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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 (Filed August 27, 2015)

COMMENTS OF WILLIAM B. ABRAMS ON PROPOSED DECISION TO INFORM AND REGULATE A SAFETY ORIENTED MANAGEMENT AND GOVERNANCE STRUCTURE WITHIN PACIFIC GAS AND ELECTRIC COMPANY

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William B. Abrams was granted party status via written ruling on April 26, 2019. In accordance with Rule 14.3 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, William B. Abrams submits comments on the May 7, 2019 Proposed Decision on Pacific Gas and Electric Company's Reporting of Safety Experience and Qualifications of the Board of Directors. These comments follow the guidelines in the Proposed Decision issued by ALJ Allen on May 7, 2019.

SUBJECT INDEX

I. Introduction and Problem Statement: PG&E Disassociates Governance Priorities from Executive and Worker Safety Incentive Structures

Regulating "culture" is a difficult ask for any regulatory body and particularly challenging for the California Public Utilities Commission (CPUC) given the systemic and structural issues within PG&E. I have argued in my statements in front of the Commission that a "safety culture" can only be relied upon if it is a byproduct of solid performance-based safety metrics and associated company-wide incentives. By their own admission, Pacific Gas and Electric Company (PG&E) clearly does not have pertinent performance-based safety metrics but somehow they do not make the connection between this statement of fact and the way their board of directors or their executives are structured and compensated.

In the April 15, 2019 workshop associated with this proceeding, Richard Kelly valiantly tried to justify not making changes to the corporate executive incentive program by indicated that his perception was that the problems with safety were not at the top of the organization. Kelly insisted *"We need to get more involvement by the individual employees… We set great goals at the corporate level, the executive management buys into it, but we are not doing a good job getting down to the individual worker level"*. The sign of real ingrained trouble within an organization is when executives blame "*the worker level*" particularly within an organization the size of PG&E which can attract talent and expertise from all around the globe.

Now, conversely Kelly states that even though the breakdown in the safety culture exists at the "*worker level*" the financial incentives for safety should really only remain at the top of PG&E. When it comes to "*the worker*" Kelly expressed that "*I don't necessarily think money incentives make the difference.*" He further extemporized, "*there seems to be a spot where it seems to die… we don't seem to have that real buy-in, that real understanding, that real commitment… It's not a matter of more money*".

This structure espoused by Richard Kelly is at the heart of the governance/regulatory challenge of the CPUC relative to a PG&E turn-around which prioritizes safety. I suggest the Commission look back at the transcript of Kelly's answers to Commissioner questions during that April, 15, 2019 workshop associated with this proceeding. He would like the Commission to believe that all of the executives and their safety-related financial incentives are the "best in the industry" and need no new realignment but the problems with safety reside at the worker-level where financial incentives for safety performance are unnecessary. This is not only counter-intuitive but it flies in the face of any known model for successful corporate management. Within successful organizations, bonus and incentive structures drive accountability from executives to line staff. Instead, Kelly suggests that at PG&E incentives for safety are put in a place where safety culture issues don't exist (apparently at the top) and then does not feel financial incentives should exist where they are trying to affect change (line-level staff)? This is the PG&E recipe to ensure a culture of safety across their organization?

II. Recommendations: Next Steps to drive Safety Accountability

Now, looking back at the workshop transcripts of Kelly's comments will give the Commission a clear sense of the problem. However, problem statements don't provide a clear enough regulatory direction for the Commission so I would like to try to connect some dots and make some recommendations regarding next steps associated with this proceeding. The workshop panel discussions facilitated through this proceeding were very informative for all stakeholders and the three orders indicated in this Proposed Decision (PD) are solid next steps. However, I recommend the following additional steps be set in this PD to set a clear path and regulatory framework that can affect real governance changes aligned to safety considerations:

1. **Metrics are Regulatable, Culture is Not** – As we are developing and expanding upon regulated performance-based metrics as part of other rulemakings such as R.18-10-007 and incorporating those changes in the Wildfire Mitigation Plans (WMPs) we should not lose the opportunity to tie these metrics to incentives across PG&E. These metrics may be the same as those identified in the WMP but in some cases they may merely complement each other to encourage a culture of safety.

   As an example, in the health care industry a patient may have a particular set of metrics to encourage good body system health (weight-loss goal, exercise goal, diet, etc.). This could be seen as analogous to the goals we need to encourage safety across the PG&E system. If the Commission provides successful regulation, it will drive performance-based metrics around wildfire mitigation, worker safety and other key system-health indices. Now, in the health care system doctors, administrators and the hospital itself have metrics that complement the system health of the individual patient but they are not the same. These are often described as "health outcomes" which are measures of certain health care investments or interventions such as out-patient practices after a heart attack to prevent death or repeat incident. These health outcomes are leveraged throughout a hospital system from the employees that sweep the floors up and through the executives that drive health-care policy. I submit to the Commission for consideration that they need to similarly consider how performance-based performance metrics defined in other rulemakings will be linked and complement robust employee/executive incentive programs and governance structures to ensure safety up and down Pacific Gas and Electric Company.

2. **Regulatory Encouragements for Governance Structure** – Clearly from Kelly's statements to the Commission, the Board is happy to hear the Commissioner's suggestions for ensuring safety credentials are represented among board members.

However, “hearing” regulators will not lead to changes in culture unless regulatory changes prompt a re-constitution of the board and executives. If the metrics, incentives and associated regulations are set in #1 above then naturally the Board will self-select members who can support that corporate structure and safety culture. However, if the status-quo remains in terms of regulations then the financial restructuring skill-set of the board members is still extremely viable even post-bankruptcy. This group of leaders are perfectly selected to eke-out and optimize short-term ROI for investors and shareholders leaving longer-term safety uningrained in PG&E culture and practices. On the other hand, if the Commission manages to incorporate safety and wildfire mitigation metrics that drive variable ratepayer reimbursement and associated incentive structures then PG&E will naturally select board members to support that model.

3. **Definitions Matter: Safety and Innovation -** As a wildfire survivor, I certainly appreciate the push for a “safety” skill-set on the board of PG&E. However, “safety” is a part of almost any corporation and is not specific enough to drive the right talent or accountability. The board of directors within organizations that manufacturer baby diapers, operate restaurants or nuclear power plants all focus on “safety”. This does not mean that a former executive for Huggies or Pampers is necessarily the right choice for the PG&E board. There really needs to be further definition of “safety” for it to have any real understandable meaning in a board hiring process.

   Moreover, having a board with the right safety experience still doesn’t get us where we need to be in terms of a safe energy grid at PG&E. If the infrastructure (poles, lines, switches, etc.) and the business processes (R&D, quality assurance, engineering, etc.) remain the same we could have a fabulous safety-oriented board and still no improvement to overall safety within the things that really matter. This is why we need leaders within PG&E who have a proven track record around innovation and have been change-agents within other adjacent industries. I hereby nominate Elon Musk and Bill Gates if they are available. We need to find those leaders that see the disarray of PG&E as an opportunity to innovate towards a new energy future. Someone who can align the financial interests of investors with the needs of citizens to be safe in their homes free of wildfires and the needs of our planet to address climate change. I know this sounds like a tall order but those individuals are out there. If you are an executive that gets excited about innovating a car battery or a solar panel then would you not be interested in innovating the largest energy grid in the United States? Please, consider that these are exactly the transferrable skills we need at the helm of Pacific Gas and Electric. I recommend that the commission prioritizes an entrepreneurial skill set along with right type of safety experience when it promotes a board selection process within PG&E.

That said, I recommend that the commission incentivize this entrepreneurial board skill set the same way it can accomplish this with "safety". Only through regulating metrics tied to financial incentives (i.e. ratepayer reimbursement and cost recovery frameworks) will these internal innovation characteristics change within PG&E including at the board-level. Typically, competition drives innovation within our corporations but given that PG&E is a natural monopoly we must artificially regulate these processes with sticks and carrots for speeding up R&D timelines, reaching out to adjacent industries, addressing self-identified testing backlogs, etc. Through the identification and inclusion of regulated key performance indices (KPIs), the Commission can support innovation and the type of board selection process that will drive solutions ratepayers, investors and wildfire survivors like me need to feel confident that PG&E is headed in the right direction. Please, consider inclusion of an entrepreneurial skill set when evaluating the efficacy of the PG&E board to promote safety and security for our citizen ratepayers.

III. Conclusion: Align Safety and Innovation Priorities Across PG&E Structure

It is important for the Commission to align the goals and objectives in other proceedings with those in this proceeding. Only through considering the upstream and downstream implications of regulation can we hope to affect change within Pacific Gas and Electric Company. This governance structure cannot be addressed in a vacuum and there cannot be the expectation that the board selection process will not be reflective of the current short-term ROI investor goals. Any corporate board is only selected to support the financial incentives, goals and objectives within an organization as prioritized by investors and shareholders (not the reverse). If the CPUC is successful at changing and regulating performance-based metrics that drive safety and innovation within PG&E, the governance structure will follow to support those goals. However, only by tying financial incentives (ratepayer reimbursement, cost recovery methodology) to these regulated performance-metrics can we hope to drive these leadership changes.

WILLIAM B. ABRAMS
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Attachment A

Pursuant to Commission Rule 14.3, this attachment shows William B. Abrams proposed changes to the Proposed Decision's findings of fact, conclusions of law and ordering paragraphs in strikeout and underlining. I have included only the paragraphs in which I propose changes.

Findings of Fact

No.	Original Text and Proposed Modifications (in underline or strikethrough)	Reason for Proposed Clarification
2.	Decision 18-11-050 ordered PG&E Corp. and PG&E to add Independent Directors to the Board who have experience with safety perhaps in another industry.	Attracting leaders from other adjacent industries is critically important to bring a fresh perspective on safety.
5.	PG&E recently announced that their assessment of Board performance and accountability will remain the same.	On April 15, 2019, in response to Commissioner Randolph's Question, Richard Kelly indicated that the criteria for evaluating performance will "not be different" and "not that I have come up with yet or not that the new Board has come up with yet"
6.	PG&E recently announced that they have at least 3 board members that could help them with safety.	On April 15, 2019, in response to Commissioner Rechtschaffen's question, Richard Kelly indicated that "at least 3 Board

		members" could help the company with safety but "safety was the #1 criteria that we asked"
7	PG&E has no plans to reorganize the Board of Directors after bankruptcy and does not plan to replace board members that were primarily selected based upon their specific expertise with bankruptcy and restructuring.	On April 15, 2019, in response to ALJ Allen, Richard Kelly indicated "no there is no plan" to change the Board after bankruptcy.
8.	PG&E does not have plans to make compensation reforms to how they weigh safety for senior management.	In response to Commissioner Guzman-Aceves, Richard Kelly indicated that PG&E compensation for safety was not being revisited by saying "not at the present time" and further indicated that "Board members are not incentivized"
9.	PG&E does not have plans to complete an enterprise-wide safety plan until 2021.	In response to Commissioner Rechtschaffen's question in the April 15, 2019 workshop, Richard Kelly indicated that "Transporting this into each of the lines of business takes time" as a reason they would not have an enterprise-wide safety plan sooner.

Conclusions of Law

No.	Original Text and Proposed Modifications (in underline or strikethrough)	Reason for Proposed Clarification
3.	<u>The Commission should obtain outside expert advice on company-wide compensation structure options that are based upon safety and performance.</u>	PG&E's statements that they have not looked at changes to compensation structure to address safety and that they do not think money incentives at the staff level make a difference should be evaluated.
4.	<u>The Commission should determine whether PG&E Corp. and PG&E are complying with the provisions of D.18-11-050 relating to the Conclusions of Law therein stating to "promptly implement the recommendations set forth in the NorthStar Report".</u>	PG&E indicated that they are not going to implement an enterprise-wide safety plan until 2021. This and other indications should prompt an analysis of whether PG&E is complying with these provisions.

Order

No.	Original Text and Proposed Modifications (in underline or strikethrough)	Reason for Proposed Clarification
4.	<u>The Commission is establishing a Commission Advisory Panel on Corporate Compensation and Incentive Programs to understand how safety can be incentivized throughout an organization.</u>	There are many models for performance-based financial incentives and an understanding of these options should give the CPUC perspective on how these structures can drive safety and performance.

5.	Pacific Gas & Electric Company and PG&E Corporation are to provide justification as to why current board members chosen for their bankruptcy and financial restructuring experience should still remain on the Board after bankruptcy is completed by a compliance filing in this proceeding within 20 days of the effective date of this decision.	The Commission should probe into how the PG&E Board is positioned post-bankruptcy to address ongoing safety and performance challenges. PG&E indicated that many board members were primarily chosen for their bankruptcy expertise.
6.	The Commission is establishing a Commission Advisory Panel to ensure performance metrics and financial incentives align and inform a regulatory structure that prioritizes innovation and safety within PG&E Corporate Governance.	The Commission should clearly state its intentions to align board member qualifications with the priorities it expects to regulate (safety and innovation).

Dated:

May 28, 2019

Respectfully submitted,

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