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February 11, 2014

Commissioner Michel Peter Florio
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Improving Safety Oversight at the California Public Utilities Commission—Next Steps

Commissioner Florio,

Thank you for taking the time to participate in the November 18th hearing in San Francisco to share your experience and insight on how to improve safety oversight at the Commission. The Commission faces significant challenges across its operations, and it will need to continue to build trust between it and many of its partners, but with leadership such as yours and the Commission's talented staff I am confident that it will overcome those challenges.

I hope to clarify what we agreed would be positive next steps for the Commission to undertake in the next several months before we reconvene to discuss Commission progress and further action. I believe it imperative that we not only can agree on next steps but develop them in such a way as to minimize ambiguity. Time is precious, and I'm sure that, given your tenure litigating before the Commission prior your appointment, you fully appreciate the value of a common understanding of performance.

At the conclusion of the hearing on November 18th I proposed that Commission complete a number of tasks on a particular schedule. The ultimate goal in proposing these steps was for the Commission to be prepared to develop a strategic plan for safety by the first quarter of 2015, and these tasks are meant to develop the necessary assessments of the Commission's current performance so that it will be able to set informed goals in the 2015 plan.

First, I'd like to acknowledge two requests that the Commission has already completed. I had asked that the Commission begin the process of including safety into rate proceedings, and I note



that the Commission's rulemaking on the subject has already set a schedule for doing so. I had suggested that the Commission complete a more detailed version of its workplan pursuant to Public Utilities Code 321.6, due by February 1st. The workplan the Commission has produced has given the Commission and the Legislature enough to continue the discussion about Commission priorities, which I believe to be the most important aspect of that statutory requirement.

As Professor Richard Callahan suggested during the hearing, "deadlines increase performance." I would like your thoughts on the remaining proposed tasks and proposed deadlines:

- 1) Begin developing a framework for the integration of safety considerations into Commission business, including assessments of Commission and regulated entity performance (April-May 2014).
- 2) As a part of the above framework, survey Commission employees on their perceptions on the Commission's safety progress (January 2015)
- 3) Develop a strategic plan for safety (April 2015).

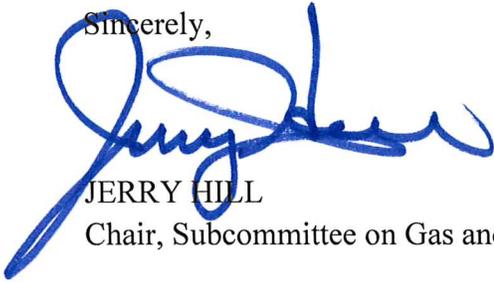
A description of these proposed tasks may be found in the attachment.

At the hearing I had suggested timetables for specific performance assessments, but instead, perhaps the Commission could address the progress it is making on performance assessments at a follow-up hearing in late spring of this year. I had also requested a list of programs and responsibilities, but the Commission will have to do this for its zero-based budgeting process. I therefore defer to the Department of Finance and the Senate and Assembly Budget Committees on this issue and look forward to seeing the results of their review.

I do not believe that these tasks, especially those I propose for you to complete by late spring, are inconsistent with those the Commission would like to or need to complete for its zero-based budgeting exercise. In fact, while I knew from your discussion at the November 18th Commission meeting that we had similar ideas of where the Commission needs improvement and what should be done about it, I came away from the hearing feeling even more positive that our visions were aligned.

Please let me know what you think of these requests, and feel free to contact me any time to discuss this further. I wish you all the best in addressing the challenges the Commission faces.

Sincerely,



JERRY HILL

Chair, Subcommittee on Gas and Electric Infrastructure Safety

cc: Michael R. Peevey, President, California Public Utilities Commission
Catherine J.K. Sandoval, Commissioner, California Public Utilities Commission
Carla J. Peterman, Commissioner, California Public Utilities Commission
Michael Picker, Commissioner, California Public Utilities Commission
Paul Clanon, Executive Director, California Public Utilities Commission
Senator Anthony Cannella
Senator Ellen M. Corbett
Senator Mark DeSaulnier
Senator Jean Fuller
Senator Steve Knight
Senator Lois Wolk
Senator Roderick D. Wright
Assemblymember Steven Bradford
Assemblymember Kevin Mullin

Attachment: Description of actions requested of the Commission

1) Begin developing a framework for the integration of safety considerations into Commission business, including assessments of Commission and regulated entity performance (April-May 2014).

As the Commission develops its framework for safety management, it should think about and be prepared to discuss how it will assess its safety performance and that of its regulated entities. In order for the Commission to know what steps it should take to improve the safety at gas and electric utilities, and to know how to evaluate safety programs proposed by those utilities, the Commission needs to understand the utilities' baseline safety performance. In discussing improving the effectiveness of integrity management audits, the Independent Review Panel stated, "there needs to be a collection of relevant data and the development of a history of performance to serve as a baseline and a methodology to follow to achieve the required results."

When thinking about measuring performance for a concept such as safety, which is not directly measurable, one often separates measures into two categories: *outputs* and *outcomes*. A measurement of *outputs* is a measurement of what gets done: audits, investigations, reports, etc. *Outcomes*, on the other hand, represent the goals for which one produces outputs: fewer injuries or fatalities, fewer hazardous leaks, fewer downed wires, etc. Responsibility for outcomes is complicated to assign for a regulator, as the operator is the entity ultimately responsible for outcomes and it can be difficult to determine how the regulator's influence affected those outcomes.

In order to set meaningful goals and develop actions to meet those goals, the Commission should determine the appropriate measures both its own output performance and the utilities' outcome performance.

2) As a part of the above framework, survey Commission employees on their perceptions on the Commission's safety progress (January 2015)

In the November 18th hearing, both Professor Callahan and Dr. Arendt discussed the importance of engaging employee feedback in developing high-performance programs. Professor Callahan stated that "the real challenge is to get closest to the people who are closest to the problem." Dr. Arendt further found that "the employee who is living with it everyday...provide[s] valuable input for the things we never thought about or never saw there." One can see how important the Legislature finds the opinions of Commission employees in its reaction to the release last spring of what is often called the "safety culture report."

The federal government performs and releases an annual employee survey for each of its agencies, and for the Commission to survey its employees and assess how they feel about the Commission's progress on safety is to learn from the people who understand best the Commission's strengths and weaknesses.

As a part of its framework for safety management, the Commission should be prepared to discuss how it plans leverage its employees knowledge and experience to further its safety mission. The Legislature will likely be interested to know if Commission employees are more comfortable with the Commission's commitment to carrying out its safety charge than they appeared to be in the "safety culture report." In its efforts to instill a safety culture in the Commission's regulated utilities, staff in the Safety and Enforcement Division have already identified some model safety culture surveys¹ which may guide the Commission in developing or contracting for its own surveys.

3) Develop a strategic plan for safety by April 2015.

Once the Commission has assessed its own strengths and weaknesses as well as those of the industries it regulates, it will be able to prioritize areas for improvement, determine additional resources that may be needed, and develop a strategic plan that includes goals, actions, and metrics to assess the effectiveness of those actions in reaching the goals.

¹ Chris Parkes, "Comments on Performance Metrics Developmental Workshop on Performance Metrics June 27, 2013 at the California Public Utilities Commission," R.11-02-019, July 12, 2013.

https://www.pge.com/regulation/GasPipelineSafetyOIR/Pleadings/SED/2013/GasPipelineSafetyOIR_Plea_SED_20130712_281258.pdf