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14 *derivatively on behalf of PG&E Corporation*  
*and Pacific Gas & Electric Company*

15  
16 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**  
17 **IN AND FOR THE COUNTY OF SAN MATEO**

18 **HIND BOU-SALMAN, derivatively on**  
19 **behalf of PG&E Corporation and Pacific**  
**Gas & Electric Company,**

20 **Plaintiff,**

21 **v.**

22 **PETER A. DARBEE;**  
23 **CHRISTOPHER P. JOHNS;**  
24 **KENT M. HARVEY;**  
25 **BARBARA L. RAMBO;**  
26 **BARRY LAWSON WILLIAMS;**  
27 **C. LEE COX;**  
28 **DAVID R. ANDREWS;**  
**DAVID A. COULTER;**  
**FORREST E. MILLER;**  
**LESLIE S. BILLER;**  
**LEWIS CHEW;**  
**MARY S. METZ;**  
**MARYELLEN C. HERRINGER;**

**ENDORSED FILED**  
**SAN MATEO COUNTY**

SEP 23 2013  
Clerk of the Superior Court  
By G. MARQUEZ  
DEPUTY CLERK

Case No. **CIV 524283**

**VERIFIED COMPLAINT**

**DERIVATIVE CLAIMS FOR:**

1. **BREACH OF FIDUCIARY DUTY;**
2. **ABUSE OF CONTROL;**
3. **CORPORATE WASTE;**
- and**
4. **UNJUST ENRICHMENT**

**JURY TRIAL DEMANDED**

1 **RICHARD A. MESERVE;**  
2 **ROGER H. KIMMEL;**  
3 **ROSENDO G. PARRA;**  
4 **ANTHONY F. EARLEY, JR.;**  
5 **FRED J. FOWLER;**  
6 **RICHARD C. KELLY;**  
7 **THOMAS B. KING;**  
8 **WILLIAM T. MORROW;**  
9 **DINYAR B. MISTRY;**

10 **and DOES 1 through 50, inclusive,**

11 **Defendants,**

12 **-and-**

13 **PACIFIC GAS & ELECTRIC COMPANY;**  
14 **PG&E CORPORATION;**

15 **Nominal Defendants.**

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1 Plaintiff Hind Bou-Salman (“Plaintiff”), derivatively on behalf of PG&E Corporation and  
2 Pacific Gas & Electric Company (hereby referred to collectively as “PG&E,” the “Company” or  
3 the “Companies,” unless otherwise noted) brings this action against Defendants Peter A. Darbee  
4 (“Darbee”), Christopher P. Johns (“Johns”), Kent M. Harvey (“Harvey”), Barbara L. Rambo  
5 (“Rambo”), Barry Lawson Williams (“Williams”), C. Lee Cox (“Cox”), David R. Andrews  
6 (“Andrews”), David A. Coulter (“Coulter”), Forrest E. Miller (“Miller”), Leslie S. Biller  
7 (“Biller”), Lewis Chew (Chew”), Mary S. Metz (“Metz”), Maryellen C. Herrerger (“Herrerger”),  
8 Richard A. Meserve (“Meserve”), Roger H. Kimmel (“Kimmel”), Rosendo G. Parra (“Parra”),  
9 Thomas B. King (“King”), William T. Morrow (“Morrow”), Anthony F. Earley, Jr. (“Earley”),  
10 Fred J. Fowler (“Fowler”), Richard C. Kelly (“Kelly”) and Dinyar B. Mistry (“Mistry”)  
11 (hereinafter referred to collectively as “Defendants” or “Individual Defendants”) for violations of  
12 California common law and alleges the following based upon the investigation of Plaintiff and  
13 her counsel, including a review of legal and regulatory filings, press releases and media reports  
14 about PG&E.

15 I.

16 **INTRODUCTION**

17 ***Overemphasis on financial performance*** - While the company has multiple  
18 stated goals, top management may be overly focused on financial performance.  
19 Certainly the company must be financially healthy to fulfill its mission, but when  
20 top management focuses on financial performance and does not appear to be  
engaged in operational safety and performance, leadership may dampen the  
willingness of the organization to challenge the priorities or resources put in place  
by upper management.

21 - Finding of Jacobs Consultancy on PG&E’s Corporate Culture, June 24, 2011

22 1. **Profits over safety.** That has been the internal mantra of PG&E for nearly a  
23 decade; a mantra created, fostered and instilled into every level of PG&E by its senior  
24 management, particularly the Defendants in this case. PG&E’s corporate leadership has  
25 mismanaged the Company for years, allowing critically needed monies set aside for safety and  
26 operational purposes to be diverted for other purposes and, at the same time, approving lavish  
27 bonuses to PG&E’s management. For nearly a decade, the directors, officers and senior  
28 executives of PG&E all knowingly allowed PG&E’s transmission and distribution lines, the heart

1 of PG&E's assets, to remain undermaintained. Year after year, PG&E's officers and directors  
2 rejected the Company's own internal budgets regarding how much money was needed to safely  
3 maintain PG&E's transmission and distribution lines and, year after year, PG&E's officers and  
4 directors cut those budgets, leaving PG&E's transmission and distribution lines perennially  
5 undermaintained. This created a situation in which a catastrophic incident was not only possible,  
6 but a likely and foreseeable outcome of PG&E's corporate mismanagement.

7       2. Over the last few years, PG&E had been plagued by a series of major incidents,  
8 the most prominent being the Rancho Cordova (2008) and San Bruno (2010) pipeline explosions,  
9 which resulted in several deaths, many injuries and significant property damage. PG&E has now  
10 spent millions of dollars to compensate the victims of these accidents and to repair pipelines and  
11 infrastructure that has suffered from years of neglect and poor maintenance. PG&E is also now  
12 the target of multimillion dollar fines and increased regulatory oversight. In sum, due to the  
13 gross corporate mismanagement of PG&E by the Defendants, PG&E has suffered hundreds of  
14 millions, if not billions of dollars in losses, including (1) compensation paid to victims of  
15 PG&E's misconduct, (2) compensation paid to cities and counties, such as the City of San Bruno,  
16 for the significant harm caused by PG&E's misconduct, (3) significant legal fees relating to civil  
17 litigation as well as dealing with regulatory investigations; (4) substantial regulatory fines,  
18 including a potential \$2.25 billion fine sought by the California Public Utilities Commission  
19 ("CPUC"); and (5) significant reputational harm. According to PG&E's 2012 Annual Report,  
20 through December 31, 2012, the Companies have incurred cumulative charges of approximately  
21 \$1.83 billion related to the San Bruno accident and natural gas matters, much of which will not  
22 be recoverable through rates, and which the Companies concede will have a material negative  
23 impact on the Companies' future results of operations, financial condition, and cash flows.

24       3. In January 2012, the reason for PG&E's poor safety and operational protocols  
25 began to come to light when the CPUC found that PG&E had diverted more than **\$100 million in**  
26 **gas safety and operations money** collected from customers over a 15-year period. During the  
27 same period, PG&E's management approved lavish bonuses for executives.

1           4.       According to an independent audit and a staff report issued by the CPUC, PG&E  
2 was poorly managed and so concerned about profits and executive bonuses that it cut significant  
3 corners. According to sources, PG&E knew for decades that its records and record keeping was  
4 inadequate to meet the needs of protecting the public safety. Memos from a PG&E records  
5 manager were sent to PG&E management as early as 1993, stating that PG&E lacked basic  
6 information about its gas pipeline network and that the company's senior management was  
7 inviting disaster. Instead of seeking to cure this problem, PG&E's management instead  
8 eliminated the position of the PG&E whistleblower. The serious incidents that resulted in  
9 PG&E's massive losses and future exposure – costs now being borne by the Companies and their  
10 shareholders – were all foreseeable to Defendants and preventable by Defendants if they had  
11 made the conscious choice to make safety and strong operational controls a priority.

12           5.       In August 2012, the CPUC reiterated that, despite promises of change, there has  
13 been little to no real change by PG&E's management. A top official from the CPUC slammed  
14 PG&E for "meaningless" pledges of an increased focus on safety after the fatal San Bruno  
15 pipeline explosion in 2010. In a regulatory filing, CPUC safety program manager Raffy  
16 Stepanian urged the CPUC to impose sanctions on PG&E in connection with the San Bruno  
17 pipeline explosion.

18           6.       "Jingles and slogans aside, PG&E Co. has not changed its focus from serving the  
19 board to serving its customers, captive ratepayers and people of California," Stepanian wrote in  
20 the regulatory filing. A hearing is currently scheduled before an administrative law judge to  
21 determine the size of the monetary penalty to be imposed against PG&E. CPUC regulators are  
22 seeking a \$2.25 billion penalty, including a \$300 million fine (the largest fine in CPUC history),  
23 from PG&E for its misconduct. However, lawyers for the City of San Bruno have requested that  
24 those penalties be increased to \$3.85 billion and that PG&E be required to disgorge tax benefits  
25 it obtained from performing maintenance works on its pipeline network that PG&E should have  
26 done from the beginning. PG&E has stated that it believes these figures are excessive, yet  
27 numerous reports issued in the aftermath of the San Bruno pipeline explosion found a culture of  
28 neglect at PG&E in which profits were put above safety. This was a constant mantra in PG&E



1 that was reflected in its policies, including reducing the budgets for maintenance of PG&E's  
2 transmission and distribution lines. Those policies were approved by PG&E's directors, officers  
3 and senior executives, the Defendants herein.

4 7. A May 31, 2013 report regarding an audit of PG&E's finances found that the  
5 Defendants did not use more than \$50 million the company had collected from ratepayers that  
6 was meant to improve the gas pipeline network in the decade leading up to the deadly explosion  
7 in San Bruno. From 1999 to 2010, PG&E regularly failed to use all the money to fix and  
8 maintain small gas distribution lines that deliver natural gas to homes and businesses, according  
9 to the audit conducted for the CPUC. The audit company could not determine exactly where the  
10 money went but was definitive in stating that ineffective executive management caused the  
11 company to take money that was specifically earmarked for safety and to spend it elsewhere.

12 8. According to the 2013 report: "Executive leadership, process controls, internal  
13 communication, staffing, training, supervision, record keeping, auditing, information systems,  
14 asset knowledge, metrics reporting, and data analysis were all deficient. The result was  
15 substandard work quality and widespread non-compliance with PG&E's own standards." The  
16 2013 report added. "At the same time, the profits made by the gas distribution operations  
17 exceeded the levels authorized by the Commission."

18 9. More recently, on July 3, 2013, PG&E attempted to sneak a filing with the CPUC  
19 just before the Fourth of July weekend which it referred to as a "routine correction" in its  
20 documentation regarding its transmission and distribution pipelines. Instead, the so-called  
21 "routine" filing related to serious problems with major transmission lines between San Carlos  
22 and Millbrae. This stealth filing was done by PG&E while the current PG&E directors were in  
23 control of PG&E, including Anthony F. Earley, Jr., the current CEO, President and Chairman of  
24 PG&E Corporation. Two CPUC administrative judges reprimanded PG&E for this filing and  
25 recommended fines be imposed against PG&E. Thus, PG&E has not changed its culture,  
26 practices and policies, despite representations to the contrary. The continuing misconduct of the  
27 current PG&E Board of Directors, including its efforts to cover up the fact that PG&E's  
28

1 recordkeeping remains disastrously incomplete and inaccurate, continues to put PG&E at risk of  
2 more fines, penalties and other harm.

3 10. Because of the misconduct of the Defendants and their failure to comply with  
4 their fiduciary and legal obligations, PG&E has suffered serious financial injury. At a minimum,  
5 PG&E has had to spend over \$1.4 billion in mandated safety work and other expenses because of  
6 the negligence and misconduct of the Defendants. In their 2012 Annual Report, PG&E stated  
7 that “[t]hrough December 31, 2012, PG&E Corporation and the Utility [Pacific Gas & Electric  
8 Company] have incurred cumulative charges of approximately \$1.83 billion related to the San  
9 Bruno accident and natural gas matters.” PG&E is exposed to further fines going forward. Had  
10 PG&E’s management required that corporate funds be used for maintenance and repairs when it  
11 should have, the cost to PG&E would have been minimal in comparison to the significant  
12 financial injury the Company now faces and will face in the future. Instead of spending the tens  
13 of millions of dollars needed to ensure that its customers were safe, Defendants put their own  
14 pecuniary interest first.

15 11. Plaintiff brings this lawsuit against the officers and directors of PG&E for their  
16 mismanagement of PG&E and for the abandonment of their duties as fiduciaries. Defendants  
17 diverted hundreds of millions of dollars designated for gas safety and operations towards other  
18 corporate uses, and during the same time, approved lavish executive bonuses. After years of  
19 neglect and mismanagement, Plaintiff had no choice but to bring this suit, especially in light of  
20 new CPUC reports that demonstrate that, despite PG&E’s public proclamations, PG&E’s actions  
21 demonstrate no change in its corporate culture. Furthermore, with PG&E now facing further  
22 scandal, with a potential multi-billion dollar CPUC fine, now is the time to bring this derivative  
23 action, on behalf of PG&E, to rectify this history of misconduct and change PG&E’s corporate  
24 culture. Many of the current directors of PG&E are the same directors who reaped significant  
25 profits from the years of mismanagement at issue in this litigation, at the same time they presided  
26 over PG&E’s “profits over safety” corporate culture. They are not and cannot be considered  
27 disinterested in this litigation.

1 II.

2 NATURE OF THE ACTION

3 12. Plaintiff brings this derivative action against the Board of Directors and officers of  
4 PG&E for breaches of fiduciary duty arising from the fact that, for nearly a decade, they diverted  
5 hundreds of millions of dollars intended for various safety measures and operations projects.  
6 This money would have provided PG&E with the financial resources to maintain and repair its  
7 transmission and distribution pipelines and other infrastructure, preventing a series of devastating  
8 and serious incidents from occurring, which have resulted in the several deaths and injuries and  
9 has significantly impacted PG&E's reputation and financial condition. These catastrophic  
10 incidents were predictable and a change in PG&E's culture would have prevented them.

11 13. It has been the law in California that directors have a fiduciary relationship and a  
12 duty to act in the best interests of all shareholders, including minority shareholders. *Remillard*  
13 *Brick Co. v. Remillard-Danhini* (1952) 109 Cal. App. 2d 405; *Jones v. H.F. Ahmanson & Co.*  
14 (1969) 1 Cal.3d 93. As the California Supreme Court stated:

15 "The extensive reach of the duty of controlling shareholders and directors to the  
16 corporation and its other shareholders was described by the Court of Appeal in  
17 *Remillard Brick . . .*, where, quoting from the opinion of the United State Supreme  
18 Court in *Pepper v. Litton*, 308 U.S. 295 . . . the court held: 'A director is a  
19 fiduciary . . . Their powers are powers of trust. [Citation.]' . . . 'He cannot by the  
20 intervention of a corporate entity violate the ancient precept against serving two  
21 masters . . . He cannot utilize his inside information and his strategic position for  
22 his own preferment. . . . He cannot use his powers for his personal advantage and  
23 to the detriment of the stockholders and creditors no matter how absolute in terms  
24 that power may be and no matter how meticulous he is to satisfy technical  
25 requirements.' In *Remillard*, the Court of Appeal clearly indicated that the  
26 fiduciary obligations of the directors and shareholders are neither limited to  
27 specific statutory duties and avoidance of fraudulent practices nor are they owed  
28 solely to the corporation to the exclusion of other shareholders.

*Jones*, 1 Cal.3d at pp. 108-109 (emphasis added).

14 14. Officers of a corporation similarly owe a fiduciary duty to the corporation. *See*  
15 *e.g. Jones v. H.F. Ahmanson & Co.* (1969) 1 Cal.3d 93, 108-109; *GAB Business Services, Inc. v.*  
16 *Lindsey & Newsom Claim Services* (2000) 83 Cal.App.4th 409, 419, overruled on other grounds  
17 by *Reeves v. Hanlon* (2004) 33 Cal.4th 1140, 1148 ("an officer who participates in management  
18 of the corporation, exercising some discretionary authority, is a fiduciary of the corporation as a  
19 matter of law"); *Burt v. Irvine Co.* (1965) 237 Cal.App.2d 828, 850 ("all corporate officers and

1 directors owe the same fiduciary duty of good faith to the corporation and its stockholders”);  
2 *Daniel Orifice Fitting Co. v. Whalen* (1962) 198 Cal.App.2d 791, 794 (an officer who had  
3 participated in management was held to necessarily owe a fiduciary duty to that company).

4 15. Here, Defendants have a fiduciary duty to act in the best interests of PG&E and its  
5 shareholders - treating their interests with the same care and attention as they would their own  
6 interests. Defendants had an obligation to ensure that funds earmarked for safety and operational  
7 maintenance costs be used for their intended purpose. Maintaining a safe and reliable  
8 infrastructure was in the long-term best interests of the company, which Defendants  
9 compromised by putting their own short-term interests first. Defendants had an obligation to  
10 follow the recommendations of its own internal experts and staff regarding the amount of money  
11 necessary to properly safeguard PG&E’s transmission and distribution pipelines and other  
12 infrastructure from failure. Defendants failed to live up to their fiduciary obligations, by  
13 diverting monies needed for safety and maintenance, while at the same time approving  
14 significant executive bonuses. Defendants also routinely cut the repair, testing, inspection,  
15 replacement and/or maintenance budgets requested by PG&E’s own internal experts in order to  
16 save money, even offering incentives to employees not to downgrade safety repairs.

17 16. Defendants owe PG&E both a duty of care and a duty of loyalty. The duty of care  
18 requires Defendants to act in a prudent manner and in the best interests of the company, with all  
19 of the information available to them. Defendants breached that duty of care by failing to properly  
20 fund and staff PG&E’s pipeline operations and maintenance for nearly a decade. The duty of  
21 loyalty requires Defendants to put the interests of the company, PG&E, above their own personal  
22 pecuniary interests. Defendants also breached that duty by putting their own positions in the  
23 Company and the financial benefits they obtained from the company above the best interests of  
24 the Company itself. Instead of ensuring that PG&E adequately spent money and had the  
25 resources to operate and maintain its pipeline network in a safe manner, Defendants cut funding  
26 and, at the same time, approved executive bonuses they would and could receive from PG&E.

27 17. Defendants, for years, oversaw and promoted an atmosphere and culture in which  
28 short-term profits, cost cutting and personal profiteering was put ahead of the proper

1 management of the company. There was an express policy implemented by PG&E's directors  
2 and officers to save money at all costs, even though the Defendants knew that this policy would  
3 increase the risk of a devastating incident, such as the 2010 San Bruno pipeline explosion. It was  
4 not a question of if there would be an explosion, it was only a question of when and where.

5 18. This unlawful behavior has severely damaged PG&E. In addition to its exposure  
6 to monetary damages from civil litigation by victims and regulatory fines, PG&E has already  
7 incurred the huge cost of investigating misconduct, implementing remedial measures, and  
8 defending legal actions on multiple fronts, along with the corresponding damage to PG&E's  
9 business operations, corporate image and goodwill. At the same time, Defendants have been  
10 enriched by salaries, bonuses, fees, stock options and other perks not justified by PG&E's  
11 unlawful activities and performance under their stewardship.

12 19. Defendants' disregard for their own fiduciary and legal obligations has bred a  
13 climate and culture of corporate arrogance, where safety took a back seat to financial  
14 performance. Employees of PG&E were incentivized not to document problems regarding  
15 repairs or replacements. Defendants created a culture where the concerns of employees about  
16 incomplete and inaccurate records regarding the integrity of their pipeline system were repeatedly  
17 ignored by top executives in order to avoid costs. This was done even though the Defendants  
18 knew that cost-cutting meant that safety risk management evaluations for the transmission and  
19 distribution pipelines that stretch across the State of California would be compromised.

20 20. For these reasons and as set forth more fully herein, Plaintiff seeks to enjoin the  
21 Defendants from continuing to manage PG&E in the same manner going forward. Dramatic  
22 corporate governance and management policy and procedural changes are necessary to ensure  
23 that PG&E, which is an important part of California, makes safety and strong operational  
24 protocols a priority. Plaintiff, on behalf of PG&E, also seeks monetary damages from the  
25 Individual Defendants who abandoned their fiduciary duties and should now be held accountable  
26 for the financial and reputational harm suffered by PG&E and its shareholders.

27 21. Despite the massive amount of evidence that has surfaced surrounding PG&E's  
28 safety failures leading up to the September 9, 2010 explosion in San Bruno, PG&E continues to

1 be criticized for inaccuracies in its records regarding the condition of its pipelines, leading to  
2 unlawful operation of its transmission lines in heavily populated areas. These recent events  
3 demonstrate that, despite self-serving public relations statements proclaiming a change in  
4 corporate culture, the Individual Defendants have failed to implement changes to fix the recurrent  
5 problems that plagued PG&E in the past. By this action, the Plaintiff seeks to enjoin the  
6 wrongdoing of the Individual Defendants and to recover damages for PG&E against its wayward  
7 fiduciaries. As the August 2012 CPUC report indicates, the promises by PG&E that it would  
8 reform and change its culture were meaningless.

9 **III.**

10 **JURISDICTION AND VENUE**

11 22. This Court has jurisdiction of this dispute. The amount in controversy, exclusive  
12 of interest and costs exceeds the jurisdictional minimum of this Court. This case involves a  
13 California corporation which conducts substantial operations in this jurisdiction. The major  
14 incident that finally brought to light the years of corporate mismanagement at PG&E was the  
15 2010 San Bruno pipeline explosion which occurred in this jurisdiction. As the primary provider  
16 of power and energy to the majority of individuals, businesses and entities in northern and central  
17 California, PG&E has and will continue to have a substantial impact on the California economy.  
18 Each Defendant has sufficient contacts with California and as a director and/or officer of PG&E  
19 to make proper the exercise of personal jurisdiction over them.

20 23. Venue is proper in this Court. A substantial part of the events or omissions giving  
21 rise to the claims alleged occurred in San Bruno, California, which is located within this  
22 jurisdiction. Because a significant amount of the harm, as well as important evidence, is located  
23 within this jurisdiction, this is the best venue for this action. Each Defendant has sufficient  
24 contacts with this jurisdiction that venue in this jurisdiction is appropriate. Several Defendants  
25 reside within the County of San Mateo such that the exercise of jurisdiction by this Court is  
26 appropriate.

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IV.

**THE PARTIES**

**A. The Plaintiff**

24. Plaintiff **HIND BOU-SALMAN** (“Plaintiff”), a resident of Millbrae, San Mateo County, California, is the owner of 65 shares of PG&E Corporation stock. Plaintiff acquired her shares of Pacific Gas & Electric Company in 1990, which were then converted into common stock of PG&E Corporation in approximately 1997, when PG&E Corporation became the holding company for Pacific Gas & Electric Company. Plaintiff has continuously owned her PG&E Corporation stock at all times relevant hereto, continues to be a PG&E Corporation shareholder today, and intends to remain a PG&E Corporation shareholder.

25. Plaintiff’s allegations in this verified complaint, as they relate to her and her acts, are made upon personal knowledge as to herself and her acts, and upon information and belief as to all other allegations.

**B. The Nominal Defendants**

26. Nominal Defendant **PG&E CORPORATION** is a California corporation with corporate headquarters at 77 Beale Street, San Francisco, California. PG&E Corporation is named in this Complaint as a nominal defendant in its derivative capacity, and this shareholder’s derivative action is brought on its behalf. PG&E Corporation is headquartered and conducts the vast majority of its operations in California. PG&E Corporation is regulated by the CPUC. PG&E Corporation provides power and energy services throughout the State of California and is the primary provider of power and energy to northern and central California.

27. Nominal Defendant **PACIFIC GAS AND ELECTRIC COMPANY** is a California corporation with corporate headquarters at 77 Beale Street, San Francisco, California. Pacific Gas and Electric Company is the operating subsidiary of PG&E Corporation and is regulated by the CPUC. Pacific Gas and Electric Company provides power and energy services throughout the State of California and is the primary provider of power and energy in northern and central California. Pacific Gas and Electric Company is a subsidiary of PG&E Corporation

1 and is the operating subsidiary of PG&E Corporation. Pacific Gas and Electric Company and  
2 PG&E Corporation share many of the same officers and directors.

3 28. According to the 2012 Annual Report, PG&E Corporation, incorporated in  
4 California in 1995, is a holding company that conducts its business through Pacific Gas and  
5 Electric Company, a public utility operating in northern and central California. According to the  
6 2012 Annual Report, PG&E Corporation, without factoring in Pacific Gas & Electronic  
7 Company, has operating revenues of \$5 million, while PG&E Corporation, including the  
8 revenues of Pacific Gas & Electric Company has revenues in excess of \$12 billion.

9 29. Both Pacific Gas and Electric Company and PG&E Corporation will be referred  
10 to as “PG&E” or the “Companies” unless there is a reason why each company must be separately  
11 identified or distinguished.

12 **C. The Individual Defendants**

13 30. Defendant **PETER A. DARBEE** (“Darbee”) served as Chairman of the Board  
14 from January 2006 to April 2011, Chief Executive Officer from January 2005, President from  
15 January 2005 to June 2007, Senior Vice President and Chief Financial Officer from September  
16 1999 to December 2004 for PG&E Corporation. Darbee also held other positions including  
17 President and Chief Executive Officer from September 2008 to July 2009, and Chairman of the  
18 Board from January 2006 to May 2007. Darbee knew that PG&E was subject to regulation from  
19 the CPUC and the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) because  
20 of its extensive gas distribution and transmission line operations. Darbee also knew that, under  
21 the CPUC and PHMSA regulations, PG&E was required and is still required to implement an  
22 integrity management system (“IMP”) to identify, correct and mitigate risks to PG&E’s pipelines  
23 in areas that could affect human safety. As CEO and as a director of PG&E, Darbee was  
24 responsible for overseeing and supervising PG&E’s risk management practices. Darbee faces  
25 personal liability for his personal failure to ensure that adequate internal controls were  
26 implemented and adequate funding and staffing was available to ensure that PG&E’s pipeline  
27 network was safe and secure.



1 31. For the last few years, Defendant Peter A. Darbee received the following  
 2 compensation from PG&E:

Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value	LTIP Payouts	All Others	Total
2011	\$488,896	-	\$4,435,855	-	-	\$4,116,160	-	\$50,933	\$9,091,904
2010	\$1,182,160	-	\$4,966,124	-	-	\$2,137,343	-	\$107,759	\$8,393,386
2009	\$1,135,633	-	\$6,285,392	-	\$1,871,524	\$1,131,494	-	\$135,385	\$10,559,428
2008	\$1,090,833	-	\$5,733,999	-	\$1,285,002	\$1,461,189	-	\$150,210	\$9,721,233
2007	\$1,050,000	-	\$5,283,601	-	\$1,250,550	\$1,295,034	-	\$174,364	\$9,053,549
2006	\$975,000	-	\$3,866,389	\$604,092	\$1,485,900	\$1,028,440	-	\$230,237	\$7,990,058
2005	\$850,000	\$1,239,300	\$827,481	-	-	-	\$3,472	\$217,385	\$3,137,638
2004	\$525,000	\$585,926	\$372,505	-	-	-	\$366,928	\$28,190	\$1,878,558

12 32. Darbee received substantial financial benefits from serving in his role as CEO and  
 13 as a director of PG&E. These substantial financial benefits were obtained by Darbee at the same  
 14 time PG&E was underfunding and ignoring the safety obligations that PG&E owed to its  
 15 customers and to the citizens of the State of California. The current directors of PG&E owe their  
 16 positions and the substantial financial benefits obtained from those positions due to the  
 17 misconduct and malfeasance of Darbee. They are therefore unable to fairly and appropriately  
 18 adjudicate any demands made on them as to Darbee.

19 33. Defendant **CHRISTOPHER P. JOHNS** (“Johns”) serves as President of Pacific  
 20 Gas and Electric Company and has been a director of Pacific Gas and Electric Company since  
 21 2010. Johns has been with Pacific Gas and Electric Company since 1996 as Vice President and  
 22 Controller. Johns was named Senior Vice President and Controller of PG&E Corporation in  
 23 September 2001 and elected Chief Financial Officer in January 2005. He was named President  
 24 of Pacific Gas and Electric Company in August 2009. Johns knew that PG&E was subject to  
 25 regulation from the CPUC and the Pipeline and Hazardous Materials Safety Administration  
 26 (“PHMSA”) because of its extensive gas distribution and transmission line operations. Johns  
 27 also knew that, under the CPUC and PHMSA regulations, PG&E was required and is still  
 28 required to implement an integrity management system (“IMP”) to identify, correct and mitigate

1 risks to PG&E's pipelines in areas that could affect human safety. In his role as the CEO and as  
 2 a director of Pacific Gas and Electric Company, Johns was responsible for overseeing Pacific  
 3 Gas and Electric Company's risk management practices. Johns faces personal liability for his  
 4 personal failure to ensure that adequate internal controls were implemented and adequate funding  
 5 and staffing was available to ensure that PG&E's pipeline network was safe and secure.

6 34. For the last few years, Defendant Christopher P. Johns received the following  
 7 compensation from PG&E:

8 Year	Salary	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value	LTP Payouts	All Others	Total
9 2011	\$701,250	\$3,418,732	-	\$319,245	\$614,133	-	\$79,366	\$5,132,726
10 2010	\$672,500	\$1,932,429	-	-	\$629,560	-	\$76,696	\$3,311,185
11 2009	\$593,866	\$1,880,357	-	\$684,431	\$268,077	-	\$70,999	\$3,497,730
12 2008	\$541,457	\$893,206	-	\$350,809	\$193,500	-	\$89,819	\$2,068,791
13 2007	\$523,640	\$832,935	-	\$343,010	\$156,155	-	\$88,486	\$1,944,226
14 2006	\$494,000	\$931,415	\$221,802	\$414,071	\$157,985	-	\$94,638	\$2,313,911
15 2005	\$475,000	\$231,470	-	-	-	-	\$39,542	\$746,012
16 2004	\$316,860	\$265,537	-	-	-	\$114,323	\$16,817	\$713,537

17 35. Johns received substantial financial benefits from serving in his role as CEO and  
 18 as a director of PG&E. These substantial financial benefits were obtained by Johns at the same  
 19 time PG&E was underfunding and ignoring the safety obligations that PG&E owed to its  
 20 customers and to the citizens of the State of California. The current directors of PG&E owe their  
 21 positions and the substantial financial benefits obtained from those positions due to the  
 22 misconduct and malfeasance of Johns. They are therefore unable to fairly and appropriately  
 23 adjudicate any demands made on them as to Johns.

24 36. Defendant **KENT M. HARVEY** ("Harvey") serves as the Chief Financial Officer  
 25 of PG&E Corporation and has served in that position since August of 2009. Harvey has been  
 26 with PG&E since 1982. Through the last three decades, Harvey has been in many positions with  
 27 PG&E, including acting as Director of Financial Analysis, Director of Investor Relations,  
 28 Corporate Secretary, Vice President and Treasurer, and as Senior Vice President, Chief Financial

1 Officer and Treasurer of Pacific Gas and Electric Company. In 2005, Harvey became Senior  
2 Vice President and Chief Risk and Audit Officer for PG&E Corporation and in August of 2009  
3 became the Chief Financial Officer of PG&E Corporation. As the Chief Financial Officer of  
4 PG&E Corporation and Pacific Gas and Electric Company, Harvey was directly responsible for  
5 the finances of PG&E. He was thus the key person who knew of and approved years of  
6 underfunding of PG&E's operational and process safety procedures and policies. Harvey was  
7 well aware of and knew that the company was spending significantly less on operations and  
8 maintenance than was being requested by the operating departments and what was necessary to  
9 maintain PG&E's pipeline network safe and secure.

10 37. For the last few years, Defendant Kent M. Harvey received the following  
11 compensation from PG&E:

Year	Salary	Stock Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value	All Others	Total
2011	\$554,625	\$1,407,059	\$235,661	\$842,919	\$63,376	\$3,103,640
2010	\$537,500	\$1,011,982	-	\$1,009,678	\$62,876	\$2,622,036
2009	\$454,106	\$564,322	\$428,259	\$432,377	\$50,507	\$1,529,620

17 38. Harvey received substantial financial benefits from serving in his role as CEO and  
18 as a director of PG&E. These substantial financial benefits were obtained by Harvey at the same  
19 time PG&E was underfunding and ignoring the safety obligations that PG&E owed to its  
20 customers and to the citizens of the State of California. Harvey has served for many years as an  
21 officer of PG&E Corporation and Pacific and Gas Electric Company. In that role, Harvey was  
22 directly responsible for overseeing and supervising the consistent underfunding by PG&E of  
23 pipeline safety, operations and maintenance. Harvey's acts have allowed the directors of PG&E  
24 to reap substantial financial benefits. They are therefore unable to fairly and appropriately  
25 adjudicate any demands made on them as to Harvey.

26 39. Defendant **BARBARA L. RAMBO** ("Rambo") has served as a director of  
27 PG&E Corporation since January 2005, and as a member of the Finance Committee (Chairman,  
28 2008) and the Nominating, Compensation, and Governance Committee since 2005. She is

1 neither independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a  
2 demand to bring suit. Defendant Rambo faces personal liability for her personal failure to  
3 appropriately fund PG&E's pipeline operations and maintenance, as well as for ignoring  
4 warnings of a substantial risk of a catastrophic incident such as the Rancho Cordova and San  
5 Bruno pipeline explosions.

6 40. As a director of PG&E, Rambo was responsible for overseeing and implementing  
7 an internal control system to ensure that PG&E identified, corrected and mitigated any potential  
8 risks of the company's pipelines causing harm in areas that could affect human safety. In her  
9 capacity as a director of PG&E, Defendant Rambo was specifically charged with overseeing  
10 PG&E's risk management practices and policies. Defendant Rambo knew or recklessly allowed  
11 PG&E to violate CPUC and PHMSA regulations by failing to implement and/or maintain  
12 adequate internal controls with respect to PG&E's compliance with CPUC and PHMSA  
13 regulations. Defendant Rambo also approved and supported the underfunding of PG&E's  
14 pipeline operations and maintenance for nearly a decade. Defendant Rambo's misconduct  
15 created a high risk of a catastrophic incident such as the Rancho Cordova and San Bruno  
16 explosions. Defendant Rambo is unable to adequately and appropriately evaluate any demand on  
17 the Board of Directors since this complaint alleges acts of wrongdoing for which Defendant  
18 Rambo is potentially directly liable for.

19 41. For the last few years, Defendant Barbara L. Rambo has received the following  
20 compensation from PG&E:

Year	Cash	Stock Awards	Option Awards	All Others	Total
2011	\$158,000	\$89,970	-	\$95	\$248,065
2010	\$126,250	\$80,520	\$11,445	\$95	\$218,310
2009	\$98,750	\$54,981	\$37,860	\$95	\$191,686
2008	\$116,750	\$48,667	\$43,826	\$95	\$209,338
2007	\$77,500	\$24,000	\$52,475	\$95	\$154,070
2006	\$73,500	\$18,000	\$51,849	\$95	\$143,444

1           42.     Defendant **BARRY LAWSON WILLIAMS** (“Williams”) has served as a  
2 director of Pacific Gas and Electric Company since 1990 and a director of PG&E Corporation  
3 since 1996. Between 2003 through 2010, Defendant Williams was member of the Executive  
4 Committee (2003-2008), he served as Chairman of the Audit Committee from 2003 to 2008, a  
5 member of the Nominating, Compensation, and Governance Committee (2004-2007), and a  
6 member of the Finance Committee from 2003 to 2008, serving as Chairman in 2003. He is  
7 neither independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a  
8 demand to bring suit. Defendant Williams faces personal liability for his personal failure to  
9 appropriately fund PG&E’s pipeline operations and maintenance, as well as for ignoring  
10 warnings of a substantial risk of a catastrophic incident such as the Rancho Cordova and San  
11 Bruno pipeline explosions.

12           43.     As a director of PG&E, Defendant Williams was responsible for overseeing and  
13 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
14 any potential risks of the company’s pipelines causing harm in areas that could affect human  
15 safety. In his capacity as a director of PG&E, Defendant Williams was specifically charged with  
16 overseeing PG&E’s risk management practices and policies. Defendant Williams knew or  
17 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
18 and/or maintain adequate internal controls with respect to PG&E’s compliance with CPUC and  
19 PHMSA regulations. Defendant Williams also approved and supported the underfunding of  
20 PG&E’s pipeline operations and maintenance for nearly a decade. Defendant Williams’  
21 misconduct created a high risk of a catastrophic incident such as the Rancho Cordova and San  
22 Bruno explosions. Defendant Williams is unable to adequately and appropriately evaluate any  
23 demand on the Board of Directors since this complaint alleges acts of wrongdoing for which  
24 Defendant Williams is potentially directly liable for.

25           44.     For the last few years, Defendant Barry Lawson Williams has received the  
26 following compensation from PG&E:  
27  
28

Year	Cash	Stock Awards	Option Awards	All Others	Total
2011	\$208,500	\$89,970	-	\$2,095	\$300,565
2010	\$170,500	\$90,586	-	\$2,595	\$263,681
2009	\$149,250	\$89,981	-	\$2,595	\$241,826
2008	\$171,750	\$68,667	\$25,106	\$2,595	\$268,118
2007	\$149,500	\$64,000	\$38,251	\$95	\$251,846
2006	\$137,500	\$18,000	\$51,849	\$2,595	\$209,944

45. Defendant C. LEE COX ("Cox") has served as a director of PG&E Corporation and Pacific Gas and Electric Company since 1996 and serves as the non-executive Chairman of the Board of Pacific Gas and Electric Company. Between 2003 to 2010, he has been a member of the Executive Committee, Compensation Committee, (Chairman, 2004-2008), Finance Committee, and the Audit Committee (Chairman, 2003). He is neither independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to bring suit. Defendant Cox faces personal liability for his personal failure to appropriately fund PG&E's pipeline operations and maintenance, as well as for ignoring warnings of a substantial risk of a catastrophic incident such as the Rancho Cordova and San Bruno pipeline explosions.

46. As a director of PG&E, Defendant Cox was responsible for overseeing and implementing an internal control system to ensure that PG&E identified, corrected and mitigated any potential risks of the company's pipelines causing harm in areas that could affect human safety. In his capacity as a director of PG&E, Defendant Cox was specifically charged with overseeing PG&E's risk management practices and policies. Defendant Cox knew or recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to PG&E's compliance with CPUC and PHMSA regulations. Defendant Cox also approved and supported the underfunding of PG&E's pipeline operations and maintenance for nearly a decade. Defendant Cox's misconduct created a high risk of a catastrophic incident such as the Rancho Cordova and San Bruno explosions. Defendant Cox is unable to adequately and appropriately evaluate any demand on the Board of Directors

1 since this complaint alleges acts of wrongdoing for which Defendant Cox is potentially directly  
2 liable for.

3 47. For the last few years, Defendant C. Lee Cox has received the following  
4 compensation from PG&E as a director:

5 Year	Cash	Stock Awards	All Others	Total
6 2011	\$114,603	\$89,970	\$670,656	\$875,229
7 2010	\$161,500	\$90,586	\$95	\$252,181
8 2009	\$145,750	\$89,981	\$95	\$235,826
9 2008	\$140,750	\$68,667	\$95	\$209,512
10 2007	\$138,500	\$64,000	\$95	\$202,595
11 2006	\$126,500	\$48,000	\$95	\$174,595

12 48. Defendant **DAVID R. ANDREWS** (“Andrews”) has been a director of PG&E  
13 Corporation and Pacific Gas and Electric Company since 2000. He has been a member of the  
14 Executive Committee, Audit Committee, Nominating and Governance Committee, and the  
15 Public Policy Committee. He is neither independent nor disinterested in the wrongdoing alleged,  
16 nor capable of evaluating a demand to bring suit. Defendant Andrews faces personal liability for  
17 his personal failure to appropriately fund PG&E’s pipeline operations and maintenance, as well  
18 as for ignoring warnings of a substantial risk of a catastrophic incident such as the Rancho  
19 Cordova and San Bruno pipeline explosions.

20 49. As a director of PG&E, Defendant Andrews was responsible for overseeing and  
21 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
22 any potential risks of the company’s pipelines causing harm in areas that could affect human  
23 safety. In his capacity as a director of PG&E, Defendant Andrews was specifically charged with  
24 overseeing PG&E’s risk management practices and policies. Defendant Andrews knew or  
25 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
26 and/or maintain adequate internal controls with respect to PG&E’s compliance with CPUC and  
27 PHMSA regulations. Defendant Andrews also approved and supported the underfunding of  
28 PG&E’s pipeline operations and maintenance for nearly a decade. Defendant Andrews’

1 misconduct created a high risk of a catastrophic incident such as the Rancho Cordova and San  
2 Bruno explosions. Defendant Andrews is unable to adequately and appropriately evaluate any  
3 demand on the Board of Directors since this complaint alleges acts of wrongdoing for which  
4 Defendant Andrews is potentially directly liable for.

5 50. For the last few years, Defendant David R. Andrews has received the following  
6 compensation from PG&E as a director:

7 Year	Cash	Stock Awards	All Others	Total
8 2011	\$158,000	\$89,970	\$95	\$248,065
9 2010	\$126,250	\$80,520	\$95	\$218,310
10 2009	\$98,750	\$54,981	\$95	\$191,686
11 2008	\$116,750	\$48,667	\$95	\$209,338
12 2007	\$77,500	\$24,000	\$95	\$154,070
13 2006	\$73,500	\$18,000	\$95	\$143,444

14 51. Defendant **DAVID A. COULTER** (“Coulter”) served as a director of both Pacific  
15 Gas and Electric Company and PG&E Corporation from 1996 to 2008. Between 2003 to 2008,  
16 Coulter was a member of the Executive Committee (2004-2008), Finance and Nominating,  
17 Compensation, and Governance Committees (2003-2008). Coulter was a director of PG&E  
18 during a period of time when PG&E was grossly underspending on operational and process  
19 safety, creating a situation where a catastrophic incident was not only possible, but highly likely.  
20 Coulter has served as a director of PG&E for a long time and has developed strong and close  
21 personal relationships with the current members of the PG&E Board of Directors. The current  
22 directors, along with Defendant Coulter, were all jointly responsible for overseeing PG&E’s  
23 implementation of a risk management system. Defendant Coulter, along with the current  
24 directors, were responsible for underfunding PG&E’s pipeline operations and maintenance, and  
25 failed to implement a risk management system to prevent the known risk of a catastrophic  
26 incident in a populated area. The current directors are liable for the same wrongdoing as  
27 Defendant Coulter and cannot fairly and adjudicate any demand against Defendant Coulter  
28 because any allegations against Defendant Coulter would implicate the current directors.



1           52.     Defendant **FORREST E. MILLER** (“Miller”) has served as a director of both  
2 PG&E Corporation and Pacific Gas and Electric Company since February 2009. He is neither  
3 independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to  
4 bring suit. He is neither independent nor disinterested in the wrongdoing alleged, nor capable of  
5 evaluating a demand to bring suit. Defendant Miller faces personal liability for his personal  
6 failure to appropriately fund PG&E’s pipeline operations and maintenance, as well as for  
7 ignoring warnings of a substantial risk of a catastrophic incident such as the Rancho Cordova and  
8 San Bruno pipeline explosions.

9           53.     As a director of PG&E, Defendant Miller was responsible for overseeing and  
10 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
11 any potential risks of the company’s pipelines causing harm in areas that could affect human  
12 safety. In his capacity as a director of PG&E, Defendant Miller was specifically charged with  
13 overseeing PG&E’s risk management practices and policies. Defendant Miller knew or  
14 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
15 and/or maintain adequate internal controls with respect to PG&E’s compliance with CPUC and  
16 PHMSA regulations. Defendant Miller also approved and supported the underfunding of  
17 PG&E’s pipeline operations and maintenance. Defendant Miller’s misconduct created a high  
18 risk of a catastrophic incident such as the Rancho Cordova and San Bruno explosions.  
19 Defendant Miller is unable to adequately and appropriately evaluate any demand on the Board of  
20 Directors since this complaint alleges acts of wrongdoing for which Defendant Miller is  
21 potentially directly liable for.

22           54.     Defendant **LESLIE S. BILLER** (“Biller”) had served as a director of both PG&E  
23 Corporation and Pacific Gas and Electric Company from 2004 to 2008, as a member of Finance  
24 Committee from 2004 to 2007, Audit Committee from 2004-2005, and Public Policy Committee  
25 from 2005-2007. Biller was a director of PG&E during a period of time when PG&E was  
26 grossly underspending on operational and process safety, creating a situation where a  
27 catastrophic incident was not only possible, but highly likely. Biller has served as a director of  
28 PG&E for a long time and has developed strong and close personal relationships with the current

1 members of the PG&E Board of Directors. The current directors, along with Defendant Biller,  
2 were all jointly responsible for overseeing PG&E's implementation of a risk management  
3 system. Defendant Biller, along with the current directors, were responsible for underfunding  
4 PG&E's pipeline operations and maintenance, and failed to implement a risk management  
5 system to prevent the known risk of a catastrophic incident in a populated area. The current  
6 directors are liable for the same wrongdoing as Defendant Biller and cannot fairly and adjudicate  
7 any demand against Defendant Biller because any allegations against Defendant Biller would  
8 implicate the current directors.

9       55. Defendant **LEWIS CHEW** ("Chew") has served as a director of both PG&E  
10 Corporation and Pacific Gas and Electric Company since September of 2009. He is neither  
11 independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to  
12 bring suit. Defendant Chew faces personal liability for his personal failure to appropriately fund  
13 PG&E's pipeline operations and maintenance, as well as for ignoring warnings of a substantial  
14 risk of a catastrophic incident such as the Rancho Cordova and San Bruno pipeline explosions.

15       56. As a director of PG&E, Defendant Chew was responsible for overseeing and  
16 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
17 any potential risks of the company's pipelines causing harm in areas that could affect human  
18 safety. In his capacity as a director of PG&E, Defendant Chew was specifically charged with  
19 overseeing PG&E's risk management practices and policies. Defendant Chew knew or  
20 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
21 and/or maintain adequate internal controls with respect to PG&E's compliance with CPUC and  
22 PHMSA regulations. Defendant Chew also approved and supported the underfunding of  
23 PG&E's pipeline operations and maintenance. Defendant Chew's misconduct created a high risk  
24 of a catastrophic incident such as the Rancho Cordova and San Bruno explosions. Defendant  
25 Chew is unable to adequately and appropriately evaluate any demand on the Board of Directors  
26 since this complaint alleges acts of wrongdoing for which Defendant Chew is potentially directly  
27 liable for.

1           57. For the last few years, Defendant Lewis Chew has received the following  
2 compensation from PG&E:

3           Year	Cash	Stock Awards	All Others	Total
4           2011	\$116,500	\$89,970	\$2,595	\$209,065
5           2010	\$101,250	\$90,586	\$95	\$191,931
6           2009	\$27,492	-	\$24	\$27,516

7           58. Defendant **MARY S. METZ** (“Metz”) has been a director of Pacific Gas and  
8 Electric Company since March 1986 and a director of PG&E Corporation since December 1996.  
9 Between 2003 to 2010, she has been a member of the Executive Committee, Audit Committee,  
10 and the Public Policy Committee, which she served as Chairman from 2003-2007. Metz  
11 resigned as a PG&E director in 2009. Metz, however, was a director of PG&E during a period of  
12 time when PG&E was grossly underspending on operational and process safety, creating a  
13 situation where a catastrophic incident was not only possible, but highly likely. Metz has served  
14 as a director of PG&E for a long time and has developed strong and close personal relationships  
15 with the current members of the PG&E Board of Directors. The current directors, along with  
16 Defendant Metz, were all jointly responsible for overseeing PG&E’s implementation of a risk  
17 management system. Defendant Metz, along with the current directors, were responsible for  
18 underfunding PG&E’s pipeline operations and maintenance, and failed to implement a risk  
19 management system to prevent the known risk of a catastrophic incident in a populated area. The  
20 current directors are liable for the same wrongdoing as Defendant Metz and cannot fairly and  
21 adjudicate any demand against Defendant Metz because any allegations against Defendant Metz  
22 would implicate the current directors.

23           59. Defendant **MARYELLEN C. HERRINGER** (“Herringer”) has been a director  
24 of PG&E Corporation and Pacific Gas and Electric Company since October 2005 and has served  
25 as the non-executive Interim Chairman of the Board of Pacific Gas and Electric Company since  
26 May 1, 2011. She is neither independent nor disinterested in the wrongdoing alleged, nor  
27 capable of evaluating a demand to bring suit. Defendant Herringer faces personal liability for her  
28 personal failure to appropriately fund PG&E’s pipeline operations and maintenance, as well as

1 for ignoring warnings of a substantial risk of a catastrophic incident such as the Rancho Cordova  
2 and San Bruno pipeline explosions.

3         60. As a director of PG&E, Defendant Herringer was responsible for overseeing and  
4 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
5 any potential risks of the company's pipelines causing harm in areas that could affect human  
6 safety. In her capacity as a director of PG&E, Defendant Herringer was specifically charged with  
7 overseeing PG&E's risk management practices and policies. Defendant Herringer knew or  
8 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
9 and/or maintain adequate internal controls with respect to PG&E's compliance with CPUC and  
10 PHMSA regulations. Defendant Herringer also approved and supported the underfunding of  
11 PG&E's pipeline operations and maintenance for nearly a decade. Defendant Herringer's  
12 misconduct created a high risk of a catastrophic incident such as the Rancho Cordova and San  
13 Bruno explosions. Defendant Herringer is unable to adequately and appropriately evaluate any  
14 demand on the Board of Directors since this complaint alleges acts of wrongdoing for which  
15 Defendant Herringer is potentially directly liable for.

16         61. For the last few years, Defendant Maryellen C. Herringer has received the  
17 following compensation from PG&E:

Year	Cash	Stock Awards	Option Awards	All Others	Total
2011	\$169,434	\$89,970	-	\$2,595	\$261,999
2010	\$115,750	\$90,586	-	\$2,595	\$208,931
2009	\$96,250	\$89,981	-	\$2,595	\$188,826
2008	\$114,250	\$47,000	\$4,346	\$2,595	\$168,191
2007	\$77,500	\$26,250	\$3,617	\$2,595	\$109,962
2006	\$73,500	\$9,750	\$5,077	\$95	\$88,422

25         62. Defendant **RICHARD A. MESERVE** ("Meserve") has been a director of PG&E  
26 Corporation and Pacific Gas and Electric Company since December 2006, as a member of Public  
27 Policy Committee, and the Nominating and Governance Committee. He is neither independent  
28 nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to bring suit.

1 Defendant Meserve faces personal liability for his personal failure to appropriately fund PG&E's  
2 pipeline operations and maintenance, as well as for ignoring warnings of a substantial risk of a  
3 catastrophic incident such as the Rancho Cordova and San Bruno pipeline explosions.

4 63. As a director of PG&E, Defendant Meserve was responsible for overseeing and  
5 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
6 any potential risks of the company's pipelines causing harm in areas that could affect human  
7 safety. In his capacity as a director of PG&E, Defendant Meserve was specifically charged with  
8 overseeing PG&E's risk management practices and policies. Defendant Meserve knew or  
9 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
10 and/or maintain adequate internal controls with respect to PG&E's compliance with CPUC and  
11 PHMSA regulations. Defendant Meserve also approved and supported the underfunding of  
12 PG&E's pipeline operations and maintenance for nearly a decade. Defendant Meserve's  
13 misconduct created a high risk of a catastrophic incident such as the Rancho Cordova and San  
14 Bruno explosions. Defendant Meserve is unable to adequately and appropriately evaluate any  
15 demand on the Board of Directors since this complaint alleges acts of wrongdoing for which  
16 Defendant Meserve is potentially directly liable for.

17 64. Defendant Meserve has received the following compensation from PG&E:

Year	Cash	Stock Awards	All Others	Total
2011	\$104,707	\$89,970	\$1,095	\$195,772
2010	\$84,750	\$90,586	\$1,595	\$176,931
2009	\$81,250	\$89,981	\$1,095	\$172,326
2008	\$79,750	\$32,667	\$1,095	\$113,512
2007	\$67,500	\$16,000	\$95	\$83,595
2006	\$3,217	-	\$3	\$3,220

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25 65. Defendant **ROGER H. KIMMEL** ("Kimmel") has been a director of PG&E  
26 Corporation and Pacific Gas and Electric Company since January 2009. He is neither  
27 independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to  
28 bring suit. Defendant Kimmel faces personal liability for his personal failure to appropriately

1 fund PG&E's pipeline operations and maintenance, as well as for ignoring warnings of a  
2 substantial risk of a catastrophic incident such as the Rancho Cordova and San Bruno pipeline  
3 explosions.

4 66. As a director of PG&E, Defendant Kimmel was responsible for overseeing and  
5 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
6 any potential risks of the company's pipelines causing harm in areas that could affect human  
7 safety. In his capacity as a director of PG&E, Defendant Kimmel was specifically charged with  
8 overseeing PG&E's risk management practices and policies. Defendant Kimmel knew or  
9 recklessly allowed PG&E to violate CPUC and PHMSA regulations by failing to implement  
10 and/or maintain adequate internal controls with respect to PG&E's compliance with CPUC and  
11 PHMSA regulations. Defendant Kimmel also approved and supported the underfunding of  
12 PG&E's pipeline operations and maintenance. Defendant Kimmel's misconduct created a high  
13 risk of a catastrophic incident such as the Rancho Cordova and San Bruno explosions.  
14 Defendant Kimmel is unable to adequately and appropriately evaluate any demand on the Board  
15 of Directors since this complaint alleges acts of wrongdoing for which Defendant Kimmel is  
16 potentially directly liable for.

17 67. For the last few years, Defendant Kimmel has received the following  
18 compensation from PG&E:

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Year	Cash	Stock Awards	Stock Awards	All Others	Total
20 2011	\$102,250	\$89,970	\$89,970	\$95	\$192,315
21 2010	\$95,250	\$90,586	\$90,586	\$95	\$185,931
22 2009	\$88,250	\$67,481	\$67,481	\$95	\$180,162

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24 68. Defendant **ROSENDO G. PARRA** ("Parra") has been a director of PG&E  
25 Corporation and Pacific Gas and Electric Company since September 2009. He is neither  
26 independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to  
27 bring suit. Defendant Parra faces personal liability for his personal failure to appropriately fund  
28 PG&E's pipeline operations and maintenance, as well as for ignoring warnings of a substantial  
risk of a catastrophic incident such as the Rancho Cordova and San Bruno pipeline explosions.

1           69.     As a director of PG&E, Defendant Parra was responsible for overseeing and  
2 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
3 any potential risks of the company’s pipelines causing harm in areas that could affect human  
4 safety. In his capacity as a director of PG&E, Defendant Parra was specifically charged with  
5 overseeing PG&E’s risk management practices and policies. Defendant Parra knew or recklessly  
6 allowed PG&E to violate CPUC and PHMSA regulations by failing to implement and/or  
7 maintain adequate internal controls with respect to PG&E’s compliance with CPUC and PHMSA  
8 regulations. Defendant Parra also approved and supported the underfunding of PG&E’s pipeline  
9 operations and maintenance. Defendant Parra’s misconduct created a high risk of a catastrophic  
10 incident such as the Rancho Cordova and San Bruno explosions. Defendant Parra is unable to  
11 adequately and appropriately evaluate any demand on the Board of Directors since this complaint  
12 alleges acts of wrongdoing for which Defendant Parra is potentially directly liable for.

13           70.     Defendant **ANTHONY F. EARLEY, JR.** (“Earley”) became the President, Chief  
14 Executive Officer and Chairman of the Board of PG&E Corporation in 2011. He is neither  
15 independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to  
16 bring suit. Defendant Earley made representations to the public after he became the President,  
17 CEO and Chairman of the Board of PG&E Corporation that he would steer PG&E in a different  
18 direction and would rectify the years of mismanagement at PG&E and would change the PG&E  
19 corporate culture. However, it is now evident that Defendant Earley has not done so and has,  
20 instead, continued to lead PG&E in the same manner as his predecessors, which therefore  
21 subjects PG&E to the risk of further fines, penalties and lawsuits. Indeed, Defendant Earley’s  
22 representations that PG&E has changed from its past ways, when in fact PG&E has not, increases  
23 the potential liability faced by PG&E due to Defendant Earley’s misconduct. Defendant Earley  
24 was the President, CEO and Chairman of the Board of PG&E and directed PG&E’s policies in  
25 July of 2013, when PG&E attempted to sneak a disclosure about serious problems with one of  
26 PG&E’s major transmission lines past the CPUC as a “routine correction.” Defendant Earley,  
27 therefore faces substantial personal exposure, and has allowed PG&E to fact increased exposure,  
28

1 not only for continuing the misconduct of the earlier PG&E Board of Directors but also for  
2 misrepresenting to the public that PG&E is changing its operations and priorities.

3 71. As the President, CEO and Chairman of the Board of PG&E, Defendant Earley  
4 was in charge of overseeing and implementing an internal control system to ensure that PG&E  
5 identified, corrected and mitigated any potential risks of the company's pipelines causing harm in  
6 areas that could affect human safety. Defendant Earley was also specifically charged with  
7 overseeing PG&E's risk management practices and policies. Defendant Earley has not only  
8 failed to change PG&E's policies, procedures and practices regarding safety, but he has also  
9 misrepresented PG&E's and his efforts to change those policies, procedures and practices.  
10 Defendant Earley is unable to adequately and appropriately evaluate any demand on the Board of  
11 Directors since this complaint alleges acts of wrongdoing for which Defendant Earley is directly  
12 liable for.

13 72. Defendant **FRED J. FOWLER** ("Fowler") has been a director of PG&E  
14 Corporation and Pacific Gas and Electric Company since 2012. He is neither independent nor  
15 disinterested in the wrongdoing alleged, nor capable of evaluating a demand to bring suit.  
16 Defendant Fowler faces personal liability for supporting and/or approving PG&E's continuing  
17 failure to maintain inadequate records and for efforts to conceal the inadequacy of PG&E's  
18 records, including, for example, the recent attempt by PG&E, on July 3, 2013, to surreptitiously  
19 file a document with the CPUC as a "routine correction" when, in fact, the document shows  
20 serious problems with major transmission lines operated by PG&E.

21 73. As a director of PG&E, Defendant Fowler was responsible for overseeing and  
22 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
23 any potential risks of the company's pipelines causing harm in areas that could affect human  
24 safety. In his capacity as a director of PG&E, Defendant Fowler was specifically charged with  
25 overseeing PG&E's risk management practices and policies. Instead, Defendant Fowler has  
26 allowed PG&E to continue to operate in a dangerous and unsafe manner, while also allowing  
27 PG&E to misrepresent to the public that it is changing its approach. Defendant Fowler is unable  
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1 to adequately and appropriately evaluate any demand on the Board of Directors since this  
2 complaint alleges acts of wrongdoing for which Defendant Fowler is directly liable for.

3 74. Defendant **RICHARD C. KELLY** ("Kelly") has been a director of PG&E  
4 Corporation and Pacific Gas and Electric Company since 2013. He is neither independent nor  
5 disinterested in the wrongdoing alleged, nor capable of evaluating a demand to bring suit.  
6 Defendant Kelly faces personal liability for supporting and/or approving PG&E's continuing  
7 failure to maintain inadequate records and for efforts to conceal the inadequacy of PG&E's  
8 records, including, for example, the recent attempt by PG&E, on July 3, 2013, to surreptitiously  
9 file a document with the CPUC as a "routine correction" when, in fact, the document shows  
10 serious problems with major transmission lines operated by PG&E.

11 73. As a director of PG&E, Defendant Kelly was responsible for overseeing and  
12 implementing an internal control system to ensure that PG&E identified, corrected and mitigated  
13 any potential risks of the company's pipelines causing harm in areas that could affect human  
14 safety. In his capacity as a director of PG&E, Defendant Kelly was specifically charged with  
15 overseeing PG&E's risk management practices and policies. Instead, Defendant Kelly has  
16 allowed PG&E to continue to operate in a dangerous and unsafe manner, while also allowing  
17 PG&E to misrepresent to the public that it is changing its approach. Defendant Kelly is unable to  
18 adequately and appropriately evaluate any demand on the Board of Directors since this complaint  
19 alleges acts of wrongdoing for which Defendant Kelly is directly liable for.

20 75. Defendant **THOMAS B. KING** ("King"), served as President of PG&E  
21 Corporation and as Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007.  
22 Before that, he served as Senior Vice President of PG&E Corporation. King was an officer of  
23 PG&E Corporation and Pacific Gas and Electric Company during a period of time when PG&E  
24 was grossly underspending on operational and process safety, creating a situation where a  
25 catastrophic incident was not only possible, but highly likely. Defendant King, as an officer and  
26 director of PG&E Corporation and Pacific Gas and Electric Company, was responsible for  
27 implementing a risk management system and ensuring that there was an adequate budget and  
28 staff expertise to safely operate and maintain PG&E's pipeline network. Defendant King, with

1 the support and approval of some of the current directors of PG&E, allowed PG&E to make  
2 safety a low priority in comparison to profits. Defendant King is therefore liable to PG&E for  
3 breach of his fiduciary duties to the company and the directors are not able to properly and fairly  
4 evaluate any demand against him because they are complicit in the same wrongdoing that is  
5 being alleged against Defendant King.

6 76. Defendant **WILLIAM T. MORROW** (“Morrow”) served as President, Chief  
7 Executive Officer and Director of Pacific Gas & Electric Company from July 1, 2007 to  
8 September 1, 2008. From August 15, 2006 to June 30, 2007, he served as its President and Chief  
9 Operating Officer. Morrow was an officer of Pacific Gas and Electric Company during a period  
10 of time when PG&E was grossly underspending on operational and process safety, creating a  
11 situation where a catastrophic incident was not only possible, but highly likely. Defendant  
12 Morrow, as an officer and director of Pacific Gas and Electric Company, was responsible for  
13 implementing a risk management system and ensuring that there was an adequate budget and  
14 staff expertise to safely operate and maintain Pacific Gas and Electric Company’s pipeline  
15 network. Defendant Morrow, with the support and approval of some of the current directors of  
16 Pacific Gas and Electric Company, allowed Pacific Gas and Electric Company to make safety a  
17 low priority in comparison to profits. Defendant Morrow is therefore liable to Pacific Gas and  
18 Electric Company for breach of his fiduciary duties to the company and the directors are not able  
19 to properly and fairly evaluate any demand against him because they are complicit in the same  
20 wrongdoing that is being alleged against Defendant Morrow.

21 77. Defendant **DINYAR B. MISTRY** (“Mistry”) is the Chief Financial Officer of  
22 Pacific Gas and Electric Company and has been in that position since 2011. Defendant Mistry  
23 was the Vice President and Controller of PG&E Corporation and Pacific Gas and Electric  
24 Company since 2010. Defendant Mistry was also the Vice President and Chief Risk and Audit  
25 Officer for PG&E from August 2009 through March 2010 and the Vice President and Chief Risk  
26 and Audit Officer for Pacific Gas and Electric Company from September 2009 to March 2010.  
27 Defendant Mistry was also PG&E Corporation’s Vice President, Internal Auditing/Compliance  
28 and Ethics from January 2009 to July 2009 and Pacific Gas and Electric Company’s Vice

1 President, Regulation and Rates from November 2005 to December 2008. Defendant Mistry, as  
2 the Chief Financial Officer and Chief Risk and Audit Officer was responsible for ensuring that  
3 PG&E Corporation and Pacific Gas and Electric Company met its safety obligations under  
4 federal and California law. Instead, Defendant Mistry oversaw and permitted PG&E Corporation  
5 and Pacific Gas and Electric Company to underfund and understaff pipeline operations and  
6 maintenance, creating a high likelihood of a catastrophic incident. Defendant Mistry was  
7 responsible for ensuring that adequate resources was devoted to safety, and that safety was a  
8 priority at PG&E. Instead, Defendant Mistry permitted PG&E to put profits before safety.

9 **D. Doe Allegations**

10 78. Except as described herein, Plaintiff is ignorant of the true names of defendants  
11 sued as Does 1 through 50, inclusive, and, therefore, Plaintiff sues these defendants by such  
12 fictitious names. Following further investigation and discovery, Plaintiff will seek leave of this  
13 Court to amend this Complaint to allege their true names and capacities when ascertained. These  
14 fictitiously named defendants are the Company's officers, other members of management,  
15 employees and/or consultants who were involved in the wrongdoing detailed herein. These  
16 defendants aided and abetted and/or conspired with the named defendants in the wrongful acts  
17 and course of conduct or otherwise caused the damages and injuries claimed herein and are  
18 responsible in some manner for the acts, occurrences and events alleged in this Complaint.

19 **E. Unnamed Participants**

20 79. Numerous individuals and entities participated actively during the course of and in  
21 furtherance of the wrongdoing described herein. The individuals and entities acted in concert by  
22 joint ventures and by acting as agents for principals, in order to advance the objectives of the  
23 scheme in order to benefit Defendants and themselves to the detriment of PG&E.

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V.

**STATEMENT OF FACTS**

**A. PG&E is the Primary Energy Provider in Northern and Central California**

80. PG&E is one of the largest combination natural gas and electric utilities in the United States. It provides natural gas and electric services to approximately 15 million people throughout a 70,000-square mile service area in northern and central California. PG&E is one of the major providers of natural gas, electricity and power in the State of California and is the principal provider of such services in northern and central California.

81. PG&E owns and operates major and technically complex facilities that generate electricity and that transport large quantities of electricity and gas for significant distances. These activities are potentially dangerous to the general public, especially when the transmission facilities are located in populated areas.

82. PG&E is regulated by the CPUC. The CPUC's mission is to ensure safe, reliable utility service at reasonable rates. It has jurisdiction to set the rates, terms and conditions of service for PG&E.

83. Based on information and representations made to it by PG&E, the CPUC sets the fees or rates that it may charge to California customers. Every three years, PG&E presents to the CPUC how much revenue it needs to provide safe and reliable utility service, which includes how much it will likely receive in revenue from its assets such as gas storage. The CPUC adopts an expected revenue figure based on the information provided by PG&E, and sets reasonable rates that may be charged to PG&E's customers.

**B. The Individual Defendants Are Responsible For Ensuring PG&E Is Complying with California and Federal Regulations**

84. As a utility, PG&E is subject to extensive regulation and regulatory oversight from both the federal government and from the State of California.

85. Federal law dictates how gas pipelines should be built and operated while allowing states to adopt additional requirements.

1           86.     The Pipeline and Hazardous Materials Safety Administration (“PHMSA”) is an  
2 agency within the Department of Transportation (“DOT”) that is responsible for ensuring that  
3 pipeline operators, such as PG&E, operate safely. Pub. L. 108-426, 118 Stat. 2423 (Nov. 30,  
4 2004). PHMSA is responsible for pipeline safety regulations and enforcement. In California, the  
5 CPUC is primarily responsible for enforcement of safety regulations.

6           87.     PHMSA regulations make operators of gas transmission pipelines affecting a  
7 “high consequence area” (“HCA”), *e.g.* densely populated areas, responsible for assessing and  
8 ensuring the integrity of their pipelines. The regulations are designed to prevent the type of  
9 catastrophic incident that occurred in Rancho Cordova in 2008 and San Bruno in 2010.  
10 Operators are required to develop and adopt a written integrity management (“IMP”) program  
11 that addresses the risks on each segment of the pipeline. An IMP is required to include, among  
12 other things:

- 13           ●     A Baseline Assessment Plan that: identifies potential threats to each  
14 covered segment; identifies methods to assess integrity based on the  
15 threats identified for each covered segment (*e.g.*, internal inspection,  
16 pressure testing, direct assessment, or other technology); identifies a  
17 schedule for completing the assessments including the risk factors used in  
18 determining schedule priorities; contains a direct assessment plan, if  
19 applicable (including the gathering and integration of risk factor data,  
20 indirect examination or analysis to identify areas of suspected corrosion,  
21 direct examination of the pipeline in these areas, and post assessment  
22 evaluation) appropriate for the threats identified for the covered segments;  
23 and includes a procedure for ensuring that the baselines assessments are  
24 conducted in a manner that minimizes environmental and safety risks;
- 25           ●     Identification of threats to each covered segment, including by the use of  
26 data integration and risk assessment.
- 27           ●     Provisions for remediating conditions found during integrity assessments;
- 28           ●     A process for continual evaluation and assessment;
- A confirmatory direct assessment plan, if applicable;
- A process to identify and implement additional preventive and mitigative  
                measures;
- A performance plan including the use of specific performance measures;
- Recordkeeping provisions;
- Quality Assurance process;
- Communication Plan; and

1                   ●     Procedures for providing to regulatory agencies copies of the risk analysis  
2                   or integrity management program.

3           88.     A pipeline operator's IMP must document minimum qualification requirements  
4     for the following people:

- 5                   ●     Supervisory personnel;
- 6                   ●     Persons who carry out integrity assessments and evaluate assessment  
7                   results; and
- 8                   ●     Persons responsible for additional preventive and mitigative actions.

9           89.     A pipeline operator's IMP must also identify and evaluate all potential threats to  
10    the covered segment. The operator must collect and integrate data from the entire pipeline that  
11    could be relevant to the covered segment and conduct a risk assessment. If an operator identifies  
12    any of the following threats, it must take specific actions to address the threats:

- 13                   ●     Third Party Damage - Operators must use data integration from the  
14                   assessment of other threats to identify potential third party damage and  
15                   take additional preventive and mitigative actions;
- 16                   ●     Cyclic Fatigue - Operators must use cyclic fatigue analysis to prioritize  
17                   baseline assessments and reassessments;
- 18                   ●     Manufacturing and Construction Defects - Operators must prioritize a  
19                   segment containing manufacturing or construction defects as high risk  
20                   segments unless it shows by analysis that the defect is stable and that the  
21                   risk of failure is low;
- 22                   ●     ERW [Electric Resistance Welded] Pipe - Covered segments containing  
23                   low frequency electric resistance welded pipe or lap welded pipe must be  
24                   prioritized as a high risk segment for the baseline assessment or  
25                   reassessment, and assessed using technologies proved to be capable of  
26                   assessing seam integrity and of detecting seam corrosion anomalies; and
- 27                   ●     Corrosion - If corrosion is identified, all similar pipeline segments (both  
28                   covered and non-covered) with similar coating and environmental  
                    characteristics must be evaluated and remediated, as necessary.

29           90.     Pipeline operators must complete the baseline assessment of 50% of their covered  
30    segments beginning with the highest risk segments, by December 17, 2007 and 100% of their  
31    covered segments by December 17, 2012. High pressure gas pipelines in HCAs must be  
32    reassessed every seven years therefore. 49 C.F.R. § 192.939(a).

33           91.     Operators must conduct risk assessments to identify additional preventive and  
34    mitigative measures to protect HCAs such as San Bruno and enhance public safety. 49 C.F.R. §

1 192.917(c). A pipeline operator must also perform a “risk analysis” of its pipelines in HCAs to  
2 identify “additional measures” to enhance public safety. The additional measures include, but are  
3 not limited to, the same additional measure for risks identified under risk assessments. 49 C.F.R.  
4 § 192.935(a).

5 92. A pipeline operator must perform a periodic evaluation based on data integration  
6 and risk assessment and implement a program to continually assess the integrity of its pipelines.

7 93. The time in which certain defects must be remediated depends upon their severity.  
8 For a defect which is classified as “Immediate Conditions”, *e.g.* a condition that requires  
9 immediate attention, pressure must be reduced in the pipe until the condition is repaired.

10 94. An operator’s IMP must include methods to measure the effectiveness of its  
11 program. Pipeline operators must submit their performance measures to the DOT semi-annually.

12 95. According to the IMP report submitted by PG&E to the DOT on August 26, 2010,  
13 for the six month period ending on June 30, 2010, PG&E had 5,722 miles of natural gas pipe of  
14 which 1,022 miles were in HCAs; and they had only inspected 90 miles of HCA pipe during that  
15 six month period.

16 96. The CPUC has adopted General Order (“GO”) 112-E, Rules Governing Design,  
17 Construction, Testing, Maintenance, and Operation of Utility Gas Gathering, Transmission, and  
18 Distribution Piping Systems. GO 112-E supplements PHMSA’s safety regulations within  
19 California.

20 97. Public Utilities Code § 451 mandates that “[e]very public utility shall furnish and  
21 maintain such adequate, efficient, just and reasonable service, instrumentalities, equipment, and  
22 facilities . . . as are necessary to promote the **safety, health**, comfort and convenience of its  
23 patrons, employees and the public.” (emphasis added)

24 98. These regulations were known to the Individual Defendants. As the top officers  
25 and directors of PG&E, they had the responsibility of ensuring that these regulations were met  
26 and that safety was made a top priority at PG&E, in order to protect human lives and property,  
27 and to ensure that there were no serious events that would significantly impact and harm PG&E.  
28

1 The Individual Defendants failed in their obligations to ensure that PG&E complied with federal  
2 and California state regulations.

3 99. PG&E's own website identifies a program called the "Enterprise Risk  
4 Management (ERM)" program which purportedly takes a holistic approach to managing risk.  
5 This ERM program is led by PG&E's Chief Risk and Audit Officer. As the website states:

6 For potentially catastrophic risks, cross-functional teams, guided by subject matter  
7 experts and experienced managers, followed a systematic method to identify the  
8 risks, evaluate the likelihood and severity of consequences as well as the adequacy  
9 of controls, and monitor ongoing risk management activity. Oversight by senior  
10 officers helps ensure risk management activities are consistent with the  
11 company's overall corporate strategy. **Regular communication to the PG&E  
12 Corporation and Pacific Gas and Electric Company Board of Directors  
13 enhances accountability and reinforces the importance of risk management  
14 at all levels of the company.**

15 100. This indicates that the Individual Defendants knew and understood that it was  
16 their responsibility to manage risk and ensure that safety was a priority. Instead, the Individual  
17 Defendants put profits before safety, which has resulted in the significant harm to PG&E that is  
18 the subject of this lawsuit. The PG&E website goes on to state that PG&E's senior leadership,  
19 including the Individual Defendants constantly identify and evaluate the top risks facing the  
20 company in two to three year cycles. In other words, the chronic underfunding and understaffing  
21 of PG&E's pipeline network was well known to the Individual Defendants, who would have  
22 been aware of these concerns from these periodic ERM evaluations.

23 101. The PG&E 2008 Corporate Responsibility Report states that PG&E takes an  
24 integrated approach to ERM. ERM is defined to include catastrophic risks, as well as risks  
25 associated with operations, and regulatory issues.

26 102. The 2008 PG&E Corporate Responsibility Report assures shareholders that  
27 "[o]versight by a committee comprising senior officers helps ensure risk management activities  
28 are consistent with the company's overall corporate strategy. Regular communication to the  
29 PG&E Corporation and Utility Boards of Directors enhances accountability and reinforces the  
30 importance of risk management at all levels of the company." (emphasis added)



1           103. In 2005, Defendant Harvey was named Senior Vice President and Chief Risk and  
2 Audit Officer for PG&E Corporation. He left that position in August of 2009 when he became  
3 Chief Financial Officer.

4           104. Defendant Mistry became Chief Risk and Audit Officer for PG&E Corporation in  
5 September of 2009.

6           105. On February 25, 2010, Anil K. Suri became Chief Risk and Audit Officer for  
7 PG&E. Mr. Suri had primary responsibility for ERM, market and credit risk and corporate  
8 security. As the Chief Risk and Audit Officer of PG&E, Mr. Suri also reported to Defendant  
9 Harvey, the Chief Financial Officer.

10           106. By combining the risk and finance operations together, PG&E internally decided  
11 that safety and profits were linked. In other words, all risk mitigation processes, regardless of  
12 how important it was for safety purposes, had to be financially justified. Again, protecting  
13 profits was demonstrably more important than protecting safety.

14 **C. PG&E Misappropriated Millions From Customers**

15           107. Based on representations made by PG&E to the CPUC and the public, from 1997  
16 to 2010, PG&E collected more than \$100 million from its customers for safety measures and  
17 other operations projects. More specifically, PG&E collected money for natural gas safety  
18 programs, including inspections, pipeline replacement, pipeline maintenance and safety, pipeline  
19 transmission operations, and other capital expenditures. This money was earmarked for pipeline  
20 and infrastructure maintenance and safety. PG&E was able to convince the CPUC and ratepayers  
21 to accept this because the CPUC and ratepayers thought this money would be used for  
22 maintenance and safety. This would prevent catastrophic and serious accidents that would have a  
23 serious toll on human lives and drastically impact PG&E's financial condition and reputation.  
24 PG&E's misconduct threatens its position as a regulated entity under the CPUC.

25           108. However, rather than spend the hundreds of millions of dollars obtained from  
26 customers in the manner that was represented, PG&E instead funneled the money from the  
27 operating subsidiary PG&E Company to the parent corporation, PG&E Corporation. At the same  
28 time, PG&E maintained quarterly cash dividends for common stock and cash dividends from

1 retained earnings; repurchased stock from PG&E Corporation or from a PG&E subsidiary; and/or  
2 provided bonuses or “incentives” to management and employees. In other words, instead of  
3 ensuring that PG&E had a solid and well-maintained infrastructure that would be safe and  
4 dependable for years to come, PG&E left itself vulnerable to an increased risk of a catastrophic  
5 event at the same time Defendants approved executive bonuses.

6 109. In particular, PG&E purportedly charged its customers \$5 million to fix the San  
7 Bruno pipeline in 2009, but delayed the repair citing other priorities. That same year, PG&E  
8 spent \$5 million in executive bonuses.

9 **D. PG&E Consistently Cut Its Budget For Maintenance of Transmission and**  
10 **Distribution Lines and Encouraged Employees Not to Conduct Necessary Repairs**  
11 **and Maintenance**

12 110. PG&E consistently cut its budget for maintenance of transmission and distribution  
13 lines and other key infrastructure. Transmission pipelines are the major pipelines that traverse  
14 the State of California. These are high pressure steel pipes that carry gas from power stations.  
15 Distribution pipelines are the smaller steel pipe that connect to the transmission pipelines and  
16 carry gas to individual locations, such as homes and businesses. This network of pipelines has  
17 been in operation for decades and requires constant maintenance to ensure that they are safe.  
18 These pipelines, especially the transmission pipelines, are highly pressurized. PG&E has internal  
19 departments that are specifically responsible for handling these pipelines. For example, one  
20 department would have experts, employees and staff who were focused on proper recordkeeping,  
21 assessments and maintenance of the transmission pipelines, and another department would be  
22 responsible for the distribution pipelines.

23 111. Each year, these departments would determine how much money was needed for  
24 evaluation, testing, maintenance and/or repairs of transmission and distribution lines. These  
25 internal departmental budgets would go up the chain to the Defendant directors and officers who  
26 were responsible for formulating a central budget. These Defendants routinely cut the budgets of  
27 these departments without any legitimate engineering basis for believing that the budgets were  
28 too high and were not necessary to maintain the pipelines. Rather, these Defendants routinely cut  
these budgets simply to protect PG&E’s bottom line and increase PG&E’s reported profits. This

1 was done to protect the Defendants and ensure that they remained in their positions at PG&E and  
2 continued to reap substantial personal gain from their positions.

3 112. Furthermore, year after year, PG&E misrepresented to the CPUC the amount of  
4 funds necessary to maintain PG&E's infrastructure. PG&E is required to make presentations to  
5 the CPUC about its needs in order to obtain monetary and other assistance from the CPUC in  
6 order to ensure that PG&E has the financial resources to maintain its pipeline network and  
7 infrastructure. For example, PG&E's presentations to the CPUC affect the rates that PG&E can  
8 charge its customers. However, for years, PG&E misrepresented the amount of money it needed  
9 and would allot to operational and maintenance needs. Defendants consistently spent less and  
10 less money on operations and maintenance, fully aware of the dangerous risks they were creating  
11 and the probable dangerous consequences of their failure to address the risk of a catastrophic loss  
12 caused by PG&E's deficient transmission and distribution pipeline system.

13 **E. PG&E's History of Incidents is Known to the Defendants**

14 113. PG&E has a long history of incidents with its pipeline networks that has been  
15 documented and is known to the Individual Defendants. For example, in 1981, a 16 inch natural  
16 gas main operated by PG&E in downtown San Francisco ruptured. This caused the release of a  
17 gas that contained highly toxic PCBs. It took workers nine hours to stop the flow of gas because  
18 of difficulties in closing the manual shut off valves.

19 114. Christopher Hart, the Vice Chairman of the National Transportation Safety Board  
20 ("NTSB") said that the agency had put PG&E on notice regarding issues with manual shut off  
21 valves. Nevertheless, documents show that PG&E, for at least 20 years, has failed to spend the  
22 funds required to replace aging gas pipelines. According to reports, between 1993 and 1995,  
23 PG&E collected \$80 million more than it spent for its gas pipeline replacement program. The  
24 Individual Defendants were aware of the need for repairs and chose not to pay for those repairs.

25 115. In 1995, the CPUC admonished PG&E for collecting more funds from ratepayers  
26 to replace gas transmissions than it actually spent for those tasks. A utility commission member  
27 in 1995 wrote the following in regards to a CPUC decision on PG&E's requested gas and electric  
28 rates: "Despite consistent underspending in previous years, we granted PG&E's full funding

1 request . . . on the basis that PG&E should continue replacing old pipelines ‘as quickly as  
2 possible’ in the interest of safety.” The commission member went on to write, “[w]e stated our  
3 expectation that PG&E should use the authorized funds for their intended purpose and even  
4 accelerate the pace of the program.” The commission member added, “[b]etween the time we  
5 issued the last general rate case decision and the filing of this one, PG&E has fallen short of our  
6 stated expectations.”

7 116. PG&E had requested and been granted the right to continue to charge ratepayers  
8 high rates purportedly for repairs even though PG&E had a history of underfunding its pipeline  
9 operations and safety. This state of affairs only continued as PG&E persistently failed to spend  
10 the money it had been approved on pipeline operations, maintenance and safety. This happened  
11 despite the repeated notices and warnings to PG&E to increase and improve its spending on  
12 pipeline operations, maintenance and safety.

13 117. In 1998, the CPUC reported that PG&E had a history of collecting funds for  
14 repairs and diverting those monies for other purposes. In that 1998 report, the CPUC found that  
15 PG&E had collected \$77.6 million that was supposed to be spent trimming trees near power  
16 lines, which is important for safety purposes, and used those monies for other reasons.

17 118. From 2004 through 2009, California gas utilities tallied nearly 700 “probable  
18 violations” of federal or California state pipeline safety rules, from shoddy maintenance records  
19 to worker errors.

20 119. From 2004 through 2009, PG&E was cited 410 times for unsafe practices in its  
21 gas operations, all the other utilities in California were 287 times.

22 120. According to federal safety data, between 2004 and 2010, PG&E had more  
23 reportable incidents than any other gas delivery company in the United States. A reportable  
24 incident, according to the PHMSA, is an incident that results in more than \$50,000 of property  
25 damage, injury requiring hospitalization, or death.

26 121. In July 2005, a residence in Los Altos was destroyed by a natural gas explosion  
27 that was caused by corrosion in a PG&E pipe installed in 1948. That incident resulted in  
28

1 property damage and personal injury to the occupants of the residence, resulting in \$463,784 in  
2 damages. The subsequent investigation identified pipe corrosion as the cause of the explosion.

3 **F. The Defendants Ignored Warnings About Inadequate Recordkeeping at PG&E**

4 122. PG&E internal corporate memos reveal that the Defendants knew, no later than  
5 1993, that PG&E was losing track of documents for its gas-transmission system and that a  
6 catastrophe was not only possible, but likely, which would result in serious financial and  
7 reputational harm to PG&E, not to mention potential property damage and loss of life.

8 123. These internal memos came from Larry Medina, PG&E's then-head of  
9 information and records management.

10 124. In a December 1992 memo, Medina warned PG&E's senior executives that  
11 PG&E was creating potentially "incomplete or inaccurate" records. Medina urged the company  
12 to devote more money and staffing to the problem. Medina went to PG&E first and warned them  
13 of his concerns but he was ignored. The following is an excerpt from the December 1992

14 Medina memo:

15 One thing that will become apparent when reviewing this document is that many of the functions  
16 that were transferred to the DBU side (with headcount and funds) have not been performed or kept  
17 current for some time now. Prime examples would be the Pipeline History files for Strength Test  
18 and Pressure Reports for the DBU Transmission lines, the regular issuance of Gas Standards, the  
19 Estimator's manual and a decision made jointly by GSBU and DBU after the formal transfer of  
20 responsibilities for the Mapping function to no longer update or keep current the Pipeline Plat  
21 Sheets, due to the extensive backlog and the perceived lack of importance of the data reflected on  
22 the drawings.

21 The failure to maintain the data formally on the Plat Sheets and the decision not to generate Plat  
22 Sheets for new work may be costly to PG&E in the future and it may be difficult to defend the non-  
23 existence of the data. Recent changes placed the responsibility for maintaining the data on the  
24 Divisions and/or Regions, by continuing to "pencil post" any changes to the last versions of the Plat  
25 Sheets issued to them.

25 125. In a March 1993 internal PG&E company memo, Medina further warned PG&E  
26 executives about the "ripple effects" of a company reorganization that was going on at PG&E in  
27 that time period. As part of that reorganization, PG&E eliminated a unit in the company that was  
28 responsible for tracking pipeline records. As Medina warned in his March 1993 memo, some

1 critical records had already been lost. As the memo goes on to state, PG&E's recordkeeping  
2 functions "have not been performed or kept current for some time now." Amongst the records  
3 that were not maintained were results for tests of pipeline strength, obviously critical information  
4 to preventing pipeline explosions and ensuring public safety.

5 126. The memo from Medina also warned that system maps with crucial information  
6 about pipelines were not being updated because of "the perceived lack of importance of the  
7 data." This directive came from the top leadership of PG&E. As Medina went on to say, the  
8 failure to keep such information may be "costly to PG&E in the future, and it may be difficult to  
9 defend the nonexistence of this data."

10 127. When Medina's memos were provided to PG&E's executives, they were ignored  
11 and Medina's position in the company was eliminated.

12 128. The two memos from Medina warning PG&E's top management of the serious  
13 recordkeeping problems were publically released by the CPUC in the aftermath of the San Bruno  
14 pipeline explosion.

15 129. Years later, PG&E Senior Gas Engineer Todd Arnett admitted in a deposition that  
16 PG&E's recordkeeping was notoriously incomplete and inaccurate and that this issue was raised  
17 to the highest levels of the company. Arnett also testified that PG&E's incomplete and  
18 inaccurate records affected the quality of the decisions engineers were making in conducting risk  
19 assessments. As illustrated below, Arnett candidly admitted that it was well known at PG&E  
20 that the Geographic Information System ("GIS"), a recordkeeping database used to keep track of  
21 the aging and quality of the pipes, was incomplete and inaccurate:

22 Q: Were you concerned at all, prior to September 9th of 2010, that the  
23 information in GIS wasn't accurate?

24 A: Concerned, yes.

25 \* \* \*

26 Q: **Weren't you concerned, sir, that because there were errors in**  
27 **the gas -- in the GIS survey sheets for PG&E, that people who**  
28 **lived along the pipeline could be exposed to death or injury?**

A: **That general concern, yes.**

1 Q: And you can't tell me one specific person who was your superior  
2 that you talked to about that?

3 A: **It was discussed pretty frequently throughout the company.**

4 \* \* \*

5 Q: The quality of the data was known to be poor?

6 A: It was known to have need for improvement.

7 Q: How long was it known, sir, before September 9th of 2010, that  
8 there was need for improvement in the GIS?

9 A: Since it was initially developed.

10 Q: In what year?

11 A: I don't recall the exact year, but it was mid-1990s.

12 \* \* \*

13 Q: And to your knowledge, sir, were your superiors aware that you  
14 were making decisions based on that GIS information?

15 A: Yes.

16 Q: **Did you have concern about the quality of the decisions you  
17 were making because you didn't have confidence in the GIS  
18 information?**

19 A: Yes.

20 Q: **Did you express those concerns to your superiors?**

21 A: Yes, they're aware of it.

22 \* \* \*

23 Q: Did you express that concern to them on more than one occasion?

24 A: Yes.

25 \* \* \*

26 Q: Was it known that there was -- it [GIS] was lacking information?

27 A: Yes.

28 Q: Was it known that it had incomplete information?

A: Yes.

Q: Was it known -- was it a common understanding, as far as you  
know, through the engineers at PG&E, that they were concerned

1 about the decisions they were making because of the incomplete  
2 information in the GIS system?

3 A: Yes.

4 130. As set forth above, the 2010 San Bruno explosion was the result of an incomplete  
5 seam weld in a pipe that PG&E claimed it did not know was part of the line because its database  
6 listed the pipe as “seamless.” The importance of accurate recordkeeping is critical to ensuring  
7 the safety of the public and to ensure that PG&E’s gas transmission network is safe and secure.  
8 Because of the inaccurate recordkeeping, PG&E never investigated the seam weld on the pipe  
9 because its records indicated there was no seam. The fact that Defendants knew that their  
10 recordkeeping was incomplete and inaccurate, as early as 1993, is therefore directly linked to the  
11 gas pipeline explosions that have caused PG&E significant harm. The fact that such deficiencies  
12 were widely known throughout the Company for over a decade prior to the San Bruno explosion,  
13 while Defendants refused to act to remedy this error, is also directly linked to the gas pipeline  
14 explosions that have caused PG&E significant harm. PG&E’s own senior gas engineers, as  
15 Arnett admitted, knew that they were making difficult decisions based on incomplete and  
16 inaccurate information, a situation that the Defendants knew about and condoned. Arnett’s  
17 testimony confirms what Medina had identified in memos as early as 1992.

18 131. In the aftermath of the 2010 San Bruno explosion, PG&E has publically admitted  
19 that it still does not have complete records vouching for the safety of about 500 miles of gas  
20 transmission pipeline running in and near urban areas.

21 132. Federal and California state investigators have found that PG&E had inaccurate or  
22 nonexistent records for much of its more than 1,000 miles of urban gas transmission lines.

23 133. In response to the release of the Medina memos, PG&E spokeswoman Brittany  
24 Chord said only that the state’s decision to make the memos public “speaks for itself,” and did  
25 not directly address their contents.

26 134. Representative Jackie Speier (D-San Mateo), in describing Mr. Medina’s memos,  
27 stated, “[h]e [Larry Medina] was alerting the leadership that if they pursued the route they were  
28 heading down, it would be very detrimental, that [PG&E] had to take safeguards to make sure the  
system was safe.”



1           135. Representative Speier went on to say that “[i]t underscores what we have already  
2 come to find out: safety was not in the lexicon at PG&E before the explosion. It was a second  
3 thought or a third thought, and the recordkeeping was and is in shambles.”

4 **G. Defendants Exploited Known Conflicts Between PG&E and the CPUC**

5           136. Defendants, all of whom are officers and directors of PG&E, knowingly approved  
6 and supported a policy by which PG&E used money and influence to create an improper  
7 relationship with the CPUC, its purported watchdog agency. Defendants engaged in such  
8 conduct to minimize the oversight of PG&E, allowing it to act with impunity in funneling  
9 ratepayer monies away from safety initiatives and towards PG&E’s own bottom line. According  
10 to news reports, Michael Peevey, the longtime President of the CPUC, indirectly received  
11 financial support from PG&E over the last decade, approved by the Defendants, by way of non-  
12 profits and other organizations in which Peevey and his friends held key leadership roles.

13           137. For example, Peevey and other CPUC officials are often rewarded with lavish  
14 junkets that are represented as necessary excursions to improve California’s energy situation.  
15 This is akin to the recent scandals regarding the monies spent by the federal government on  
16 boondoggles for public employees. According to news reports, in 2011, the California  
17 Foundation on the Environment and the Economy (“CFEE”), funded in part by PG&E, financed  
18 a 12-day trip to Madrid purportedly to study energy issues, a trip which included Peevey, CPUC  
19 commissioner Nancy Ryan, and others. Fong Wan, the senior vice president of energy  
20 procurement at PG&E reportedly took part in this junket along with other senior energy  
21 executives.

22           138. CFEE trips reportedly occur every year, with CPUC officials, executives and  
23 California state legislators being flown across the world to destinations such as Italy, Brazil and  
24 South Africa. These trips are advertised as “study” sessions to understand worldwide best  
25 practices on energy issues. However, these trips are a means by which PG&E and other  
26 regulated companies fostered close relationships with regulators at the CPUC.

27           139. According to news reports, CPUC commissioners took numerous trips around the  
28 world, which were financed in part by PG&E and other corporate interests, as part of purported

1 fact-finding missions paid for by non-profits and other organizations that were financed in part  
2 by PG&E. In 2003, Peevey took trips, paid for by non-profit organizations, to France, Spain,  
3 Portugal, Germany, Austria, Hungary and Sweden. In 2005, Peevey went on trips to Belgium,  
4 Germany, Denmark, Ireland, Sweden and Estonia. In 2007, he traveled to Sweden and South  
5 Africa. In 2008, Peevey went on trips to Sweden and New Zealand. In 2009, Peevey took trips  
6 to Spain, Sweden and China. In 2010, he went on trips to Israel, Australia, Germany and Spain.  
7 All of these trips were reportedly financed, in part, by non-profits such as CFEE, which  
8 ostensibly seek to bring corporate interests, such as PG&E, together with the government to  
9 improve dialogue. However, these all-expenses-paid trips created an improperly close  
10 relationship between industry and regulators that then led to lax oversight. This loose regulatory  
11 environment, fostered by the PG&E Board and other utilities, created a situation in which safety  
12 became secondary to profits to PG&E.

13 140. According to public records, CFEE, based in San Francisco, California, consists  
14 primarily of industry representatives as members of the organization, and its board of directors  
15 consists of executives from multinational companies such as Shell, Chevron, J.P. Morgan,  
16 Goldman Sachs, AT&T and PG&E. Energy companies and utilities are major contributors to  
17 CFEE. News sources report that PG&E has donated of dollars thousands to CFEE for these  
18 junkets.

19 141. The links between PG&E and the CPUC are deep, links that are fostered by the  
20 Defendants to reduce the amount of regulation that PG&E is put under. For example, according  
21 to news sources, \$30 million was set aside, as part of PG&E's 2004 bankruptcy settlement, to  
22 help create a non-profit organization called the California Clean Energy Fund which represents  
23 that it is funneling money to venture capitalists that invest in green start-ups. Peevey is the board  
24 chairman of the California Clean Energy Fund. The California Clean Energy Fund consists of  
25 nine board members, three of which are appointed by the CPUC, three of which are appointed by  
26 PG&E, and three of which are appointed by both the CPUC and PG&E. There is no oversight  
27 over the California Clean Energy Fund, which has great power to control where tens of millions  
28

1 of dollars are being spent. The California Clean Energy Fund diverts its capital into for-profit  
2 investment funds that then decide where the money should go.

3 142. The money that is spent on non-profit organizations often ended up with non-  
4 profit organizations overseen by Peevey or his friends. For example, news sources report that, in  
5 2005, \$60 million from corporate interests that are regulated by Peevey was provided to the  
6 California Emerging Technology Fund (“CETF”), in which Peevey served as the Chairman.

7 143. In 2012, \$150 million was proposed to be given to the Lawrence Livermore  
8 National Laboratory to fund a program called “California Energy Systems of the 21st Century.”  
9 E-mails show that Peevey was personally involved in creating this proposal, directing the major  
10 utilities in California (PG&E, Southern California Edison Company, San Diego Gas & Electric  
11 Company), so-called Investor Owned Utilities (“IOUs”), to provide the \$150 million for this  
12 proposal, and assigning him as the commissioner to this project. Peevey and his staff  
13 communicated directly with PG&E executives, including Jan Berman, Brian Cherry, Robert  
14 Woener and Jennifer Dowdell about this project. Peevey was reportedly involved in creating the  
15 “California Energy Systems of the 21st Century” program, which he ran, and PG&E and other  
16 IOUs **funded the program** with \$150 million.

17 144. In one e-mail dated October 27, 2010, Brian Cherry from PG&E requests  
18 permission from Peevey to “rate base” a portion of the investment in the “California Energy  
19 Systems of the 21st Century” program; meaning that the utilities could charge the purported  
20 “donation” as a business expense chargeable to ratepayers.

21  
22 From: **Cherry, Brian K [BK7@pge.com]**  
23 Sent: **Wednesday, October 27, 2010 1:20 PM**  
24 To: **Diaz De La Rubia, Tomas; Brown, Carol A.; Peevey, Michael R.**  
25 Cc: **Dempsey, Pat; Rose-McConville, Lisa L.**  
26 Subject: **RE: P21 Proposal Summary to PG&E and CPUC**

27 Tomas - thanks for the update. In reading this document, it looks like you have dropped the off-campus  
28 site proposal (separate from the secure area) and eliminated the dedicated computer resources (moved  
more to utilizing existing DOE/National Security computers). Are the proposed savings from eliminating  
these items really worth it? I'd suggest it is something we should revisit, understanding that Edison may  
have a problem with it. Having a site outside the secure area would lead to greater access and  
functionality for the private and public sectors. On the computer side, if we are worried about hardware  
costs of another \$10-\$20 million per participant over 5 years, perhaps we could find a way to rate base  
that portion of the investment. I suspect the other utilities might find this more palatable. Just a thought.

1           145. Defendants, as officers and directors of PG&E, were intent on maintaining cozy  
2 relationship with an understaffed CPUC as a means of circumventing expenses required for  
3 regulatory compliance. This relationship resulted in the CPUC failing to follow up with  
4 problems at the PG&E and allowing PG&E to operate in a manner in which safety was not a  
5 priority. While superficially beneficial to PG&E, this loose regulatory environment, nurtured by  
6 PG&E, allowed it to significantly underspend on safety and maintenance, thereby creating a  
7 greatly increased risk of a catastrophic event that would and did cause tremendous financial harm  
8 to PG&E and irrevocably damage PG&E's reputation.

9 **H. The Defendants Ignored Serious Problems at PG&E That Were Identified in**  
10 **PG&E Audits**

11           146. In 2007, PG&E conducted an internal safety audit of its Sonoma County  
12 residential gas distribution system. The audit report revealed major issues with how PG&E  
13 reported gas leaks, including falsification of records and inadequate training of inspectors. The  
14 problems were of such high severity that PG&E followed up with another survey, which found  
15 gas leaks in 28 of the 32 residential areas that were tested, including all four of the residential  
16 distribution lines in the Peninsula area south of San Francisco.

17           147. William Marcus, a principal economist for JBS Energy Inc. testified before the  
18 CPUC that “[w]hat happened is that Pacific Gas and Electric Company’s gas leak detection and  
19 repair program fell apart.”

20           148. In May 2008, regulators notified PG&E that it was not properly tracking external  
21 corrosion problems on pipelines and were not ensuring that the individuals performing this work  
22 were properly qualified.

23           149. In a 2008 audit of PG&E’s Sacramento division, regulators noted that PG&E  
24 failed to meet its deadlines for fixing leaks or inspecting repairs in 23 instances over two years.  
25 That audit also revealed that PG&E could not prove they were doing annual drills on shutting  
26 down gas during emergencies.

27           150. In August 2008, the CPUC conducted an audit of PG&E’s Fresno division and  
28 concluded that PG&E did not have sufficient training and/or appropriate equipment for its  
workers to deal with outdoor pipeline leaks. That safety audit, conducted under the authority of

1 GO 112-E, included a review of the Fresno division's records and involved a field inspection of  
2 various segments of its gas distribution systems. The audit found a number of major violations  
3 of safety regulations established by PHMSA.

4 151. The audit also found that PG&E's procedures did not define what constituted a  
5 "hazardous" leak, meaning that there were no standards for PG&E field service representatives to  
6 determine the severity of outdoor leaks in response to customers calls about the smell of gas. In  
7 addition, the procedures did not provide for or require field service representatives to be qualified  
8 in the use of gas detection equipment or to possess knowledge needed to properly grade an  
9 outdoor leak. Consequently, field service representatives were left on their own to make  
10 subjective decisions, without being able to rely on any standards, regarding to severity of outside  
11 leaks and whether or not to notify on-call construction personnel.

12 152. The audit revealed issues with PG&E's corrosion control record keeping.  
13 CPUC's inspector expressed frustration with PG&E, noting that the company had promised  
14 nearly two years earlier to fix the corrosion problems, but failed to do so.

15 153. In its response, three months after being cited for these violations, PG&E  
16 promised to update its protocols before the end of 2008 to better define "hazardous" leaks, and  
17 stated it would negotiate with the labor union representing field service representatives and  
18 would add grading outdoor leaks to their job classification and, if successful, to train, qualify,  
19 and provide them with the necessary equipment.

20 154. PG&E also promised to conduct a "special survey" to detect gas leaks as a result  
21 of a 2007 internal survey and the 2008 CPUC audit. Under this survey, it would accelerate all  
22 mandatory surveys that were due in 2011 and 2012 so that they would all be completed by the  
23 end of 2010. After the CPUC had determined that PG&E had conducted inadequate surveys of  
24 gas leaks for decades, PG&E finally decided to rush through surveys.

25 155. According to PG&E's 2009 Annual Report, it had incurred "approximately \$100  
26 million of costs to perform accelerated natural gas leak surveys and associated remedial work"  
27 which according to the 2009 10-K, was expected to be completed in April 2010. However,  
28 information discovered years after the San Bruno explosion in 2010 showed that PG&E did not

1 meet its obligations. PG&E again began downgrading the amount of money it would spend on  
2 gas leak surveys in the months leading up to the tragic San Bruno incident. Moreover, the  
3 required gas leak surveys did not occur in April of 2010, as PG&E had promised.

4 156. In October 2008, CPUC engineer Dennis Lee stated publically that PG&E was not  
5 keeping proper logs of pressure problems in the gas distribution system.

6 **I. PG&E's Executive Leadership Was Warned of Catastrophic Risk If PG&E**  
7 **Continued to Ignore and Fail to Prioritize Operational Safety at PG&E**

8 157. PG&E was well aware of serious problems with the risk management policies at  
9 PG&E. In May 2007, an internal PG&E report identified the fact that PG&E "lacks a well  
10 defined, documented risk policy/standard at the enterprise level that 1) explains PG&E's overall  
11 risk assessment methodology, 2) defines the lines of business roles and responsibilities, 3)  
12 specifies the requirements for performing and documenting risks, 4) links risk assessments to  
13 controls, self assessment, reviews and audits, and 5) specifies the requirements for metrics to  
14 track the risks. The internal PG&E report also found that "Energy Delivery and Engineering &  
15 Operations do not have an integrated, documents, consistent approach with clear organizational  
16 roles and responsibilities for dealing with their risk and associated corrective actions."

17 158. Internal PG&E documentation from as early as 2006 identified a "Gas and  
18 Electric Distribution System Safety Conditions" as a medium to high probability risk that had  
19 medium to high consequences for PG&E. In other words, a dangerous and catastrophic  
20 explosion was a well known risk at PG&E. PG&E also knew that such an incident would  
21 dramatically affect PG&E. PG&E even noted that imprudent decision-making in this area could  
22 create medium to high cost exposure to PG&E. Despite knowledge of this risk as early as 2006,  
23 the Defendants continued to operate PG&E in a lax and imprudent manner in violation of their  
24 fiduciary duties to the company.

25 159. Moreover, by at least 2009 and 2010, an Executive Management Committee at  
26 PG&E was well aware that the company faced a significant risk of a single major catastrophic  
27 event. In a document entitled "Enterprise Risk Management Risk Review", it was identified to  
28 PG&E's executive management that one of the "top" enterprise risks was the risk of a "system  
safety" event. However, although PG&E's executive leadership was well aware that a gas

1 pipeline explosion, or a “system safety” event as PG&E called it, was a possibility, no effort was  
2 made to determine if a manufacturing defect could be the cause of a gas pipeline explosion.  
3 Despite this being a commonsense possibility of what could cause a pipeline to explode, PG&E  
4 did not make any effort to analyze that possibility and therefore had no plan in place to mitigate  
5 that risk.

6 160. The Executive Management Committee, in putting together this “Enterprise Risk  
7 Management Risk Review,” determined that the financial impact of risk mitigation was \$100 to  
8 \$500 million. The Executive Management Committee considered the reputational and  
9 environmental impact of risk mitigation, but dismissed the impact on human lives that would  
10 happen if there was a failure to mitigate the risk of a catastrophic “system safety” event. In the  
11 work performed by PG&E, they referred to a catastrophic event that could cost human lives as a  
12 “significant event in a high density area” which is a euphemism for an explosion in a place where  
13 people live and work. However, in performing this Enterprise Risk Management Risk Review,  
14 PG&E failed to fully evaluate the risks and implement and adopt the mitigation processes  
15 necessary to prevent a “significant event in a high density area.”

16 **J. PG&E Employees Were Incentivized Not to Report or Fix Leaks**

17 161. PG&E also implemented an incentive program in which PG&E employees were  
18 given financial incentives not to report or fix leaks, or otherwise report any dangerous conditions  
19 that would cost PG&E money to fix. PG&E had a program in place in which supervisors and  
20 employees received bonuses for not reporting or fixing gas leaks that they found, and for keeping  
21 repair costs down. In other words, PG&E supervisors and employees had every incentive to  
22 pretend that leaks did not exist or perform the least amount of work to fix any leaks that were  
23 detected. This backwards incentive program is an example of the Defendants’ “profits over  
24 safety” policies being implemented.

25 162. This program resulted in the failure to detect a significant number of leaks, many  
26 of which were considered “serious” leaks. This incentive program was not halted until the end of  
27 2008, when PG&E began rushing inspections of its gas pipeline network. These surveys many  
28 more leaks than what had been detected in earlier surveys. According to the CPUC, virtually

1 every leak survey that PG&E had conducted since 2004 was “not effective.” The CPUC found  
2 that PG&E’s misconduct, the public would have to endure a “reduced level of safety” until the  
3 inspections were complete.

4 163. Richard Kuprewicz, an independent pipeline safety expert described PG&E’s  
5 incentive system as “a big, big deal” and “major, major problem.” Mr. Kuprewicz added that  
6 PG&E’s bonus program was “training and rewarding people to do the wrong thing” and was  
7 emblematic of “a seriously broken process.” He went on to state that this “explains many of the  
8 systemic problems in this operation that contributed to the tragedy.”

9 164. This bonus program was created and approved by the PG&E Board of Directors in  
10 order to further the goal of cost reduction and short-term profit maximization without any  
11 thought about the long-term ramifications of this decision. The Defendants had intentionally and  
12 knowingly created a program in which the risk of a catastrophic incident would increase  
13 dramatically. Therefore, the Defendants breached and violated the fiduciary duties they owed to  
14 PG&E.

15 **K. December 24, 2008: Rancho Cordova Explosion**

16 165. On December 24, 2008, an explosion and fire caused by a natural gas leak  
17 destroyed a residence in Rancho Cordova, California, killing one person, injuring five others and  
18 causing damage to several other nearby homes, including causing severe damage to two adjacent  
19 homes. The NTSB determined that the cause of the explosion was the use of a section of  
20 unmarked and out-of-specification pipe with inadequate wall thickness that allowed gas to leak  
21 from a mechanical coupling installed approximately two years earlier.

22 166. According to the NTSB’s May 10, 2010 Pipeline Accident Brief, “[c]ontributing  
23 to the accident was the 2-hour 47-minute delay in the arrival at the job site of a PG&E crew that  
24 was properly trained and equipped to identify and classify outdoor leaks and to begin response  
25 activities to ensure the safety of residents and public.”

26 167. Seven months after the explosion in Rancho Cordova, CPUC utilities engineer  
27 Banu Acimis stated, “[w]e do not believe PG&E’s actions have satisfactory addressed” the  
28 requirement that the utility issue a protocol for dealing with leaks.



1 **L. The Individual Defendants Retaliate Against and Ignore Allegations from a**  
2 **Whistleblower Warning of PG&E's Low Prioritization of Safety**

3 168. In August 2010, Mike Wiseman, a PG&E gas mechanic working on the  
4 company's gas pipelines filed a lawsuit against PG&E for retaliating against him for, among  
5 other things, making a protected disclosure under Labor Code § 1102.5(c). According to the  
6 lawsuit, Wiseman claims to have reported, and refused to participate in the many unsafe practices  
7 he observed while working on the company's gas distribution system.

8 169. In March 2009, Wiseman reported that PG&E workers at the Panoche Road site  
9 were made to work in a ditch almost six feet deep, despite the fact that PG&E failed to provide  
10 the workers with the required training manual, suitable training, or proper equipment for the job.  
11 Wiseman also reported an incident in which a supervisor forged a deficient root cause analysis, in  
12 an attempt to make it appear as if it had been written by a qualified employee.

13 170. Instead of treating Wiseman's concerns seriously, PG&E excluded him from the  
14 weekly safety leader's conference calls, even though he was a safety leader. This is another  
15 example of PG&E putting profits before safety, in line with the expectations of the Individual  
16 Defendants and the policies they implemented. In addition, Wiseman was threatened with  
17 employee discipline, various forms of retaliations, and ordered to submit to drug tests and  
18 psychiatric evaluations.

19 171. In March 2012, PG&E Senior Gas Engineer Todd Arnett testified in a deposition  
20 that gas system managers routinely ignored the concerns of PG&E employees that the company  
21 relied on incomplete and inaccurate records contained in its geographic information system.  
22 Arnett testified that, over the course of several years, he raised the issue of poor data integrity to  
23 his supervisors, but his concerns were ignored. The presence of six pups - short sections of pipe  
24 of 5 feet or less in length welded together on the circumference, from an unknown source welded  
25 together on the pipe segment which failed on September 9, 2010 would have been noted on  
26 accurate geographic information system reports. This would have prevented the tragedy that  
27 occurred in September of 2010. According to experts, six pups of unknown source welded  
28 together would have raised immediate red flags with engineers. However, because of PG&E's  
notoriously incomplete and inaccurate recordkeeping, no one knew of this.

1 172. Internal company e-mails indicate the existence of flawed records for the San  
2 Bruno pipeline. A March 2009 e-mail from PG&E engineer Drew Kelly indicates that there were  
3 “tons of errors” in the geographic information system for transmission Lines 101, 109, and 132.  
4 Those inaccurate records were relied upon to research long-term management plans for Line 132.  
5 In its August 2011 report, the NTSB expressed concern that PG&E’s geographic information  
6 system still contains a large percentage of assumed, unknown or erroneous information. That  
7 lack of complete or accurate information prevented PG&E’s IMP from being effective in  
8 preventing the San Bruno disaster and continues to hamper the ability of PG&E to appropriately  
9 identify and correct potential future disasters.

10 173. The allegations of Wiseman and Arnett about poor and inaccurate record keeping  
11 at PG&E are consistent with the internal and external audits which found falsification of records,  
12 poor record keeping, and failure to properly train and equip workers. Each of these incidents and  
13 reports were warnings that PG&E should have paid attention to. If PG&E had taken appropriate  
14 action in response to these warnings, it could have prevented the tragedy at San Bruno and the  
15 aftermath of that tragedy. The Individual Defendants, through their mismanagement of PG&E,  
16 allowed PG&E to ignore serious red flags and continue to operate PG&E in a dangerous and  
17 unsafe manner.

18 **M. September 9, 2010: San Bruno Pipeline Explosion**

19 174. On September 9, 2010, at approximately 6:11 p.m., an explosion occurred in San  
20 Bruno, California, when a 30-inch diameter natural gas transmission pipeline (Segment 180 of  
21 Line 132) owned and operated by PG&E ruptured and exploded in flames in the Crestmoor  
22 residential neighborhood.<sup>1/</sup> Energy released from the rupture created a crater about 72 feet  
23 long by 26 feet wide; a 28-foot long section of pipe weighing approximately 3,000 pounds was  
24 ejected from the crater and landed approximately 100 feet from the crater in the middle of  
25 Glenview Drive. Gas escaping from the pipeline rupture ignited, resulting in the loss of eight  
26

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27  
28 <sup>1</sup> The Crestmoor neighborhood is classified by the U.S. Department of Transportation as  
“high consequence,” meaning “any area where a potential impact radius of 660 feet would  
contain more than 20 buildings intended for human occupancy.” (49 C.F.R. § 192.903).

1 lives, injuries to 58 people, destruction of 38 homes, moderate to severe damage to 17 homes and  
2 minor damage to 53 homes.

3 175. Following the San Bruno explosion, various governmental entities commenced  
4 investigations into the incident and PG&E's business practices. After the San Bruno disaster,  
5 PG&E performed emergency leak surveys of its entire urban gas-transmission system. In one  
6 month, PG&E found 38 high-priority gas leaks, four of which were serious enough that PG&E  
7 had to report them to federal officials.

8 176. The National Transportation Safety Board issued a report that blamed the  
9 conflagration on PG&E's poor management of the pipeline and a lack of oversight by state and  
10 federal regulators. In January 2011, federal investigators reported that the probable cause of  
11 the accident was PG&E's inadequate quality assurance and quality control in 1956 during its  
12 Line 132 relocation project, which allowed the installation of a substandard and poorly welded  
13 pipe section with a visible seam weld flaw that, over time grew to a critical size, causing the  
14 pipeline to rupture during a pressure increase stemming from poorly planned electrical work at  
15 the Milpitas Terminal; and an inadequate pipeline integrity management program, which failed to  
16 detect and remove the defective pipe section.

17 **N. Independent Review Panel Reviews San Bruno Explosion and PG&E's Conduct**

18 177. An Independent Review Panel (the "Panel") was created soon after the 2010 San  
19 Bruno explosion to investigate the causes of the explosion and the role of PG&E in that  
20 explosion. The chairman of the Panel was Larry N. Vanderhoef, Chancellor Emeritus of the  
21 University of California - Davis. The other members of the Panel were Patrick Lavin of the  
22 international Brotherhood of Electrical Workers 7th District International Executive Council,  
23 Karl S. Pister, Chair of the Governing Board of the California Council on Science and  
24 Technology and Chancellor Emeritus of the University of California - Santa Cruz, Paula Rosput  
25 Reynolds of PreferWest, LLC and Jan Schori from Downey Brand LLP. The Panel was assisted  
26 by several experts, including Jacobs Consultancy, Inc. The task of the Panel was to investigate  
27 the San Bruno pipeline explosion specifically and to investigate the culture of PG&E and its  
28 operational policies.

1           178. The central conclusion of the Panel was that PG&E's corporate culture needed to  
2 be changed thoroughly since the top leaders of PG&E, including the Defendants in this case,  
3 lacked the expertise and knowledge to properly handle operational and process safety at PG&E  
4 and had demonstrated no desire to learn. The top leaders of PG&E were focused solely on  
5 financial performance and consistently sacrificed safety for profit. This mismanagement is  
6 reflected in an anecdote that is contained in the Panel's report. When a top executive was asked  
7 how safety could be improved at PG&E, the top executive stated that if PG&E could recover the  
8 costs of safety improvements, that would improve safety. This perhaps best illustrates the  
9 massive cultural program at PG&E that the Defendants created and fostered. In other words,  
10 PG&E's basic position is, "Sure, we'll improve safety, as long as someone else pays for it."

11           179. The Panel also found that PG&E lacked core technical expertise and that the  
12 expertise it did have was being lost. The Defendants had allowed that knowledge base to be lost  
13 while increasing layers of management, in which businessmen and lawyers were essentially  
14 running one of the countries largest utilities. The Defendants themselves came largely from  
15 financial and legal backgrounds and had no understanding or knowledge of process or system-  
16 wide safety at PG&E. Despite being informed that more money was needed for overall safety,  
17 the Defendants consistently rejected those recommendations in order to cut costs. The  
18 Defendants were well aware that the company lacked the technical expertise needed to ensure  
19 process and operational safety. However, since the Defendants were ignoring PG&E's own  
20 experts in setting budgets, it did not matter to the Defendants that the company lacked the  
21 expertise needed to operate a utility of the size and scope of PG&E.

22           180. The Panel identified several key problems with PG&E's corporate culture:

- 23           • Excessive levels of management - In certain silos, there were as many as  
24           nine levels between the CEO and the front-line employee. As a result, the  
25           management that is setting the direction is distant from those who know  
26           the business the best.
- 26           • Inconsistent presence of subject matter expertise in the management ranks  
27           - Repeated reorganizations, the interchange of gas and electric supervisors  
28           and managers, the homogenization of gas transmission and distribution  
            personnel, the large presence of telecommunications, legal and finance  
            executives in top leadership positions, and the under representation of  
            engineers and professionals with significant operating experience in the

1 natural gas utility industry have impaired the effectiveness of the  
2 organization.

- 3 • Appearance-led strategy setting - In a business with the complexity of  
4 PG&Es, there is no substitute for long-term planning and careful  
5 execution, but there appears to be an elevated concern about the  
6 company's image that may get in the way of concentrating resources on  
7 the most important things. For example, PG&E announced Pipeline 2020 a  
8 few weeks after the San Bruno Incident, but the plan is grossly  
9 underdeveloped. We realize PG&E has to manage its relations with the  
10 media. However, putting forth a major initiative without having done the  
11 necessary work underneath ultimately undermines the company's  
12 credibility with its employees as well as the public.
- 13 • Insularity -- In many instances over its long and storied history, PG&E has  
14 been an industry innovator and leader, but no company can maintain its  
15 edge without a certain degree of humility and an outward focus, both of  
16 which enable it to learn from and be influenced by others. As a large  
17 company with many different disciplines represented, it is a challenge to  
18 be sure one is listening to outside colleagues as attentively as it does to  
19 internal voices. Beginning in 2000, when PG&E went through its  
20 bankruptcy, much of the outside interaction - participation in industry  
21 conferences, committees, testing programs and colloquia - was curtailed.  
22 One consequence of this lapse is there appears to be an insular mindset in  
23 many of the individuals we interviewed. The mindset, if not addressed,  
24 can breed a corporate myopia that stands in the way of an honest  
25 assessment of the company's strength, weaknesses, and performance  
26 relative to others. Absent a realistic view of a company's performance, the  
27 drive for continuous improvement is diminished.
- 28 • Overemphasis on financial performance - While the company has multiple  
stated goals, top management may be overly focused on financial  
performance. Certainly the company must be financially healthy to fulfill  
its mission, but when top management focuses on financial performance  
and does not appear to be engaged in operational safety and performance,  
leadership may dampen the willingness of the organization to challenge  
the priorities or resources put in place by upper management.

181. As the Panel found and documented in its report, the Defendants had mismanaged  
PG&E for almost a decade. Despite knowing that they lacked the experience and expertise to  
manage a power utility, the Individual Defendants continued to overemphasize financial  
performance (profits) over operational and process safety (safety).

**O. CPUC Retains Overland Consulting to Investigate PG&E**

182. The CPUC initiated its own investigation and retained an independent firm,  
Overland Consulting, LLC ("Overland"), to review PG&E's gas transmission safety-related  
activities from a financial and regulatory audit perspective. The San Bruno pipeline explosion  
was a key part of the investigation but Overland was also being asked to review and audit

1 PG&E's regulatory and financial compliance. The CPUC and Overland examined PG&E's  
2 natural gas transmission and storage expenditures over the prior 15 years to determine whether  
3 the amounts that the CPUC had authorized for gas pipeline safety investments were actually  
4 spent on safety investments. Authorized revenue was compared with actual costs for operations  
5 and maintenance expenses, capital expenditures, and rate-base expenditures. Overland's audit  
6 also compared authorized revenue requirements to actual revenue and actual return-on-equity to  
7 authorized levels.

8 **1. The 2011 Overland Report**

9 183. In December 2011, Overland issued its first report to the CPUC on its audit of  
10 PG&E. ("2001 Overland Report") Among other things, Overland found that actual revenues  
11 collected from customers exceeded adopted revenues by \$224 million over the twelve-year study  
12 period. Additionally, the audit showed that P&E was provided rate recovery for pipeline  
13 transmission operations and maintenance; however, every year since 1996, PG&E spent \$39  
14 million less than the CPUC authorized over the period 1997 to 2010. In other words, for over a  
15 decade, PG&E intentionally spent less money on maintenance and operations than it represented  
16 was necessary to ensure that PG&E's pipelines and infrastructure were safe.

17 184. Chapter 2 of the 2011 Overland Report titled "Background and Approach"  
18 described the scope of the audit:

19 The catalyst for the audit was the gas transmission pipeline rupture that occurred  
20 in a residential area of San Bruno, California, on September 9, 2010. The natural  
21 gas released by the rupture ignited and caused a fire that destroyed 38 homes and  
22 damaged 80. Eight people were killed and many more were injured. The audit  
23 focused on PG&E's gas transmission safety-related activities from a financial and  
24 ratemaking perspective. The audit is intended to complement, rather than  
25 duplicate, the engineering and operations analysis conducted by the CPSD Staff,  
26 the Independent Review Panel and the National Transportation Safety Board. A  
27 review of the gas distribution system was outside the scope of the audit.

28 185. The work performed during Overland's focused audit included:

- 25 ● Comparing actual gas transmission safety-related O&M expenses  
26 and capital expenditures to the levels included in rates.
- 27 ● Investigating the reasons for variances between the actual and adopted  
28 amounts.
- Reviewing PG&E's planning documents for evidence that gas  
transmission safety resources were constrained for financial reasons.

- Reviewing gas transmission staffing levels and operational metrics for evidence of resource constraints impacting gas safety.
- Reviewing the financial performance of PG&E's gas transmission business to determine if earnings were sufficient to support investments in gas safety.

186. Chapter 3 of the 2011 Overland Report titled O&M Expenses concluded that:

During the period 1997 to 2010, total GT&S functional O&M expenses were 3.8% lower than adopted. PG&E's pipeline safety costs are included in the transmission function. Transmission O&M expenses were 5.0% lower than adopted.<sup>2</sup>

Actual transmission O&M was \$39 million lower than adopted over the fourteen-year study period. Actual transmission O&M was lower than adopted in all but one of the years in the study period. The average annual difference was \$2.8 million. The consistent underspending on transmission O&M had negative implications for gas pipeline safety.

PG&E's transmission maintenance costs (MWC BX) increased at an average annual rate of 1.2% between 1997 and 2009.<sup>3</sup> Pipeline maintenance requirements increase as facilities age, system throughput increases and the system grows. The low rate of escalation in transmission maintenance costs is an indication of resource constraints in pipeline maintenance.

187. Chapter 4 of the 2011 Overland Report titled Capital Expenditures determined that:

PG&E's actual GT&S capital expenditures were 5.6% lower than adopted during 1997 through 2010. Adopted capital expenditures exceeded actual by \$95 million over that period. The Gas Accord I settlement did not provide any visibility into the components of adopted capital expenditures. As a result, adopted safety-related capital expenditures cannot be isolated and compared to actual for 1997 to 2002. From 2003 to 2010, PG&E's actual safety-related capital expenditures exceeded the adopted amounts by \$35 million.

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<sup>2</sup> Actual O&M expenses were adjusted to eliminate costs that are excluded from GT&S bases rate cases, including the San Bruno incident costs incurred by PG&E in 2010.

<sup>3</sup> PG&E incurred \$21.8 million in expenses related to the San Bruno incident in 2010. Overland excluded those costs from 2010 actual costs. Overland excluded 2010 from the transmission O&M trend analysis because it may have been distorted by the diversion of resources to San Bruno related work.

Actual 2010 transmission O&M expenses, excluding San Bruno related costs, were 7.9 percent lower than 1997 costs.

1 188. Chapter 5 of the 2011 Overland Report titled Return on Equity found that:

2 The GT&S operations have been highly profitable since the Gas  
3 Accord Structure was implemented in March 1998. The actual  
4 return on equity (ROE) earned by GT&S operations averaged  
5 14.2% during 1999 through 2010. PG&E's authorized ROE  
6 averaged 11.2% over that same period.

7 PG&E's GT&S revenues were \$430 million higher than the  
8 amounts needed to earn the authorized return during the twelve-  
9 year study period. The surplus revenues averaged \$36 million a  
10 year. PG&E could have used the surplus revenues, at least in part,  
11 to improve gas safety. Instead, PG&E chose to use the surplus  
12 revenues for general corporate purposes.

13 189. Chapter 6 of the 2011 Overland Report titled Staffing and Metrics concluded that:

14 The total headcount in PG&E's GT&S organizations decreased  
15 from 513 in December 1996 to 474 in December 2010. The union  
16 headcount decreased from 284 to 220. The union headcount in  
17 GT&S District Operations and Centralized Maintenance (DCM)  
18 organizations decreased by from 205 in 1996 to 146 in 2010. The  
19 large reductions in DCM headcount imply resource constraints in  
20 pipeline maintenance.

21 PG&E's local transmission lines are maintained by its gas distribution  
22 divisions. The total headcount in PG&E's gas distribution divisions fell  
23 by 28% between 1996 and 2010. PG&E discovered serious safety related  
24 deficiencies in its gas distribution operations in 2007, 2008 and 2009. The  
25 large distribution headcount reductions and safety-related deficiencies  
26 have negative implications for local transmission pipeline safety.

27 PG&E significantly reduced the use of In-Line Inspections in 2009 and  
28 2010. During 2005 to 2008, ILI accounted for 53% of the total miles  
assessed. In 2009 and 2010, ILI only accounted for 13% of the miles  
assessed.

PG&E no longer prepares metrics, goals or annual reports for its gas  
transmission pipeline risk management program. PG&E does not prepare  
separate risk management plans or track risk management projects. Risk  
continues to be a factor in prioritizing projects. **However, the evidence  
suggests risk management continued to be a separate program in  
name only at some point after 2004.**

PG&E does not monitor the miles of pipeline it leak surveys on a  
centralized basis. PG&E cannot provide actual leak survey mileage  
statistics for its backbone and local transmission systems. The inability to  
monitor leak survey miles on a centralized basis is an indication of a  
weakness in policies and procedures and safety-related resource  
constraints.

PG&E reported a large increase in the number of transmission pipeline  
leaks in 2009 and 2010. Those leaks were discovered in special leak  
surveys implemented in response to the discovery of serious systematic  
deficiencies in PG&E's leak survey program and the San Bruno Incident.



1                   **The large number of leaks discovered in the special leak surveys**  
2                   **indicates that leak survey resources were inadequate prior to 2009.**

3                   The corrective work order backlog in PG&E's GT&S operations districts  
4                   increased significantly in 2008 through 2010. The increase in the backlog  
5                   indicates significant resource constraints in those years.

6                   190. Chapter 7 of the 2011 Overland Report titled 1996-2008 Resource

7                   Constraints reported that:

8                   The planning documentation reviewed by Overland does not  
9                   contain many references to significant budget constraints prior to  
10                  2007. **The 1999 through 2001 documentation shows that the**  
11                  **gas transmission pipeline Risk Management Program was**  
12                  **viewed internally as a cost reduction initiative.**

13                  PG&E discovered serious safety-related deficiencies in its gas distribution  
14                  operations in 2007, 2008 and 2009. Those deficiencies adversely  
15                  impacted local transmission safety and are indicative of safety-related  
16                  resource constraints.

17                  **GT&S was under significant pressure to reduce expenses in 2008,**  
18                  **2009 and 2010. The budget documentation for those years shows**  
19                  **significant resource constraints directly impacting pipeline safety**  
20                  **funding.**

21                  Actual 2008 Integrity Management spending was 35% below the initial  
22                  budget request that GT&S submitted to the Finance Department. Actual  
23                  2008 maintenance spending was 21% below the initial request.

24                  PG&E reduced 2008 Integrity Management expenses in two basic ways. It  
25                  changed the assessment method for some projects from ILI to ECDA and  
26                  it deferred some projects from 2008 to 2009. PG&E's internal  
27                  documentation clearly shows that resource constraints were driving the  
28                  deferrals and assessment method changes.

                  Maintenance spending was reduced by cutting the 2008 budget for  
                  maintenance projects. The budget request for maintenance projects was  
                  \$25.2 million. The approved project budget was \$13.4 million. **The**  
                  **2008 approved maintenance project budget was 47% below the**  
                  **initial request and 25% percent below the recommended**  
                  **minimum level.**

                  191. Chapter 8 of the 2011 Overland Report titled 2009 Resource Constraints

                  determined that:

                  GT&S was under significant pressure to reduce expenses for the second  
                  straight year in 2009. PG&E's 2009 budget documentation shows  
                  significant resource constraints directly impacting pipeline safety funding.

                  The Integrity Management expense budget was set 32 percent below the  
                  initial budget request. The integrity management budget was reduced by  
                  an additional 10 percent in May 2009 to offset unplanned maintenance

1 costs. Actual 2009 integrity management expense was only 2.4 percent  
2 higher than the already constrained 2008 actual spending level.

3 PG&E reduced integrity management spending in two basic ways in 2009.  
4 It changed the assessment method for some projects from ILI to ECDA  
5 and it deferred some projects to 2010. The February 2009 Expense  
6 Program Review indicates integrity management “altered inspection  
7 methods to significantly reduce costs from \$23 million to \$17 million in  
8 2009.” PG&E deferred 41 miles of HCA assessments from 2009 to 2010.  
9 Those miles were deferred to “help manage 2009 GT expense spend.”

10 After the May 2009 reductions, the Integrity Management budget was  
11 viewed internally as the minimum funding that, combined with budget  
12 increases in 2010 to 2012, would maintain feasibility for compliance with  
13 the 2012 inspection deadline.

14 The maintenance budget was set one percent higher than the already  
15 constrained 2008 actual spending level. The maintenance project budget  
16 was set at \$13.0 million, leaving \$6.4 million unfunded. The GT&S  
17 capital budget was cut by \$16.8 million in the summer of 2009 to fund  
18 electric and gas distribution work. The capital budget cuts did not  
19 adversely impact pipeline safety compared to the initial budget. However,  
20 the transferred funds could have been retained and used to improve  
21 pipeline safety.

22 192. Chapter 9 of the 2011 Overland Report titled 2010 Resource Constraints reported

23 that:

24 GT&S was under significant pressure to reduce expenses for a third  
25 straight year in 2010. The 2010 budget was set \$6.7 million below the  
26 already constrained 2009 actual expense level.

27 The 2010 maintenance budget was set 24% below the amount requested  
28 initially by GT&S. The Integrity Management budget was set 11% below  
the initial request.

PG&E cut the 2010 Integrity Management budget in two basic ways. It  
deferred projects to future years and it reduced the scope of the program by  
changing the definition of the covered pipelines.<sup>4/</sup>

GT&S developed 21 formal cost reduction initiatives to bridge the gap  
between it’s budget request and the budget target set by management.  
PG&E adopted a cost reduction initiative to change Integrity Management  
assessment methods from ILI to ECDA. The assessment method change  
initiative created “headroom” in 2011 and 2012 that allowed PG&E to  
defer Integrity Management projects from 2010 to those years. The  
assessment method changes and project deferrals were clearly driven by  
resource constraints. Preparing for the May 2010 CPUC audit of PG&E’s  
Integrity Management program consumed about two thirds of the Integrity  
Management organization’s time for six months. The amount of effort  
required to prepare for the audit is an indication of a large backlog of  
incomplete work - apparently due to significant staffing shortages.

<sup>4</sup> After the budget was adopted, PG&E decided not to change the definition. The budget  
was not increased to reflect that decision.

1 The cost reduction initiatives developed to meet management's budget  
2 target included several initiatives to reduce maintenance spending. One of  
3 the initiatives adopted by PG&E deferred all maintenance project work  
4 that was not required by code or contractual obligation. The 2010  
5 maintenance project budget was set at \$13.0 million, which equaled the  
6 heavily constrained 2009 project budget. PG&E also reduced maintenance  
7 spending by deferring corrective maintenance.

8 **GT&S expenses were heavily constrained in 2010 and those  
9 constraints directly impacted pipeline safety funding.**

10 193. The overall Conclusion of the 2011 Overland Report, which set forth the  
11 Summary of Findings by the CPUC were that:

12 GT&S was under significant pressure to reduce expenses for a third  
13 straight year in 2010. The 2010 budget was set \$6.7 million below the  
14 already constrained 2009 actual expense level. The 2010 maintenance  
15 budget was set 24% below the initial requested amount. The Integrity  
16 Management budget was set 11% below the initial request.

17 PG&E cut the 2010 Integrity Management budget in two basic ways. It  
18 deferred projects to future years, and it reduced the budget to reflect a  
19 revised definition of transmission pipelines.

20 PG&E developed 21 formal cost reduction initiatives to bridge the gap  
21 between the expense funding requested by GT&S and the budget target set  
22 by management. PG&E adopted an initiative to change Integrity  
23 Management assessment methods from ILI to ECDA. That initiative  
24 created "headroom" in 2011 and 2012 to allow PG&E to defer integrity  
25 management projects from 2010 to those years. The assessment method  
26 changes and project deferrals were clearly driven by resource constraints.

27 Preparing for the May 2010 CPUC audit of PG&E's integrity management  
28 program consumed about two-thirds of Integrity Management's time for  
six months. The amount of effort required to prepare for the audit is an  
indication that integrity management had a large backlog of incomplete  
work, presumably attributable to staffing shortages.

The cost reduction initiatives developed during the 2010 budget process  
included several initiatives to reduce maintenance spending. The Reduce  
Pipeline Project Work initiative deferred all project work that was not  
required by code or contractual obligation. The 2010 maintenance project  
budget was set at \$13.0 million, which equaled the heavily constrained  
2009 project budget. PG&E also reduced maintenance expenses by  
deferring corrective maintenance. As noted in Chapter 6, PG&E's  
corrective maintenance backlog experienced large increases in 2008, 2009  
and 2010.

GT&S expenses were significantly constrained in 2010 and those  
constraints directly impacted pipeline safety funding.

1           **2.     The 2013 Overland Report**

2           194.    On May 31, 2013, Overland issued a second report addressing PG&E. The 2013  
3 Overland Report found that there were serious deficiencies in PG&E’s pipeline and infrastructure  
4 network that had existed for almost a decade. The 2013 Overland Report found that PG&E,  
5 consistently spent less on operations and maintenance than it should have. PG&E adopted a  
6 higher amount for O&M (operations and maintenance) expenditures, meaning it told the CPUC  
7 that it would spend a higher amount of money for O&M than what it actually spent. This was a  
8 consistent trend for PG&E. According to the 2013 Overland Report, “[t]he pervasiveness of the  
9 deficiencies [at PG&E] demonstrates that their **ultimate root cause was ineffective or**  
10 **unresponsive executive management.**” For almost a decade, ineffective and unresponsive  
11 executive management, for which the Defendants must take responsibility, explains why there  
12 have been consistent deficiencies in PG&E’s operations.

13           195.    The 2013 Overland Report was focused on auditing the financials of PG&E,  
14 specifically in regards to how monies earmarked for safety were actually spent.

15           196.    The work performed during this second audit by Overland included:

- 16           ●     Comparing actual gas distribution O&M expenses and capital  
17           expenditures for the years 1999 to 2010 to the amounts adopted in  
18           PG&E’s General Rate Cases and documenting the reasons for significant  
19           differences between the actual and adopted amounts;
- 20           ●     Comparing the actual return-on-equity earned by PG&E’s gas distribution  
21           to its authorized return-on-equity from 2003 to 2010;
- 22           ●     Reviewing gas distribution staffing levels and operational metrics for  
23           evidence of resource constraints from 2003 through 2010;
- 24           ●     Reviewing PG&E’s budget process and internal planning documents for  
25           evidence that gas distribution resources were constrained for financial  
26           reasons from 2003 through 2010; and
- 27           ●     Reviewing PG&E’s internal documents for indications of gas distribution  
28           management deficiencies and estimating the impact of such deficiencies  
              on actual spending from 2003 through 2010.

26           197.    One of the key findings of the 2013 Overland Report was that PG&E’s  
27 “[e]xecutive leadership, process controls, internal communication, staffing, training, supervision,  
28 record keeping, auditing, information systems, asset knowledge, metrics reporting, and data

1 analysis were all deficient. The result was substandard work quality and widespread non-  
2 compliance with PG&E's own standards."

3 198. The 2013 Overland Report added that "PG&E significantly underfunded its gas  
4 distribution operations prior to 2008. Resource constraints were a significant root cause of the  
5 deficiencies. At the same time, the profits made by the gas distribution operations exceeded the  
6 levels authorized by the Commission." **In other words, the Defendants were knowingly and**  
7 **intentionally underfunding PG&E's critical gas distribution operations, even though the**  
8 **company was making higher profits than what was authorized by the CPUC.** As such,  
9 Defendants cannot claim they lacked the resources to maintain PG&E's transmission and  
10 distribution pipelines. Defendants simply chose not to do so, in violation of their duties and  
11 obligations to PG&E.

12 199. The key findings of the 2013 Overland Report were:

- 13 ● **PG&E identified serious deficiencies in its gas distribution operations**  
14 **in 2007 and 2008. The evidence suggests the deficiencies date back to**  
15 **the mid-1990s.** Management failed to detect, or chose to ignore, these  
deficiencies until employees publicly raised issues at PG&E's annual  
shareholders meeting in April 2007.
- 16 ● **PG&E underfunded and understaffed its gas distribution operations**  
17 **from the mid-to-late 1990s through 2007.** Resource constraints were a  
significant contributing factor to the deficiencies in management, policies  
and procedures.
- 18 ● PG&E began corrective actions starting in October 2007. However, these  
19 corrective actions produced mixed results, as demonstrated by PG&E's  
own internal reviews.
- 20 ● **PG&E's actual O&M expenses were 13% lower than adopted from**  
21 **1999 to 2007. The underspending averaged \$18 million a year during**  
22 **that period.** Spending increased in 2008 and again in 2009 as PG&E  
implemented corrective actions. From 2008 through 2010, actual O&M  
was 25% higher than adopted.
- 23 ● Actual capital expenditures were 6.5% lower than adopted from 1999 to  
24 2010. PG&E spent \$168 million less than adopted during that twelve-year  
period. The underspending was concentrated in safety-related categories.  
25 **Safety-related capital expenditures were 13.3% lower than adopted.**
- 26 ● PG&E's gas distribution operations earned an average actual return-on-  
27 equity (ROE) of 12.7% from 2003 to 2010 stated on a regulatory basis.  
PG&E's authorized ROE averaged 11.3% over the same period. **PG&E's**  
28 **gas distribution revenues were \$202 million higher than the amount**  
**needed to earn its authorized ROE over the eight-year study period.**

1           200. The reference to “adopted” is essentially what PG&E stated was the amount of  
2 money it had stated it would need to properly operate and maintain its pipeline network. This is  
3 what the CPUC understood was the amount of money needed to properly operate and maintain  
4 PG&E’s pipeline network. When PG&E spends less than adopted, that means it is spending less  
5 money than what it represented was necessary for the company. For almost a decade, PG&E  
6 consistently spent less in actual dollars for safety than what it represented was necessary. This  
7 was all approved by the Defendants who had created and endorsed practices that fostered a high  
8 likelihood of a catastrophic incident in its operations.

9           201. The 2013 Overland Report continued by stating that “[t]he pervasiveness of the  
10 **deficiencies demonstrates that their ultimate root cause was ineffective or unresponsive**  
11 **executive management. The executives in charge of PG&E’s gas distribution operations**  
12 **placed excessive emphasis on cost containment and inadequate emphasis on work quality**  
13 **and public safety prior to 2008.”** In other words, profits over safety was not just an aspirational  
14 goal for PG&E under the leadership of the Defendants but a policy implemented by the  
15 Defendants.

16           202. In regards to O&M (operations and maintenance) expenses, the 2013 Overland  
17 Report found that “[d]uring the period 1999 to 2007, actual spending was 12.9% lower than  
18 adopted. The underspending averaged \$17.7 million per year during that period. Resource  
19 constraints imposed by management were a significant contributing factor to the underspending  
20 during those years.” Simply put, the reason that PG&E was spending less money on safety was  
21 because management, particularly the Defendants, were making an active and conscious decision  
22 to sacrifice safety for the sake of short-term financial performance.

23           203. In regards to capital expenditures, the 2013 Overland Report found that “actual  
24 gas distribution functional capital expenditures were 6.5% lower than adopted. PG&E spent  
25 \$168 million less than adopted over the entire study period.” In other words, PG&E was  
26 routinely spending significantly less in capital expenditures for its gas distribution network than  
27 what it was representing was necessary.  
28

1           204.    The 2013 Overland Report found that the **underspending on capital**  
2 **expenditures was concentrated in safety-related categories.** According the 2013 Overland  
3 Report, “[a]ctual safety-related capital expenditures were 13.3% lower than adopted. Safety-  
4 related capital expenditures were \$159 million lower than adopted during 1999 to 2010.”

5           205.    **The 2013 Overland Report went on to find that “[s]afety related capital**  
6 **expenditures were lower than adopted in every year from 1999 to 2006, except for 2003.**  
7 **Safety-related capital expenditures were \$274 million lower than adopted in 1999 to 2006.”**

8           206.    The 2013 Overland Report also found that PG&E made long-term gas safety a  
9 low priority. The 2013 Overland Report found that “PG&E assigned a low funding priority to  
10 long-term gas safety programs during the audit period. PG&E generally viewed long-term gas  
11 safety programs as discretionary spending that could be deferred to meet its overall budget  
12 targets. The GPRP [Gas Pipeline Replacement Program], MPP [Meter Protection Program] and  
13 ISSP [Isolated Steel Services Program] were poorly funded throughout the audit period.” Only  
14 the CSRP (Copper Services Replacement Program), which began in 2006, was funded.

15           207.    In regards to return on equity, the 2013 Overland Report found that “PG&E’s total  
16 gas operations earned an average actual ROE of 12.8% during the period 2003 to 20010, stated  
17 on a CPUC regulatory basis. PG&E’s authorized ROE averaged 11.3% over the same period.”  
18 PG&E therefore routinely earned a higher return on equity than was authorized by the CPUC.  
19 This money could have been earmarked for safety but was not. Simply put, PG&E had the  
20 resources to ensure that its gas pipeline network and other infrastructure was safe but chose to  
21 divert the money somewhere else.

22           208.    According to the 2013 Overland Report, “PG&E reduced its gas distribution  
23 staffing by 29% between December 1996 and December 2010. During the same period, the  
24 number of gas distribution customers by 15.5%. The large headcount reductions are a primary  
25 indication of resource constraints in gas distribution.” The Defendants intentionally reduced and  
26 cut PG&E’s gas distribution headcount at a time when the company was adding more customers.  
27 The Defendants therefore knew that they were creating a high risk of a catastrophic incident such  
28

1 as the explosions in Rancho Cordova and San Bruno. Even after those incidents, Defendants  
2 continue to limit what the company will spend on safety in order to protect its profits.

3 209. The 2013 Overland Report also found that the budget process at PG&E was badly  
4 mismanaged for nearly a decade. The 2013 Overland Report found that “[t]he available  
5 documentation for the 2008 to 2010 budget years demonstrates that **PG&E gave a relatively low**  
6 **priority to gas safety spending** in those years. The priority given to gas safety in the 2003 to  
7 2007 budget processes is completely undocumented.”

8 210. The 2013 Overland Report found that PG&E’s budget documentation process was  
9 woefully inadequate. The 2013 Overland Report found that:

10 The budget process started with initial budgets set by senior management. The  
11 basis for the initial budget targets was poorly documented. The next major step in  
12 the process was the submission of initial budget requests by the various  
13 organizations included in the budget. PG&E did not retain the gas distribution  
14 initial budget requests for the 2003 through 2008 budget years. PG&E cannot  
15 show how the budget requests in those years were prioritized. The gas  
16 distribution budget requests for 2009 and 2010 were poorly documented.

17 **The initial budget requests were reviewed and adjusted by a central budget**  
18 **committee and senior management. Those processes were completely**  
19 **undocumented.** PG&E did not retain the initial approved budgets for most of the  
20 years in the study period. PG&E cannot provide the initial approved gas  
21 distribution expense budgets by MWC [Major Work Categories] for 2003, 2004,  
22 2005, 2007 or 2008.

23 211. These process failures are the responsibility of the Defendants -- who have the  
24 ultimate responsibility for ensuring that operational and process safety is a priority at PG&E, as  
25 reflected in the budget; and that there is adequate documentation to show that those safety  
26 objectives are being met. Instead, PG&E made safety a very low budget priority. Furthermore,  
27 PG&E’s poor documentation makes it impossible to assess the methodology behind PG&E’s  
28 budgeting for operational and process safety.

29 212. The 2013 Overland Report also discussed PG&E’s planning documents which are  
30 used to determine PG&E’s future plans towards the operation and maintenance of its gas pipeline  
31 network. The 2013 Overland Report stated:

32 **The 2003 to 2010 planning documents demonstrate a heavy emphasis**  
33 **on cost reduction and on limiting spending to budgeted amounts. The**  
34 **2003 to 2010 planning documents contain very little discussion of**  
35 **public safety.**



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The 2003 to 2005 planning documents contained benchmarking tables that compared PG&E to other gas distribution utilities. The comparisons demonstrated that PG&E was spending significantly less on gas distribution O&M expenses than its peers. **PG&E was also repairing far fewer leaks than its peers.**

The 2003 to 2006 planning documents contained tables listing key gas distribution initiatives. The initiatives demonstrated a heavy emphasis on cost reduction. Cost reduction was a primary goal of 10 of the 18 initiatives.

**The key metrics reported in the planning documents emphasized cost reduction rather than public safety or work quality.**

213. The 2013 Overland Report also demonstrated that the Defendants were well aware of the deficiencies at PG&E and chose to ignore them.

PG&E commissioned two consultant reviews of its preventative maintenance programs in 1995. The consultant reports contain findings that were echoed repeatedly in internal and external reviews prepared in 2007 and later years. The 1995 consultant reports, and PG&E's 1997 internal compliance reviews, demonstrate the long history of PG&E's gas distribution management deficiencies.

PG&E implemented significant workforce reductions in 1993 and 1994. PG&E continued to reduce its gas distribution workforce through 2010. The workforce reductions contributed to significant work quality issues identified by PG&E in 2007 and subsequent years.

Employee complaints about work practices and staffing levels prompted two significant internal audits in 2007. The first was an internal audit of leak detection in the North Bay and North Coast Divisions. The second was an internal audit of regulator station and valve maintenance in Marin County. The internal audits discovered critical deficiencies in leak survey and maintenance practices. PG&E's follow-up investigations demonstrated the deficiencies were pervasive throughout its system.

The internal audit of leak detection in the North Coast Division prompted PG&E to repeat its prior leak surveys in Sonoma County. The resurvey process led to the discovery of systematic leak survey training and operator qualification deficiencies.

PG&E conducted a study of its leak grading process in October 2007. The study conclusively demonstrated that PG&E's leak grading standards were not being applied consistently in the field.

214. The 2013 Overland Report confirmed that the Defendants were aware, for over a decade, that PG&E's operational and process safety procedures were grossly inadequate and not being applied consistently. The Defendants were well aware that PG&E was understaffed and that the budget was insufficient to ensure that PG&E's gas pipeline network was safe and secure. Nevertheless, the Defendants continued to push PG&E towards greater cost cutting at the

1 expense of safety, with full knowledge that they were creating a foreseeable increased risk of a  
2 deadly explosion, such as those that occurred in Rancho Cordova and San Bruno.

3 215. The 2013 Overland Report also found that PG&E had determined that its prior  
4 leak survey process was ineffective. According to the 2013 Overland Report, "PG&E identified  
5 a number of root causes for the leak survey deficiencies, including inadequate planning,  
6 supervision and staffing. During the period 1999 to 2006, the number of Grade 1 leaks  
7 discovered by leak surveys decreased by 68 percent. That should have triggered a critical review  
8 of the leak survey process, but did not because PG&E failed to analyze its leak survey results."  
9 In other words, the Defendants had commissioned a critical survey of leaks in PG&E's gas  
10 pipeline network and then never analyzed them. PG&E therefore wasted all of the efforts of the  
11 individuals who conducted the leak survey and recklessly and knowingly permitted the risk of a  
12 catastrophic incident to continue to exist.

13 216. In 2008, PG&E already knew, based on a report from Exponent, a consulting firm,  
14 that there were "pervasive system-wide deficiencies in PG&E's maintenance practices."  
15 According to Exponent, "PG&E's written standards were not widely understood or followed.  
16 Maintenance practices were not consistent across divisions. Employees were performing  
17 activities based on their own personal determination of the proper work methods. PG&E did not  
18 have an accurate gas distribution asset registry. The asset lists maintained by the divisions were  
19 incomplete and inaccurate."

20 217. The 2013 Overland Report went on to state:

21 The records prepared to document maintenance activities were inadequate.  
22 The records did not provide much information about the work that was  
23 done. The lack of information recorded on the records raised doubts about  
the quality of the work. The lack of objective reliable data to verify work  
completion was an important control weakness.

24 Supervision of regulator station and valve maintenance was inadequate.  
25 The supervisors did not have enough time to adequately supervise all of  
the activities within their work scope. Some supervisors were not  
26 qualified. The poor quality of the maintenance records demonstrated that  
supervisor records reviews were not effective. Prior Quality Assurance  
27 audits had failed to identify the systematic and recurring non-compliance  
with PG&E standards documented by Exponent.  
28

1 Exponent concluded that a lack of accountability at multiple levels of  
2 PG&E's organization contributed to the deficiencies. PG&E did not have  
3 adequate communication channels for employees to raise concerns. Field  
personnel felt they had little influence on management about their  
immediate supervisor.

4 218. The 2013 Overland Report also found that a 2009 report, issued prior to the San  
5 Bruno explosion, had already warned the Defendants that PG&E's safety procedures and policies  
6 were inadequate. According to the 2013 Overland Report, "PG&E discovered critical  
7 deficiencies in its record keeping for service lines installed by residential subdivision developers.  
8 Many of the records that the developers were required to provide were missing. **The problem**  
9 **was pervasive system-wide.** The root causes included wide-spread non-compliance with  
10 PG&E's standards, inadequate record management controls, inadequate auditing and poor  
11 communication between departments."

12 219. The 2013 Overland Report concluded with a "Root Cause Analysis" that states:

13 Several recurring themes emerged from the review of past management  
14 deficiencies that explain, at least partially, the pervasiveness and root  
15 causes of the deficiencies. Overland developed the themes into root cause  
findings to provide insight into audit period spending patterns. This  
Chapter presents those findings.

16 **The evidence of serious deficiencies in the management of PG&E's**  
17 **gas distribution operations during the audit period is overwhelming.**  
18 **Management largely failed to detect, or chose to ignore, the**  
19 **deficiencies until employees publically raised their concerns about**  
20 **operating practices at PG&E's annual shareholders' meeting in April**  
21 **2007.**

22 PG&E began corrective actions in October 2007. The corrective actions  
23 had mixed results, as demonstrated by PG&E's internal reviews. After the  
24 San Bruno Incident (SBI), PG&E replaced most of its distribution  
25 executive management and is currently in the process of reforming its gas  
distribution operations.

26 Several key safety-related functions were inadequate during most of the  
27 audit period. PG&E's leak survey program was ineffective prior to 2008,  
28 as demonstrated by survey results. PG&E's leak grading practices were  
inconsistent. PG&E's process for responding to customer leak complaints  
was inadequate.

PG&E's maintenance processes were critically deficient as demonstrated  
by Exponent's system-wide audit of regulator station and valve  
maintenance. PG&E's damage prevention program was inadequate as  
demonstrated by PG&E's dig-in rates and internal reviews. The  
Company's mapping processes were critically deficient as demonstrated  
by PWC's review and PG&E's internal audits.

1 PG&E's processes for collecting and organizing information about its gas  
2 distribution facilities were inadequate. PG&E did not have an accurate  
3 Asset Register or GIS at any point during the audit period. Much of  
4 PG&E's asset knowledge was trapped in records that could not be  
5 electronically searched. As a result, integrity management risk  
6 assessments required labor intensive manual record searches.

7  
8 Record keeping practices were inadequate throughout the audit period.  
9 PG&E's maintenance and leak survey records were incomplete and  
10 inaccurate. PG&E's leak survey data base lacked effective data quality  
11 controls. Records were frequently missing and PG&E did not have  
12 controls to assure that its records were complete.

13  
14 With one exception, PG&E's long-term gas safety programs were poorly-  
15 funded throughout the audit period. Management viewed long-term gas  
16 safety programs as discretionary spending that could be defetred t meet  
17 budget targets.

18  
19 220. The 2013 Overland Report identified eight root causes for the pervasive  
20 deficiencies in PG&E's gas distribution management:

- 21 ● **Insufficient management focus on work quality and public safety;**
- 22 ● Ineffective communications between management and the field and among  
23 departments;
- 24 ● Inadequate direction of the work methods used by field employees;
- 25 ● Inadequate staffing and other resources;
- 26 ● Ineffective supervision and quality control;
- 27 ● Inadequate quality assurance;
- 28 ● **Failure to collect and organize critical operating data; and**
- **Failure to analyze the data that was available.**

29 221. According to the 2013 Overland Report, "[t]he pervasiveness of the deficiencies  
30 demonstrates that their ultimate cause was ineffective executive management. The  
31 executives in charge of PG&E's gas distribution operations placed excessive emphasis on cost  
32 containment and failed to properly manage the operations." These failures are ultimately the  
33 responsibility of the Defendants who are top executives and directors of PG&E and therefore  
34 owe fiduciary duties of care and loyalty to PG&E and its shareholders. The Defendants owed  
35 PG&E the duty to exercise the utmost care and diligence in the management, supervision and  
36 direction of PG&E, both in terms of direct leadership but also in setting policies and procedures  
37 and in developing PG&E's corporate culture. Through Defendants' misconduct, they failed to

1 exercise leadership, established policies and procedures that created a high risk of a catastrophic  
2 incident (which would significantly harm PG&E and its shareholders) and encouraged a  
3 corporate culture in which short-term profits superseded safety. Defendants knew or recklessly  
4 ignored reports for over a decade showing that safety was a low priority at PG&E due to budget  
5 reductions for safety concerns, reduced headcount and loss of technical expertise. Defendants  
6 made no effort to rectify these errors and instead exacerbated them by implementing and  
7 maintaining policies and procedures designed to cut costs, regardless of the impact such cuts  
8 would have on safety. Profits over safety became the driver of policy-making at PG&E because  
9 of the Defendants.

10 222. The 2013 Overland Report noted that the “metrics used by management were  
11 focused on reducing unit costs instead of improving work quality.” The report also noted that  
12 “[e]mployees had the impression that quality was not a high priority for management.”

13 223. According to the 2013 Overland Report, which is consistent with the reports of  
14 individual employees was that “[t]he metrics emphasized by management was focused on  
15 production over quality. Field supervisors did not understand the metrics and viewed them as  
16 punitive. The leak repair metric encouraged employees to find fewer leaks. One cost reduction  
17 initiative included a monthly report to encourage supervisors to downgrade leaks. The on-time  
18 appointment metric for Gas Service Representatives encouraged them to minimize the time spent  
19 on leak investigations. Work quality metrics were generally not tracked.”

20 224. The 2013 Overland Report noted that “[l]eak surveys are a critical component of a  
21 gas safety program. Leak survey was treated as low priority work. Leak surveyors were  
22 frequently diverted to other work and were then pressured to complete their scheduled surveys by  
23 end of month to meet compliance deadlines.”

24 225. In other words, PG&E had created a broken incentive system in which PG&E  
25 employees were financially incentivized to find “no leak” or to “downgrade leaks.” These  
26 incentives were not designed to incentive employees to actually fix or repair leaks but simply to  
27 categorize dangerous existing leaks as “non-leaks” or “low-level leaks.” This helped PG&E in  
28 protecting its short-term finances. However, from a long-term view, this significantly harmed

1 PG&E since it made a dangerous and catastrophic incident inevitable. This would likely result in  
2 the loss of lives and the destruction of property, destroy PG&E's reputation and result in  
3 significant fines and litigation. As the explosions in Rancho Cordova and San Bruno show, those  
4 risks became realities. The Defendants, however, knew that those risks were likely but still  
5 chose to ignore them.

6 226. As the 2013 Overland Report concludes, "concerns about PG&E's corporate  
7 culture remain."

8 **P. PG&E Created and Fostered a Corporate Culture and Implemented Corporate**  
9 **Policies That Resulted in Neglect of PG&E's Pipelines and Infrastructure with**  
10 **Foreseeable Harm and Injury to PG&E and Its Shareholders and Ratepayers**

11 227. On January 12, 2012, the CPUC released to the public its Incident Investigation  
12 Report on the PG&E Pipeline Rupture in San Bruno, California. It concluded that the incident  
13 was caused by PG&E's failure to follow accepted industry practice when constructing the section  
14 of the pipe that failed, PG&E's failure to comply with integrity management requirements,  
15 deficiencies in PG&E's systems and emergency response actions, and "a systemic failure of  
16 PG&E's corporate culture to emphasize safety over profits."

17 228. Among other things, the CPUC Incident Investigation Report pointed to PG&E's  
18 company-wide business and cultural transformation campaign to reduce operating costs and  
19 instill a change in its corporate culture, called "Transformation." On February 16, 2005,  
20 Defendant Peter A. Darbee, PG&E's Chairman of the Board, CEO and President presented the  
21 idea of "Transformation" to PG&E's Board of Directors. In that presentation, they were  
22 provided an estimate of target cost savings and discussed the extent to which PG&E expects to  
23 be able to reinvest those savings into the infrastructure.

24 229. As stated in PG&E's 2006 Annual Report, the reason for the investment in  
25 "Transformation" was, "If the actual cost savings are greater than anticipated, such benefits  
26 would accrue to shareholders. Conversely, if these costs savings are not realized, earnings  
27 available for shareholders would be reduced." PG&E claims that due to the "Transformation"  
28 program, it reduced its revenue requirements by \$41 million in 2008 and another \$56 million in  
2009 (for a total of approximately \$97 million in the 2007 three-year general rate case). Even

1 with the reduction in revenue requirement, PG&E still under-spent its adopted functional  
2 operations and maintenance amount by \$2.9 million in 2006, \$2.2 million in 2007, and \$3.5  
3 million in 2008. There was no indication that any amount of savings was reinvested into the  
4 infrastructure. The CPUC Report also concluded that “PG&E violated the Public Utilities Code,  
5 several federal and state pipeline safety regulations and failed to follow accepted industry  
6 standards.”

7 230. As the CPUC and Overland noted in their respective reports, PG&E treated **safety**  
8 **as a “low priority”** and chose to use surplus revenues for “general corporate purposes” rather  
9 than improved gas safety. By cutting back on pipeline-replacement projects and maintenance,  
10 laying off workers, using cheaper but less effective inspection techniques and trimming other  
11 pipeline costs, PG&E saved upward of 6% of the money designated for pipeline safety,  
12 maintenance and operations program; meanwhile diverting customers’ fees from safety and long-  
13 term sustainable growth for short-term profit.

14 **Q. Defendants’ Knowingly Created a High Risk of Catastrophic Harm**

15 231. On December 24, 2008, the community of Rancho Cordova was devastated by a  
16 PG&E transmission pipeline explosion that killed one person. Less than two years later, on  
17 September 9, 2010, the community of San Bruno similarly was destroyed by the explosion of a  
18 PG&E transmission pipe. The incident resulted in the loss of eight lives and destruction of 38  
19 homes. The explosion was a predictable consequence of PG&E’s corporate culture that ignored  
20 industry practice, circumvented Federal and State Pipeline Safety Standards and was driven by an  
21 excessive emphasis on financial performance.

22 232. PG&E’s captive customer base numbers over 15 million. In serving these  
23 customers, PG&E has become one of the largest public utilities in the country with after tax net  
24 income of over \$1 billion and assets of over \$46 billion. Its vast northern and central California  
25 service territory requires an extensive underground pipeline infrastructure that, if not maintained  
26 properly, threatens lives everywhere. Yet, for decades, PG&E’s corporate culture has  
27 emphasized financial performance over customer safety, consciously disregarding industry  
28 pipeline safety practices and willfully circumventing pipeline safety laws and regulations. While

1 PG&E's profit-first emphasis has no doubt served the financial interests of its highly-paid  
2 executives, the deadly, devastating San Bruno explosion and fire of September 9, 2010 was a  
3 predicable, preventable and reprehensible consequence.

4 233. The San Bruno pipeline that exploded had been in operations for decades.  
5 Despite this fact, PG&E spent little to no resources on required risk management practices to  
6 ensure that it would not and could not explode. During the rapid post-World War II population  
7 expansion, PG&E constructed new gas lines, including Line 132, which runs from Milpitas, up  
8 the Peninsula to San Francisco. In 1956, PG&E relocated Segment 180, a 1,851-foot, 30-inch  
9 diameter gas transmission pipeline. The pipe was made of flat steel that was rolled and then  
10 welded together. The section of pipe also included an otherwise-unknown configuration of six  
11 pups manufactured from an unknown source.<sup>5/</sup>

12 234. In 1956, PG&E knowingly buried its pipeline in a subdivision intended for  
13 development into a residential neighborhood. Standards, then as now, required the longitudinal  
14 seams to be welded from both the exterior and the interior of the joint, penetrating the entire  
15 depth of the pipe, overlapping one another. Conversely, Segment 180's pups contained seams  
16 with only an exterior weld, a defect visible to the eye. PG&E engineers knew, and as events bore  
17 out, or should have known that such incomplete seams were vulnerable to rupture from pressure  
18 fluctuations.

19 235. Despite this knowledge, PG&E failed to keep accurate records required by federal  
20 regulations concerning the installation.<sup>6/</sup> Moreover, even though PG&E knew that records  
21 regarding its pipeline system were incomplete and inaccurate, it relied on these records to make  
22 risk assessments that resulted in unwarranted conclusions about pipeline safety. Rather than  
23 follow federally mandated integrity verification measures mandated by its lack of records, PG&E  
24  
25

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26 <sup>5</sup> PG&E engineers cannot not identify any other project that incorporated such a  
27 configuration of six short pieces of pipe.

28 <sup>6</sup> For example, this pipe was incorrectly described in pipeline risk management records as  
seamless 30-inch diameter steel, despite PG&E engineers' knowledge that 30-inch-seamless pipe  
did not exist in the 1950's.



1 managers simply ignored their lack of information and assumed the pipeline was safe. Simply  
2 put, PG&E gambled with the lives of San Bruno residents, in conscious disregard for their safety.

3 236. Perhaps the most egregious illustration of PG&E's disregard for public safety, was  
4 its repeated failure to hydrostatic test or to inspect Segment 180 of Line 132 as industry practice,  
5 and later, federal regulations required. Beginning at its installation and continuing throughout its  
6 nearly fifty-five year life, PG&E repeatedly avoided required hydrostatic testing of Line 132.  
7 Operating in a culture in which safety was optional, these decisions were made in order to protect  
8 PG&E's bottom line, despite the risk to human life and health. As such, PG&E consciously  
9 circumvented these safety regulations and the expensive hydrostatic tests they required by  
10 artificially spiking pipeline pressure to create the illusion of pipeline integrity.<sup>7</sup> Had PG&E  
11 conducted the required tests and inspections, the defect would have been discovered and the lost  
12 lives spared.

13 237. The immediate cause of the rupture was a two-hour increase in the pipeline  
14 pressure above its maximum actual operating pressure. During the course of maintenance at  
15 PG&E's Milpitas terminal, backup systems lost power. This power loss caused valves to move  
16 to a wide open position, resulting in dangerously-increased pipeline pressures. High pressure  
17 alarms were triggered for lines in and out of Milpitas, including Line 132. Around 6:00 p.m. the  
18 pressure on Line 132 near the rupture site hit a maximum of 386 pounds per square inch,  
19 significantly in excess of the maximum actual operating pressure.

20 238. Minutes later, one of Line 180's defective pups ruptured, creating a 72 foot by 26  
21 foot crater and igniting its residential San Bruno neighborhood. PG&E took over an hour and a  
22 half to shut off the gas. Instead of automatic shut-off valves which, if installed on Line 132,  
23 would have resulted in a quick shut off, PG&E responders faced delays dispatching and driving  
24 through congested streets to collect necessary shut-off tools from PG&E yards and to reach the  
25 manual shut-off valves.

26 239. "Natural gas pipeline engineering design employs, at its core, the goal of *zero*  
27 *significant incidents*. That is, if a pipeline is constructed, operated, and maintained according to

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28 <sup>7</sup> No other pipeline operator artificially spiked its pipelines in such a manner as PG&E.

1 its design, then it should operate without safety risk to the public – notwithstanding it transports a  
2 combustible product because the pipeline is buried, it is not susceptible to direct inspection on an  
3 ongoing basis.” In other words, average or pretty good isn’t good enough. This standard is also  
4 state law. *See* Public Utilities Code section 451.<sup>8/</sup> Yet rather than hew to this standard, PG&E  
5 placed profits over safety in general; and worker safety over customer (pipeline) safety. For  
6 decades, PG&E has failed to do what it needed to do to protect the safety of its customers  
7 because it was either more expensive or more trouble. Most disturbing is that PG&E knew the  
8 “probable dangerous consequences” of these failures – a pipeline explosion with loss of life and  
9 catastrophic damage.

10 240. Since at least the 1970's, PG&E officers and its Board of Directors have known of  
11 the need to test and replace Line 132 yet consciously failed to do so as part of its overall  
12 commitment to profits over safety.

- 13 • PG&E officers as well as its Board of Directors were aware of the need to test  
14 and/or replace its aging pipelines, including Line 132, more than two decades  
before this incident.
- 15 • The head of Gas System Design proposed hydrostatically testing Line 132 more  
16 than 30 years before this explosion.
- 17 • PG&E managing agents were warned that there were over 1.7 million feet of  
18 transmission lines in populated areas that had no hydrostatic test records,  
including Line 132.
- 19 • As far back as 1984, PG&E managing agents, including the head of Gas System  
20 Design and the PG&E Management Committee, were told that PG&E failed to  
allocate adequate funds to “assure” system integrity, and that the risk of failure  
escalated as these facilities age.
- 21 • PG&E’s Management Committee was informed that it had deferred over \$17.0  
22 million in pipeline projects involving safety, code compliance and systems  
reliability.
- 23 • In the late 1970's and early 1980's the head of Gas System Design alerted PG&E’s  
24 officers and Board of the need to replace PG&E’s aging gas pipelines and  
proposed instituting the Gas Pipeline Replacement Program (“GPRP”) to facilitate  
25 the replacement.

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27 <sup>8</sup> The section reads in part: “Every public utility shall furnish and maintain such adequate,  
28 efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including  
telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary [sic] to  
promote the safety, health, comfort, and convenience of its patrons, employees, and the public.”

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- PG&E managing agents including PG&E's Management Committee and Officers were warned that pipelines installed prior to 1950 (PG&E pipe for Segment 180 had been identified with pipe held as salvage from pipe acquired as early as 1947-1948), were "suspect" and "required attention."
- In 1984-1985, PG&E Officers and its Board of Directors were advised that Line 132 needed to be replaced along with two other gas transmission lines serving the San Francisco Bay Region.
- PG&E Officers and Board understood the most immediate priority for replacement of pipelines was in areas where the lines were 30 to 100 feet from residences, and that the lines in these areas should be replaced in 5-7 years.
- The head of Gas System Integrity warned the PG&E Management Committee that the foreseeable risk of failing to commit to the replacement of aging pipelines was death, injury and property damage to those living near the pipeline.
- PG&E's officers and managing agents were warned of the dangerous consequences of injury, death and/or property damage that would occur to heavily populated areas if pipelines like Line 132 were not replaced.
- In 1987, Bechtel warned the head of Gas Pipeline Integrity that a project for the collection of data for PG&E's gas transmission lines had identified various pipeline segments without records to validate information regarding the characteristics of PG&E's pipelines; Bechtel proposed digging up these pipeline sections to obtain missing information; however PG&E refused to spend the money to dig up the lines.
- In or about 2000, PG&E's managing agents transferred the GPRP for gas transmission lines into its Risk Management Program, which PG&E alleged was to prioritize and manage risks but was in effect to avoid necessary compliance expenditures for line replacement and pressure testing.
- PG&E misrepresented to the CPUC that terminating their Gas Pipeline Replacement Program ("GPRP") to replace it with their Risk Management Program ("RMP") would not result in significant cuts to pipeline safety and reliability.
- Secretly, in the Spring of 1999, the PG&E GT&S Capital Program Review indicated that use of the Risk Management Program would save PG&E \$60 million over the life of the GPRP.
- In fact, the Risk Management Program became a cost reduction measure, resulting in PG&E replacing only 25 miles of pipeline, as opposed to 165 miles of pipeline that would have been required had the Gas Pipeline Replacement Program instituted in 1985 remained in place.
- In the Spring of 2001, PG&E's California Gas Transmission Program indicated that its Risk Management Program would save PG&E over \$200 million over twenty years by avoiding regulatory and safety required pipeline verifications and/or risk management analysis of all gas pipelines, utilizing smart pigging or hydrotesting in high consequence areas to comply with federal law.
- From 2008 to 2010, PG&E placed excessive emphasis on financial goals set by executive management in its budgeting process. At the same time, PG&E reduced compliance and other Integrity Management expenses by consciously deciding to

1 defer projects, in particular by deferring or down grading assessment methods to  
2 inadequate and less costly techniques; moreover, PG&E ceased preparing metrics,  
3 goals or annual reports for its gas transmission pipeline Risk Management  
Program. The Overland CPUC review concluded that risk management continued  
to be a separate program “in name only after 2004.”

- 4 • The approved budgets for Integrity Management were slashed nearly 50% from  
5 what was requested in 2008 for its compliance and integrity activities, and  
6 PG&E’s Fall Program Review noted that “expected flat funding in 2009 and 2010  
7 will drive the program into non-compliance in 2012.”
- 8 • Budget cuts for safety programs continued in 2008, 2009 and 2010. Actual 2008  
9 for compliance and safety funding was 35% below the initial request and 16%  
10 below “minimum funding to achieve 2012 compliance.” PG&E’s maintenance  
11 budget was 47% below the initial request and 25% below the “recommended  
12 minimum level.”
- 13 • Integrity Management budget cuts for 2009 resulted in deferring or eliminating  
14 replacement of over 44 miles of gas transmission pipelines in HCAs. PG&E also  
15 deferred 41 miles of integrity management assessments of gas transmission  
16 pipelines.
- 17 • The PG&E 2010 budget was reduced, for the third straight year. The 2010 budget  
18 was set at \$6.7 million below already constrained 2009 actual expense levels.

19 241. PG&E’s safety budget cuts, project safety deferrals, adoption of ineffective and  
20 less costly assessment methods and decisions to dodge compliance with regulations and pipeline  
21 industry standards, guides, and recommended practices were not the result of profitability  
22 constraints. GT&S revenues exceeded the amount needed to earn the authorized rate of return by  
23 \$430 million. The low priority PG&E gave safety and reliability requirements in the 2008-2010  
24 budget process was well outside standard industry practice.

25 242. Rather, PG&E budget cuts for safety related projects were motivated by financial  
26 performance. Relatedly, PG&E executive officer compensation for the period 2000-2010 (the  
27 period when PG&E terminated its GPRP and adopted the RMP) was over \$281 million. By  
28 comparison, the cost to hydrotest the one-third mile Segment 180 of Line 132 would have been  
approximately \$125,000.

1 **R. PG&E's Flagrant Disregard of Minimum Safety Standards**

2 **1. Minimum Safety Standards Were Well Established**

3 243. Since 1935 general rules have been available on the materials, design,  
4 construction, pressure testing and allowable operating pressures of gas pipelines. These rules  
5 initially appeared in American Society of Mechanical Engineers (ASME) B31.1, *Code for*  
6 *Pressure Piping*.

7 244. In 1955, comprehensive gas pipeline rules were published in ASME B31.1.8, *Gas*  
8 *Transmission and Distribution Piping Systems*. The rules in this new gas pipeline Code covered:

- 9 • Material qualifications,
- 10 • Design,
- 11 • Construction,
- Pressure testing, allowable operating pressures, and
- Operations and maintenance requirements.

12 245. Records were required on pressure testing and implementing the operational and  
13 maintenance activities. Original design, construction, and testing records were required for  
14 establishing and managing operating pressure increases over time.

15 246. In 1968, the Gas Pipeline Safety Act was passed. *See* 49 § CFR 191 (2011);  
16 Title 49 CFR Part 191 on reporting was issued in 1969 and Part 192 was first issued in 1970. *See*  
17 49 § CFR 191 (2011); 49 § CFR 192 (2011). Since 1970, ASME has sponsored and published a  
18 *Guide for Gas Transmission and Distribution Piping Systems* that covered each requirement in  
19 Parts 191 and 192 and provided compliance guidance. In addition to ASME sources for  
20 compliance, the American Petroleum Institute, National Association of Corrosion Engineers,  
21 American Society for Testing and Materials, and other organizations have published standards,  
22 guides, and recommended practices needed to safely operate gas pipelines.

23 These industry standards, guides, and recommended practices are developed and  
24 approved on a consensus basis. Therefore, these documents define minimum practices to be  
25 followed by all users of these documents. Even 49 CFR Part 192 is titled as "Minimum Federal  
26 Safety Standards." *See* 49 § CFR 192 (2011).

27 247. The San Bruno tragedy was a consequence of PG&E's cultural disregard for the  
28 foreseeable risk of harm to the public by their failure to ensure compliance with the letter and

1 spirit of these minimum safety standards. PG&E's disdain for compliance with minimum safety  
2 standards began more than five decades before the San Bruno pipeline explosion.

3 **2. The Relocation Of Segment 180 In 1956**

4 248. PG&E crews relocated the 1,850-foot Segment 180 in 1956. PG&E knew the  
5 purpose for relocation of the pipeline was to facilitate development of a residential  
6 neighborhood. PG&E personnel performed the design, materials acquisition, configuration  
7 placement, and construction of the relocated part designed as Segment 180. PG&E crews  
8 installed the six pieces of pipe, less than five feet in length, called pups, which were welded  
9 together in the field at various angles to one another and placed in approximately 70 to 80 feet of  
10 fill material. Such a configuration caused the pipeline to be susceptible to uneven settlement and  
11 additional stress from sources other than internal pressure.

12 249. The 1956 relocation and reconfiguration of Segment 180 ignored industry  
13 standards for pipeline design, construction, inspection, testing, and operation then in effect;  
14 including but not limited to:

- 15 ● the installation of six miter bends and pipe pups ranging from 3.5 to 4.7 feet and  
16 welded together at various angles
- 17 ● the fabrication of the pipes at an unknown facility and built to no known  
18 specifications
- 19 ● an incomplete weld defect observable to the unaided eye
- 20 ● the lack of PG&E policy or procedure for inspecting interior weld defects
- 21 ● the lack of records pertaining to radiographic or hydrostatic pressure tests;
- 22 ● the lack of purchasing and manufacturing records describing the pipe and miter  
23 bends
- 24 ● the ruptured pipe's failure to meet any known design or construction standards
- 25 ● PG&E's quality control procedures, which failed to identify a visible defect in the  
26 ruptured pipe
- 27 ● the misalignment of Pups 1 and 3, which added stress and strain to the ruptured  
28 pipe
- 28 ● the size and shape of the weld defects, which significantly reduced the strength of  
Pup 1's longitudinal seam and made it susceptible to unstable crack growth under  
internal gas pressure
- lack of construction and as-built records

1           250. Since the time of the explosion, PG&E has claimed it had no as-built plans, no  
2 testing records, no drawings and no manufacturing records. Yet in the fifty-four years since  
3 installation of Segment 180, PG&E consciously decided to avoid excavation, inspection, and  
4 pressure testing required to comply with regulations and industry standards and failed to  
5 eliminate risks posed by its failure to maintain proper historical records for Segment 180.

6           **3. Lack Of Records 1956 - 1970**

7           251. Without complete records on materials installed, design activities, construction  
8 activities, and pressure testing, from 1956 to 1970 when 49 CFR Part 192 was first issued,  
9 PG&E's pipeline management practices violated the minimum compliance standards in B31.1.8  
10 (later B31.8) by failing to:

- 11           ● Qualify materials for gas pipeline service originally installed in Segment 180
- 12           ● Determine the design pressures of each item of pipeline originally installed in  
13 Segment 180
- 14           ● Determine the MAOP of each item originally installed in Segment 180
- 15           ● Determine the physical condition of Segment 180 when installed
- 16           ● Perform qualification requirements to increase the maximum actual operation  
17 pressures on Segment 180
- 18           ● Perform continuing surveillance activities of Segment 180

19           252. Without these essential records, PG&E had no basis to establish safe operating  
20 conditions for Segment 180. During this time PG&E turned a blind eye to compliance with the  
21 pipeline industry "Code of Conduct" for gas pipelines. During this time PG&E operated Line  
22 132 over 400 psig without records and calculations to support any safe level of operation. Use of  
23 required default values would have limited the design pressure of Segment 180 to no more than  
24 160 psig. However, without the needed pressure testing records, an operating pressure of 160  
25 psig would not have complied with the MAOP requirements in the pipeline industry Code since  
1955.

26           253. PG&E claims that it had no records or actual knowledge of the defective  
27 characteristics of the section of pipe that blew-up on September 9, 2010. This claim, however, is  
28 specious given that: (1) PG&E acquired the materials; (2) PG&E designed and installed the

1 section which failed; (3) PG&E chose not to inspect or test the pipe for defects prior to operation;  
2 and (4) PG&E then buried the pipe without maintaining any records of what it did. Indeed,  
3 PG&E took no action to find out what was installed and how it was installed until after the San  
4 Bruno explosion.

5 254. After 1970, in the continued absence of complete records on materials installed,  
6 design activities, construction activities, and pressure testing, PG&E failed to comply with a  
7 flood of safety standards in 49 CFR Part 192.

8 255. After the passage of 49 CFR part 192, PG&E continued to operate Line 132 at a  
9 MAOP of 400 psi by deliberately misapplying the grandfather clause in Section 192.619 as  
10 justification for avoiding use of a hydrostatic test to confirm the integrity of its pipeline.  
11 However, section 192.619 limits use of the MAOP grandfather clause to pipeline segments found  
12 to be in satisfactory condition. In 1970, PG&E had no records of materials, construction  
13 practices, inspection practices, and pressure tests of Segment 180 and, therefore, had no basis to  
14 establish the safe physical condition of Segment 180 in Line 132.

15 256. If a pipeline is initially designed and constructed to a level which meets no  
16 standard, as was Segment 180 – then has no records to reveal what was actually built -- the  
17 pipeline will always be a disaster waiting to happen.

18 257. Moreover, PG&E's Integrity Management Program lacked integrity,  
19 including but not limited to:

- 20 ● maintaining inadequate records used to assess pipeline integrity, such as PG&E's  
21 failure to update its GIS database to reflect:
  - 22 ● a longitudinal seam weld leak resulting from manufacturing defects  
23 discovered on Line 132 in 1988
  - 24 ● material defects found on Line 132 in October 2009.
- 25 ● utilizing its GIS system to assess the integrity of its pipelines despite knowing that  
26 the GIS lacked complete and accurate records.
  - 27 ● Rather than spending money to expose, inspect, and correctly document  
28 pipeline characteristics where PG&E lacked adequate records, PG&E  
assumed the pipelines had characteristics which did not pose threats to its  
integrity, a practice that violated Federal regulations and industry



1 standards. Such assumptions were used by PG&E to forgo hydrostatic  
2 testing or replacing its aging pipelines, including Line 132.<sup>9/</sup>

- 3 ● PG&E continued to assume its pipelines were safe despite warnings of inadequate  
4 records by Bechtel in 1987 and of the need to replace and/or test its aging  
5 pipelines by its own employees in the 1970s and 1980s
- 6 ● failing to consider manufacturing and construction defects and risks in assessing  
7 the integrity of its pipelines
- 8 ● deliberately choosing EDCA as the only method of assessment for Line 132,  
9 despite actual knowledge of the prior discovery of manufacturing defects in this  
10 Line, general knowledge manufacturing defects exist in welds, and despite  
11 knowledge that the age of the pipeline and lack of pipeline documentation  
12 required PG&E to assume the presence of manufacturing defects and conduct  
13 hydrostatic testing;
- 14 ● knowingly and artificially conducting spike pressure tests to circumvent federal  
15 safety standards in Sections 192.19 and 192.917 to unlawfully create the false  
16 notion that manufacturing and construction defects were stable, thereby avoiding  
17 pressure tests or pipeline replacement.

18 258. PG&E knew of over 25 leaks on Line 132, but did not determine the causes of  
19 those leaks. These leaks were simply recorded as having unknown causes. **PG&E used its**  
20 **failure to determine the causes of unknown leaks to its advantage, by relying on the absurd**  
21 **assumption that it could ignore evaluation of threats from unknown causes.** PG&E simply  
22 turned a blind eye to safety regulations requiring a pipeline operator to determine all threats and  
23 address each and every one of them. Such a practice demonstrated a total disregard of customary  
24 engineering principles to assume the worst, until proven otherwise. Rather, PG&E based safety  
25 decisions on the lethal proposition that “what you don’t know about a pipeline can’t hurt  
26 anybody.”

27 259. Section 49 CFR 192.917 required PG&E to identify and evaluate all potential  
28 threats to each covered segment. Additionally, ASME B31.8S was to be followed as a source of  
known threats to pipelines. PG&E was required during the data gathering and integration step to  
consider all its gas transmission segments (not just HCAs or the system in which it was a part).

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26 <sup>9</sup> For example, PG&E assumed Segment 180 was 30-inch seamless pipe despite the fact  
27 that 30-inch seamless pipe has never been made in North America. PG&E also considered only  
28 threats that were known to have occurred in Line 132 although Section 192.917 requires that all  
potential threats in all of PG&E’s pipelines are to be used to determine threats to all of its  
pipelines.

1           260.    Section 2.2 of ASME B31.8S listed 21 threats. In addition, Gas Research  
2 Technology's report on direct assessment indicated that "unknown" should be included as a  
3 twenty second threat. PD&UF No. 278. These 22 threats were used to define root causes by the  
4 Pipeline Research Council International (PRCI).

5           261.    In the case of PG&E with its limited records, the number of potential threats is  
6 compounded with each "unknown" cause of a leak, or missing data. With missing and inaccurate  
7 records, PG&E feigned compliance with 49 CFR Part 192 by simply using "assumed values" –  
8 which in each instance allowed PG&E to avoid more expensive safety testing, field excavation or  
9 integrity verification.

10          262.    In Line 132, PG&E only addressed the threat of external corrosion. The other  
11 threats were ignored or were arbitrarily excluded from evaluation and assessment, including the  
12 presence of six defective miter bends.

13          263.    PG&E's company policy for Integrity Management violated 49 CFR Section  
14 192.917 in failing to adopt any policy or procedure to assess cyclic fatigue in Line 132 as  
15 mandated by federal regulations. PG&E failed to address issues of crack propagation and how it  
16 affects pipeline integrity despite PG&E's awareness of long known engineering principles related  
17 to crack propagation and its effects on pipe defects. Since 1969, American Petroleum Institute  
18 Specification 5LX has included fracture control testing as a supplemental requirement. Since  
19 1992, ASME B31.8 has included fracture arrest requirements and PG&E had no fracture control  
20 data on Line 132. Even before the incorporation of the fracture control requirements into ASME  
21 B31.8, the American Gas Association conducted a considerable amount of research on fracture  
22 control and fracture arrest. PG&E was a member of the American Gas Association and had full  
23 access to all the research and testing on gas pipeline fracture control.

24          264.    PG&E further violated industry standards as well as its own internal standards by  
25 failing to assume the existence of manufacturing and construction defects in its pipelines over  
26 fifty years of age; and utilizing hydrostatic testing to identify such defects on Line 132. Rather,  
27 PG&E consciously decided to circumvent industry standards established by delaying  
28 designations of HCA's and artificially increasing pipeline pressures without records and

1 supporting pipeline condition assessments. PG&E knowingly exploited loopholes and created  
2 compliance procedures outside the federal regulations and industry standards, guides, and  
3 recommended practices, which it knew did not comport with the spirit or intent of federal  
4 regulations. PG&E adopted methods to establish MAOP and stability of manufacturing and  
5 construction threats in its pipelines, which no other pipeline operator adopted, for the purpose of  
6 avoiding expensive testing or pipe replacements.

7         265. PG&E adopted artificial methods involving pressure spike increases in its lines in  
8 high consequence areas (HCAs) to avoid addressing manufacturing and construction threats.  
9 Despite knowledge that some sections of Line 132 had suspected manufacturing and construction  
10 threats and that PG&E lacked historical records pertaining to the line, PG&E intentionally spiked  
11 the pressure on Line 132 in 2003 to 402.2 psig and in 2008 to 400.7 psig. PG&E employed such  
12 pressure spiking to avoid complying with federal regulations, which required hydrostatic tests  
13 and in line inspections to assess manufacturing and construction threats.

14         266. In assessing Line 132, PG&E deliberately chose to use a method of assessment of  
15 the integrity of the line that could not identify the existence of a manufacturing and construction  
16 threat. PG&E only used direct assessment designed for the external corrosion threat on Line 132.  
17 Direct assessment is only approved for corrosion threats in federal regulations and pipeline  
18 industry standards. PG&E chose direct assessment and pressure spiking to avoid more costly and  
19 effective techniques, such as hydrostatic testing and inline inspecting, that actually identify  
20 manufacturing or construction threats. Hydrostatic testing and inline inspecting would have  
21 exposed the manufacturing and/or construction defects in Segment 180.

22         267. PG&E knowingly sought to avoid requirements in federal regulations, industry  
23 standards, guides and recommended practices and exploited regulatory loopholes to avoid  
24 expensive but effective testing. Moreover, PG&E chose to rely on notoriously inaccurate and  
25 incomplete data in its GIS system to justify assessments of its high risk pipe. PG&E acted in  
26 such a manner with the recognition that a foreseeable consequence of its decisions regarding  
27 integrity management could, and did, result in a pipeline rupture with consequential death, injury  
28 and property damage.

1           268. PG&E argues that it adopted a wealth of its own unique rules, algorithms and  
2 management procedures for pipeline assessments. PG&E, however, understood that reliance on  
3 such standards are worthless to any safety assessment if it is based on poor quality records and  
4 information.

5           269. PG&E violated 49 CFR 192.616, as well as its own standards, by failing to assess  
6 unique attributes and characteristics of its pipelines, including Line 132, as part of a Public  
7 Awareness Program to educate and/or warn “stake holders” (customers living near its  
8 transmission lines) of the potential dangerous risks identified in the discussion above. PG&E’s  
9 public awareness program failed to comply with Federal regulations in over 20 areas. Such a  
10 failure amounts to a violation of Public Utilities Code section 451.

11           270. PG&E’s LTIMP for Line 132 failed to include any preventative measures.  
12 The very few mitigation measures included activities required in all pipelines, not just HCAs.  
13 Further, LTIMP for Line 132 contained little or no evidence of any effort to evaluate the merits  
14 of additional preventative and mitigation measures.

15           271. On the afternoon of September 9, 2010, work began on the pressure control and  
16 Supervisory Control and Data Acquisition (“SCADA”) system at Milpitas Terminal. During the  
17 work, pressure control and SCADA power was lost at various times. When power was lost, the  
18 Milpitas Terminal lost much of its high pressure control capacity and capability to monitor  
19 operation of Line 132. PG&E actions violated numerous regulatory requirements.

20           272. PG&E’s failure to comply with federal regulations and industry standards, guides,  
21 and recommended practices continued beyond the September 9, 2010, San Bruno rupture.  
22 PG&E’s request for CPUC approval of its compliance plan on records and MAOP validation  
23 contains inadequate information to determine the design suitability and MAOP of various items  
24 in its pipelines including:

- 25           1. Installed quantities;
- 26           2. Pipe data;
- 27           3. Repair sleeve data;
- 28           4. Branch connection (tap) data;
5. Bends data;
6. Tees data;
7. Valve data;
8. Flange data; and

1 9. Pipe reducers data.

2 273. These omissions in record keeping, intended to establish design requirements and  
3 safe operating pressures, illustrate PG&E pattern of exploiting loop holes and exception  
4 processes to avoid compliance. The rules on material design are clearly stated in federal  
5 regulations and pipeline industry standards and there is no reason to seek exceptions on  
6 compliance from the CPUC.

7 **S. PG&E's Conscious Disregard Of Customer Safety Was Part Of Its Corporate**  
8 **Culture From The Board To The Field**

9 274. Ominously, one senior official of PG&E who left after the San Bruno disaster  
10 revealed that PG&E already realized by the Spring of 2007 that it needed to "shift culture",  
11 develop greater "operational discipline" and "build an integrity from top to bottom of the  
12 organization." When that same official reviewed PG&E's Enterprise Risk Management Program  
13 for Energy Delivery and Engineering and Operations shortly after joining PG&E in May of 2007,  
14 he concluded: the program seemed "unactionable because almost everything is broken."... "need  
15 to triage." Presciently, he concluded that: **"PG&E lacks a well defined documented risk**  
16 **policy/standard at the enterprise level. One that explains PG&E's overall risk assessment**  
17 **methodology; defines the lines of business roles and responsibility; specifies the**  
18 **requirements for performing and documenting risks; links risk assessments to controls,**  
19 **self-assessment, reviews and audits; and specifies the requirements for metrics to track the**  
20 **risks."**

21 275. After the San Bruno incident, even the President of PG&E Christopher Johns,  
22 candidly admitted that the San Bruno incident was the result of "a series of things [that] went  
23 wrong."

24 **T. The Malfeasance of the Individual Defendants Has Harmed PG&E**

25 276. The San Bruno disaster has likely cost and will continue to cost PG&E  
26 Corporation and Pacific Gas and Electric Company billions of dollars in liability, legal, expert,  
27 public relations, and consultant fees, investigation expenses, fines, penalties, lost revenue,  
28 overtime, and other expenses. As noted in the Annual Report attached to the 2009 10-K,  
PG&E's "insurance may not be sufficient or effective to provide recovery under all

1 circumstances or against all hazards or liabilities to which [it] is or may become subject. An  
2 uninsured loss could have a material adverse effect on PG&E[]'s and [PGEC]'s financial  
3 condition, results of operations, and cash flows. Future insurance coverage may not be available  
4 at rates and on terms as favorable as the rates and terms of [PGEC]'s current insurance  
5 coverage.”

6 277. In the aftermath of the 2010 San Bruno explosion, PG&E Corporation and Pacific  
7 Gas and Electric Company face growing federal regulations to remedy the past misconduct of the  
8 companies, which were caused by the Individual Defendants. For example, both Senators  
9 Dianne Feinstein and Barbara Boxer introduced legislation to “strengthen oversight of the  
10 nation’s pipelines and increase the penalties for violations of federal pipeline safety regulations.”

11 278. Senator Feinstein said that, “[t]he pipeline explosion in San Bruno was a tragedy  
12 that must never occur again in any American neighborhood.”

13 279. Senator Boxer added, “[t]he tragic explosion in San Bruno makes clear why we  
14 must increase inspections of our nation’s pipelines. This measure will put more inspectors to  
15 work protecting our communities while setting tougher penalties for safety violations.”

16 280. PG&E has sustained and will continue to sustain damages and injuries for which  
17 it has no adequate remedy at law. Since the San Bruno explosion, PG&E has lost \$1 billion of  
18 market value, and has incurred substantial expenses relating to the investigation of the  
19 wrongdoing, legal fees and expenses, compensation of individual victims and cities and counties,  
20 funds paid to rebuild San Bruno such as the Rebuild San Bruno Fund, and regulatory fines and  
21 penalties. PG&E has paid and will continue to pay hundreds of millions of dollars to victims of  
22 the San Bruno explosion alone. PG&E also lost significant goodwill and reputational harm.  
23 PG&E further faces significant exposure from fines sought by the CPUC.

24 **U. PG&E Faces Substantial Regulatory Fines For Its Misconduct**

25 281. Because of PG&E’s decade-long history of misconduct and failure to properly  
26 operate and maintain its gas pipeline network, PG&E faces substantial regulatory fines, as well as  
27 civil damages from litigation. On January 12, 2012, the CPUC opened a penalty consideration  
28 case (I.12-01-007) in order to determine whether PG&E violated the law in its natural gas

1 pipeline operations, and if so what remedies should be imposed to ensure public safety. CPUC  
2 has sought to impose a fine of \$2.25 billion.

3 282. PG&E has stated that the \$2.25 billion fine is excessive, demonstrating that the  
4 company's top leadership fails to appreciate the gravity and seriousness of the decade-long  
5 dereliction of their fiduciary duties and responsibilities.

6 283. On June 5, 2013, the lead attorney for the CPUC, Robert Cagan, who had led the  
7 investigation of the San Bruno explosion released a statement saying that he had quit the  
8 investigation over the San Bruno PG&E explosion. The three other lead investigators on the San  
9 Bruno PG&E explosion case followed suit and similarly quit the investigation. All of this  
10 occurred in the days leading up to the announcement by the CPUC of the fines it will levy against  
11 PG&E for the misconduct and wrongdoing of the Defendants. San Bruno City Manager Connie  
12 Jackson and San Bruno Mayor Jim Ruane have asked California Attorney General Kamala Harris  
13 and the California State Legislature to investigate the reasons for these abrupt departures from  
14 the San Bruno PG&E explosion investigation.

15 284. On June 7, 2013, attorneys for San Bruno argued that the \$2.25 billion penalty by  
16 the CPUC was insufficient. The San Bruno attorneys argued that a \$2.25 billion penalty would  
17 not provide a sufficient deterrent, asking that the CPUC impose a \$3.85 billion penalty against  
18 PG&E. The proposed penalty by the CPUC, headed by Michael Peevey, would allow PG&E to  
19 obtain \$900 million in tax benefits for money already spent on capital improvements, which  
20 would allow PG&E to benefit from safety work in the aftermath of the San Bruno explosion that  
21 should have done earlier. This work might have prevented the San Bruno tragedy. Lawyers for  
22 San Bruno argued that all tax benefits should be paid out as a fine and that the monies obtained  
23 from PG&E should be used on improving operational and process safety throughout the PG&E  
24 organization.

25 **V. California Administrative Judges Reprimanded PG&E For Intentionally**  
26 **Concealing Its Inadequate Recordkeeping**

27 285. In the aftermath of the 2010 San Bruno pipeline explosion, PG&E continues to  
28 conceal its deficient recordkeeping. As a result, in addition to the proposed \$2.25 billion penalty  
for years of lax regulation that resulted in the catastrophes such as the San Bruno and Rancho

1 Cordova explosions, PG&E remains subject to fines for incomplete records, demonstrating that  
2 PG&E has failed to learn its lesson, even after numerous explosions of its pipelines, the most  
3 serious being the San Bruno pipeline explosion.

4 286. In July of 2013, PG&E disclosed what it claimed were “newly discovered”  
5 problems with inajor transmission lines between San Carlos and Millbrae. That information,  
6 however, was withheld at least for several months, if not longer. According to state regulators,  
7 PG&E used flawed documentation to support its claim that two Peninsula natural gas pipelines  
8 were safe. With PG&E’s history of shoddy recordkeeping, PG&E should never have continued  
9 to rely on inaccurate documentation, especially to validate its pipelines to be safe. The very same  
10 reliance on inadequate recordkeeping played a major role in the 2010 San Bruno disaster, with  
11 PG&E failing to properly assess or test the integrity of its pipeline because it didn’t think, based  
12 on its notoriously incomplete and inaccurate documentation, that there was a seam in the pipeline  
13 and that a section had been cobbled together from scrap pipe from an unknown source. PG&E’s  
14 continuing problems reveals that PG&E has not changed its corporate philosophy and policies in  
15 a manner that will prevent another disaster, despite representations by PG&E’s leadership that it  
16 had changed its ways.

17 287. According to a pair of administrative law judges for the CPUC, PG&E sought to  
18 surreptitiously slip in major corrections to their pipelines as a routine filing with the CPUC. The  
19 filing occurred one day before the Fourth of July holiday.

20 288. Karen Clopton and Maribeth Bushey, the two CPUC administrative judges wrote  
21 that “PG&E appears to be revealing a substantial error” and masking it as a “routine correction.”

22 289. Clopton and Bushey go on to write that PG&E’s conduct “could be seen as an  
23 **attempt to mislead the commission and the public on the significance of this new**  
24 **information.**” Clopton and Bushey are threatening to levy substantial fines against PG&E for  
25 violating CPUC rules.

26 290. One of the changes that PG&E made in the aftermath of the 2010 San Bruno  
27 pipeline explosion was lowering the pressure on nearby Peninsula lines while it verified the  
28 accuracy of their records. Those lines included a backbone line that runs from Milpitas to San



1 Francisco, called Line 101, and a connector line between that pipe and the line that blew up in  
2 San Bruno.

3 291. In 2011, PG&E publically declared the records for both lines were accurate and  
4 sought to boost the pressure back to pre-disaster levels.

5 292. A year later, in fall of 2012, PG&E dug up the connector line in San Carlos to  
6 repair a minor leak and found that the pipe was of significantly lesser quality than the company  
7 records indicated. In other words, PG&E had represented to the CPUC that their records were  
8 accurate, that the pipeline was safe, and that it should be allowed to increase pressure in the  
9 pipeline. However, all of this was untrue, once again putting PG&E in a position of operating its  
10 transmission lines in an unsafe manner.

11 293. The records said that the connector line, known as Line 147, had robust welded  
12 seams or no seams at all. This mean that there was little to no risk of a pipe failure which could  
13 result in another catastrophic explosion. **The PG&E workers, however, found that there were**  
14 **several stretches of pipe that had a problematic type of welded seam.**

15 294. In regards to Line 101, PG&E claims it “belatedly” realized in 2012 that it had  
16 improperly relied on a 1989 water-pressure test to establish the line’s strength in Millbrae. This  
17 meant that PG&E had been running the line in an urban area with dangerously high pressure  
18 levels.

19 295. PG&E acknowledged both errors in a July 3, 2013 filing with the CPUC, long  
20 after it discovered the problem. No explanation was provided for this delay in reporting these  
21 problems. PG&E described these problems as data “errata.”

22 296. This alarmed both CPUC administrative judges, who wrote that “[t]he continuing  
23 inaccuracy of PG&E’s records and the happenstance means by which this most recent instance of  
24 erroneous records was discovered” are troubling. The judges ordered that PG&E appear to  
25 explain its conduct before California state regulators.

26 297. The timing of the filing (one day before the Fourth of July holiday) and the  
27 flippant manner in which PG&E described dangerous pipeline problems as “errata” raised  
28 serious questions about PG&E’s continued misconduct because PG&E’s recordkeeping practices

1 continue to be “an extraordinarily controversial issue” and the subject of intense public interest.  
2 PG&E’s admission that it continues to make highly dangerous decisions based on documents that  
3 it knows are flawed and inaccurate is indefensible. PG&E also continues to delay disclosing  
4 problems to the regulators and, when it does make disclosures, it does not do so with complete  
5 transparency.

6 298. PG&E claims that this was a proper filing and that Peninsula residents are safe  
7 because of the newly discovered information. With PG&E’s track record under the leadership of  
8 the Defendants, it is difficult for shareholders and Peninsula residents to trust PG&E under  
9 current management. All of the current directors of PG&E are liable because their failure to  
10 change PG&E’s policies, practices and procedures in the aftermath of public representations that  
11 PG&E had, indeed, changed, subjects PG&E and all of the current directors to liability in the  
12 form of fines, penalties and/or other harms. Since the current PG&E Board of Directors has  
13 proven that they intend to mismanage PG&E in the same manner as their predecessors, they  
14 cannot be relied upon to appropriately evaluate potential claims against themselves and their  
15 predecessors.

16 299. Such conduct by the current PG&E Board of Directors continues to imperil the  
17 public, especially given PG&E’s long history of inadequate recordkeeping and their awareness of  
18 the consequences of this inadequate recordkeeping. Defendants’ continuing misconduct  
19 demonstrates that they continue to operate the company in the same manner as before.  
20 Defendants must be held accountable to PG&E such that company leadership can be changed to  
21 prevent PG&E from this cycle of concealment, deadly disasters and calculated post-disaster  
22 disclosures.

23 300. Clopton and Bushey ordered PG&E officials to appear at a hearing on September  
24 6, 2013, and as a result of that hearing, they could recommend fines against PG&E for as many  
25 as five different rules violations governing submissions to the commission.

26 **W. Plaintiff Had No Choice But To Bring This Derivative Action**

27 301. It is evident that the Defendants have enabled and created an environment in  
28 which PG&E continues to put profits over safety. Despite all of the representations and

1 statements by PG&E that it has changed, it is evident that PG&E has not improved its  
2 recordkeeping and has not shifted its focus to putting the safety of its customers and the people of  
3 California above its own bottom line. As such, Plaintiff had no choice but to bring this  
4 derivative action, on behalf of PG&E to put PG&E's long-term success over short-term and  
5 myopic profiteering. Unless this Court acts to change the culture of PG&E, a deadly catastrophe  
6 remains likely, which will again cause substantial financial and reputational harm to PG&E.

## 7 VI.

### 8 PG&E CONCEALED ITS WRONGDOING

9 302. PG&E concealed its wrongdoing and it did not become fully apparent until no  
10 earlier than June 12, 2013 with the issuance of the 2013 Overland Report. While the earlier  
11 indications of serious corporate mismanagement began to emerge in June 2011, with the release  
12 of the Independent Review Panel's report and the 2011 Overland Report, the Defendants  
13 continued to conceal their wrongdoing and falsely claimed that PG&E had changed its ways.

14 303. For example, in May 2011, PG&E announced that it had brought in Nick  
15 Stavropolous as the new Vice President of Gas Operations for PG&E. Lee Cox, the interim  
16 chairman and CEO of PG&E Corporation, said that "Nick is coming to PG&E with a mandate  
17 for change and a clear mission to overhaul to the company's gas operations and bring them up to  
18 world-class safety and performance standards."

19 304. Similarly, in June 2011, in the aftermath of the release of the Independent Review  
20 Panel's report, Lee Cox and PG&E President Christopher Johns issued an open letter stating that:

21 "We are deeply sorry for the tragic incident in San Bruno. And we are committed  
22 to earning our customers' trust and confidence by continuing to do whatever is  
23 necessary to bring out performance up to industry-leading standards and see that  
24 an accident like the one in San Bruno never happens again."

25 305. The PG&E open letter, signed by Lee Cox and PG&E President Christopher Johns  
26 went on to state that, "There are no excuses when it comes to safety" and adding that "[a]s we  
27 continue to move ahead with steps to improve our operations, **we feel that it's important to  
28 make sure the public is hearing directly from the top that PG&E is changing.**"

306. In December 2011, PG&E announced that it had conducted an exhaustive review  
of the safety of its transmission and distribution lines and had verified the safety of these

1 pipelines through a “robust” program that included pressure tests, records verification and visual  
2 pipeline inspections. Kirk Johnson, PG&E’s Vice president of Gas Transmission, Maintenance  
3 and Construction stated that “[t]hese actions are all part of our mission to build a best-in-class  
4 gas operation, founded on integrity and accountability.”

5 307. However, in January 2012, a CPUC audit report announced the CPUC’s discovery  
6 that the Defendants had diverted \$100 million in funds earmarked for maintenance and process  
7 safety purposes to “other corporate purposes.”

8 308. More recent revelations, including PG&E’s attempt to slip a serious safety  
9 problem past the CPUC as a purported “routine correction,” demonstrate that PG&E has not  
10 changed its ways. The January 2012 CPUC audit report also demonstrated that the Individual  
11 Defendants had made an intentional decision to shift money earmarked for maintenance and  
12 process safety away from its intended purpose. The June 2013 Overland Report confirmed  
13 PG&E’s history of putting profits before safety. Even now, PG&E is contesting the CPUC fine  
14 in an effort to avoid responsibility for its wrongdoing.

15 **VII.**

16 **DEMAND ALLEGATIONS**

17 309. Plaintiff brings this action derivatively in the right of and for the benefit of  
18 PG&E to redress injuries suffered and to be suffered by PG&E as a result of the Defendants’  
19 breaches of fiduciary duty, abuse of control, and gross mismanagement. Plaintiff and her counsel  
20 will adequately and fairly represent the interests of PG&E in enforcing and prosecuting its rights.  
21 Prior to filing, Plaintiff, through her counsel, delivered a copy of the complaint to PG&E  
22 Corporation and Pacific Gas & Electric Company.

23 310. Plaintiff was a shareholder of PG&E Corporation at the time of the wrongdoing  
24 complained of, has continuously been a shareholder, and is a current shareholder. Pacific Gas  
25 and Electric Company is the operating subsidiary of PG&E Corporation.

26 311. Based upon the Defendants’ acts and omissions in direct violation of their  
27 fiduciary duties of care, good faith, honesty and loyalty, a pre-suit demand on the PG&E Board to  
28 bring the claims asserted in this action is excused as a futile and useless act. PG&E’s Board of

1 Directors personally profited from the wrongdoing alleged in this Complaint and it was PG&E's  
2 Board of Directors and officers who oversaw PG&E and its' culture of neglect, describe herein.

3 312. Plaintiff has not made any demand on PG&E Corporation's or Pacific Gas &  
4 Electric Company's Boards of Directors to investigate and prosecute the wrongdoing alleged  
5 herein. Such a demand is excused because: (i) making a demand would be a futile and useless  
6 act as the majority of both Company's directors are not able to conduct an independent and  
7 objective investigation of the alleged wrongdoing; and (ii) the wrongful conduct of defendants is  
8 not subject to protection under the business judgment rule. Under such circumstances, the  
9 demand requirement is excused since making such a demand on the Boards of Directors would  
10 be futile. *Shields v. Singleton*, 15 Cal.App. 4th 1611 (1993).

11 313. At the time this derivative lawsuit was commenced, PG&E Corporation's Board  
12 of Directors consisted of thirteen directors and Pacific Gas & Electric Company's Board of  
13 Directors consisted of fourteen directors. All of PG&E Corporation's directors also serve as  
14 directors on Pacific Gas & Electric Company's Board; the fourteenth member, Christopher  
15 Johns, only sits on Pacific Gas & Electric Company's Board. All but three directors served on  
16 the Boards of PG&E Corporation and Pacific Gas & Electric Company during the period that  
17 PG&E was engaged in the wrongdoing alleged in this complaint, as well as authorizing and/or  
18 recklessly ignoring that wrongful conduct. The remaining three directors, however, have actively  
19 taken part in the cover-up of PG&E's failings and approving of the representations being made  
20 by PG&E, including that the Company is changing its culture when, in fact, it was not.

21 314. All of the current PG&E Corporation and Pacific Gas & Electric Company  
22 directors were directors on July 3, 2013, when PG&E attempted to surreptitiously file with the  
23 CPUC a document regarding serious new problems with PG&E's major transmission lines  
24 between San Carlos and Millbrae as a minor "routine" filing. The filing was done around  
25 midnight just before the Fourth of July weekend. This demonstrates that all of the current PG&E  
26 Corporation and Pacific Gas & Electric Company directors are potentially liable to PG&E and  
27 also that they cannot be trusted to appropriately adjudicate this case as they are all aware of the  
28 wrongdoing committed earlier by at least ten of the current directors of PG&E Corporation and

1 eleven of the current directors of Pacific Gas & Electric Company, and they intend to condone  
2 and continue such misconduct. Furthermore, the current directors of both Boards have  
3 demonstrated no intention of changing PG&E's corporate culture, practices and policies which  
4 resulted in the devastating explosions in San Bruno and Rancho Cordova.

5 315. Furthermore, the members of both Boards of Directors profited substantially from  
6 maintaining an environment and culture that prioritized short-term gains over safety and  
7 developing strong operations. The misconduct of both Boards of Directors resulted in several  
8 major accidents that have destroyed PG&E's credibility, and in the case of San Bruno, resulted in  
9 the deaths of eight people. The culture that led to the incidents at issue were created and fostered  
10 by the Defendants in this case, who lack the objectivity to judge their own misconduct.  
11 Accordingly, a majority of the both Boards engaged in the wrongdoing and have interests adverse  
12 to performing a fair, unbiased investigation.

13 316. Defendants Andrews, Chew, Cox, Herringer, Kimmel, Meserve, Rambo, Miller,  
14 Parra and Williams (consisting of a majority of both Boards) cannot consider a demand because  
15 their decision to operate PG&E in violation of the law is not a protected business decision and  
16 they all face a substantial likelihood of liability for breaching their duty of loyalty. These  
17 defendants were either informed of PG&E's numerous safety violations or are consciously  
18 violating their duty to stay informed about the core business of PG&E. From 2004 to 2009,  
19 PG&E was responsible for 59% of the 410 "probable violations" of federal or state pipeline  
20 safety rules and regulations CPUC regulators identified during that period, despite the fact that it  
21 operated only 41 % of the State of California's pipelines. Also during this period, PG&E was  
22 responsible for more "reportable incidents" than other utility in the United States. In this total  
23 are nine explosions that together injured or killed at least sixteen people, in particular the 2008  
24 Rancho Cordova explosion and the 2010 San Bruno explosion. Furthermore, PG&E's own  
25 survey conducted in 2007 identified leaks and other problems in 28 of 32 HCA residential areas  
26 that it tested. All four of the residential distribution lines PG&E examined in the Peninsula area  
27 south of San Francisco had leaks. PG&E's November 2009 report failed to identify the cause of  
28

1 leaks that PG&E's own records identified as a defective longitudinal seam weld. The San Bruno  
2 incident was caused by the defective nature of that longitudinal seam weld.

3 317. The failure to follow safety regulations imposed by the PHMSA and CPUC has  
4 been sustained and systematic at PG&E. Despite this knowledge of the failure to follow safety  
5 regulations, Defendants Andrews, Chew, Cox, Herringer, Kimmel, Meserve, Rambo, Miller,  
6 Parra and Williams failed to act to correct PG&E's numerous safety issues. Such a decision  
7 could not have been an action taken in good faith and is accordingly not protected by the business  
8 judgment rule. Furthermore, the conscious failure of Defendants Andrews, Chew, Cox,  
9 Herringer, Kimmel, Meserve, Rambo, Miller, Parra and Williams to act in the face of the  
10 overwhelming number of warnings is a breach of both their duties of care and loyalty, which  
11 subjects them to a substantial likelihood of liability. Since demand on the majority of the Boards  
12 of Directors is futile, demand is excused.

13 318. Demand is further excused because the members of the Audit Committee of the  
14 PG&E Board of Directors violated additional duties that they had as members of the Audit  
15 Committee. The Audit Committee of the Boards is responsible by its Charter for, among other  
16 things: reviewing the adequacy of internal controls, external and internal auditing programs,  
17 business ethics, and compliance with laws, regulations, and policies that may have a material  
18 impact on the consolidated financial statements. The Audit Committee was responsible for  
19 ensuring that PG&E was in compliance with all laws and regulations and was meeting its safety  
20 obligations as a regulated utility. Defendants Andrews, Chew, Herringer and Williams were on  
21 the Audit Committee. Defendant Andrews has served as a member of the Audit Committee since  
22 2003. Defendant Chew has served as a member of the Audit Committee since 2009. Defendant  
23 Herringer has served as a member of the Audit Committee since 2006. Defendant Williams is  
24 also Chairman of the Audit Committee and has been since at least March 2005 and a member of  
25 the committee since March 2003. These Defendants were responsible, as members of the Audit  
26 Committee, for ensuring that PG&E's internal controls were adequate and that PG&E was in  
27 compliance with federal and CPUC rules and regulations. The significant safety violations  
28 alleged herein were so pervasive that they could not have been the result of an isolated failure of

1 oversight. Indeed, the wrongdoing in question is strongly suggestive of a corporate culture that  
2 regularly, consciously ignores sustained and systematic red flags. In light of the number,  
3 duration, and severity of the violations, as well as the responsibilities outlined in the Audit  
4 Committee Charter, the facts compel the conclusion that the Audit Committee members had to  
5 have known about the frequency and extent of the safety violations in question. Notwithstanding  
6 this knowledge, the Audit Committee members have failed to take steps to assure and/or improve  
7 PG&E's compliance record. Furthermore, the Audit Committee members' conscious failure to  
8 act in the face of the overwhelming number of warnings is a breach of both their duty of care and  
9 their duty of loyalty, which subjects them to a substantial likelihood of liability. Therefore, the  
10 members of the Audit Committee are not disinterested for this additional reason and therefore  
11 demand is excused.

12         319. The Compensation Committee, pursuant to its Charter, is responsible for  
13 reviewing and recommending to the independent members of the Board of Directors the salary  
14 and other compensation of the CEO. Specifically, the 2007 Compensation Committee Charter  
15 provides that it is the responsibility of the Compensation Committee to review and, as applicable,  
16 approve: (i) executive compensation and benefits plans and arrangements; (ii) short-term  
17 incentive plans that include officers; (m) tax-qualified pension plans; and (iv) equity-based plans  
18 for employees. Defendants Cox, Rambo and Williams were all on the Compensation  
19 Committee. Defendant Rambo has served on the Compensation Committee since 2005.  
20 Defendant Williams has served on the Compensation Committee since 2005. Defendant Cox is  
21 also Chairman of the Compensation Committee and has held that position since at least 2005 and  
22 he has been a member of the Compensation Committees since 2003. As members of the  
23 Compensation Committee, these Defendants are responsible for reviewing and recommending  
24 the compensation of the Company's CEO, Anthony F. Earley, Jr. ("Earley"), who is also a  
25 director of PG&E. Since Earley's compensation is determined in large part by Defendants  
26 Rambo, Cox and Williams, he cannot fairly and adequately review and evaluate allegations  
27 against them. Therefore, Earley is also not a disinterested director since his compensation is  
28 being determined by individuals who face a substantial likelihood of liability. This lack of



1 independence renders Earley incapable of impartially considering a demand to commence and  
2 vigorously prosecute this action.

3         320. The Finance Committee, under its Charter, is responsible for advising and  
4 assisting the Board with respect to strategic plans and initiatives. Specifically, the Finance  
5 Committee Charter provides that the Finance Committee is responsible for presenting for the  
6 Board's review and concurrence: (i) a multi-year outlook for PG&E and its subsidiaries that  
7 incorporates, among other things, key current and emerging issues, strategic initiatives, risk  
8 factors, and projected financial results; and (ii) an annual financial performance plan for  
9 operating expense and capital spending budgets that reflect the first year of the approved  
10 multi-year outlook. Defendants Cox, Kimmel, Williams and Rambo are on the Finance  
11 Committee. Defendant Cox has served on the Finance Committee since 2004. Defendant  
12 Kimmel has served on the Finance Committee since 2009. Defendant Williams has served on  
13 the Finance Committee since at least 2003. Defendant Rambo is also Chairman of the Finance  
14 Committee and has been since 2008. Defendant Rambo has been a member of the Finance  
15 Committee since 2004. As members of the Finance Committee, Defendants Cox, Kimmel,  
16 Rambo, and Williams were responsible for reviewing and approving PG&E's operating expense  
17 and capital spending budgets, which severely curtailed spending on safety and IMP  
18 implementation. Defendants Cox, Kimmel, Rambo and Williams therefore face a substantial  
19 likelihood of being found personally liable because they willfully and knowingly underfunded  
20 PG&E's pipeline operations and maintenance, and thus were four of the leading figures who  
21 recommended and urged the entire PG&E Board of Directors to sacrifice safety in favor of  
22 profits.

23         321. Defendants Cox, Rambo and Williams were also members of the Compensation  
24 Committee. As members of the Compensation Committee, Defendants Cox, Rambo, and  
25 Williams were responsible for reviewing and recommending the compensation of the Company's  
26 executive officers. Due to their memberships on the Finance and Compensation Committees,  
27 Defendants Cox, Rambo, and Williams knew that PG&E was approving lavish compensation for  
28 the company's executives at the same time the company was approving budgets that curtailed

1 spending on safety issues, including rejecting and cutting the proposed budgets offered by  
2 PG&E's own experts. PG&E cut spending on safety issues, and approving lavish executive  
3 compensation, even though PG&E was requesting and received rate increases that were  
4 specifically approved for the purpose of funding safety measures. These decisions were not  
5 made in good faith and are thus not protected by the business judgment rule. These decisions  
6 violated both the Defendants' duty of care and duty of loyalty, thus creating a substantial  
7 likelihood that the Defendants will be found personally liable for the misconduct set forth in this  
8 complaint. The members of the Finance Committee are therefore not disinterested for this  
9 additional reason beyond the reasons that are already applicable to all of the director Defendants  
10 who were on the Board of Directors at the time of the 2010 San Bruno explosion. Demand is  
11 therefore excused as majorities of both Boards of Directors are not disinterested.

12         322. Despite Individual Defendants having knowledge of the history of misconduct and  
13 mismanagement by the Individual Defendants, the current Boards of Directors have failed and  
14 refused to seek recovery for PG&E for any of the misconduct alleged herein.

15         323. PG&E's directors and top officers pocketed hundreds of millions of dollars in  
16 salaries, bonuses and directors fees, as well as hundreds of millions in proceeds from their sales  
17 of PG&E stock, further enriching themselves at the expense of the Company to which they owed  
18 fiduciary duties of good faith, honesty and loyalty. PG&E's leadership made an active decision  
19 to divert money necessary for safety and operational protocols towards other purposes and, at the  
20 same time, approved bonus payments and developed a corporate culture that placed short-term  
21 economic gain over long-term profitability. In doing so, PG&E has caused irreparable financial  
22 and reputational harm to PG&E that may never be regained. PG&E's directors, for years, failed  
23 to take responsibility for creating the culture and misappropriating customer fees, and there is no  
24 reason to believe they would do so now. As Mr. Stepanian from the CPUC wrote, PG&E's  
25 promises of reform have been "meaningless," demonstrating PG&E's incapacity to appropriately  
26 review its own conduct. Thus, both Boards of Directors could not exercise independent objective  
27 judgment in deciding whether to bring this action nor in vigorously prosecuting the claims  
28 alleged herein.

1           324. The directors cannot be relied upon to reach a truly independent  
2 decision whether to commence the demanded action against themselves and the officers  
3 responsible for the misconduct alleged in this Complaint because, among other things, the  
4 Boards are currently dominated by the Defendants, who were personally and directly involved in  
5 the acts of mismanagement, abuse of control and waste alleged and who each approved the  
6 actions complained of, and to whose directives and views the Boards have consistently acceded  
7 and will continue to accede.

8           325. The directors also cannot be relied upon to reach a truly independent decision  
9 because many of them, including Defendant C. Lee Cox, have gone on record publically claiming  
10 that PG&E has changed its ways and that its record keeping was now complete and accurate and  
11 that PG&E had verified the safety of its transmission and distribution pipelines. Having  
12 publically represented that PG&E has now put safety first, the Defendants cannot objectively  
13 evaluate the claims of the Plaintiff that these statements are misrepresentations. The directors  
14 face not only legal liability but also significant reputational backlash which makes it impossible  
15 for the directors to reverse course and acknowledge their misrepresentations and misconduct.

16           326. Defendants' domination of PG&E's Boards inhibit the Boards' ability to validly  
17 exercise their business judgment and render them incapable of reaching an independent decision  
18 whether to accept any demand by plaintiff to address the wrongs detailed herein, as exemplified  
19 by their inaction in the years since the original suit was filed.

20           327. A majority of the directors received personal and financial benefits while they  
21 caused or permitted the Company to engage in the extensive misconduct detailed in this  
22 complaint. Non-employee directors received annual cash retainers, cash fees for meetings  
23 attended, as well as lucrative equity awards for serving as directors and members of board  
24 committees. Employee directors were also compensated in both cash and "incentive" awards of  
25 cash and stock, in large part based on the financial results of the Company and its sales results.

26           328. The members of the Boards of Directors are biased and cannot appropriately and  
27 fairly adjudicate any demand on the Boards.  
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VIII.

**CAUSES OF ACTION**

**FIRST CAUSE OF ACTION**

**BREACH OF FIDUCIARY DUTY**

329. Plaintiff incorporates by reference the allegations set forth above as though fully restated herein.

330. Defendants, as PG&E's directors and officers, were and are required to use their abilities to control and manage PG&E in a fair, just and equitable manner in order to ensure that the Company complied with applicable laws and contractual obligations, to refrain from abusing their positions of control, and not to favor their own interests at the expense of PG&E. Defendants violated their fiduciary duties to PG&E, including without limitation their duties of care, good faith, honesty and loyalty.

331. The wrongful conduct particularized herein was not due to an honest error in judgment, but rather to Defendants' gross mismanagement, bad faith and/or reckless disregard of the rights and interests of PG&E, its shareholders and its ratepayers and for acting without the reasonable and ordinary care which they owed PG&E.

332. As a result of the foregoing, Defendants have participated in harming PG&E and have breached fiduciary duties owed to PG&E. Defendants knowingly aided, encouraged, cooperated and/or participated in, and substantially assisted the other Defendants in the breaches of their fiduciary duties.

333. By reason of the foregoing, PG&E has sustained and will continue to sustain damages and injuries for which it has no adequate remedy at law.

WHEREFORE, Plaintiff prays for relief as set forth below.

**SECOND CAUSE OF ACTION**

**ABUSE OF CONTROL**

334. Plaintiff incorporates by reference the allegations set forth above as though fully restated herein.

335. By virtue of their positions and financial holdings in PG&E, Defendants

1 exercised control over PG&E and its operations, and owed duties as controlling persons to  
2 PG&E not to use their positions of control within the Company for their own personal interests  
3 and contrary to the interest of PG&E.

4 336. Defendants' conduct amounts to an abuse of their control of PG&E, in violation  
5 of their obligations to PG&E. Defendants knowingly aided, encouraged, cooperated and/or  
6 participated in, and substantially assisted the other defendants in their abuse of control.

7 337. As a result of Defendants' abuse of control, PG&E has sustained and will  
8 continue to sustain damages and injuries for which it has no adequate remedy at law.

9 WHEREFORE, Plaintiff prays for relief as set forth below.

10 **THIRD CAUSE OF ACTION**

11 **CORPORATE WASTE**

12 338. Plaintiff incorporates by reference the allegations set forth above as though fully  
13 restated herein.

14 339. As alleged in detail Defendants had a fiduciary duty to exercise good faith and  
15 diligence in the administration of the affairs of PG&E and in the use and preservation of its  
16 property and assets, and the highest obligation of fair dealings.

17 340. Defendants also wasted PG&E's corporate assets, For example, the Defendants  
18 diverted corporate assets that were specifically intended for operations and process safety for  
19 other improper corporate purposes, instead of using those corporate assets for their intended  
20 purpose, as represented by PG&E to the CPUC.

21 341. As a result of Defendants' actions, PG&E has suffered losses and incurred  
22 substantial costs in investigating and defending itself against pending actions. PG&E also has to  
23 incur the substantial costs of conducting internal investigations, as well as the costs of dealing  
24 with investigations by regulatory agencies.

25 342. As a result of Defendants' wrongful conduct, PG&E has suffered and continued  
26 to suffer damages, all in an amount to be determined according to proof at trial.

27 WHEREFORE, Plaintiff prays for relief as set forth below.  
28

1 **FOURTH CAUSE OF ACTION**

2 **UNJUST ENRICHMENT**

3 343. Plaintiff incorporates by reference the allegations set forth above as though fully  
4 restated herein.

5 344. Defendants derived compensation, fees and other benefits from PG&E and were  
6 otherwise unjustly enriched during the time in which the wrongful practices occurred, to the  
7 detriment of PG&E. Defendants profited by engaging in the wrongful conduct set forth in the  
8 Complaint above. Defendants also wrongfully converted funds belonging to PG&E.

9 345. Defendants' enrichment is directly and causally related to the detriment of PG&E.

10 346. These benefits were accepted by Defendants under such circumstances that it  
11 would be inequitable for it to be retained without payment. As alleged above, Defendants  
12 breached their fiduciary duties and/or abused their positions of control to PG&E and therefore  
13 Defendants are not justified to retain the benefits conferred upon them.

14 WHEREFORE, Plaintiff prays for relief as set forth below.

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**PRAYER FOR RELIEF**


Plaintiff, on behalf of herself and PG&E, prays for judgment as follows:

1. Awarding compensatory damages against all Defendants, jointly and severally, in an amount to be proven at trial;
2. Awarding restitution, disgorgement of all illicit proceeds generated as a result of the wrongful conduct alleged herein;
3. Awarding appropriate equitable relief, including any injunctive or declaratory relief necessary to change and/or reform PG&E's corporate governance, policies and culture;
4. Awarding punitive damages at the maximum amount permitted by law;
5. Awarding pre-judgment interest, as well as reasonable attorneys' fees and other costs;
6. Awarding such other relief as this Court may deem just and proper.

Dated: September 23, 2013

COTCHETT, PIRE & MCCARTHY, LLP  
 By:   
 MARK C. MURPHY

Dated: September 23, 2013

LAW OFFICES OF MICHAEL D. LIBERTY  
 By:   
 MICHAEL D. LIBERTY

*Attorneys for Plaintiff Hind Bou-Salman, derivatively on behalf of PG&E Corporation*

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**JURY TRIAL DEMAND**

Plaintiff hereby demands a trial by jury of all issues which are subject to adjudication by a trier of fact.

Dated: September 23, 2013

**COTCHETT, PIRE & MCCARTHY, LLP**

By:   
MARK C. MOLUNPHY

Dated: September 23, 2013

**LAW OFFICES OF MICHAEL D. LIBERTY**

By:   
MICHAEL D. LIBERTY

*Attorneys for Plaintiff Hind Bou-Salman  
derivatively on behalf of PG&E Corporation*



