and electric systems lend themselves to the same regional structure, or do the physical characteristics of the respective systems lend themselves to different regional structures?**

PG&E’s service territory is large and diverse. PG&E serves gas and electricity to 16 million customers in a 70,000 square mile area. PG&E’s service area includes three of California’s largest cities, vast agricultural areas, mountains, desert and numerous local constituencies. This requires a vast array of facilities: “PG&E operates and maintains 141,215 circuit miles of electric distribution lines and 18,616 circuit miles of interconnected electric transmission lines; and, 42,141 miles of natural gas distribution pipelines and 6,438 miles of natural gas transportation pipelines.”<sup>55</sup> PG&E also owns various types of generation facilities including a nuclear power plant, a hydroelectric system, three fossil fuel plants and solar installations.<sup>56</sup> PG&E’s history demonstrates that it cannot safely manage its assets.

Managing these complex gas and electric businesses would be a challenging assignment for any company. Other IOUs in California are either serving a much smaller region or are providing a single service. Dividing PG&E into smaller entities could allow each to perform more effectively. The separation could be geographic (for example, regional entities or local publicly owned entities), functional (generation, transmission, and distribution) or by service—gas or electric. With the enhanced threat of wildfires, PG&E’s ability to carefully manage even remote regions is essential.

---

<sup>55</sup> Northstar Report, pp. II-1 – II-2, available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M235/K399/235399881.PDF>

<sup>56</sup> *Id.*, p. 10.

**2. Should the Commission revoke holding company authorization, so PG&E is exclusively a regulated utility? Should all affiliates and subsidiaries be spun off or incorporated into the regulated utility?**

Unless the Commission can determine that the holding company structure serves the public interest, or at least does not harm it, it should revoke that authorization. In the past, the holding company has not enhanced PG&E's provision of safe and reliable service. Just prior to its first bankruptcy, PG&E up-streamed \$4.6 billion to PG&E Corporation.<sup>57</sup> PG&E took that action to the detriment of its ability to purchase the power it needed to serve ratepayers, with full knowledge of the unstable power prices in the wholesale market. The holding company insulated subsidiaries and distributed earnings to shareholders.<sup>58</sup> If the holding company structure has benefitted PG&E's ratepayers or enhanced PG&E's ability to provide safe and reliable service, the Commission should determine whether the holding company structure impedes effective regulation by the Commission.

**3. Should the Commission form a standing working group with the union leadership of PG&E to identify the safety concerns of PG&E staff?**

San Francisco believes the Commission could gain important information from regular communications with PG&E employees on safety matters.

**C. Publicly Owned Utility, Cooperative, Community Choice Aggregation or other Models**

**1. Should some or all of PG&E be reconstituted as a publicly owned utility or utilities?**

Public ownership of some or all of PG&E's system is a viable alternative to the status quo.<sup>59</sup> Local publicly owned utilities (POUs) have provided "continuous, safe and reliable . . . electric service

---

<sup>57</sup> Egelko, Bob, "City sues PG&E for \$5 billion" (Feb. 12, 2002) SFGate, available at <https://www.sfgate.com/business/article/City-sues-PG-E-for-5-billion-2873741.php> (last visited Feb. 12, 2019).

<sup>58</sup> *Id.*

<sup>59</sup> See Scoping Memo, pp. 12-13 (alternatives evaluation criteria).



at just and reasonable rates”<sup>60</sup> for decades. Local public entity acquisition of utility systems is already provided for in the law.<sup>61</sup> Further, there are multiple ways of organizing POU in order to suit local needs. In addition to cities operating utilities under their municipal authority and the California Constitution, state law also provides for municipal utility districts, public utility districts, and irrigation districts. The Commission has limited authority over these entities because these entities are managed by and for their local communities.

Public ownership of utilities meets the evaluation criteria detailed in the Scoping Memo better than service from PG&E.<sup>62</sup> For example, in terms of the safety and reliability of service, POU have strong incentives to provide safe and reliable service since they are answerable only to their local communities, not to corporate boards, holding companies, or shareholders. For this and other reasons, POU have better reliability rates than investor owned utilities.<sup>63</sup>

Regarding the operational integrity and technical unity of components within PG&E’s gas and electric transmission and distribution systems, local POU operate within PG&E’s service territory, providing transmission and distribution service subject to engineering and technical standards that are broadly used. These POU operate cooperatively with PG&E, subject to agreements that specify the obligations of neighboring systems. Although important, these grid issues are manageable. The California Independent System Operator and investor owned utilities already have in place tariffs and

---

<sup>60</sup> Scoping Memo, p. 1.

<sup>61</sup> See *CPUC v. Fresno* (1967) 254 Cal.App.2nd 76 (city can acquire public utility’s assets by eminent domain); see also Public Utilities Code § 851 (if PG&E agrees to sell its assets, CPUC will review and approve the sale to ensure that it is in the public interest).

<sup>62</sup> See Scoping Memo, p. 2.

<sup>63</sup> See Ito, Joseph, “Reliability Metrics and Reliability Value-Based Planning” Presentation for Distribution Systems and Planning Training for Conference New England Public Utility Commissioners, Sept. 27-29, 2017 (Oct. 2 2017) Slide 4 (reliability rates based on 2015 data), available at [https://emp.lbl.gov/sites/default/files/6\\_170928\\_necpuc\\_training\\_reliability\\_metrics\\_and\\_rvpb.pdf](https://emp.lbl.gov/sites/default/files/6_170928_necpuc_training_reliability_metrics_and_rvpb.pdf) (last visited Feb. 12, 2019) see also Benefits of Public Power, pp. 16-17, available at [https://www.publicpower.org/system/files/documents/municipalization-benefits\\_of\\_public\\_power.pdf](https://www.publicpower.org/system/files/documents/municipalization-benefits_of_public_power.pdf) (last visited Feb. 12, 2019) (discussing POU’s reliability).

processes to provide for operational integrity of inter-connected systems owned or managed by diverse entities.

POUs, such as San Francisco's, rely on highly skilled union workforces with stable career opportunities. POUs are part of the communities they serve. They operate subject to public records and public meeting laws that require transparency about all aspects of their business. The communities they serve are their main shareholder, not just another competing interest.

POUs support and enhance the state's ability to implement its energy policies. These entities are often created and operated to achieve high levels of environmental sustainability. The commitment of the locality and its official ensures compliance. These entities meet and frequently exceed state renewable goals. This is particularly true for CCAs, many of which were created specifically to provide cleaner energy. For this reason, a transition to local government ownership may improve California's progress on climate goals. For example, San Francisco has set a goal that by 2030 all electricity in San Francisco will use renewables.<sup>64</sup>

Regarding the ability to meet financial challenges and address catastrophic events, local governments and the utilities they operate prepare for emergencies of all kinds as part of their normal operations. While no POU has filed for bankruptcy protection, it is possible that such an outcome could occur. Catastrophic events can present financial challenges to any entity. POUs have reserves, access to capital, and insurance products to help them through such situations. And because they have greater knowledge of their local needs and risks, they are better prepared than a large multi-focused corporation to prevent and respond to emergencies.

POUs also have access to capital, and the ability to purchase supplies and services needed for their business. San Francisco has operated water, sewer, and power utilities for over 100 years, in addition to operating a port, airport, transportation system, hospitals, and multiple other complex operations providing service to the public. Other cities too are already skilled at complex financial and

---

<sup>64</sup> SF Dept. of Environment Press Release, "Mayor London Breed Announces Significant Efforts to Reduce Greenhouse Gas Emissions in San Francisco" (Sept. 5, 2018), available at <https://sfenvironment.org/press-release/mayor-london-breed-announces-significant-efforts-to-reduce-greenhouse-gas-emissions-in-san-francisco> (last visited Feb. 12, 2019).

operational challenges. One of the key benefits of POU is providing utility service at less cost. POU operate with a low cost structure, have no shareholders to pay, and often access capital at lower rates for POU customers.<sup>65</sup> This all adds up to lower rates. For example, SMUD's rates are about 30% less than PG&E's.<sup>66</sup> On a national average, public power rates are lower than those of private utility companies.<sup>67</sup>

**D. Return on Equity**

**1. Should the Commission condition PG&E's return on equity on safety performance?**

PG&E should not continue to enjoy high returns when it fails to deliver on safe, reliable service at reasonable rates. The problem with conditioning Return on Equity ("ROE") on safety performance, however, is that shareholders are punished while history has shown that Senior Management will continue to receive generous compensation regardless of ROE. Shareholders already have lost dividends and share value is dismal, but PG&E executives continue to get large salaries, bonuses, and corporate perks. This further highlights the benefits of POU which keep rates affordable for residents and businesses by removing the cost of private debt, shareholder returns, and corporate overheads from rates.

**2. What are the safety considerations for the utility if its financial status is downgraded by the investment community?**

PG&E must meet its safety obligations,<sup>68</sup> but doing so is more difficult when the utility lacks an investment-grade credit rating. PG&E's second bankruptcy in eighteen years should be a significant factor in determining that PG&E is unfit to serve its customers under its current structure.

---

<sup>65</sup> Benefits of Public Power, pp. 21-22, available at [https://www.publicpower.org/system/files/documents/municipalization-benefits\\_of\\_public\\_power.pdf](https://www.publicpower.org/system/files/documents/municipalization-benefits_of_public_power.pdf) (last visited Feb. 6, 2019).

<sup>66</sup> See SMUD, "How Our Rates Compare," available at <https://www.smud.org/en/Rate-Information/Compare-rates> (last visited Feb. 6, 2019).

<sup>67</sup> Benefits of Public Power, pp. 20, available at [https://www.publicpower.org/system/files/documents/municipalization-benefits\\_of\\_public\\_power.pdf](https://www.publicpower.org/system/files/documents/municipalization-benefits_of_public_power.pdf) (last visited Feb. 12, 2019).

<sup>68</sup> OII, p. 14 (citing D.15-04-023 [I.12-01-007], Modified Presiding Officer's Decision Regarding Alleged Violations by Pacific Gas and Electric Company in Connection with the San Bruno

**E. Other Proposals**

**What other measures should be taken to ensure PG&E satisfies its obligation to provide safe service?**

The Commission has taken an important step by setting a broad scope for this phase of the proceeding. It should send a strong signal that business as usual can no longer be the norm at PG&E nor at the Commission. PG&E has not reformed despite multiple incidents, reports, investigations and penalties. The Commission needs to fundamentally change PG&E. Incremental changes, a \$1.6 billion fine, and even criminal convictions have proven ineffective. The evidence is clear that PG&E's ratepayers cannot rely on PG&E to safely provide gas and electric service.

Dated: February 13, 2019

Respectfully submitted,

DENNIS J. HERRERA  
City Attorney  
THERESA L. MUELLER  
Chief Energy and Telecommunications Deputy  
WILLIAM ROSTOV  
Deputy City Attorney

By: \_\_\_\_\_ /s/  
WILLIAM ROSTOV

Attorneys for  
CITY AND COUNTY OF SAN FRANCISCO  
City Hall Room 234  
1 Dr. Carlton B. Goodlett Place  
San Francisco, California 94102-4682  
Telephone: (415) 554-4700  
E-mail: [william.rostov@sfcityatty.org](mailto:william.rostov@sfcityatty.org)

---

Explosion and Fire, pp. 26-27, emphasis added) (Public Utilities Code § 451 prevents public utilities from adopting "*anything other than safe operations and practices.*")