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Attachment 1

San Bruno Explosion Meeting
April 9, 2015

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1 33a]

2 PRESIDENT PICKER: Thank you. Can we bring
3 up Item 33a and call the roll?

4 FEMALE VOICE: Commissioner Peterman?

5 COMMISSIONER PETERMAN: Aye.

6 FEMALE VOICE: Commissioner Sandoval?

7 COMMISSIONER SANDOVAL: Aye.

8 FEMALE VOICE: Commissioner Randolph?

9 COMMISSIONER RANDOLPH: Aye.

10 FEMALE VOICE: President Bicker?

11 PRESIDENT PICKER: Aye. So our vote on
12 Item 33A renders Item 33 moot.

13 [END President Picker calls for vote on
14 33a]

15 [START President Picker statement on going
16 forward issues]

17 PRESIDENT PICKER: I just want to say a few
18 words and talk a little bit about some of the
19 things that I have observed in my time here
20 particularly around safety, the things that don't
21 change the decision we make, but the things that
22 I think we need to think about as we go forward,
23 and so I ask myself two questions. One is has
24 PG&E developed a safety culture that is effective
25 throughout the organization, that touches on not

1 just gas transmission but gas distribution and
2 their electric system and on their operation at
3 many of their powerplants. And then very
4 specifically to the theories we put forward to
5 deter behavior that we think is not conducive to
6 safety, our system of penalties and remedies, is
7 that really enough to ensure effective safety
8 culture at PG&E and in the other utilities that
9 we have regulatory authority over safety.

10 The independent review panel on the San
11 Bruno Explosion reported back on June 24th, 2011,
12 that, "In the gas transmission business, PG&E
13 company management made a faulty assumption. It
14 did not make the connection among its high level
15 goals, its enterprise risk management process and
16 the work that was actually going on in the
17 company. We think that this failing is a product
18 of the culture of the company, a culture whose
19 rhetoric does not match its practices."

20 The panel listed a number of issues that
21 they thought contributed to this dysfunctional
22 culture, including excessive levels of
23 management, nine different layers between the CEO
24 and people in the field who were actually dealing
25 with issues. They felt in addition to excessive

1 levels of management, there was an appearance-led
2 strategy setting. They were insular, and they
3 had an over emphasis on financial performance,
4 and this is important for us to consider. The
5 report found as well that CPUC failed to maintain
6 a strong safety-oriented culture and emphasized
7 that this erosion took place over "a decade or
8 more," and that "actions to rebuild these
9 organizations will take time as well."

10 So assessing these questions are important
11 not only to the issues we have been dealing with
12 at PG&E but also to measure our own progress in
13 terms of re-strengthening and revitalizing our
14 safety efforts, so the assessment I am trying to
15 make that I will call for is certainly applies to
16 PG&E but also could be used in many respects for
17 the other utilities that we have authority over.

18 So just to return to that, has PG&E been
19 able to build a thorough and organization-wide
20 safety culture? They certainly made some very
21 large expenditures on improvements and
22 replacement of aging pipelines, and those efforts
23 have added safety to PG&E's gas transmission
24 system. That is separate from the smaller
25 pipelines, they go to neighborhoods, people's

1 homes and they are operated as two different
2 systems, they are almost two different lines of
3 business within the company. PG&E's total
4 spending in relation to pipeline safety
5 enhancement decision was \$870 million through
6 December 31st of 2014, and covered a variety of
7 actions including pipeline modernization (which
8 includes pressure testing, inspection and
9 replacement of defective) also pipeline records
10 integration. Commissioner Sandoval talked very
11 eloquently to the purpose and importance of
12 maintaining effective records. Valve automation
13 and a bunch of other improvements, and I've gone
14 out to see some of these safety investments and
15 visited the new gas control centers for both the
16 low pressure local distribution and high volume
17 gas transmission systems that they are now
18 operating in San Ramon, made a field visit to a
19 gas distribution upgrade going from the street
20 pipes to the homes in Sacramento and saw PG&E's
21 crews respond to a serious rupture in a six-inch
22 local pipeline during a dig-in. This is not
23 their action. It was an action by somebody else
24 who was digging into the ground - - . And during
25 a meeting with PG&E managers and executives, they

1 described an effort to break through these layers
2 in their organizations by having weekly phone
3 calls between the gas system managers and the
4 field crews so that the field crews describe what
5 they were seeing, and these are good efforts,
6 they are necessary steps and I've been very
7 impressed by the hard work and attention to
8 detail that I have seen, but at the same time, as
9 I describe this - - I see a lot of unevenness and
10 that is troubling to me and continues to concern
11 me, so I spend a lot of time thinking about these
12 things. PG&E has added three new board members
13 over time that have more gas operations
14 experience and gas safety experience that is very
15 high level within organization, but I don't yet
16 see that that is--that their presence there is
17 driving effective safety culture and operations
18 out into the field where the gas pipelines lie.
19 So that continues to concern me. It is just not
20 clear that these additions have penetrated the
21 many layers of the organization, or forced
22 changes across the state. It's also not clear to
23 me that a focus on gas safety alone is enough to
24 create a culture in an organization that is as
25 big as PG&E that has oversight of a gas business,

1 an electric business and operates a nuclear power
2 plant and whether they have that same
3 accountability across all lines of business.

4 So despite this major public attention,
5 ongoing CPUC investigations - - into their
6 actions and behaviors including the vote we voted
7 on today, a federal grand jury, and California
8 Department of Justice's investigation, we
9 continue to see safety lapses. I'll just mention
10 a few.

11 The Kern Gas Plant Demolition includes two
12 separate accidents involving the same contractors
13 occurring roughly a year apart. The first
14 incident took place June 19th, 2012 involving a
15 death of a construction worker. There was no
16 PG&E safety supervisor on site. The second took
17 place on April [sic] 13th, 2013, same
18 subcontractor, no PG&E on-site supervisor. Both
19 of these incidents took place subsequent to the
20 San Bruno explosion.

21 Recently the Commission opened up an
22 investigation into PG&E's gas distribution record
23 keeping practices and the commission may yet
24 impose penalties for record-keeping violations
25 related to the same events. Again, just because

1 it is a lower volume gas pipeline and operating
2 at a lower pressure, those failures to keep
3 records are important. I'll go through a couple
4 of the - - to illustrate the importance. There
5 was most recently a Carmel residential gas
6 explosion March 3, 2014. We issued a citation on
7 that, which is much faster than our investigative
8 process. It's a way we can speed the process
9 along and send a faster message. We issued a
10 citation for \$10.8 million, as a fine for those
11 safety violations and what we noted in there is
12 that the PG&E records did not include the
13 presence of Aldyl-A plastic liner in the pipeline
14 that went to the house. When work was being
15 done, people weren't properly informed of the
16 presence of that gas liner, therefore when they
17 were handling the pipe, they caused a leak that
18 you couldn't see from looking at the pipe from
19 outside. The gas accumulated, the pipe went in
20 the house and there was an explosion.
21 Fortunately there was nobody home at the time.

22 Castro Valley dig-in September 17, 2010,
23 somebody was preparing a storm drain, they got a
24 valid ticket from the company but because there
25 was a mapping error in the records, they breached

1 the pipeline and released gas.

2 The Morgan Hill dig-in June 21st, 2012,
3 this was a water line replacement with another
4 valid ticket PG&E failed to mark the gas
5 pipeline - - so that people could avoid breaching
6 it.

7 The Milpitas failure regarding gas pipe
8 replacement on October 10, 2012. Bad engineering
9 on pipeline pressure, and the work group failed
10 to monitor the pressure valves. Milpitas dig-in
11 on March 4, 2013, another third-party dig-in to
12 replace the storm drain, a mapping error. Failed
13 to - final location of the gas pipeline.
14 Mountain View pipeline tap on June 30th, 2013,
15 and the ticket failed to note that there was
16 another Aldyl-A plastic insert.

17 If all of these bear similarities to the
18 Rancho Cordova incident in 2008, which is a
19 sentinel event which at the time attracted
20 greater than statewide - - call their attention -
21 - problems. In that case there was another death
22 and a great tragedy, it was closer to my home.
23 I'm just going to stop and remind everybody that
24 April is dig-in month and we should all remember
25 whenever you are digging or trenching to call 811

1 to be aware of potential gas pipeline presence
2 and to avoid creating these kinds of incidents.
3 If the record-keeping is good, it should tell you
4 where to dig and where not to dig. So the
5 Metcalf Substation near - - . This incident - -
6 , the substation was attacked from a distance
7 with a high-powered rifle on April 16th, 2013.
8 August 26th and 27th, 2014, the perimeter was
9 breached at two different locations, the site was
10 burglarized even with onsite security team, the
11 monitors and the staff monitoring at the off-site
12 security center ignored the alarms. November
13 25th, 2014, about three months later, PG&E fired
14 that security firm. So then more recently about
15 a week and a half ago PG&E suffered an attack on
16 the West Park Substation in Bakersfield with two
17 separate attacks in one night.

18 So I am left at this point not being clear
19 whether or not PG&E actually has the kind of
20 safety culture that we're calling for. This is
21 really very concerning to me. It may be that in
22 some cases they are just working through kinks in
23 the system, but I still am troubled that I can't
24 say whether we really see that culture of safety
25 and attention to detail that we need from a large

1 utility that maintains such a large
2 infrastructure and potentially dangerous, at the
3 same time essential.

4 In San Bruno, PG&E violated the public's
5 trust, we were not vigilant at CPUC. People
6 died, homes were destroyed, the community is
7 insecure, and we just can't let that happen
8 again.

9 So to the underlying theories that we use
10 to shape the behavior of these utilities are they
11 really adequate to produce that kind of safety
12 when you have a - - to create. So we have three
13 tools for safety assurance at CPUC. We have
14 enforcement and penalties, we can order remedies
15 and corrective actions, and they don't have - -
16 we can go back to enforcement and penalties, and
17 we do have a new tool, which is risk assessment
18 and rate - - which is a way to use rates as an
19 incentive to actually go beyond our standards and
20 to actually move closer, and closer, and closer
21 to zero accidents, but let me just kind of
22 outline what the theory is in our San Bruno
23 proceedings and the penalty because I think that
24 is something that we are going to have to wrestle
25 with. The theory here in all three of the

1 investigations and the penalty is that we levy
2 these fines and monitor penalties against
3 utilities to deter non-compliance and to serve as
4 an example to others. Here are a few very
5 explicit quotes from all of our records that we
6 used to base the decisions: "Our decision to use
7 a mix of penalties and remedies is based on our
8 intention to penalize PG&E for its violations and
9 to deter similar behavior and violations in the
10 future." Also, "In setting the penalty we have
11 considered a variety of factors including the
12 need to deter PG&E from committing future
13 violations." Another example, "The purpose of
14 fines is to deter future violations by the
15 perpetrator and others," and then the last is,
16 "The purpose of a penalty is to deter future
17 violations by the company and others."

18 Here is our bind: We are now reaching the
19 range of fines and cash penalties that the CPUC -
20 - cited in these just-adopted decisions, argue
21 that we can make the utility pay without raising
22 the cost to borrow capital, thus raising the cost
23 to ratepayers. That is a bind that we have to
24 face. If PG&E is failing to establish a safety
25 culture, and we continue to see more accidents

1 and violations of safety rules, I'll point to
2 this chart where we are continuing to see more
3 violations. This is a chart that showed our gas
4 utility violations across--from 2006 to 2013, the
5 far right-hand chart actually identifies the most
6 recent year, 2013, - - PG&E made, there's a big
7 dip in 2011, that started to actually frame our
8 investigations, and we had converted staff from
9 their normal auditing process. These are not - -
10 violations. These are the results of our audits.
11 So, now procedurally our model of instituting
12 investigations or issuing new citations for
13 violations compels us to serially examine
14 individual incidents and violations. On the
15 other hand, assessment of a safety culture,
16 requires a systematic evaluation and
17 identification of patterns and behavior, whether
18 it is good or bad. Those are things that really
19 are best done most quickly and with the closest
20 attention to detail by the Board of Directors of
21 the corporation. We find them after the
22 violations - - there is an unsafe practice,
23 something that we can detect.

24 So while corporate leadership at least at
25 the highest levels in the company has stated

1 publicly that safety as accepted as an urgent
2 matter at PG&E, it is just not clear in this
3 chart that the organization and the examples I
4 gave, that the organization is really responding.
5 That brings up the question: If we don't have
6 the ability to continue to levy fines, what
7 should we be thinking about.

8 So here are some additional questions that
9 I ask of you guys: How is the utility being held
10 accountable by our penalties, cash penalties,
11 what is the mechanism, who specifically within
12 the company will be deterred by our fines and
13 penalties? The shareholders, the board of
14 directors, the executive officers, senior
15 managers, line staff respond to fines and
16 penalties, and if so how is that happening?

17 So a couple of additional questions along
18 this line are things that I observed, after the
19 announcement of the decision different a month
20 ago PG&E share value went up 3%. That's the
21 biggest fine that we have ever levied against a
22 utility in California. It is probably one of the
23 largest in the country, so are shareholders
24 really uncomfortable or uneasy about the PG&E
25 violations? We signaled in this proceeding our

1 intent to limit the penalties to no more than the
2 \$2.45 billion for economic studies, and
3 otherwise, we end up raising the cost to rate
4 payers. Clearly Wall Street took all of this
5 into account and really does not show a lot of
6 incentive to get engaged on behalf of
7 shareholders or rate payers on this matter. They
8 are just advocating a responsibility to hold
9 their Board of directors, the shareholders are
10 the owner of the company, they delegated the
11 authority to run the company to the board of
12 directors, they delegated that authority to hold
13 their Board of Directors and staff accountable to
14 state laws, to us, and so they know that we have
15 an interest in not pushing our sanctions above
16 that level that is going to start costing rate
17 payers. so they can live with it. The capital
18 markets then are just saying these fines and
19 penalties are a cost of doing business and can
20 accept it, they can live with it.

21 So again how does the PG&E Board of
22 directors and executives to the people who really
23 have some authority to make decisions about
24 safety on a daily basis, how do they feel about
25 these sanctions? Is there anybody in the company

1 who is accountable within the company for the
2 impact of our fines and penalties and what
3 mechanism holds them accountable. The CEO who
4 held the position during the San Bruno incident
5 and during cuts in funding before the pipeline
6 replacement and inspection program retired with a
7 reported \$38 million dollar bonus. The President
8 of PG&E at the time of the San Bruno incident is
9 still the president. Whose accountable?

10 So Utility buys and manages this very long-
11 lasting infrastructure on our behalf, that's the
12 deal that we have to give them the right to
13 operate and cover the costs of that
14 infrastructure. Are their executive compensation
15 programs aligned with the public's interest in
16 PG&E acting as a - - capital management? Have
17 they protected our investment? Or are executives
18 being awarded based on quarterly stock returns?
19 That's an easy thing for us to begin to
20 understand and to begin to actually figure into
21 our rate - - . - - there is a problem still and
22 the facts are not yet before us, and we decide
23 that we need to begin to look for additional
24 tools these are things that we can do.

25 So we represent ratepayers, not

1 shareholders, but there may be things that we can
2 learn from this body of practice that's called
3 corporate governance, those are the tools that
4 shareholders use to hold their boards accountable
5 and to make sure that they meet the needs of the
6 shareholders, can we adapt those to meet the
7 needs of ratepayers, so I'll just ask a couple
8 more questions. Again, would an effective theory
9 of enforcement and deterrence include proceedings
10 against individual corporate officers and
11 decisions makers who contribute to safety hazards
12 and incidents? So in our rules we seem to
13 anticipate this. I'll pull from some analysis of
14 our General Order 111, where it says, "It is
15 recognized that no code of safety rules, no
16 matter how carefully or well prepared can be
17 relied on to guarantee complete freedom from
18 accidents. Moreover the promulgation of
19 precautionary safety rules does not remove or
20 minimize the primary obligation and
21 responsibility of gas utilities to provide safe
22 service and facilities in their gas operations.
23 Now, the specific point given that I took from
24 this is that it continues, officers and employees
25 of gas utilities must continue to be ever

1 conscious of the importance of safe operating
2 practices and for their facilities and their
3 obligation to the public in that respect."

4 Can we borrow from the Sarbanes-Oxley
5 federal model for securities and exchange
6 commission by requiring similar executives and
7 senior management to attest to the veracity and
8 completeness of reports and holding them
9 accountable for untrue or misleading or
10 incomplete statements? Should we require them to
11 attest to their safety programs and that they're
12 effective? How should we respond if they fail to
13 build and manage a safe utility? Should we add
14 "claw backs" in our rate cases to executive
15 compensation or to their stock options, can we?
16 That's been suggested in the corporate governance
17 literature in a different setting, so it is
18 completely something we can think about and
19 evaluate.

20 Is the company just too large, spread
21 across such a sizeable portion of a large state.
22 They cover almost 700,000 square miles, serving
23 15 million customers, and really encompassing
24 such diverse functions as gas transmission and
25 distribution operations, as well as electric

1 service including the operation of a nuclear
2 power plant, is that too much for one board to
3 track? So the independent review commission
4 noted the many layers between the senior
5 executive and staff and add to that the separate
6 gas and electric businesses under the oversight
7 of the PG&E Board of Directors and then the same
8 CEO and senior executive team over both. The
9 question that occurs to me is not whether PG&E is
10 too big fail but really is it too big to succeed
11 in safety terms, and I think we need to think
12 about those and evaluate those things.

13 I have a couple of quick proposals, and I'm
14 just going to remind myself and remind the rest
15 of us that while I have these concerns and I've
16 made observations, I - - case that concerns me we
17 really don't have the facts before us, - - my
18 concern. We need to really build our factual
19 basis as to whether there is a comprehensive and
20 effective safety culture at PG&E that really
21 encompasses all of their functions and all of
22 their locations and we also separately may need
23 to update our policies to really evaluate whether
24 we have the right and the most effective tools
25 for actually gaining the kind of safety,

1 compliance and excellence that we expect and that
2 we grant the franchise to operate in the United
3 States in California.

4 So first I'd like to say to my fellow
5 commissioners, and I intend to open an OII into
6 the safety culture and practice of PG&E. I think
7 we can learn a lot more if we conduct an
8 investment. Is this really a thorough and
9 comprehensive safety culture across the
10 organization? Is it effective, and is there real
11 accountability within the organization that we
12 can measure and be able to assure ourselves that
13 they are doing the best job possible? That is
14 the first.

15 Separately, I will ask the legal division
16 to analyze and evaluate our policies in regard to
17 penalties and remedies and make recommendations
18 for adoption as part of our Safety Plan to really
19 examine what is our theory of deterrence? Let's
20 be very explicit about this. We only have talked
21 in detail about this - - over and over and over
22 again. If it's not working, what can we and
23 should we do? What can we learn from these
24 theories of corporate governance? How do we
25 evaluate the effectiveness of boards and senior

1 execs for accountability and safety
2 effectiveness, what are our remedies beyond that
3 and how would these different operations affect
4 the fiscal structure of the company and the cost
5 of borrowing, will our efforts actually improve
6 operational function and administrative
7 efficiency or would we end up interfering? These
8 are all things that we don't know and I'm asking
9 them because we need to know, so thank you for
10 your patience.

11 [END President Picker statement on going
12 forward issues]

13 [START Commissioner Peterman comments on
14 going forward issues]

15 COMMISSIONER PETERMAN: President Picker,
16 thank you for all of those additional comments
17 and also for identifying all of the work there
18 still is to do. I'll just make two comments.
19 First of all I support the measures you
20 suggested, but - - legislature is going to be a
21 critical program for us in all of this, not only
22 what we have available, but the tools are
23 determined by the legislature and so it is an
24 active conversation and so let's make sure we
25 start engaging with them as well as looking at