Executive Committee Meeting
Friday, February 1, 2019
12:00 P.M.

Charles F. McGlashan Board Room, 1125 Tamalpais Avenue, San Rafael, CA 94901
Mt. Diablo Room, 2300 Clayton Road, Suite 1150, Concord, CA 94920

1. Roll Call/Quorum

2. Board Announcements (Discussion)

3. Public Open Time (Discussion)

4. Report from Chief Executive Officer (Discussion)

5. Consent Calendar (Discussion/Action)
  C.1 Approval of 12.7.18 Meeting Minutes
  C.2 Budget Update FY 2018/19

6. MCE Planning for the Coming Year (Discussion)

7. CPUC PG&E Safety and Restructuring Proceeding (Discussion)

8. Committee Matters & Staff Matters (Discussion)

9. Adjourn

Agenda material can be inspected at 1125 Tamalpais Avenue, San Rafael, CA 94901 on the Mission Avenue side of the building and at One Concord Center, 2300 Clayton Road, Concord, CA 94520 at the Clayton Road entrance. The meeting facilities are in accessible locations. If you are a person with a disability and require this document in an alternate format (example: Braille, Large Print, Audiotape, CD-ROM), you may request it by using the contact information below. If you require accommodation (example: ASL Interpreter, reader, note taker) to participate in any MCE program, service or activity, you may request an accommodation by calling (415) 464-6032 (voice) or 711 for the California Relay Service or by e-mail at djackson@mceCleanEnergy.org not less than **four work days** in advance of the event.

DRAFT

MCE
EXECUTIVE COMMITTEE MEETING
Friday, December 7, 2018
12:00 P.M.

Charles F. McGlashan Room, 1125 Tamalpais Avenue, San Rafael, CA 94901
Mt. Diablo Room, 2300 Clayton Road, Suite 1150, Concord, CA 94520

Roll Call

Present:
Sloan Bailey, Town of Corte Madera ***(San Rafael)***
Lisa Blackwell, Town of Danville ***(Concord)***
Tom Butt, City of Richmond ***(San Rafael)***
Barbara Coler, Town of Fairfax ***(San Rafael)***
Ford Greene, Town of San Anselmo ***(San Rafael)***
Kevin Haroff, City of Larkspur ***(San Rafael)***
Bob McCaskill, City of Belvedere ***(San Rafael)***
Tim McGallian, City of Concord ***(Concord)***
Kate Sears, County of Marin ***(San Rafael)***
Dave Trotter, Town of Moraga ***(Concord)***

Absent:
Denise Athas, City of Novato
Federal Glover, Contra Costa County

Staff & Others:
Jesica Brooks, Board Assistant ***(San Rafael)***
Darlene Jackson, Clerk of the Board ***(Concord)***
Vicken Kasarjian, COO ***(San Rafael)***
Judith Droz Keyes, Outside Counsel, Davis Wright Tremaine ***(Call-in)***
Alexandra McGee, Community Power Organizer ***(Concord)***
Catalina Murphy, Legal Counsel ***(San Rafael)***
Enyo Senyo-Mensah, Internal Operations Assistant ***(Concord)***
Maira Strauss, Finance Analyst ***(San Rafael)***
James Tracy, Finance Consultant ***(San Rafael)***
Dawn Weisz, CEO ***(San Rafael)***

The regular Executive Committee meeting was called to order by Chair Tom Butt at 12:02 P.M. with quorum established by roll call.

Agenda Item #04 – Report from Chief Executive Officer (Discussion)

CEO Dawn Weisz shared with the Committee information regarding the following:

- MCE was the recipient of the state's highest environmental honor, the 2018 Governor's Environmental and Economic Leadership Award (GEELA). Committee Chair Tom Butt was asked to provide additional remarks.
- Two Regulatory items were mentioned: 1) PG&E rates were scheduled to take effect in January but due to a delay PG&E rates are likely to remain flat until March 1 or later. 2) There is a proposed Resource Adequacy decision that MCE is tracking.
- An announcement was made that Shalini Swaroop has been appointed MCE's new General Counsel.
- Everyone was reminded of the Annual Holiday Party that begins at 6:00PM tonight in Napa.
- The Committee was informed it is likely that a January meeting will not be needed, but there may be a need for a short Board meeting in December.

Agenda Item #05 – Consent Calendar (Discussion/Action)

C.1 Approval of 10.5.18 Meeting Minutes
C.2 Third Agreement with The Energy Alliance Association (TEAA)
C.3 Second Amendment to Ninth Agreement with Richards, Watson & Gershon
C.4 First Amended and Restated Agreement with ZGlobal, Inc.

Chair Butt asked for public comment and there was none.

Action: It was M/S/C (Bailey/Sears) to **approve Consent Calendar Items C.1, C.3 and C.4. Item C.2 was pulled for further discussion.** Motion passed by unanimous vote.
Action: It was M/S/C (Sears/Bailey to **approve Consent Calendar Item C.2**. Motion passed by unanimous vote. (Absent: Directors Athas and Glover)

Agenda Item #06 – Establishing 2019 Ad Hoc Ratesetting Committee (Discussion/Action)

Dawn Weisz, Chief Executive Officer, presented this item and addressed questions from the Committee.

Chair Butt asked for public comment and there was none.

Action: It was M/S/C (Coler/Bailey) to **approve the 2019 Ad Hoc Ratesetting Committee consisting of the following members: Sloan Bailey, Barbara Coler, Kevin Haroff, Greg Lyman, Bob McCaskill, and Scott Perkins.** Motion carried by unanimous vote. (Absent: Directors Athas and Glover)

Agenda Item #07 – Charles F. McGlashan Advocacy Award Nominations (Discussion/Action)

Alexandra McGee, Community Power Organizer, presented this item and addressed questions from the Committee.

Chair Butt asked for public comment and there was none.

Action: It was M/S/C (Trotter/Greene) to **recommend that each of the three nominees receive a plaque for the 2018 Charles F. McGlashan Advocacy Award to be presented at the next meeting of the MCE Board of Directors.** Motion carried by unanimous vote. (Absent: Directors Athas and Glover)

<u>Agenda Item #08 – Proposed Amendment to MCE Policy 014: Investment Policy (Discussion/Action)</u>

Maira Strauss, Finance Analyst, presented this item and addressed questions from the Committee.

Catalina Murphy, Legal Counsel, addressed questions concerning the exact JPA language as it relates to appointment of MCE's Treasurer. Ms. Murphy will research the language and resolve as needed.

Chair Butt asked for public comment and there was none.

Action: It was M/S/C (Haroff/McGallian) to **recommend that the Board of Directors approve the proposed amended MCE Policy 014: Investment Policy with edited language at its next meeting.** Motion carried by unanimous vote. (Absent: Directors Athas and Glover)

The meeting was adjourned at 1:57 P.M. to the next scheduled Executive Committee Meeting on February 1, 2018.

____
Tom Butt, Executive Committee Chair

ATTEST:

____
Dawn Weisz, Chief Executive Officer

February 1, 2019

TO: MCE Executive Committee

FROM: Vicken Kasarjian, Chief Operating Officer

RE: Budget Update FY 2018/19 (Agenda Item #05 - C.2)

ATTACHMENT: A. Accountants' Compilation Report, Budgetary Comparison Schedule through Nov. 30, 2018
B. Projected FY 2018/19 Operating Fund Budget

Dear Executive Committee Members:

SUMMARY:

In February 2018, your Board approved MCE's Fiscal Year (FY) 2018/19 Operating Fund Budget. The Budget authorizes Staff to spend funds within the limits set forth in each budget line item and collect revenue. An Update to the FY 2018/19 Operating Fund Budget is attached for your reference and key highlights are as follows:

1) As discussed in previous meetings of the Executive Committee MCE experienced significantly lower customer electricity usage than projected associated with the inclusion of new communities in Contra Costa County during 2018. Projected customer electricity usage was based on only one year of historical usage information that was provided by PG&E and therefore did not reflect average usage patterns. Load variations caused by weather and other factors, as well as the number and size of net energy metering solar facilities, were key factors in the difference between projected and actual usage.
2) As a consequence of lower actual energy needs MCE- energy costs were lower than projected.
3) One Operating Expense item is projected to be over budget: PG&E Service Fees. All other Operating Expense items are anticipated to be under budget resulting in a net positive position.

Operating Fund Budget Update Detail

The attached Proposed FY 2018/19 Operating Fund Budget Update sets forth changes to a number of budget line items. The more impactful items are summarized below:

Energy Revenue (-$29,856,000, 8% decrease): Projections of Energy Revenue are based on estimates of customer electricity usage and retail electricity rates. The decrease in revenue results from lower than expected customer electricity usage offset in part by $1,868,000 in wholesale energy sales.

Cost of Energy (-$5,419,000, 2% decrease): Cost of Energy includes expenses associated with the purchase of energy products, charges by the California Independent Systems Operator (CAISO) for scheduled load, and services performed by the CAISO. Credits for energy generation scheduled into the CAISO market are netted from the Cost of energy. The decrease in the Cost of energy budget line item reflects lower than projected customer electricity usage.

Service Fees – PG&E (+$760,000, 54% increase): Service fees are charged by PG&E for all services and products provided by PG&E in accordance with terms and conditions set forth in PG&E's Community Choice Aggregation tariff, as stated in PG&E's Electric Rule 23 and PG&E rate schedules. The fee is based on the number of customer meters served by MCE and per-meter rates charges by PG&E. Services fees were undercalculated by $0.14/meter/month due to a data posting fee that was not budgeted.

FISCAL IMPACT: The projected net impact to the Operating Fund Budget is a $21,578,000 decrease in budgeted operating income and expected contribution to the net position of **$32,965,500**. Budgeted expenditures include contingencies. Staff expects that the actual contribution to the net position is likely to exceed the updated projected contribution to the net position.

RECOMMENDATION: No action needed at this time.

MAHER ACCOUNTANCY 1101 FIFTH AVENUE • SUITE 200 • SAN RAFAEL, CA 94901

Financial Plumbline

ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Marin Clean Energy

Management is responsible for the accompanying special purpose statement of Marin Clean Energy (a California Joint Powers Authority) which comprise the budgetary comparison schedule for the period ended November 30, 2018, and for determining that the budgetary basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying statement nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this special purpose budgetary comparison statement.

The special purpose statement is prepared in accordance with the budgetary basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This report is intended for the information of the Board of Directors of Marin Clean Energy.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the special purpose budgetary comparison statement, they might influence the user's conclusions about the Authority's results of operations. Accordingly, this special purpose budgetary comparison statement is not designed for those who are not informed about such matters.

The supplementary information contained on page 4 is presented for purposes of additional analysis. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

We are not independent with respect to the Authority because we performed certain accounting services that impaired our independence.

Maher Accountancy

San Rafael, CA
December 27, 2018

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MARIN CLEAN ENERGY

OPERATING FUND

BUDGETARY COMPARISON SCHEDULE

April 1, 2018 through November 30, 2018

	Actual - from April 1 through November 30		YTD Budget	YTD Budget Variance (Under) Over	YTD Budget Variance (Under)Over %	Annual Budget	Budget Remaining
	2017/18	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19
ENERGY REVENUE							
Retail (net of allowance)	$ 143,307,436	$ 250,492,837	$ 275,577,687	$ (25,084,850)	(9.1%)	$ 384,583,000	$ 134,090,163
Wholesale	-	1,826,762	-	1,826,762		-	(1,826,762)
Other	-	197,253	6,667	190,586		10,000	(187,253)
TOTAL ENERGY REVENUE	143,307,436	252,516,852	275,584,354	(23,067,502)	(8.4%)	384,593,000	132,076,148
ENERGY EXPENSES							
Cost of energy	125,062,495	194,385,175	201,170,798	(6,785,623)	(3.4%)	303,259,000	108,873,825
NET ENERGY REVENUE	18,244,941	58,131,677	74,413,556	(16,281,879)	(21.9%)	81,334,000	
OPERATING EXPENSES							
Personnel	3,598,416	4,678,626	5,229,338	(550,712)	(10.5%)	8,891,000	4,212,374
Data manager	2,403,029	4,160,458	4,666,975	(506,517)	(10.9%)	7,005,000	2,844,542
Technical and scheduling services	437,134	602,178	700,000	(97,822)	(14.0%)	1,346,000	743,822
Service fees- PG&E	911,046	1,290,848	1,299,437	(8,589)	(0.7%)	1,413,000	122,152
Legal and regulatory services	376,316	358,587	323,257	35,330	10.9%	834,000	475,413
Communications and related services	478,356	714,351	1,254,000	(539,649)	(43.0%)	1,881,000	1,166,649
Other services	398,361	616,319	684,313	(67,994)	(9.9%)	1,653,000	1,036,681
General and administration	416,212	627,387	771,552	(144,165)	(18.7%)	1,309,000	681,613
Occupancy	322,254	357,261	582,000	(224,739)	(38.6%)	873,000	515,739
Local pilot programs	25,125	16,500	203,000	(186,500)	(91.9%)	1,500,000	1,483,500
Low income solar programs	36,000	43,200	114,500	(71,300)	(62.3%)	190,000	146,800
TOTAL OPERATING EXPENSES	9,402,249	13,465,715	15,828,371	(2,362,656)	(14.9%)	26,895,000	13,429,285
OPERATING INCOME (LOSS)	8,842,692	44,665,962	58,585,185	(13,919,223)	(23.8%)	54,439,000	
NONOPERATING REVENUES							
Grant and other income	330,249	584,566	1,078,064	(493,498)	(45.8%)	980,000	395,434
Interest income	174,869	562,629	627,075	(64,446)	(10.3%)	743,000	180,371
TOTAL NONOPERATING REVENUES	505,118	1,147,195	1,705,140	(557,945)	(32.7%)	1,723,000	575,805
NONOPERATING EXPENSES							
Banking fees and financing costs	40,000	21,944	49,166	(27,222)	(55.4%)	243,000	221,056
Depreciation (supplemental)	73,439	118,780	120,000	(1,220)	(1.0%)	180,000	61,220
TOTAL NONOPERATING EXPENSES	113,439	140,724	169,166	(28,442)	(16.8%)	423,000	282,276
TOTAL NONOPERATING INCOME (EXPENSES)	391,679	1,006,471	1,535,974	(529,503)	(34.5%)	1,300,000	
CHANGE IN NET POSITION	9,234,371	45,672,433	60,121,159	(14,448,726)	(24.0%)	55,739,000	
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER							
Capital outlay	150,515	372,439	485,000	(112,561)	(23.2%)	947,000	574,561
Depreciation (supplemental)	(73,439)	(118,780)	(120,000)	1,220	(1.0%)	(180,000)	(61,220)
Transfer to Local Renewable Development Fund	186,000	428,000	428,000	-	0.0%	428,000	-
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	263,076	681,659	793,000	(111,341)	(14.0%)	1,195,000	513,341
Net increase (decrease) in available fund balance	$ 8,971,295	$ 44,990,774	$ 59,328,159	$ (14,337,385)		$ 54,544,000	

MARIN CLEAN ENERGY
ENERGY EFFICIENCY PROGRAM FUND

BUDGETARY COMPARISON SCHEDULE
April 1, 2018 through November 30, 2018

	Budget	Actual	Budget Remaining	Actual/ Budget
REVENUE AND OTHER SOURCES:				
Public purpose energy efficiency program	$ 2,383,000	$ 869,552	$ 1,513,448	36.49%
Public purpose Low Income Families and Tenants pilot program	1,750,000	198,202	1,551,798	11.33%
TOTAL REVENUE AND OTHER SOURCES:	4,133,000	1,067,754	3,065,246	
EXPENDITURES AND OTHER USES:				
Public purpose energy efficiency program	2,383,000	869,552	1,513,448	36.49%
Public purpose Low Income Families and Tenants pilot program	1,750,000	198,202	1,551,798	11.33%
TOTAL EXPENDITURES AND OTHER USES:	4,133,000	1,067,754	3,065,246	
Net increase (decrease) in fund balance	$ -	$ -		

LOCAL RENEWABLE ENERGY DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
April 1, 2018 through November 30, 2018

	Budget	Actual	Budget Remaining	Actual/ Budget
REVENUE AND OTHER SOURCES:				
Transfer from Operating Fund	$ 428,000	$ 428,000	$ -	100.00%
EXPENDITURES AND OTHER USES:				
Capital Outlay and related	200,000	31,301	168,699	15.65%
Net increase (decrease) in fund balance	$ 228,000	396,699		
Fund balance at beginning of period		124,033		
Fund balance at end of period		520,732		

MARIN CLEAN ENERGY
BUDGETARY SUPPLEMENTAL SCHEDULE
April 1, 2017 through November 30, 2018

	Actual
Other services	
Audit	$ 45,496
Accounting	116,000
IT Consulting	66,586
Human resources & payroll fees	24,611
Miscellaneous professional fees	363,626
Other services	$ 616,319
General and administration	
Data and telephone service	$ 34,259
Meeting room rentals	7,167
Office equipment lease	4,822
Dues and subscriptions	294,699
Conferences and professional education	66,190
Travel	64,083
Business meals	7,927
Miscellaneous administration	27,021
Office supplies and postage	121,219
General and administration	$ 627,387

Updated

Marin Clean Energy

Operating Fund

Projected Budget FY 2018-2019

From April 1, 2018 through March 31, 2019

	FY 2018/19 Approved Budget	FY 2018/19 Projected Budget	Variation	Variation	Projected Expenses/ Budget
ENERGY REVENUE					
Revenue - Electricity (net of allowance)	$ 384,583,000	354,727,000	(29,856,000)	-8%	
ENERGY EXPENSE					
Cost of energy	303,259,000	297,840,000	(5,419,000)	-2%	83.96%
NET ENERGY REVENUE	**81,324,000**	**56,887,000**	**(24,437,000)**	-30%	16.04%
					0.00%
OPERATING EXPENSE					0.00%
Personnel	8,891,000	8,075,000	(816,000)	-9%	2.28%
Technical and Data Services	8,351,000	7,473,000	(878,000)	-11%	2.11%
Service fees - PG&E	1,413,000	2,173,000	760,000	54%	0.61%
Legal, Policy and Communication Services	4,368,000	3,481,000	(887,000)	-20%	0.98%
General Administration and Occupancy	2,182,000	2,041,000	(141,000)	-6%	0.58%
Local Pilot Programs	1,690,000	764,000	(926,000)	-55%	0.22%
TOTAL OPERATING EXPENSES	**26,895,000**	**24,007,000**	**(2,888,000)**	-11%	6.77%
OPERATING INCOME	**54,429,000**	**32,880,000**	**(21,549,000)**	-40%	
TOTAL NONOPERATING REVENUES	**1,723,000**	**1,600,000**	**(123,000)**	-7%	
TOTAL NONOPERATING EXPENSES	**423,000**	**347,500**	**(75,500)**	-18%	
CHANGE IN NET POSITION	55,739,000	34,132,500	(21,606,500)	-39%	
Budgeted net position beginning of period	52,633,717	52,633,717	-	-	
BUDGETED NET POSITION END OF PERIOD	**108,372,717**	**86,766,217**	**(21,606,500)**	-20%	
Net Capital Expenditures, Transfers and Other	**1,195,000**	**1,167,000**	**(28,000)**	-2%	
BUDGETED NET INCREASE IN OPERATING FUND BALANCE	**54,544,000**	**32,965,500**	**(21,578,500)**	-40%	9.29%

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Marin Clean Energy
Operating Fund
Proposed Budget FY 2019/2020
From April 1, 2019 through March 31, 2020

	FY 2019/20 Proposed Budget	Expenses/ Budget
ENERGY REVENUE		
Revenue - Electricity (net of allowance)	355,550,000	
Gross Energy Revenue	**355,550,000**	
ENERGY EXPENSE		
Cost of energy	317,119,000	89.19%
Net Energy Revenue	**38,431,000**	
OPERATING EXPENSE		
Personnel	9,643,000	2.71%
Data Manager, Calpine	6,270,000	1.76%
Technical and scheduling services	925,886	0.26%
Service fees - PG&E	2,232,000	0.63%
Legal and Policy Services	834,000	0.23%
Communication Services	1,685,000	0.47%
Other Services (IO & HR)	1,885,000	0.53%
General and Administration	1,684,000	0.47%
Occupancy	1,284,000	0.36%
Finance	1,496,000	0.42%
Local pilot programs	1,500,000	0.42%
Low income solar programs	190,000	0.05%
TOTAL OPERATING EXPENSES	**29,628,886**	8.33%
OPERATING INCOME	**8,802,114**	
NONOPERATING REVENUES		
Grants	1,433,000	
Interest income	1,400,000	
TOTAL NONOPERATING REVENUES	**2,833,000**	
NONOPERATING EXPENSES		
Banking Fees and Financing Costs	252,500	
TOTAL NONOPERATING EXPENSES	**252,500**	
CHANGE IN NET POSITION	**11,382,614**	
Budgeted net position beginning of period	86,135,217	
Budgeted net position end of period	97,517,831	
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER		
Capital Outlay	388,000	
Transfer to Renewable Energy Reserve	-	
Transfer to Local Renewable Energy Development Fund	845,755	
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	**1,233,755**	
BUDGETED NET INCREASE IN OPERATING FUND BALANCE	**10,148,859**	

MP6/eg3 12/21/2018

FILED
12/21/18
03:51 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

ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING

Summary

This Scoping Memo and Ruling (Ruling) sets forth the scope to be addressed and the schedule for the next phase of this proceeding, consistent with the Order Instituting Investigation and the prior Scoping Memo in this proceeding. This Ruling builds on this Commission's Decision (D.) 18-11-050 adopting the recommendations of the NorthStar Report and directing Pacific Gas and Electric Company (PG&E) to implement the recommendations as adopted in the decision.

1. Principles

Continuous, safe, and reliable gas and electric service at just and reasonable rates must be provided to Northern California in order to protect human life and sustain prosperity. The Commission's examination of PG&E's

safety culture accordingly continues in this proceeding. The Commission will examine PG&E's and PG&E Corporation's (PG&E Corp.) current corporate governance, structure, and operations to determine if the utility is positioned to provide safe electrical and gas service, and will review alternatives to the current management and operational structures of providing electric and gas service in Northern California.

As the Commission evaluates proposed alternatives, it will consider a range of factors, including:

- the safety and reliability of utility service;
- the operational integrity and technical unity of components within PG&E's gas and electric transmission and distribution systems;
- the stability and adequacy of the utility workforce;
- the utility's relationships with and role in local communities;
- 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;
- the ability of the utility to meet financial challenges posed by large catastrophic events such as earthquakes and wildfires;
- the utility's ability to raise capital and purchase gas, electricity, equipment and services; and
- the cost of utility service.

Careful consideration is also necessary to determine whether there is a viable transition process from the status quo to any preferred alternative. If there is not a clear path forward to implement an alternative (including consideration of legal, financial, and technical grid issues), then the alternative will not be considered a viable option in this proceeding.

The future of PG&E may also be impacted by other actors beyond the Commission. The Legislature, the court appointed Federal Monitor, the various courts considering claims against PG&E, the Federal Energy Regulatory Commission, and the communities served by PG&E all have a role in determining PG&E's future. As a publicly traded company, PG&E must also respond to the financial markets, and to the requirements of the vendors and other parties with which it conducts business.

The Commission has not drawn any conclusions about the outcome of this proceeding and recognizes these other actors may be the origin of proposals for consideration. The Commission undertakes this next phase of this proceeding in a thoughtful and deliberate manner, consistent with the importance of the issues being addressed.

2. Background

PG&E has had serious safety problems with both its gas and electric operations for many years. The following examples illustrate both the types of safety incidents PG&E has experienced and the remedial consequences imposed by this Commission and several courts.

On September 9, 2010, a PG&E natural gas transmission pipeline ruptured in San Bruno. The event is well detailed in a Commission decision:

> At 6:11 p.m. on September 9, 2010, Segment 180 of Line 132, a 30-inch diameter natural gas transmission pipeline owned and operated by PG&E, ruptured in the Crestmoor neighborhood of San Bruno, California. Gas escaping from the rupture

> ignited. There was an explosion of such tremendous force that a crater approximately 72 feet long by 26 feet wide was created. A 28-foot long section of pipe weighing about 3,000 pounds was blown approximately 100 feet from the crater. The conflagration continued for over an hour and a half, releasing 47.6 million cubic feet of flammable natural gas before the flow was stopped. It required the response of 600 firefighting (including emergency medical service) personnel and 325 law enforcement personnel.
>
> The resulting deaths, injuries, and damage to property were especially severe […].
>
> The Crestmoor neighborhood was effectively wiped off the map. An entire community was displaced.[1]

PG&E faced historically significant administrative penalties and fines and criminal punishment as a result of the San Bruno explosion. This Commission imposed a fine and other penalties on PG&E totaling $1.6 billion.[2] PG&E was also found guilty by a federal jury of federal criminal conduct, specifically multiple willful violations of the Natural Gas Pipeline Safety Act of 1968 and of obstructing an agency proceeding.[3] As part of PG&E's sentence in the federal criminal proceeding, it was required to submit to a federal monitor for compliance and ethics.[4] In November 2018, Judge William Alsup, who was

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[1] D.15-04-023 at 3-4.

[2] D.15-04-024 at 2.

[3] Case No. CR-14-00175-THE; *see also* Press Release, Department of Justice, U.S. Attorney's Office, Northern District of California, dated August 9, 2016, available at: https://www.justice.gov/usao-ndca/pr/pge-found-guilty-obstruction-agency-proceeding-and-multiple-violations-natural-gas.

[4] Case No. CR-14-00175-THE, Order dated January 26, 2017. In February 2017, Mark Filip was selected as the Compliance and Ethics Monitor of PG&E for a period of five years.

assigned the PG&E federal criminal manner, directed PG&E to respond by December 31, 2018, to questions regarding the Camp Fire, which occurred in November 2018.

On June 19, 2012, a PG&E subcontractor was killed during demolition of PG&E's decommissioned Kern Power Plant. As part of a settlement of the subsequent Commission Order Instituting Investigation (OII), PG&E was required to implement, on a company-wide basis, a Corrective Action Plan that included a Contractor Safety Program and an Enterprise Causal Evaluation Standard, and pay penalties totaling $5,569,313.[5]

On August 18, 2016, the Commission imposed penalties on PG&E of $25,626,000 in response to six incidents from 2010 through 2014 that called into question the safety of PG&E's natural gas distribution system.[6] In response to the Commission's OII in that proceeding, "PG&E also set forth its efforts to enhance gas distribution system recordkeeping accuracy, accessibility, and controls, as well as operational safety improvements."[7]

On August 27, 2015, the istant OII was opened by the Commission, to examine PG&E's and PG&E Corp.'s safety culture. This Commission was, and remains, concerned that the safety problems being experienced by PG&E were not just one-off situations or bad luck, but indicated a deeper and more systemic

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[5] These penalties consist of $3,269,313 in ratemaking offsets that benefit customers and $2,300,000 in fines payable to the state's General Fund. (D.15-07-014 at 2.)

[6] D.16-08-020 at 2-4. An additional penalty of $10.8 million was imposed for the Carmel incident. (*Id*. at 10, 51.)

[7] *Id*. at 4.

problem. The fact that imposing penalties on PG&E (the Commission's standard tool for addressing safety problems) did not seem to change the situation reinforced this concern.

As the Commission stated: "[t]his investigation will…determine whether PG&E's organizational culture and governance are related to PG&E's safety incidents and performance record, and if so, to what extent; and if so, how can or should the Commission order or encourage PG&E to develop, implement, and update as necessary a safety culture of the highest order."[8] In D.18-11-050, the Commission adopted the findings of the consultant to the Safety and Enforcement Division, the Northstar Consulting Group. The report concluded that "[w]hile PG&E is committed to safety and efforts have been made to reduce incidents and increase the organizational focus on safety, these efforts have been somewhat reactionary – driven by immediate needs and an understandable sense of urgency, rather than a comprehensive enterprise-wide approach to addressing safety."[9] The failure of PG&E to develop a comprehensive enterprise -wide approach to address safety, eight years after the 2010 San Bruno pipeline explosion, is of vital concern to this Commission.

The Butte Fire, which began on September 9, 2015, burned approximately 70,000 acres of land and destroyed 921 structures, and left two civilians dead.[10]

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[8] Investigation 15-08-019, OII at 15.

[9] Northstar Report at I-1.

[10] Cal Fire Report, last modified October 15, 2015, available at http://cdfdata.fire.ca.gov/incidents/incidents_details_info?incident_id=1221.

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The Commission's Safety and Enforcement Division (SED) issued PG&E a citation for $8 million for violation of the CPUC's General Order 95, Rule 31.1, for failing to maintain its 12 kilovolt (kV) overhead conductors safely and properly.[11] SED also cited PG&E $300,000 for failure to timely report to the CPUC that PG&E's facilities may have been linked to the ignition of the Butte Fire and for failing to maintain the minimum required clearance between a 12 kV conductor and a tree.[12]

In the fall of both 2017 and 2018, historically large wildfires burned in PG&E's service territory. The scale of these fires set new records on almost every metric which exists to measure wildfires. Because the Commission's investigations into these fires are ongoing, the specific causes of the fires, potential enforcement actions, and PG&E's prudency related to the fires will not be addressed in this proceeding. However, the Commission will consider the fact that PG&E's service territory includes fire prone land according to the Commission's fire threat maps,[13] which is a critical safety challenge for PG&E.

On December 14, 2018, the Commission opened an OII proceeding to consider penalties and ordered immediate action against PG&E for what

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[11] Citation Issued Pursuant to D.16-09-055. Available here: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/E1704001E2015091601Citation20170425.pdf.

[12] Citation Issued Pursuant to D.16-09-055. Available here: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/E1704002E20150916_01Citation20170425.pdf.

[13] D.17-01-009, revised by D.17-06-024.

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Commission staff says are systemic violations of rules to prevent damage to natural gas pipelines during excavation activities.[14] The Commission directed PG&E to take immediate corrective measures and to attest under penalty of perjury that it is conducting natural gas pipeline locate and mark efforts and programs in a safe manner consistent with all applicable laws. The Commission has not prejudged the outcome of that proceeding; however, the fact that these allegations have been made are noted to provide context for the type of challenges we expect PG&E to address by adopting and maintaining a safety culture.

This Commission is tasked with regulating PG&E's safe operation of its natural gas pipeline and electricity infrastructure. Given PG&E's record and the dangers inherent in PG&E's service territory, 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. This ruling identifies the scope of issues considered in the next phase of this proceeding.

3. Scope of Issues

The safe operation of PG&E's gas and electric systems and the threat of personal harm to PG&E employees and members of the public are of critical concern to the Commission and California. To address that concern and mitigate future risk, the next phase of this proceeding will consider a broad range of alternatives to current management and operational structures for providing electric and natural gas in Northern California. Accordingly, the following list of

[14] I.18-12-007.

proposals is illustrative rather than exclusive and is intended to show the range of possible alternatives under consideration. This list does not limit the Commission's potential actions or directives. The outcome of this investigation may include recommendations to other entities that have a role in ensuring safe electrical and gas service in Northern California, if a desired outcome requires action by someone other than this Commission. Parties may present other options than the ones listed below. The Commission may revise the scope of alternatives to be considered after receiving comments from parties.

This is not a punitive exercise. Indeed, the keystone question is, compared to PG&E and PG&E Corp. as presently constituted, would any of the following proposals provide Northern Californians safer gas and electric service at just and reasonable rates?

Corporate Governance – Board of Directors

- Should PG&E and PG&E Corp. be subject to a utility-specific business judgment rule (BJR) to require the Board of Directors to account for safety beyond the current fiduciary duties?[15] If so, should such a utility-specific business judgment rule apply to corporate officers as well?
- Should the PG&E Board of Directors regularly file with the Commission a report of how the Board met its duties under the BJR to account for safety? Should this include a summary of the oversight exercised by the Board including information reviewed, when deliberations occurred, and the depth of the review? Should the report include the Board review of the corporate officers' leadership as it pertains to safety? Should compensation to the Board

[15] *See, e.g*. California Corporations Code § 309 and *Gaillard v. Natomas Co.*, 208 Cal. App. 3d 1250 (1989).

Members be dependent on a Commission finding that the Board members discharged their safety duties appropriately?

- Should PG&E form an independent nominating committee to identify and select candidates for the Board of Directors?
- Should PG&E identify specific criteria for potential Board of Directors members? For example, should PG&E have one or more Board of Directors members be experts in organizational safety, gas safety, and/or electrical safety? If so, should the appointment of safety experts be made subject to Commission or Governor approval?
- Should PG&E form an audit committee constituted of independent directors possessing financial and safety competence, as defined by the Commission, to evaluate the Board of Directors' discharge of their duties and make recommendations for qualifications of future members of PG&E's Board of Directors?
- The Securities and Exchange Commission requires publicly traded companies to file an 8-K Form when a material event occurs. Generally, an event is material if there is a substantial likelihood that a reasonable investor would consider the information important in making an investment decision. Should PG&E file an analogous safety report with the Commission when PG&E makes a significant decision regarding capital expenditures pertaining to safety, a change in management as it pertains to safety, or any other decision that may impact safety?
- Should PG&E file a public annual report of all Directors and Officers insurance policies obtained by PG&E and identify the risk PG&E identified to obtain the insurance? If PG&E amends its Directors and Officers insurance, should it notify the Commission of the risk identified and the terms of the amended policy?

- Should part or all of the existing Board of Directors resign and be replaced by directors with a stronger background and focus on safety?

Corporate Management – Officers and Senior Leadership

- Should PG&E retain new corporate management in all or in part?
- Should the questions posed above for Corporate Governance be similarly considered for corporate management?
- Should compensation for non-officer executives be modified? Does the current incentive structure properly incent PG&E decision-makers?[16]

Corporate Structure

- 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?

[16] Senate Bill 901 (Dodd) prohibits an electrical or gas corporation from recovering any annual salary, bonus, benefits, or other consideration of any value, paid to an officer of the corporation, from ratepayers.

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

Publicly Owned Utility, Cooperative, Community Choice Aggregation or other Models

- Should some or all of PG&E be reconstituted as a publicly owned utility or utilities?
- Should PG&E be a "wires-only company" that only provides electric distribution and transmission services with other entities providing generation services? If so, what entities should provide generation services?

Return On Equity

- Should the Commission condition PG&E's return on equity on safety performance?
- What are the safety considerations for the utility if its financial status is downgraded by the investment community?

Other Proposals

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

4. Comments

Parties should make preliminary comments on the desirability of these alternatives with discussion of how each proposal impacts the following considerations:

- the safety and reliability of utility service;

- the operational integrity and technical unity of components within PG&E's gas and electric transmission and distribution systems;
- the stability and adequacy of the utility workforce;
- the utility's relationships with and role in local communities;
- the ability of the state to implement its energy policies, including the need to reduce GHG emissions and local criteria pollutants in both the utility sector and the economy as a whole;
- the ability of the utility to meet financial challenges posed by large catastrophic events such as earthquakes and wildfires;
- the utility's ability to raise capital and purchase gas, electricity, equipment and services; and
- the cost of utility service.

In addition, the parties shall make initial observations on the legal, technical, and financial feasibility of these proposals and include observations on the feasibility of transitioning from the current utility structure to proposed alternatives. Parties may also offer additional proposals with consideration given to the same factors and feasibility concerns. Parties may also comment on scope and process recommendations.

For ease of reference, parties' comments shall follow the same format provided in this ruling. Specifically, parties shall comment on proposals in the following sequence: Corporate Governance, Corporate Management, Corporate Structure, Public Utility or Cooperative, Return on Equity, and Other Proposals. Opening comments are limited to 40 pages. Reply comments are limited to 20 pages.

To better inform this proceeding, on or before January 16, 2019, PG&E is also directed to file a summary of:

- PG&E's and PG&E Corp.'s corporate structures, including organizational charts for the respective Board of Directors, executives, and other senior leadership as of September 1, 2010, and as of December 31, 2018. The summary should also explain the different lines of business of PG&E and PG&E Corp.
- The senior positions in PG&E and PG&E Corp. responsible for management of safety, and how the different roles interact.

After review of comments filed by parties, the Commission will identify the best process to consider proposals and identify concerns that require additional filings from parties.

5. Schedule

The next step for this Commission is to obtain input on the various possible approaches to address the underlying issue of PG&E's safety culture. The Commission needs to have more information and analysis from a range of perspectives before it can consider implementation of any particular approach, or even select any approach to consider in more detail. Accordingly, the schedule set forth below is limited to the filing and service of party comments on the issues identified above.

The following schedule is adopted:

PG&E and PG&E Corp. Background Filing	January 16, 2019
Concurrent Opening Comments filed and served	January 30, 2019
Concurrent Reply Comments filed and served	February 13, 2019

This schedule may be modified by the assigned Commissioner or Administrative Law Judge (ALJ) as necessary. Once comments are received, the assigned Commissioner and ALJ will determine the next procedural steps to take.

6. Presiding Officer

In the interest of judicial efficiency, ALJ Peter V. Allen is designated as the Presiding Officer in this phase of the proceeding.

7. Public Category of Proceeding/*Ex Parte* Restrictions

As stated in the original scoping memo issued on May 8, 2017, this proceeding is categorized as ratesetting. With the change in presiding officer, the voluntary *ex parte* prohibition previously imposed by the assigned Commissioner is lifted, and will not apply to this phase of the proceeding. The Commission's rules regarding *ex parte* communications in ratesetting proceedings remain in place. Accordingly, *ex parte* communications are restricted and must be reported pursuant to Article 8 of the Commission's Rules of Practice and Procedure.

8. Advisor

Any person interested in participating in this proceeding who is unfamiliar with the Commission's procedures or has questions about the electronic filing procedures is encouraged to obtain more information at http://consumers.cpuc.ca.gov/pao/ or contact the Commission's Public Advisor at 866-849-8390 or 415-703-2074 or 866-836-7825 (TYY), or send an e-mail to public.advisor@cpuc.ca.gov.

IT IS RULED that:

1. The scope of this proceeding is described above.

2. The schedule of this proceeding is as set forth above.

3. Administrative Law Judge Peter V. Allen is designated as the presiding officer for this phase of the proceeding.

4. Page limitations for opening and reply comments are as set forth above.

Dated December 21, 2018, at San Francisco, California.

/s/ MICHAEL PICKER
Michael Picker
Assigned Commissioner