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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

JOINT ASSIGNED COMMISSIONER'S AND ADMINISTRATIVE LAW JUDGE'S RULING ON PROPOSALS TO IMPROVE THE SAFETY CULTURE OF PACIFIC GAS AND ELECTRIC COMPANY AND PG&E CORPORATION

1. Introduction

This ruling establishes a process for parties to comment on proposals that may improve the safety culture of Pacific Gas and Electric Company (PG&E) and PG&E Corporation (PG&E Corp). The proposals are:

1) Separating PG&E into separate gas and electric utilities or selling the gas assets;
2) Establishing periodic review of PG&E's Certificate of Convenience and Necessity (CPCN);
3) Modification or elimination of PG&E Corp.'s holding company structure; and
4) Linking PG&E's rate of return or return on equity to safety performance metrics.

2. The Specific Proposals

The proposals are set forth below. For each proposal there is a brief description of why the proposal could improve the safety culture of PG&E, and some of the issues presented by the proposal.

2.1. Separating PG&E into Separate Gas and Electric Utilities

The idea behind separating PG&E into separate gas and electric utilities (or selling the gas assets) is to address PG&E's large size, and to provide a narrower safety focus. A gas-only company would focus on providing safe, reliable and affordable gas service, while an electric-only company would focus on providing safe, reliable and affordable electric service. With a narrower focus, the hope would be that the company, and management in particular, would be able to concentrate on ensuring an improved safety culture and superior safety performance throughout the organization.

Issues:

A. What research or examples are there that show that separation of the utilities would lead to enhanced safety? Are there safety benefits that result from the operation of a combined gas and electric system under single management that would be lost with separation?

B. Can greater focus on safety be accomplished by restructuring the electric and gas business units in other ways? How much of a split is needed (*i.e*. could they be part of one holding company or otherwise affiliated, or should there be a sale of gas assets to a third party)?

C. How would separate electric and gas utility service in Northern California impact customer bills and service? Would two separate utilities result in overall higher costs and burdens to customers (such as two bills instead of one)?

2.2. Establishing Periodic Review of PG&E's CPCN

The idea behind having a periodic review of a utility's CPCN is to provide a strong additional incentive for the utility to continue to do a good job, and to reduce the utility's sense of entitlement to its monopoly position, which tends to build complacency. In order to continue in business, a utility would have to perform well, or risk losing its CPCN.

Issues:

A. Are there studies, research or examples that support the thesis that establishing a CPCN review process will change utility leadership behavior towards improved safety performance, or other public benefits?

B. What period of time provides the right balance of business and regulatory certainty, along with effective oversight? How long would a CPCN run in between reviews or renewal?

C. How would establishing CPCN review process affect the utility's ability to raise capital or willingness to invest in infrastructure?

D. What would happen if a CPCN was not renewed? Who would take over, and how can we be assured that they would be any better?

E. What cost considerations are there associated with a CPCN review or renewal process? Do the potential benefits outweigh the likely significant transaction costs of a review or renewal process?

2.3. Modification or Elimination of PG&E Corp.'s Holding Company Structure

Another way to provide a narrower focus for PG&E management would be to eliminate its holding company structure and any unregulated subsidiaries and affiliates. PG&E would be just a utility, and could concentrate on being a safe utility, without the added financial and managerial complexities (and costs) of a holding company structure.

Issues:

A. How would this be implemented? What would happen to the unregulated affiliates and subsidiaries and their assets?

B. Should this proposal also be applied to a potential gas/electric split as proposed above?

C. Is there a way to keep a holding company structure but simplify and streamline it to provide an adequate focus on the utility business?

2.4. Linking PG&E's Returns to Safety Performance Metrics

This would be a form of performance-based ratemaking, with PG&E's authorized rate of return or return on equity subject to adjustment based on safety performance metrics. The idea is that this financial incentive would result in improved safety.

Issues:

A. If you support this approach, please include any available specific examples where similar performance-based incentives have resulted in improved safety performance or other public benefits.

B. What metrics should be used to measure performance? Please be specific in your response, including the extent to which the proposed metric is adequately developed and measurable for this purpose.

C. What is the range of incentives/disincentives that would be both effective and workable (*i.e.* how much should the return on equity vary up or down based on achievement of metrics)?

D. Should this be applied to an overall rate of return or to a return on equity or to some other measure?

E. Please identify any potential unintended consequences or perverse incentives, such as underreporting of safety problems, or focus on safety to the detriment of other objectives, such as costs and reliability? Please include specific examples where similar performance-based incentives have resulted in adverse outcomes.

3. Process

Parties are to file and serve concurrent opening and reply comments on the above proposals. Opening comments are due on July 19, 2019, and reply comments are due on August 2, 2019. Comments should have sections numbered 1 through 5, corresponding to each of the proposals listed above.[1] Parties may make additional proposals in opening comments in a separate Section 6.

While the goal of these proposals is to improve safety, the proposals may raise other policy, financial and legal issues. Accordingly, for each proposal, parties should address: 1) whether and how the proposal could improve PG&E's safety culture; 2) the issues listed above for each proposal; and 3) any other issues the parties believe are relevant and significant. Parties should address how each proposal may be affected by PG&E's current bankruptcy, and should identify any issues that might impede implementation of a particular proposal.

IT IS RULED that:

1. Comments on the proposals in this ruling are to be filed and served by July 19, 2019.

[1] If a party does not have comments on one or more of the proposals, in order to maintain consistent numbering the comments should still include a section for that proposal, with a notation that the section is intentionally left blank.

2. Reply comments on the proposals in this ruling are to be filed and served by August 2, 2019.

Dated June 18, 2019, at San Francisco, California.

/s/ MICHAEL PICKER	/s/ PETER V. ALLEN
Michael Picker	Peter V. Allen
Assigned Commissioner	Administrative Law Judge