

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



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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)

**REPLY COMMENTS OF SIERRA CLUB**

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Dated February 28, 2019

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Pursuant to Assigned Commissioner Picker's Scoping Memo and Ruling ("Scoping Memo") issued on December 21, 2018 and Administrative Law Judge ("ALJ") Allen's January 22, 2019 ruling granting a request for an extension of time to file comments, Sierra Club respectfully submits these Reply Comments on the Scoping Memo.

In Opening Comments, parties offer a number of restructuring proposals, including the sale or separation of Pacific Gas & Electric's ("PG&E") gas business from its electric business, elimination of PG&E's role in electric sales and procurement so that PG&E becomes a "wires only" utility, and municipalization. Sierra Club recognizes that proposals to restructure PG&E are a largely speculative exercise given uncertainty over the outcome of PG&E's concurrent bankruptcy proceeding, a lack of clarity on potential buyers of PG&E's assets, and changes to state law necessary to execute proposals such as creation of a "wires only" utility. Nonetheless, it is important to identify concerns at an early juncture as discussions continue at the California Public Utilities Commission ("Commission"), in bankruptcy court, and at the Legislature. If implemented without appropriate conditions, each of these proposals could impede achievement of California's statewide environmental objectives. The climate crisis has made massive wildfires the new normal and further underscored the urgency of aggressive action to reduce greenhouse gas pollution. Accordingly, Sierra Club agrees with The Utility Reform Network ("TURN") that the Commission must ensure that "Californians living in PG&E's service territory have access to safe, reliable, and affordable energy utility services, and that the manner in which such services are provided supports the State's energy policies, including

environmental and equity goals.”<sup>1</sup> Sierra Club provides the following Reply Comments on potential restructuring proposals to ensure any change in the manner in which gas and electric service is provided furthers California’s decarbonization objectives.

**1. Separation or Sale of PG&E’s Gas Business to a Private Entity Will Likely Impede State Environmental Objectives Unless Conditioned on the Phase Out of Gas Service by No Later Than 2045.**

In Opening Comments, PG&E supports Commission consideration of separating its gas and electric operations into separate companies.<sup>2</sup> To begin with, Sierra Club agrees with the Public Advocates Office that in order to better inform the discussion in this proceeding, “[t]he Commission should direct PG&E to describe the plans, if any, including valuation of PG&E’s and PG&E Corporation’s assets, it has reportedly developed internally for a potential sale of the gas division.”<sup>3</sup> Additionally, Sierra Club is concerned that a simple separation of PG&E’s gas and electric divisions could introduce additional barriers to the decarbonization of the State’s energy system without necessarily improving safety or reliability.

As an initial matter, some parties suggest without basis that a smaller company would necessarily be a safer company. For example, Marin Clean Energy (“MCE”) advocates for “a complete separation of PG&E into independently operated gas and electric entities” as “a fundamental first step towards improving PG&E’s operational scale and scope in order for PG&E to better focus on safe, reliable and economic provision of utility service to customers.”<sup>4</sup> However, as noted in the recommendations by the Center for Catastrophic Risk Management (“CCRM”) attached to the Opening Comments by the Office of Safety Advocates (“OSA”), “the idea that a structural change is a guarantee of safety culture and safety management improvement is not supported by research.”<sup>5</sup> As the CCRM discusses in detail, simply separating gas and electric service is, by itself, an insufficient guarantee that safety will improve. A single fuel utility is not intrinsically more or less safe. Indeed, one need look no further than Southern California Gas Company (“SoCalGas”), where the Aliso Canyon disaster, a recent \$3.3 million

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<sup>1</sup> TURN Opening Comments at 9 (Feb. 13, 2019).

<sup>2</sup> PG&E Opening Comments at 20 (Feb. 13, 2019).

<sup>3</sup> Public Advocates Office Opening Comments at 11-12 (Feb. 13, 2019).

<sup>4</sup> MCE Opening Comments at 4-5 (Feb. 13, 2019).

<sup>5</sup> OSA Opening Comments, Attach. A, Observations and Recommendations in Response to CPUC OII Proceeding 15-08-019.

citation from the Safety and Enforcement Division (“SED”) for its failure to conduct safety testing, and the now close to one-and-a-half year delay in repairing Lines 235-2 and 4000, to recognize that having a separate gas utility far from assures safe and reliable service.<sup>6</sup>

MCE also supports separating PG&E’s gas and electric operations based on the thought that “[s]eparating the PG&E gas and electric services into separately operated entities would also support California’s ambitious environmental policies.”<sup>7</sup> Like MCE, Sierra Club “shares California’s goal to reduce the use of carbon emitting resources – natural gas included – and replace those resources with non-emitting resources.”<sup>8</sup> Yet a separate for-profit gas utility runs the risk of creating an entity with an explicit financial interest in maintaining current demand for gas and obstructing progress on electrification in order to retain market share. As TURN notes, the Commission must “assess interest by other entities in acquiring some or all of PG&E’s electric or natural gas system” before concluding that the sale of those assets would serve the public interest.<sup>9</sup>

There is a potential for a significant conflict between the business model of a new for-profit gas company and the public interest in reducing carbon emissions and meeting the statewide goal of carbon neutrality by 2045.<sup>10</sup> As the California Energy Commission (“CEC”) recently concluded in the 2018 Integrated Energy Policy Report (“IEPR”), there is a “growing consensus that building electrification is the most viable and predictable path to zero-emission buildings.”<sup>11</sup> The CEC’s conclusion is based in part on a growing body of research finding that a “high electrification scenario offers the most promising path to achieving GHG reduction targets in the least costly manner.”<sup>12</sup> Notably, biomethane is not a viable alternative to widespread

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<sup>6</sup> CPUC, Citation Issued Pursuant to Decision 16-09-055 (Feb. 1, 2019), [http://www.cpuc.ca.gov/uploadedFiles/CPUC\\_Public\\_Website/Content/Safety/Natural\\_Gas\\_Pipeline/Citations\\_Issued/CITATION\\_D.16-09-55%20G.19-02-001.pdf](http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/Natural_Gas_Pipeline/Citations_Issued/CITATION_D.16-09-55%20G.19-02-001.pdf); California Energy Markets, *The Very Puzzling Duration of SoCalGas Pipeline Outages* (Feb. 15, 2019) at 3 (subscription required).

<sup>7</sup> MCE Opening Comments at 5.

<sup>8</sup> *Id.*

<sup>9</sup> TURN Opening Comments at 3.

<sup>10</sup> See Executive Order B-55-18 to Achieve Carbon Neutrality (Sept. 10, 2018).

<sup>11</sup> CEC, *Final 2018 Integrated Energy Policy Report Update - Vol. II*, Docket No. 18-IEPR-01 (Jan. 2019), at 20, [https://www.energy.ca.gov/2018\\_energy\\_policy/documents/#02202019](https://www.energy.ca.gov/2018_energy_policy/documents/#02202019) (“2018 IEPR”).

<sup>12</sup> 2018 IEPR at 22 (citing Energy and Environmental Economics, *Deep Decarbonization in a High Renewables Future* (June 2018), [https://www.ethree.com/wp-content/uploads/2018/06/Deep\\_Decarbonization\\_in\\_a\\_High\\_Renewables\\_Future\\_CEC-500-2018-012-1.pdf](https://www.ethree.com/wp-content/uploads/2018/06/Deep_Decarbonization_in_a_High_Renewables_Future_CEC-500-2018-012-1.pdf)).

electrification. Its potential in California is at best, a small fraction of gas demand, its combustion has the same significant indoor and outdoor air quality impacts as reliance on fossil gas, and as the 2018 IEPR observed, “concerns about methane leakage remain regardless of whether the gas is renewable or fossil.”<sup>13</sup> The need for rapid electrification of natural gas end uses poses a serious risk to a single-fuel gas company’s financial viability. As recognized in Sempra Energy’s latest 10-K report to its shareholders, a “reduction or the elimination of natural gas as an energy source in California, could have a material adverse effect on SDG&E’s, SoCalGas’ and Sempra Energy’s cash flows, financial condition and results of operations.”<sup>14</sup>

Accordingly, separation of the PG&E’s gas business risks creating an entity singularly focused on opposing electrification to protect its bottom line regardless of the climate imperative of ending combustion of gas and other fossil fuels. This is not a hypothetical concern. SoCalGas has repeatedly sought to undermine electrification efforts through hyperbole and misrepresentations, often at ratepayer expense.<sup>15</sup> Its activities include making repeated meritless assertions to state agencies that building electrification would “impede” implementation of California’s climate goals, misleading its customers on the comparative operational cost of gas and electric heating by comparing the most efficient gas furnace available on the market to an electric option so inefficient it could not legally be sold in California, and commissioning costly studies that purport to compare the relative cost of gas and electric homes using this same flawed comparison.<sup>16</sup> Most recently, SoCalGas has joined a group calling itself “Californians for Balanced Energy Solutions” with the objective of “trying to ‘rally support’ for gas as state policymakers and environmental groups push to phase it out.”<sup>17</sup> At a time when the enormous personal, financial, and environmental costs of climate change for the state are increasingly dire, California can ill afford an expanded SoCalGas or creation of a second for-profit gas only utility to partner in SoCalGas’ climate obstruction. To the extent sale of PG&E’s gas operations is contemplated, it must be paired with a credible plan to facilitate the shift from gas to electric end

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<sup>13</sup> 2018 IEPR at 29.

<sup>14</sup> Sempra Energy, 2017 Form 10-K, at 53 (Feb. 27, 2018).

<sup>15</sup> See A.17-10-007/008, *Opening Brief of Sierra Club and Union of Concerned Scientists* (Sept. 21, 2018), <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M236/K009/236009060.PDF>.

<sup>16</sup> *Id* at 2.

<sup>17</sup> Mark Chediak, *Sempra is Fighting Back Against Californians Who Want Natural Gas Gone*, Bloomberg (Feb. 21, 2019), <https://www.bloomberg.com/news/articles/2019-02-21/sempra-is-fighting-back-californians-who-want-natural-gas-gone>. It is unclear whether the costs of SoCalGas’ participation in this entity are at ratepayer expense.

uses and gradual decommissioning of gas infrastructure assets by no later than 2045, when the state must achieve carbon neutrality.

In contrast to separated gas and electric utilities, a joint utility, with appropriate direction and a reorientation of incentives, can enable a less adversarial and more orderly transition to electric end uses. A dual-fuel utility does not lose customers to another company through electrification, but builds its electric load. A dual-fuel utility may also be positioned to more systematically coordinate the transition away from gas—for example, by moving customers on a single street or distribution feeder off gas at a single time, to reduce overall system costs. Additionally, it is better able to coordinate employee movement from the gas division over to the electric division. As demonstrated in the comments from the Engineers and Scientists of California, rumors that a separation of PG&E’s gas and electric divisions may be imminent have led gas-side employees of the gas division to express concerns about job and pension security.<sup>18</sup> A unified company may be better oriented to protect workers’ concerns.

**2. To the Extent PG&E Transitions to a “Wires-Only” Utility, Continued Commission Oversight is Needed to Ensure Load-Serving Entities (“LSE”) Meet California’s Decarbonization Objectives.**

The Joint CCAs and other CCA parties recommend that PG&E leave the generation procurement and retail electric sales business to become a “wires-only” utility to remove “billions in debt equivalence from PG&E’s balance sheet” and “any distractions as PG&E or its successor on the ‘wires’ side of the business works to make its facilities safer.”<sup>19</sup> The Joint CCAs further assert that the Commission should likewise focus its attention on the safety of utility transmission and distribution. According to the Joint CCAs, Commission oversight of CCA procurement activity is largely unnecessary because of a “statutory compliance framework that clearly establishes standards that must be met (*i.e.*, reliability or decarbonization)” and because “there is a directly democratic corporate governance structure in place at a local level.”<sup>20</sup>

CalCCA identifies benefits to taking PG&E out of the retail sale business, such as facilitating an increased focus on safety and the removal of billions in debt equivalence from PG&E’s balance sheet. While potential benefits of this approach merit further exploration, it is

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<sup>18</sup> Engineers and Scientists of California Opening Comments at 3 (Feb. 13, 2019).

<sup>19</sup> Joint CCA Opening Comments at 6 (Feb. 13, 2019); MCE Opening Comments at 8.

<sup>20</sup> Joint CCA Opening Comments at 9-10.

critical to ensure CCAs and other LSEs collectively achieve California’s decarbonization objectives, and therefore some oversight of their procurement activity is necessary. Sierra Club strongly cautions against Shell Energy’s view that non-IOU procurement-related services be “subject to light-handed Commission regulation.”<sup>21</sup> As Sierra Club observed in joint comments with the California Environmental Justice Alliance (“CEJA”) in comments on LSE Integrated Resource Plans (“IRPs”), many LSE IRPs did “not appear to consider how to integrate their renewable portfolio on the grid” and did “not comply with the [disadvantaged community] and air quality [ ] requirements in D.18-02-019.”<sup>22</sup> Accordingly, Sierra Club agrees with TURN that “the state must have a mechanism for authorizing remedial procurement” in the event IRPs submitted by LSEs “reveal overall deficiencies relative to need, or otherwise fail to satisfy overall clean energy and climate goals.”<sup>23</sup> Whether this is in the form of a statewide entity to procure needed resources as directed or some other option, as TURN notes, there will continue to be “the need to ensure that electric resource planning will occur in a coherent and coordinated manner.”<sup>24</sup>

The need for coherent and coordinated procurement applies equally to increased municipalization. To the extent municipalization occurs, coordinated electric resource planning would also be appropriate to ensure the State is meeting its greenhouse gas reduction goals at the lowest cost. To inform this discussion, Sierra Club agrees with the Public Advocates Office that the Commission should “solicit statements of interest” from entities that may be interested in municipalizing PG&E’s assets.<sup>25</sup>

Sierra Club appreciates the opportunity to submit these Reply Comments and looks forward to working with the Commission in this proceeding.

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<sup>21</sup> Shell Energy Opening Comments at 4 (Feb. 13, 2019).

<sup>22</sup> R.16-02-007, *Comments of California Environmental Justice Alliance and Sierra Club to Load Serving Entities’ Integrated Resource Plans*, at 2, 3 (Sept. 12, 2018), <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M230/K490/230490447.PDF>.

<sup>23</sup> TURN Opening Comments at 17.

<sup>24</sup> *Id.* at 18.

<sup>25</sup> Public Advocates Office Opening Comments at 13.

Respectfully submitted,

/s/

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