GUEST JUICE

PG&E: Crisis Management; Management Crisis

By Arthur O'Donnell

Pacific Gas & Electric faces at least three credibility crises.

In typical corporate fashion, the utility is putting most of its effort into solving only one of them—managing the expectations of investors and the financial community. Without seriously addressing its other problems, PG&E risks losing even that struggle.

In some ways, PG&E's situation parallels that of Toyota.

The Japanese automaker confronted its own crisis management crisis in 2009-10. Long regarded as a global quality leader among carmakers, Toyota faced withering media criticism over a record series of recalls and accusations that its cars were prone to "sudden unintended acceleration." In the case of Prius hybrids, poor braking. Basically, consumers came to believe that Toyota vehicles were running away at high speed and killing people. It was also believed that Toyota had become more concerned with selling cars than with ensuring passenger safety.

According to some recent analyses, the actual dangers of the runaway cars appear highly exaggerated, and Toyota has finally managed to restore much of its consumer confidence. How the company's top management responded to its crisis may hold some lessons of value for PG&E.

Let's stipulate upfront that PG&E has long been the utility that many people love to hate.

Despite demonstrable evidence that the company is among the most environmentally progressive electric utilities in the nation and that its workforce contributes to local communities in thousands of beneficial ways—individually, economically, and socially—there is still a long history of corporate failures and shortcomings that will never be erased from memory. From decades of toxic contamination of groundwater in Hinkley, to the construction of the Diablo Canyon nuclear facility on an earthquake fault, and a legacy of political strong-arming against public power and community aggregation—PG&E has earned its enmity.

These situations continue—particularly the question of nuclear reactor safety following the Japanese earthquake.

The more direct, statewide, challenges are investigations into the San Bruno pipeline explosion and gas system safety and the mounting opposition to PG&E's rollout of "smart" meters.

While media fears and public concerns over these two issues might well prove as overheated as the "sticky pedal" crisis that confronted Toyota, PG&E would be best served by exhibiting the same kind of corporate humility shown by Toyota president Akio Toyoda when it became clear that public relations alone was not going to solve the carmakers' problems.

Customers first?

"There is a Japanese proverb: After the rain, the ground hardens," Toyoda said in an interview with Bloomberg reporters about a year ago. "I am very confident we will look back and say the company has become more focused on our customers and safety because we went through this period."

To his credit, PG&E chief executive officer Peter Darbee seemed initially humbled and concerned immediately following the September 2010 tragedy that took eight lives and destroyed three dozen homes in a quiet residential community. Announcing a $100 million "Rebuild San Bruno" fund, PG&E claimed that it would provide affected residents with all the support they needed and expected. The utility also agreed to cooperate fully with state and federal investigations to uncover the cause of the explosion and takes steps to ensure it would not reoccur.

As time progressed, however, the case against PG&E has mounted to include 50 years of bad decisions, shoddy to nonexistent recordkeeping, faulty pipeline welds and materials, and possibly willful noncompliance with regulatory orders. Even after the announcement of a utility reorganization to segregate electricity and gas operations, there is a sense that making a show of responsiveness to Wall Street by jettisoning some utility executives (with ample compensation packages) is more important than identifying and replacing potentially dangerous infrastructure.

On the "smart" meter front, there doesn't even seem to be a showing of sympathy for health concerns or sensitivity to community opposition. The utility's recently proposed "opt-out plan" reads like an insult—an attempt to make money from ratepayers who are already

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subsidizing the meter rollout. It's clear the utility only offered the plan because regulators told it to. Otherwise PG&E appears completely befuddled with how to effectively manage the growing calls for a moratorium on installation in dozens of California communities.

Industrial consultant Jeffrey Liker (author of "The Toyota Way" and "Toyota Under Fire") believes that Toyota withstood a "political and media attack" that amplified the car safety and recall problems. In a presentation earlier this month, Liker recounted the Toyota crisis and offered some thoughts on what lessons in crisis management could be learned from it. He didn't compare PG&E, but there certainly are some similarities.

Newspapers, especially the *Los Angeles Times*, were trying to win journalism awards at Toyota's expense, he said. Their overheated reports of scores of deaths attributed to the uncontrolled acceleration echoed throughout the blogosphere. Initially on the defensive, Toyota was slow to respond to consumer concerns.

Eventually, however, Toyota instituted a company-wide reassessment of practices and instituted some 8 million car recalls for safety checks. Virtually no real problems were found, and subsequent investigations uncovered only one or two accidents that could be attributed to sticky pedals, floor mats, or brake problems. The most highly publicized incident, in which four people died, was the result of a dealership installing an incorrect floor mat, which caught on the vehicle's accelerator pedal, he said.

Liker characterized the attitude of executive Akio Toyoda as "[N]ever pointing fingers. Whether claims were true or not, we have to take responsibility and think of customers first." And in the end it was a return to Toyota's "culture of responsibility" that pre-existed the incidents that helped the automaker overcome the alleged safety crisis.

The question for PG&E remains: Is there an underlying organizational culture of responsiveness to consumer concerns—not just to regulators and investors—that will take precedence? Or is the utility's true character better illustrated by its past sins and omissions?

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following the San Bruno accident, including providing fire personnel with information about the location of PG&E's transmission pipes and shutoff valves and ensuring rapid deployment of PG&E workers during an emergency.

This is the fifth gas settlement and "represents a negotiated compromise of many different interests," states the decision.

In other news, commissioners unanimously approved altering the renewable auction mechanism adopted at the end of last year.

Last December, the commission directed utilities to hold competitive auctions twice a year until they have purchased a statewide total of 1,000 MW of power capacity from small renewable energy project developers. Under the mechanism, renewable energy projects up to 20 MW in size can submit competitive bids to the state's investor-owned utilities (*Current*, Dec. 17, 2010).

"This is an important step to move towards a stable, predictable, and hopefully increasingly transparent market and ultimately one that keeps prices down," said commissioner Catherine Sandoval of the renewable auction mechanism expansion.

Simon expressed concerns about the closed-door nature of bilateral deals allowed under the auction mechanism. Along with Sandoval, he urged contract openness.

Expanding the auction mechanism is seen as another tool to help increase the state's level of alternative power supplies.

CPUC president Mike Peevey pointed out how the decision dovetails with this week's enactment of the 33 percent renewables portfolio mandate. He noted that in addition to signing the one-third renewable bill, the governor is calling for a 40 percent alternative energy goal. "I am confident we can reach 40 percent" he said, if projects obtain financing and necessary transmission to move the non-fossil power from where it's generated to where it's needed.

Peevey and Sandoval stressed the need for renewables and energy efficiency gains to go hand in hand. "Effective energy efficiency programs make it easier to reach a 40 percent renewable portfolio," said Peevey.

It expands the mechanism to include contracts between utilities and independent generators outside a bidding process.

—Elizabeth McCarthy