

21 Machetes

**The rollicking internet backstory to the California civic uprising that
squelched PG&E's Proposition 16 power grab.**

By John Geesman

Smashwords Edition

Copyright 2010 John Geesman

License Notes:

This free ebook may be copied, distributed, reposted, reprinted and shared,
provided it appears in its entirety without alteration, and the reader is not charged
to access it.

*"...Big money isn't leaving political campaigns anytime soon. That doesn't mean
voters can't machete their way through the thicket of competing messages to
reach informed conclusions. But they'll have to work at it..."*

Triumphant post-election editorial in the Bakersfield Californian
"Campaign Money Was Tuesday's Biggest Player"
June 9, 2010

Contents

[Preface](#)

[Introduction](#)

[Machete 1](#): What Does the PG&E Ballot Initiative Claim to Do?

[Machete 2](#): PG&E Defies Steinberg 8 and Puts Another \$3 Million Into the Pot –
What's Darbee Thinking?

[Machete 3](#): Landmine Buried Within Vague Wording: Vote Required Before
New Residents Can Hook Up!

[Machete 4](#): Prop. 16's Sloppy Drafting May Slow Home Sales in LA, Anaheim,
Riverside, and 45 Other Locales

[Machete 5](#): What Do the California Realtors Know About Prop. 16 that the State
Chamber of Commerce Doesn't?

[Machete 6](#): PG&E's Threat to Halt Marin Electric Deliveries – Does Peter Darbee Think He's CEO of Gazprom?

[Machete 7](#): Peter Darbee's Dog of an Initiative: 3 Tapeworms Eating Away at the Internal Logic of Prop. 16

[Machete 8](#): Does PG&E Fully Understand the Recklessness of Peter Darbee's Proposition 16 Gamble?

[Machete 9](#): Peter Darbee's Weird Prop. 16 Soliloquy: Blame Underlings, Ignore Bad Polls, "Diminish" Voting

[Machete 10](#): Bad Timing: Darbee's \$10.559 Million Paypalooza Faces Advisory Shareholder Vote May 12

[Machete 11](#): Darbee's Shaky Finger on the Trigger of PG&E's Rate Design Begins to Terrify the Customers

[Machete 12](#): PG&E Proxy Filing Reveals Corner-Cutting Effort to Feed Darbee's Compensation Gluttony

[Machete 13](#): 'We Are Appalled,' Declared CPUC About 2004 PG&E Executive Bonus Scandal – 'Give It Back'

[Machete 14](#): PG&E Fleeced for \$175,000 by LA Pols – What Was Darbee Trying To Do With All That Money?

[Machete 15](#): CEO Report Card: How Much of the Goldman Sachs Kool-Aid Did PG&E's Peter Darbee Drink?

[Machete 16](#): 10 Years After Erin Brockovich – PG&E Is Aiming Its Propaganda at "A Bunch of Dumb Hicks"

[Machete 17](#): San Diego Chamber of Commerce Votes 79-2 to Oppose Prop. 16: Is PG&E's Whopper Indigestible?

[Machete 18](#): Prop. 16 Limits On Competition Would Erect "a Constitutional Iron Curtain" to Lock In Customers

[Machete 19](#): Prop. 16 Drafting Error Would Spew Pestilence Across 48 Real Estate Markets in California

[Machete 20](#): LA County Republicans Ain't Buying – Demise of Prop. 16 Among Conservative, Pro-Market Voters

[Machete 21](#): Never Underestimate the Voter's Sense of Smell

[Epilogue](#)

[Afterword](#)

[Postscript](#)

Preface

PG&E disclosed August 2, 2010 that it actually contributed \$46.5 million to its Prop.16 fiasco, more than \$9 for each of its 5.1 million electricity customer accounts – the largest sole-funded * corporate ballot initiative in the history of the world.

That's slightly more than the \$46 million estimate around Election Day which provoked vitriolic scorn from commentators across the ideological spectrum. And it makes the PG&E Board's authorization of \$25-35 million in January – an amount so excessive that it pushed me into the jihad of a retired regulator – seem quaint by comparison.

The final report didn't faze me much. I was more focused on the unheralded 20th anniversary, ten days earlier, of the first print reference in the New York Times to perhaps the most consequential Richard Nixon comment ever captured on tape.

In RN's words: "I have often thought that if there had been a good rap group around in those days I might have chosen a career in music instead of politics."

Does anyone dispute that there's a certain peculiarity about what goes down in California? As this summer's pop radio anthem enthuses:

*"You could travel the world,
but nothing comes close to the Golden Coast"*



On the premise that PG&E's utter humiliation by an atomized, largely spontaneous, loosely coordinated revolt of outraged citizens – outspent by the mindboggling ratio of 337 to 1 – may be of interest to those in another place or time, I have compiled the 21 posts from the now notorious "PG&E Ballot Factsheet" (<http://www.pgandeballotinitiativefactsheet.blogspot.com/>) into this free electronic book.

To provide a few brushstrokes of context, I've also added this Preface; a surreal Epilogue crafted by Peter Darbee; an Afterword taken from Michael Hiltzik; and a brief Postscript from me, courtesy of KNBC-TV. And three new links to radio encounters [here](#), [here](#), and [here](#).

But don't look to me for any particularly trenchant insights into how we did it. You'll have to work on that yourselves. The raw material is all here, though.

My view is that only one thing kept PG&E from buying its way into a permanent, Constitutionally-guaranteed, monopoly advantage: a self-deputized posse of fewer than 100 newspaper reporters, editorial writers and broadcast journalists who just refused to let the company's deceitful campaign go unchallenged. But that's not very profound.

Thomas Jefferson put it better:

“Were it left to me to decide whether we should have a government without newspapers, or newspapers without a government, I should not hesitate a moment to prefer the latter.”

Who knew he was a PG&E customer?

According to the final results certified by the California Secretary of State on July 16, 2010, Proposition 16 was beaten 53% – 47%. Of even greater concern to a corporation daring to spend \$46.5 million collected from its customers to trick them into self-imprisonment, the counties in which PG&E currently conducts business voted 59% – 41% against Prop. 16. Heckuva job, Darbee!

Laid end-to-end, these postings inadvertently contain narrative arc; character development; a Shakespearean plotline blending tragedy, history, and comedy; and, of course, eternal verities. For those willing to dig into the hyperlinks: texture and complexity. Make of it what you will. When H.G. Wells complained about the time required to decipher *Finnegans Wake*, James Joyce replied, “The demand that I make of my reader is that he should devote his whole life to reading my works.”

The only reader of whom I would make that demand is a certain CEO sorely in need of a How-Not-To manual. Well, maybe his board of directors, too. And perhaps any other corporados who think that with a big enough war chest they can napalm the electorate into whatever level of cooked-to-order doneness is desired in a steak.

To them, I say: read it and weep, dudes. Again and again and again. Until your eyes bleed.

JG

Orinda, California

August 3, 2010

**as sometimes happens with world records, nitpickers may dispute whether PG&E’s report of a \$91,258.17 “non-monetary” contribution on May 5, 2010 from the State Chamber of Commerce’s CA Business PAC for “phone banking” besmirches Prop. 16’s sole-funded status. The CA Business PAC’s disclosure that it received a \$250,000 monetary contribution from PG&E on May 10, 2010 should remove any doubt.*

Introduction

The following appeared below “Recent Posts” in the sidebar column of every edition of the PG&E Ballot Initiative Factsheet, although the phrase “\$25 – 35 million” was changed in mid-campaign to read “up to \$35 million”.



ABOUT ME

JOHN GEESMAN, FORMER CALIF. ENERGY COMMISSIONER, 2002-2008

I was dumbstruck when I read that PG&E's board has authorized spending \$25 - 35 million on this initiative. The local governments, municipal utilities, and irrigation districts who are its targets are prohibited by law from spending anything to oppose it. California's investor-owned utilities face a Himalayan task in modernizing our electricity system and building the infrastructure necessary to serve a growing economy. They ought to focus on that, rather than manipulating the electorate to kneecap their few competitors. Has there ever been a time when we needed greater downward pressure on electricity rates? Perhaps I can contribute to stopping this outrage by assembling this information. Won't you help by using email or the "Share" button above to disseminate each post as broadly as possible?



Machete 1: What Does the PG&E Ballot Initiative Claim to Do?

Saturday, January 23, 2010

Well, it's no longer the "*Taxpayers Right to Vote Act*" -- the Attorney General's staff determined that was [too misleading](#).

Now it's the more prosaic but no less ambiguous "***New Two-Thirds Vote Requirement for Local Electricity Providers.***"

Under existing law, most local governments can annex new areas for the expansion of electricity service with the approval of a simple majority of the voters in the area to be annexed. The PG&E Ballot Initiative would embed in the State Constitution -- meaning that it can only be changed by another statewide election -- the requirement that the approval come from "two-thirds of the voters in the territory being served and two-thirds of the voters in the territory to be served."

A similar requirement would be written into the State Constitution for the formation of any new publicly owned electric utility.

In addition, any local government pursuing Community Choice Aggregation -- an electricity procurement process created by statute in 2002, when the investor-owned utilities were too weak financially to procure for themselves -- must also obtain a constitutionally required two-thirds voter approval before proceeding.

The ability of any customer to opt out of a Community Choice program provided by existing law would be preserved.

That's the simple part and perhaps all that PG&E intended: a ratcheting up of voter requirements in order to create a permanent business advantage for itself. But some combination of sloppy drafting and/or sheer malevolence could mean chaos for the municipal utilities that presently provide 25 - 30% of California's electricity.

On December 22, 2009, eight senior members of the California Senate -- including President Pro Tempore Darrell Steinberg -- sent a [blistering letter](#) to PG&E's CEO, Peter Darbee, ***accusing PG&E of violating the law*** which requires utilities to "cooperate fully" with those trying to organize Community Choice programs. More seriously, the Senators said PG&E had dishonored the unwritten code of conduct that governs how business is transacted in Sacramento:

"PG&E's willingness to use the initiative process to unwind a carefully negotiated statute *that PG&E supported* (emphasis in original) lacks the mutual respect and honor that the Legislature expects from stakeholders in the legislative process. If PG&E has recanted its support ... it has an obligation to seek those revisions in the Legislature. To use the initiative process to pursue PG&E's self interests and avoid engaging your partners in the AB 117 agreement, calls into question your company's integrity."

The Senators' bottom line: "We strongly urge you to carefully consider our concerns and refrain from pursuing this initiative."

Machete 2: PG&E Defies Steinberg 8 and Puts Another \$3 Million Into the Pot -- What's Darbee Thinking?

Monday, January 25, 2010

Last Friday, in its first official move since its initiative qualified for the June ballot, PG&E dumped [another \\$3 million](#) into the arsenal, which now stands at \$6.5 million -- all from the San Francisco utility.



The gesture is an unmistakable thumb in the eye to Senate President Pro Tem Darrell Steinberg and the posse of seven other senior Senators who sent a cease-and-desist letter to PG&E CEO Peter Darbee -- pictured above -- in late December (**read full text of letter below**).

PG&E from time to time pretends to be a private sector business, but as a regulated monopoly it is as closely intertwined with State Government as CalTrans or the Department of Motor Vehicles.

As [noted in Wikipedia](#), it was not quite nine years ago that PG&E entered bankruptcy and "(t)he State of California bailed out the utility, the cost of which worsened an already bad budget situation. This played an important part in the eventual recall of California Governor Gray Davis."

Darbee may remember this better than most, since he was the CFO of PG&E's holding company before, during and after the bankruptcy, until his promotion to CEO in 2005.

Ironically, the wording of Steinberg's warning to Darbee seems directly lifted from the "positive discipline" philosophy of parenting recently invoked by *Esquire* writer Tom Junod in his [adoring profile](#) of the Obama leadership style (its pre-Massachusetts vintage, anyway):

"It could serve as a precis for how Obama has dealt with ... Mahmoud Amadinejad, who was never threatened but rather told to 'think carefully' while answering the protests of the Iranian presidential election with the truncheon and the gallows. One could almost hear Obama saying, 'Use your words, Mahmoud. Use your words.'"

Or, as Steinberg put it after accusing PG&E of **violating the law**, "We strongly urge PG&E to carefully consider our concerns and refrain from pursuing this initiative."

So what's up with Darbee? Either (a) he didn't get the letter; (b) he thinks "positive discipline" is for wimps; (c) the upside of running an initiative campaign with a \$30 million budget and no funded opposition is like shooting fish in a barrel (also **against the law**); or (d) he knows that Darrell Daddy never gets mad enough to spank anyone.



But read the letter yourself. As the journalists say: "we report, you decide."

December 22, 2009

Mr. Peter A. Darbee
Chairman and Chief Executive Officer
PG & E Corporation
One Market Street, 24th Floor Spear Tower
San Francisco, CA 94105

Dear Mr. Darbee:

We, the undersigned members of the California Legislature, write to express our concerns about a proposed ballot initiative relating to municipalization and community choice aggregation (CCA) for electric power services. PG&E Corporation, and its utility subsidiary, Pacific Gas and Electric Company, have been circulating for signatures the "New Two-Thirds Vote Requirement for Local Electricity Providers." This measure would prohibit communities from condemning utility property or pursuing CCA without two-thirds vote approval from local residents. It would place this super-majority vote requirement in the state Constitution.

We believe the initiative is misguided as a matter of public policy for several reasons. First and foremost, PG&E has equated CCA, which relates to how communities choose to obtain their power supplies, with condemnation, which involves the seizure of utility

property. There is no enacted policy preference in California law regarding condemnation of utility property, but there is a policy preference for CCA.

Assembly Bill 117 (Migden) was enacted (Chapter 858, Statutes of 2002) with broad support, *including the support of your company*. This legislation prohibits utility company interference with CCA and requires utilities to "cooperate fully with any community choice aggregators that investigate, pursue, or implement community choice aggregation programs." PG&E is aware that many communities currently are examining CCA. Your efforts to erect roadblocks to communities' pursuit of CCA can be interpreted as a violation of the statute.

PG&E's willingness to use the initiative process to unwind a carefully negotiated statute *that PG&E supported* lacks the mutual respect and honor that the Legislature expects from stakeholders in the legislative process. If PG&E has recanted its support for CCA, it has an obligation to seek those revisions in the Legislature. To use the initiative process to pursue PG&E's self interests and avoid engaging your partners in the AB 117 agreement, calls into question your company's integrity.

Second, PG&E's putative reason for pursuing this initiative is to protect ratepayers with the mandate for an election and the two-thirds vote requirement. But this initiative attempts to conflate "taxpayer" with "ratepayer," even though it has nothing to do with the general fund of a municipality nor the taxpayers within it. In fact, the existing statute provides far greater protection for ratepayers because (1) it provides that every customer has the right to opt out of a CCA program; (2) it provides a detailed scheme for the review and approval of the CCA program by the California Public Utilities Commission, a constitutional body whose prerogatives are impaired by this proposed initiative; and (3) it ensures, through reporting requirements, the Legislature's oversight of public policy in this area.

Finally, we believe a crucial element of the Legislature's overwhelming support for AB 117 was the premise that CCA would provide another means for California to maintain its leadership in the development of preferred and renewable energy resources. CCA encourages willing jurisdictions to go beyond the renewable portfolio thresholds to provide clean energy to their citizens.

We note that PG&E, while it has taken many positive steps to advance the cause of renewable energy, today provides less renewable power as a percentage of total sales than it did when this legislation was enacted in 2002. It is unacceptable for a company that is falling behind in meeting state adopted goals for clean energy to impede the efforts of others who would attain those goals through innovative means.

We strongly urge PG&E to carefully consider our concerns and refrain from pursuing this initiative.

Sincerely,

DARRELL STEINBERG
Senate President Pro Tempore

MARK LENO
State Senator, 3rd District

Jenny Oropeza, 28th Senate District
Lois Wolk, 5th Senate District
Christine Kehoe, 39th Senate District
Alan Lowenthal, 27th Senate District
Gilbert Cedillo, 22nd Senate District
Dean Florez, 16th Senate District

Machete 3: Landmine Buried Within Vague Wording: Vote Required Before New Residents Can Hook Up!

Sunday, January 31, 2010



In an election where the only hot-button contests pulling voters to the polls are high profile Republican primaries for Governor and U.S. Senator, PG&E's political consultants have devised a clever strategy for the San Francisco utility to aim at unsuspecting conservatives:

1. Disguise yourself as a taxpayer protection movement.
2. Define your adversaries with precision and emphasis -- community choice aggregators (***soft-headed environmentalists***) and new or expanding government-owned utilities (***socialism on the march***).
3. Spend freely to disseminate your message, confident that the public agencies you are targeting are prohibited by law from spending one nickel of public funds to counter it.

Under these circumstances, what self-respecting Republican (and many a Democrat or Independent) wouldn't be expected to vote to erect a two-thirds-vote-of-the-people safety fence to protect the public treasury from such looting?

But a close reading of Proposition 16 reveals that its largest impact -- whether intentionally or through sloppy drafting -- may be in disrupting the ordinary, day-to-day operations of **existing** municipal utilities which presently provide 25 - 30% of California's electricity.

The problem is clear from the first sentence of the [initiative's title and summary](#), a legal interpretation written by the career staff in the Attorney General's office, which says the approval of two-thirds of the voters must be obtained **"before providing electricity to new customers..."**

The language [which PG&E actually wants](#) to cement into the State Constitution is more convoluted and speaks instead of an effort to **"expand electric delivery service"** as the trigger for the two-thirds vote requirement.

PG&E's proposed Constitutional Amendment doesn't define either "new customers" or "expand electric delivery service" but it does say that the latter phrase **does not include** "continuing to provide electric delivery service to customers already receiving electric delivery service from the local government prior to the enactment of this section."

So, the phrase **"expand electric delivery service"** apparently **does include** providing such service to customers who **didn't** receive such service from the local government prior to enactment.

Of course, PG&E's ballot initiative also purports to exempt "electric delivery service within the existing jurisdictional boundaries of a local government that is the sole electric delivery service provider within those boundaries." But with the statewide proliferation of distributed generation and direct access accounts over the last 30 years, it may be empirically impossible to qualify for that exemption. Especially in court.

Bottom Line: if you're a resident of Anaheim, or Burbank, or Glendale, or Pasadena, or Riverside -- not exactly socialist towns, but all served by municipal utilities -- or any of the other several dozen similarly impacted jurisdictions, your new neighbor isn't going to be getting his electricity turned on until two-thirds of the voters say so.

Machete 4: Prop. 16's Sloppy Drafting May Slow Home Sales in LA, Anaheim, Riverside, and 45 Other Locales

Sunday, February 7, 2010

D'OH!



A failure to define "new customers" in PG&E's ballot measure would make any new account in [existing municipal utility territories](#) subject to the two-thirds majority public election process.

The oversight stems from the drafters' mistaken presumption that the existing municipal utilities are the **sole providers** of electricity to retail end-use customers within their service territories.

The grandfather provision, which attempts to exempt current operations within existing municipal utility service territories, only applies if the local government is "the **sole** electric delivery service **provider** within those boundaries."

But "electric delivery service" is defined to mean transmission, distribution, **or** "sale of electric power to retail end-use customers."

Which sets up a test that is **impossible to meet**, given the changes that have happened throughout California since the glory days of the vertically integrated utility monopoly model.

Many solar systems being installed today use a Power Purchase Agreement, where the customer actually buys his electricity from the company owning the equipment. PG&E should have known this, having just [invested \\$60 million in a company](#) which employs this technique.

Larger customers (like chain store outlets, restaurant franchises, and colleges) often have direct access contracts with private providers.

Other customers (like schools, hospitals, and office buildings) rely on cogeneration systems that are owned by third parties who sell the electricity to the customers.

With no reliable data base recording the location of this growing swarm of alternative business arrangements for the sale of electricity, how does one conclusively prove -- in court, where these disputes will end up -- that the municipal utility is the **sole provider**?

And it's an immaculate conception standard -- one solar spermatozoa shows up and you're legally pregnant.

So how do you sell a house or open a new business, if it requires a new electricity account and triggers the need for an election and a two-thirds majority approval?



I don't know. Ask PG&E CEO Peter Darbee (pictured above). It doesn't appear that he thought of it.

Machete 5: What Do the California Realtors Know About Prop. 16 that the State Chamber of Commerce Doesn't?

Monday, February 15, 2010

Answer: that you'd better read the damn thing closely.

That may explain why the statewide **California Association of Realtors** [last week](#) **took a formal position against** the PG&E-sponsored initiative, while some months ago -- before it even qualified for the ballot -- the **gullible State Chamber endorsed it**.

But the ***drafting error***, a failure to clearly define what constitutes the "new customer" that triggers an election with a 2/3's vote requirement -- which strikes terror into the heart of every realtor with a listing or a buyer in any of the 48 affected communities -- is probably ***an even bigger threat to new or relocating businesses*** in those same locales. Analysis of wording flaws [here](#) and [here](#).

Business columnist Michael Hiltzik, writing in the Los Angeles Times and referencing this blog, [conjures up the scenario](#) of PG&E filing suit to prevent the connection of such new homebuyers within a municipal utility jurisdiction.



Maybe, but ***a more likely risk -- especially for businesses -- is the easily recognized California vigilante persona, now equipped with a right enshrined in the California Constitution (assuming Prop. 16 passes)***, going to court to demand his/her right to a vote of the people before a new chain outlet, or a grocery that sells meat, or a convenience store that sells cigarettes, etc. is allowed to get its electricity turned on.

In a dire time when common sense screams out the importance of improving California's business climate, along comes Peter Darbee -- CEO of the San Francisco utility, PG&E -- exporting his local civil war against public power to a statewide platform and ***paying no heed to the collateral damage***.

How does this stuff happen? It happens when the CEO of a monopoly utility, accountable to no one and oblivious to the competitive pressures other businesses face, gets careless with the way his political consultants unilaterally draft a proposed Constitutional Amendment.



The text wasn't adequately vetted, because it never went through a single legislative committee or public hearing.

Darbee used his monopoly's money -- and guess where that came from -- to bring it straight to the voters, dressed up as a phony taxpayer protection measure.

And why is it a ***Constitutional Amendment*** rather than just a statutory measure that could be cleaned up later by the Legislature?

To make it extremely difficult to change -- that will take another ballot measure, or the courts invalidating it.

Darbee seems to place the same faith in the people's representatives as he does in his customers -- actually, he considers them "ratepayers" -- sticking with his monopoly if they are ever given any other choices.

Isn't the State Chamber of Commerce supposed to protect California businesses from this sort of fiasco?

Darbee appears to still be a member-in-good-standing with the California Chamber, despite the [national uproar](#) caused when ***he stormed out of the U.S. Chamber*** in a transparent bid to curry favor in Obamaland over climate politics.

The late Republican conservative state senator H. L. Richardson scandalized the Sacramento of a quainter day with his memoir, ***So What Makes You Think We Read the Bills?***

Okay, CalChamber, there are a lot of bills and some of them get pretty long. But at least read the full text of a four-page Constitutional Amendment -- and carefully think it through -- before you trip over yourself endorsing it for one of your cronies.

Machete 6: PG&E's Threat to Halt Marin Electricity Deliveries – Does Peter Darbee Think He's CEO of Gazprom?

Sunday, February 21, 2010



As the California Public Utilities Commission this Thursday gingerly takes up the question of PG&E's misconduct uh, **aggressive behavior** in Marin County, it would do well to remember that even the most tooth-and-claw visions of market capitalism require commitment to a rule of law.

Commerce -- indeed, civilization -- simply doesn't function well in arenas dominated by brute force and lawlessness.

So PG&E's bellicose threats this month, intended to stave off the formation in Marin County of a community choice program for renewable energy procurement -- though fruitless thus far -- rocked California's regulatory world.

The first couple of shots could be dismissed in today's scorched earth culture as macho trash talk coming from poorly supervised lawyers: first, to [sue the Marin Energy Authority](#) on CEQA grounds if it proceeded, then to [sue the Water District and the County itself](#) if they guaranteed a start-up loan to the Authority.

This despite the clear requirements of the California Public Utilities Code Section 366.2 that electrical corporations like PG&E "cooperate fully" with the investigation, pursuit, or implementation of such programs.

But the final belligerence -- [now apparently withdrawn](#), according to the San Francisco Chronicle -- bizarrely drew from the playbook used in Russia's cut-off of gas supplies to Ukraine: ***just refuse to deliver electricity to the Marin Energy Authority.***

Physically, of course, it would be impossible to isolate the Marin Energy Authority's customers from the rest of Marin County -- or, for that matter, Marin County from the rest of Northern California -- but ***collateral damage to neighboring jurisdictions*** certainly didn't restrain Putin from shutting the valves in 2006, 2008 or 2009.

Legally, such a move would probably violate the Federal Power Act and an array of Federal antitrust laws -- not to mention California's plaintiff-friendly, omnibus unfair competition statute, Business & Professions Code Section 17200.

But none of that restrained Peter Darbee's leg breakers. The [Marin Independent Journal](#) account of the County's approval of the loan guarantee starkly laid it out:

"Marin County Counsel Patrick Faulkner told supervisors Tuesday that PG&E chief counsel Christopher Warner warned him that PG&E will refuse to sign an agreement with the Marin Energy Authority to distribute electricity to the authority's new customers."



What to make of Peter Darbee's seeming recantation of the delivery threat? Not much.

Rather than executing some overarching plan, Darbee seems to rely on the improvisational instincts of all delinquents -- test the limits, locate the boundaries, shrink back when you hear the police sirens.

That can substitute for strategy for awhile, as long as no one lays down the law, but the perpetrator is often so intoxicated with early success and uninhibited behavior that ***he fails to recognize the exponential growth in the risks he is taking.***

Which gets back to the CPUC's February 25 meeting and the [mild, can't-we-all-just-get-along resolution](#) drafted by its staff and now placed on its consent calendar.

It will presumably be adopted without discussion, thereby depriving at least one utility CEO of the "teachable moment" that can sometimes only be administered by a trip to the woodshed.

But the degree to which Darbee is debasing his own regulatory and commercial environment is perhaps best captured by the contrast with his large utility counterpart, Southern California Edison.

As pointed out in the CPUC resolution, ***"Unlike PG&E, SCE states that it does not intend to market against the CCA program."***

In the CPUC kabuki, maybe that's enough said. But probably not. Subtlety doesn't appear to be Peter Darbee's strong suit.

Machete 7: Peter Darbee's Dog of an Initiative: 3 Tapeworms Eating Away at the Internal Logic of Prop. 16

Thursday, February 25, 2010

On February 25, I had the privilege of (click for video) [testifying](#) on Proposition 16 before the joint hearing of the California Senate Energy, Utilities and Telecommunications Committee and the California Assembly Utilities and Commerce Committee. This is what I said:

Thank you for the opportunity to be heard in opposition to Proposition 16. I delivered my first legislative testimony to your predecessor committees in 1975. In the ensuing 35 years, beside spending two decades in the bond markets, I served as Executive Director of the California Energy Commission when Jerry Brown was Governor; as the Chairman of the California Power Exchange during our disastrous experience with incompetent market regulation; as a Board member of the Cal-ISO when Governor Davis asserted the State's authority over that body; and as the attorney member of the California Energy Commission from 2002 to 2008. I'm proud to say we licensed 26 power plants and one transmission line during my most recent tenure at the CEC.

I'm retired now, but spend much of my volunteer time as the Co-Chair of the American Council on Renewable Energy, prodding governments around the world to re-calibrate their energy policies in order to accelerate the pace of technological change.

Never, in all of that time or in any of those venues, have I seen political activity by a regulated utility ***so far outside the bounds of acceptable conduct as PG&E's sole sponsorship of the Constitutional Amendment*** politely referred to as Proposition 16.

I am mindful of the contempt for the legislative process, reliance on deceptive wording, and resort to strong-arm tactics that are manifest in PG&E's campaign. But today I want to take Proposition 16 at face value, and focus your attention on three tapeworms that eat away at the internal logic of the measure itself.



Tapeworm #1 is the elimination of customer choice. Who among us in today's economy doesn't recognize that fewer choices mean higher prices? That's true of any commodity. Yet Proposition 16 actually wants to ***restrict the ability of electricity consumers to buy from anyone other than for-profit monopolies.*** Has California ever faced a greater need to bring competitive pressures downward on the price of electricity? But PG&E wants to lock its monopoly advantage into the State Constitution.



Tapeworm #2 is the mystery of where all this campaign money is coming from. PG&E says it will spend up to \$35 million, and insists all of that money will come from its shareholders. You and I know that every nickel that passes through PG&E's books comes from its captive customers -- its regulated utility is the only business PG&E has! The CPUC determines what PG&E's cost of capital should be in order to provide for investment in needed infrastructure. But it sure doesn't set that rate at a level calculated to provide a \$35 million slush fund for sole-sponsored political adventurism. ***It ought to be illegal to take ratepayer money and use it politically against ratepayer interests.*** If PG&E's making an excessive return, it ought to give the money back.



Tapeworm #3 is a serious drafting error in the "grandfather clause" of Proposition 16. The authors attempted to exempt existing municipal utilities operating within their current territories, but they used an outmoded and unworkable "sole provider" definition. That means that within the existing 48 munis, ***every new connection -- every new home buyer, every new business -- would be subject to an election requiring the approval of two-thirds of the voters.*** That's the kind of drafting mistake the legislative committee process is designed to prevent.

Three tapeworms are enough to kill even the meanest dog, and ***you ought to do what you can to put this mongrel down.*** Your colleagues in the Senate who signed onto the Steinberg letter in December had it right. PG&E should acknowledge its mistake, abandon its campaign, and bring whatever grievance it thinks it has back to the Legislature for further consideration.

Machete 8: Does PG&E Fully Understand the Recklessness of Peter Darbee's Proposition 16 Gamble?

Sunday, March 7, 2010

*I wrote the following "guest editorial" for the March 5 edition of the subscription newsletter, **California Energy Circuit**. Their deadline requirements prevented me from including the following statement which Peter Darbee made in response to a question at the March 1, 2010 PG&E investors conference in New York:*

"There's going to be some flap. It will take place between now and June. And then the voters will have their ability to make their case one way or another. And then, presumably, you know, we'll mend any broken fences after that."



By John Geesman

It takes a peculiar level of recklessness to make the kind of seemingly one-sided bet which PG&E chief executive officer Peter Darbee has placed on Proposition 16 in this June's election.

Darbee's political consultants have convinced him that a sufficiently large campaign budget can bamboozle a majority of voters into believing that locking monopoly protection into the State Constitution is an awesome way to prevent tax increases. Depending upon your view of Republican primary voters -- who are likely to dominate turnout because of hotly contested races for governor and U.S. senator -- this may or may not be a plausible strategem.

But the likelihood of blowback from inflaming PG&E's relations with local governments, regulators, and legislators -- not to mention customers -- has reinforced Darbee's "doofus" image among the diaspora of talented ex-PG&E employees (and more than a few current ones) who are widely placed throughout California's energy industry. They believe he has misunderstood the nature of the utility business, its quasi-public service nature, and its dependence upon the goodwill of powerful external stakeholders. From this perspective, even if he wins his cynical gamble, there will be lasting negative consequences for PG&E for years to come.

What would Proposition 16 actually do? Under existing law, most local governments can annex new areas for the expansion of electricity service with the approval of a simple majority of the voters in the area to be annexed. Proposition 16 would embed in the state constitution -- meaning that it can only be changed by another statewide election -- the requirement that the approval come from "two-thirds of the voters in the territory being served and two-thirds of the voters in the territory to be served." A similar requirement would be written into the constitution for the formation of any new publicly owned electric utility.

In addition, any local government pursuing community choice aggregation -- an electricity procurement process created with PG&E's support by statute in 2002, when the investor-owned utilities were too weak financially to procure for themselves -- would also require an election with two-thirds voter approval before proceeding. The ability of any customer to opt out of a community choice program provided by existing law would be preserved.

That's the simple part. Sloppy drafting -- ballot initiatives aren't vetted like bills that have to go through legislative committee hearings -- of a "grandfather clause" to exempt existing municipal utilities within their current territories relied on an outmoded "sole provider" definition. With the proliferation of third party distributed generation, solar power purchase agreements, and direct access accounts, it may be empirically impossible to qualify for that exemption. How do you prove a negative, especially in court?

That means that in the 48 communities currently served by munis, every new connection -- every new home buyer, every new business -- could be subject to an election requiring the approval of two-thirds of the voters. Unsurprisingly, the California Association of Realtors was one of the first opponents of Proposition 16.

PG&E has announced that it will spend up to \$35 million in order to pass Proposition 16. To succeed, it will need to persuade voters of two preposterous suppositions:

1. Eliminating customer choice is good for you -- This may prove difficult, as most Americans seem to be hardwired with the belief that more competition means lower prices. With PG&E currently seeking 10 different rate increases (totaling more than \$5 billion) at the CPUC, on top of what are already some of the highest rates in the U.S., you don't need to be an economist to be skeptical of a monopoly's pricing claims. Given the miserable condition of the California economy, most people want to bring as much downward pressure on electricity prices as possible.

2. Skimming off ratepayer money to manipulate voters will protect taxpayers -- Of course, PG&E insists that the \$35 million comes from the shareholders only. But how many of the voters are gullible enough to respond to those Nigerian email offers? The indisputable truth is that PG&E's rates are set by the CPUC to provide capital to invest in needed infrastructure. If rates are so generous that PG&E can create a \$35 million slush fund for political adventurism, something is seriously wrong.



So Darbee has made his P.T. Barnum bet, and even Abraham Lincoln spoke of the possibility that you can fool all of the people some of the time. But win or lose, Darbee is eventually going to have to face the California Senate leadership, who wrote to him last December questioning his company's integrity and urging him to abandon the ballot measure. His less than astute silence to date makes them look like impotent blowhards, not a good thing.

His threat to cut off electricity deliveries to the Marin Energy Authority if it proceeds with community choice aggregation -- withdrawn after the gesture failed to intimidate the county supervisors -- may end up pulling the CPUC into the Proposition 16 fray. A strategy that seemed to work for Vladimir Putin in resolving gas disputes with Ukraine just doesn't translate that well in California. It may not amuse commissioners responsible for enforcing the law.

Spending \$35 million to indoctrinate voters that California needs more plebiscites around major electricity decisions may prove more than a bit shortsighted, especially for someone with as much risk exposure as Peter Darbee and PG&E.

Machete 9: Peter Darbee's Weird Prop. 16 Soliloquy: Blame Underlings, Ignore Bad Polls, "Diminish" Voting

Sunday, March 14, 2010



In politics and on Wall Street, sudden access to large sums of other people's money can awaken an aura of self-regarding genius in the previously uncelebrated dullard. This process is intensified by the echo chamber of sycophants and parasites hovering around the prince like a swarm of black flies. What follows is a verbatim transcript of Peter Darbee's bizarre, rambling explanation of the thought process behind Proposition 16, delivered at PG&E's March 1, 2010 Investor Conference in New York with the elan of someone about to spend a political "education" war chest of \$25 - 35 million.

The raw audio can be found at 2:39:21 through 2:44:09 of the March 1, 2010 webcast, accessible after registration on the [investors page](#) of PG&E's web site.

A one-minute YouTube highlights tape can be found [here](#).

QUESTION FROM THE FLOOR: "Just a general question on the proposition you're focused on. I'm just curious, kind of, as to why use the political capital on that proposition now versus everything else going on. Just what was the decision making behind that and what's the real -- a little more color to the benefit of, of that proposition getting done?"

PETER DARBEE: "Sure. Back when we were in the midst of the SMUD battle, which cost us between \$10 and \$15 million to defend, I spoke with Nancy McFadden (*editor's note: a PG&E Senior Vice President*) and said, you know, in this situation it wasn't required that the voters have a vote.

"She said 'No it wasn't.' We actually kind of maneuvered the SMUD Board into saying 'all right, we'll let the voters vote on this' and of course they did and voters rejected that. And so I said, you know, it seems to me that it be appropriate to that there, that the voters be able to vote in every situation, which to date they haven't had to, whether its municipalization or with community choice

aggregation. So I said why don't you go off and work on that awhile and see what you can come back to us with in that regard?

“And so this is now, SMUD was I think five years ago. So this was about 18 months, maybe two years later, she said 'we think we have an idea and this is it, that we have an initiative.'

“We'd sponsor it and it would require a vote of the electorate, which seems imminently feasible, you know, and appropriate that the electorate, as opposed to government bureaucrats, would make the decision that, that voters would vote on whether they want a change in their utility.

“And so she made that proposal at that time and we considered it and we looked at the different things in front of us and one of the thoughts was we're aiming towards a June election and that it was a more favorable time to do it than as opposed to a November election. As the time approached it also occurred to us that people aren't very pleased with the job that government is doing these days in general, you know, across the board.

“And so it was an appropriate time for there to be a referendum: do we think it's appropriate for government to take over utilities? Of course most of them have no experience in that regard and they haven't done such a good job of managing those things that they do have experience in managing. So that, that was a second factor that drove it to us



“And the idea was to diminish, you know, rather than year after year different communities coming in as this or that and putting this up for vote and us having to spend millions and millions of shareholder dollars to defend it repeatedly, we thought that this was a way that we could sort of diminish that level unless there was a very strong, you know, mandate from voters that this was what they wanted to do.

“The polling at the time showed that first of all initiatives usually fail, affirmative initiatives usually fail. And in the preliminary voting, polling on this, before education which is the two ways these things are done, it didn't quite get to 51% but I think it was high 40's. After their education, the numbers became very strongly and positive in the favor of an initiative. Voters liked it! And as this has become, you know, more generally the awareness has increased out there among the voting populace after a discussion about it, it looks like we have a very good shot of winning on it.

“So it was really a decision about could we greatly diminish this kind of activity for all going forward rather than spending \$10 to \$15 million a year of your money to invest in this. The answer was yes! The June time frame looked ideal and in the context of what everything that is happening with government today -- the dysfunctionality of it -- we concluded that it was a very ideal time!

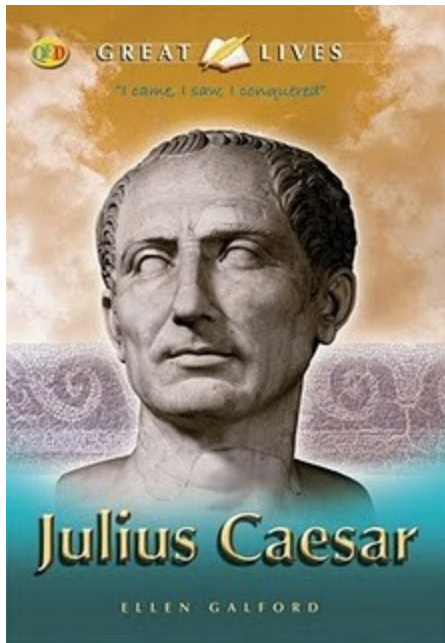
“The result is going to be there's going to be some flap. It will take place between now and June. And then the voters will have their ability to make their case one way or another. And then, presumably, you know, we'll mend any broken fences after that.”

Machete 10: Bad Timing: Darbee's \$10.559 Million Paypalooza Faces Advisory Vote May 12

Sunday, March 21, 2010

Today's [scorching editorial](#) against Proposition 16 in the *San Jose Mercury News*, hometown newspaper to a business culture many consider the most advanced in the world, makes clear that March has been a very bad month (with 10 days still to go) for PG&E's embattled CEO, Peter Darbee.

While each of the newspapers that has taken up Proposition 16 has attempted to outdo its competitors in heaping scorn on the manipulative debasement PG&E has brought to the initiative process, the *Merc* is the first **to specifically call out Darbee** as the mastermind behind this brazen assault on his own electricity customers.



If Shakespeare made a soothsayer's warning to Julius Caesar to "beware the Ides of March" resonate through the ages, **consider what has befallen Darbee** over the course of the first three weeks of the month:

March 1 marked his **prideful confession** of the real thinking behind Proposition 16, veering miles off his political consultants' message to boast to Wall Street. The [written transcript](#) doesn't do justice to this debacle. Real gawkers will go to the raw audio, found [here](#) at 2:39:21 to 2:44:09.

March 2 was the meltdown of the PG&E corporate profile in Kern County, a hotbed of customer revolt against high air conditioning rates and an early warning sign of distemper throughout the Central Valley. The local spokesman [admitted in a public hearing](#) of the Kern County Board of Supervisors **that PG&E's rates are unfair** and that Valley customers are charged excessively **in order to subsidize the Bay Area**. The Kern Supervisors voted unanimously to put an advisory measure on the ballot to replace PG&E as the local utility.

March 8 was when PG&E filed its [Preliminary Proxy Statement](#), detailing Darbee's \$10.6 million pay package for 2009 -- **some 8% more than Goldman Sachs paid its CEO** -- and announcing an advisory vote on the company's Executive Compensation Plan at the May 12, 2010 shareholder meeting in San Ramon. CalPERS and other shareholder activists had successfully forced through a "say on pay" resolution at the 2008 meeting, but this will be the first time it has been implemented.

March 11 marked the San Diego Chamber of Commerce Energy and Water Committee's vote on Proposition 16: **22 to 0 to oppose, with 4 abstentions**. Perhaps no surprise, given PG&E's acknowledgment that its top tier residential rates are 49 cents per kwh compared to 29 cents for the Southern California investor-owned utilities, but an early indicator that

PG&E's jihad against local governments doesn't play well south of the Tehachapis.

March 17 was the California Public Utilities Commission informational hearing on Proposition 16, which somehow Darbee (click for video) [deemed too unimportant to attend](#). Odd behavior for the CEO of a regulated business which is dependent upon its regulator for its entire cash flow and which, for the first time in the CPUC's 99-year history, is attempting to unilaterally write its own business advantage into the State Constitution. You'd think publicly communicating PG&E's rationale would be **in the job description of a \$10.6 million CEO**.



March 31 is the intended date for a Final Proxy Statement. Even allowing for the forensic cleanup that might be applied to the disclosures in the March 8 filing, unless the shareholder vote is canceled outright there are several features likely to trigger controversy between now and the May 12 meeting:

1) The size of Darbee's take is driven by what are considered to be comparable companies, but the PG&E Board's Compensation Committee has **managed to define this peer group** so that it is dominated by multi-state and multi-national companies that derive significant portions of their revenue from competitive energy markets and consequently entail **a much higher level of business risk**.

2) No recognition is given to the fact that PG&E derives all of its revenue from its regulated business, that its regulatory risk is concentrated in one state rather than across multiple jurisdictions, and that it benefits from **a bankruptcy settlement that obligates its regulator** to maintain a level of generosity that will assure at least a single "A" investment grade rating for its debt.

3) Darbee has packed the four-member Compensation Committee with **two of his telephone company cronies from his days at PacBell**, including the Committee Chair. Even with the two other members, the Committee is completely devoid of any professional experience in the regulated electricity or natural gas business.

4) The Committee, which met four times in 2009, is unavoidably dependent upon its "independent executive compensation consultant" **but had to replace said independent consultant** after determining that "in order to **avoid potential conflicts of interest**, its consultant should provide no other services to PG&E Corporation or its affiliates." Apparently, discovery of \$996,000 of other work being done for Management compared to \$118,000 for the Committee stretched the concept of "independent" too far, and in September 2009 the Committee switched consultants.

5) Although PG&E shareholders adopted a resolution in 2006 restricting golden parachutes, the policy apparently did not restrict platinum arrangements with Darbee: he's entitled to \$10.0 million upon termination for cause; \$27.6 million upon death or disability; \$29.5 million upon resignation or retirement; \$34.2 million upon termination without cause; and \$48.1 million upon change in control and other triggering events.

Awkwardly, these measures along with the excess service credits Darbee has received in the PG&E Corporation Supplemental Retirement Plan (16.5 years of credit after 6.5 years of participation) appear to be in **substantial conflict with the "Guiding Principles"** released by the Conference Board Task Force on Executive Compensation -- a group of 13 business leaders on which **PG&E board member David R. Andrews served** and whose web site prominently displays the endorsement of CalSTRS.

Machete 11: Darbee's Shaky Finger on the Trigger of PG&E's Rate Design Begins to Terrify the Customers

Sunday, March 28, 2010



Radical change in pricing strategy is generally not a favored approach in any business, but especially not utilities. The revenue extraction model has long preferred slow and steady to abrupt and impetuous.

Adding to the chaos of perhaps the [most tumultuous month](#) in PG&E's history **since its bankruptcy and taxpayer bailout** earlier in the decade, last week Peter Darbee lurched to [another "Hail Mary" rate proposal](#).

Now he wants to raise his "average" residential customers' monthly bills by 14% in order to bring the residential top tier down by 40%. And if Darbee's redistribution formula goes through, it will be applied not just to current costs but to **whatever portion of his \$5+ billion of rate increases he gets approved** later this year by the CPUC.

Set aside the Lake Wobegon problem, where all of PG&E's customers now seem convinced they pay more than average. This latest and greatest idea is not likely to go down well with those customers who know that **natural gas prices -- the primary factor in the cost of generating electricity in California --** have plummeted in the past two years. NYMEX gas quotes are **now below \$4, compared to their peak well above \$13 in 2008**.

Embedded in the [new PG&E plan](#) is a **ratcheting down of the lowest priced residential "baseline" quantities** from 60% to 55% of "average" consumption in each climate zone, and an increase of 4.6% for small business customers. Oh, and a new, regressive monthly \$3 fixed charge per residential customer **irrespective of that customer's consumption**.

Not that Darbee didn't need to do something. In a few short weeks he has managed to incite a ratepayer revolt in the San Joaquin Valley, extremely valuable territory for any utility in terms of future California population growth.

Somehow **he managed to let his top residential rate -- the air conditioning rate -- climb up to 49.9 cents per kwh.**

Ignore the irrigation districts and municipalities poised to get into the public power business, **the investor-owned Southern California Edison Company** -- which provides service to some Valley communities but actually has less low-cost hydro than PG&E -- **has managed to hold its top residential rate to 29 cents per kwh!**

Darbee's Central Valley customer uprising may have found its Lexington in **the unlikely venue of Bakersfield** on March 2. PG&E's spokesman told a public session of the Kern County Board of Supervisors -- whether from stress, Stockholm Syndrome, or insurrectionist sympathies (**employee morale has turned rancid during Darbee's five years as CEO**) -- that local customers pay higher costs to keep bills low in the Bay Area and other temperate parts of the company's service territory.



"The blunt acknowledgment that PG&E rates are unfair left many observers stunned," the [Bakersfield Californian reported](#), noting that the Supervisors **unanimously voted** to place an advisory measure on the ballot **to determine whether to replace PG&E** with a municipal utility district

Within the week, PG&E's Senior Vice President for damage control was in the pages of the *Californian* with [an op-ed](#), followed by a full page ad the next day, insisting that the whole thing was just a big misunderstanding:

*"This is not a situation of Kern County versus the Bay Area. Recent public discussion has suggested that customers in Kern County are paying more than customers in other parts of our service area. In fact, **Kern County***

households in 2009 paid a lower average rate than households did, on average, in the rest of PG&E's service area.

*"As of December 2009, **42 percent of our customers in this area are part of our CARE (California Alternate Rates for Energy) program**, which helps keep electricity costs low for those who are enrolled. **Kern County has one of the highest levels of participation in this electricity program in the state, and nearly twice that of our systemwide average.**"*

PG&E asked for Kern County support for its February **sleight-of-hand rate proposal**, which would reduce Tier 5 and Tier 4 rates by 5.5 and 3.7 cents per kwh, respectively, while raising Tier 3 rates by 4.3 cents per kwh. "Working together, we can solve this," the op-ed intoned.

Apparently not. Bakersfield is **not exactly a hotbed of let's-expand-the-role-of-government philosophy**, but under the headline ["Time for PG&E to Settle Down. Get Its Story Straight"](#) the *Californian* editorialized a few days later:

*Increasingly skeptical Kern County power users are rapidly coming to the conclusion -- right or wrong -- that they're guinea pigs in an experiment gone badly wrong, and **PG&E seems incapable, whether because of incompetence or a deep-seated culture of arrogance and evasiveness, of convincing us otherwise.***

No wonder municipal and regional governments up and down the state have started exploring the wisdom of energy independence. PG&E is so worried, it has spent \$36 million writing and promoting Prop. 16, which if passed would make it exceedingly difficult for municipalities to establish their own utilities.

So Darbee upped the ante last week. He apparently hopes the rest of his customers won't notice, at least not before the June 8 election. Or that his shareholders won't question -- at least **not before their May 12 vote on his bloated pay package** -- just what kind of business judgment they're getting from their **\$10.559 million CEO**.

Meanwhile, the **California Manufacturers & Technology Association and the California Farm Bureau** both joined the California Association of Realtors, the Agricultural Energy Consumers Association and a growing list of local business groups **opposing Proposition 16**.

Machete 12: PG&E Proxy Filing Reveals Corner-Cutting Effort to Feed Darbee's Compensation Gluttony

Sunday, April 4, 2010



In the 48-hour period **clustered around April Fool's Day**, Peter Darbee aired the first of PG&E's big lie "taxpayers right to vote" [television ads](#) (one month after [confessing](#) to Wall Street that the motivation behind Prop. 16 is to "diminish" such voting); filed PG&E's [proxy statement](#) disclosing **an even murkier process on his board's Compensation Committee** than the preliminary proxy filing had revealed; and suffered through the annual Wall Street Journal [compensation survey](#) showing his 2009 compensation to be **74% above the median for utility CEOs**.

The WSJ compensation study of 200 companies was conducted by the Hay Group, and showed that several of Darbee's more prominent peers -- John Rowe of Exelon, and Jim Rogers of Duke Energy, for example -- were **paid materially less than Darbee despite running larger, more complex companies**: 15 % less in the case of Rowe and 74% less in the case of Rogers. [As reported previously](#), Darbee's \$10.6 million take in 2009 was **actually 8% more than Goldman Sachs paid its CEO, Lloyd Blankfein**.

In contrast to PG&E, none of the utilities included in the compensation survey **benefits from a bankruptcy settlement** that obligates its state regulator to maintain its credit rating in the single "A" category -- **a material reduction in corporate risk exposure** that creates a more mundane context for PG&E's financial results than the Master of the Universe paycheck for Darbee would suggest.

And the March 31 final proxy makes clear that the road to getting there was, well, perhaps **even more interesting than the March 8 disclosure suggested**. It turns out that the replacement consultant -- brought in by the PG&E board's Compensation Committee in midstream after the Committee determined that its original "independent" consultant "no longer met" the Committee's conflict of interest standard -- **didn't actually get involved with determining Darbee's 2009 hoard**. As the new disclosure states, the replacement consultant

*"provided advice regarding executive and non-employee director compensation trends and policies with respect to the amount and form of compensation, and assisted with the Committee's compensation risk assessment, but **did not advise the Committee with respect to***

compensation actually paid in 2009 to PG&E Corporation and Utility officers whose compensation is reported in the tables in this Joint Proxy Statement ..."

Which left the Compensation Committee, in the course of its four meetings during the year, either **in the hands of its conflicted earlier consultant or completely on its own**. [As previously reported](#), none of the four members of the Committee has any experience in the regulated electricity or natural gas utility business and **two (including the chair) are phoneboy cronies of Darbee from his PacBell days**.

Random fact: the three telecommunications industry CEO's identified in the Wall Street Journal compensation survey were **paid an average of \$15.6 million** in 2009.



In the **same bipolar logic** that puts a "taxpayer right to vote" campaign slogan on top of its CEO-acknowledged aim to "diminish" voting, the March 31 proxy proudly proclaims that beginning this year **PG&E has "voluntarily agreed to provide shareholders with the right to cast an advisory vote"** on executive compensation. Darbee seems to have forgotten that this measure was **forced on him by CalPERS and other activist investors** who passed a "say on pay" resolution at the 2008 shareholder meeting **over management's objection**.

With mandatory shareholder "say on pay" rights prominently included in the financial regulation bill currently pending in the U.S. Senate, the PG&E vote at the May 12 shareholder meeting is **likely to attract attention** as an indicator of whether such rights are a meaningful reform to curb excess or a cosmetic device to rubberstamp management recommendations.

Darbee probably views the upcoming low-turnout shareholder vote with the **same shooting-fish-in-a-barrel bumptiousness** as he does the upcoming low-turnout

vote of the California electorate on Proposition 16. As hinted at in the March 31 proxy, the process is susceptible to the same dark arts of manipulation, albeit at a lower direct expenditure than the \$35 million his political consultants have demanded for the June 8 smoke and mirrors.

But shareholders may be grouchy about **their measly, cumulative 5.6% Total Shareholder Return** (price appreciation and dividends) in the three-year period ended December 31, 2009 and resist being fed the phony comparisons that suggest this represents a stunning success. The arithmetically inclined may actually **compare their returns to the 32.2% jump in Darbee's annual compensation** from 2006 to 2009.

Darbee is hoping they don't.

Machete 13: “We Are Appalled,” Declared CPUC About 2004 PG&E Executive Bonus Scandal – “Give It Back”

Sunday, April 11, 2010

The lead sentence in last Friday's *San Francisco Chronicle* article (headline: ["PG&E Must Stop Threats To Public Power Agencies"](#)) hints at the dilemma **Peter Darbee's political recklessness** has created for his company and its heretofore guardian angels, the California Public Utilities Commission:

*California energy regulators delivered a **rare rebuke** to Pacific Gas and Electric Co. on Thursday, banning some of the **hardball tactics** the utility has used in its efforts to derail Marin County's new public power agency.*



Darbee's brazen political overreach in launching Proposition 16, his **sole-sponsored assault on the California Constitution** and the historical prerogatives of the CPUC, may be **slowly awakening Commissioners** long

criticized for carrying **styrofoam police batons** engraved with the mantra "**can't we just get along?**"

Take, for example, the last compensation scandal to hit PG&E, **the notorious \$84.5 million "retention bonuses"** paid to 17 executive worthies as PG&E emerged from bankruptcy in 2004. In extraordinary wording that still reads like comic opera [Pontius Pilate](#), the [CPUC observed](#):

*"These bonuses vested **only days after** PG&E Corporation (the holding company), PG&E (the utility), and the Commission entered into a Modified Settlement Agreement regarding PG&E's emergence from bankruptcy. The size and timing of **these bonuses raised concerns** regarding ratepayer impact and public policy.*

*"**We have given the issue special attention.** We find that none of the \$84.5 million has been, or will be, charged to ratepayers. We adopt additional accounting and reporting measures to further ensure that the \$84.5 million is charged to shareholders, not ratepayers. **We are appalled at the size of the award**, and encourage the senior executives to **voluntarily return** any amounts **not needed** to meet the program's purpose or that are **unreasonable or inequitable**. The matter is **now in the hands** of the 17 senior executives, PG&E's shareholders and the California Legislature."*

Historical note: Darbee was PG&E Corporation's Chief Financial Officer **before, during, and after the bankruptcy fiasco**; his predecessor as CEO of the holding company (who grabbed a bonus of **more than \$17 million** for himself) was named by *BusinessWeek* as one of the [worst CEOs of 2003](#); the bankruptcy **deprived shareholders** of their dividends for some 4.5 years and **sentenced ratepayers** to a decade-long special **bailout surcharge**; and ... drum roll ... **none of the \$84.5 million was ever returned**.

Darbee's **obtuseness may blind** him to the box into which his Proposition 16 gambit has placed his CPUC overseers. Exactly **where did he get his \$35 million** campaign war chest? Accept the common view and he's **misappropriated ratepayer funds**, meaning that the CPUC has a **major infraction** on its hands. Accept Darbee's rationale that he's using shareholder funds, and the CPUC rate-setting **generosity looks grossly negligent**.



Darbee's **blunderbuss approach** in Marin has now triggered a [CPUC resolution](#) that can easily be dismissed as just **another regulatory tsk tsk**, but which crosses **an unmistakable Rubicon** if anyone at PG&E is paying attention. Buried within the gentle bureaucratese admonishing PG&E for what are effectively **acts of bribery** (to induce the City of Novato not to join the Marin Energy Authority) **and extortion** (threatening not to supply electricity to the Marin Energy Authority), the CPUC resolution **lays down a marker**:

*“... PG&E contends that the Commission lacks the authority to oversee the utility's use of shareholder funds for competitive activities ... **We are not persuaded** ... The **Commission does not lose its authority** to regulate a public utility's activities, merely because the utility accounts for the expense of conducting those activities “below the line”, i.e., as a **shareholder expense**.”*

So facing [his own compensation firestorm](#) for the ill-timed decision to pay himself 8% more than Goldman Sachs paid its CEO (and **74% above the median for large utility CEOs**) in 2009, Darbee now finds that his lack of political acumen may have finally aroused the attention of creatures he **should have left asleep**.

Were he more a student of California history, he would realize that the regulatory agency he has long attempted to flout and the initiative process he is currently choosing to debase share a certain common origin.

Machete 14: PG&E Fleeced for \$175,000 by LA Pols – What Was Darbee Trying To Do With All That Money?

Thursday, April 15, 2010



By the jaundiced standards of California's initiative politics in 2010, it barely deserved mention. But there it was, in [a small blog post](#) this week in the *Los Angeles Times*:

"When the Los Angeles County Democratic Party deposited a \$175,000 check from PG&E earlier this month, quite a few in the political world took notice -- especially considering the fact that the money arrived only weeks before the county party was set to stake out its position on a June ballot measure, Proposition 16, put on the ballot by the utility company.

"But every once in a while, money doesn't prevail in politics. On Saturday, the county party's ballot measure committee voted unanimously to oppose the PG&E-backed measure, said Chairman Eric Bauman."

Rescuing this episode from the mundane movie-script narrative of just another illicit transaction gone bad on the mean streets of L.A., Bauman had a history lesson for Peter Darbee:

"Have you ever heard of Jesse Unruh?" asked Bauman. He was referring to the former Assembly speaker who once famously said, as Bauman paraphrased it: "If you can't take their money, drink their liquor and spend time with their women, you shouldn't be in this business."

Actually, if Unruh had ever used the euphemism "spend time with their women" he probably would have been unseated by his caucus.

But if Darbee is ever put under oath -- either at a shareholders meeting, a ratepayer tribunal, or the pearly gates -- one of the first inquiries might be, "Just what were you trying to accomplish, miles outside your service territory, with a wad of money like that?"

Perhaps it was part of his "education" effort for Proposition 16. As he explained at his now famous March 1, 2010 Wall Street investors conference

"... in the preliminary voting, polling on this, before education ... it didn't quite get to 51% but I think it was high 40's. After their education, the

numbers became very strongly and positive in the favor of an initiative. Voters liked it!"



Not content to rely on his No Lie Left Behind radio and television advertising blitz, Darbee has brought in the heavyweight "education" specialists that assemble -- for a price -- political slate cards. The [Sacramento Bee reports](#) that he's already shelled out hundreds of thousands on some 20 such efforts. Those must be intended for voters unable to digest the educational materials Darbee is stuffing into their mailboxes.

And they are pretty indigestible. The headlines blare: "It's hard to believe but right now voters have no say when local governments spend billions of dollars to get into the business of providing electricity."

Hard to believe because it's untrue. Local government officials are elected by voters. Municipal utilities are formed by votes of the people. Annexations require votes. Which part of "no say" does Darbee *no comprende*? What causes PG&E conniptions is that despite the many procedural hurdles of existing law, an unsettling number of its customers keep trying to break away.

So rather than make the difficult case that captive customers deserve even heavier shackles (like a required two-thirds majority for escape), Darbee has opted for the appealing target of the spendthrift bureaucrats. Jack Stewart, head of the California Manufacturers and Technology Association -- representing Darbee's largest customers -- is having none of it.

Making note of PG&E's 11.35% guaranteed return, [Stewart told the Bee](#), "This initiative takes that guaranteed profit to a guaranteed monopoly. We don't think that creating a monopoly that is even more difficult to penetrate is good for ratepayers."

Machete 15: CEO Report Card: How Much of the Goldman Sachs Kool-Aid Did PG&E's Peter Darbee Drink?

Sunday, April 18, 2010



Five years is a long time on Wall Street. It's a long time at PG&E. Peter Darbee has been CEO of PG&E Corporation since 2005. He was an investment banker at Goldman Sachs from 1989 to 1994.

It's said that you can take the individual out of "Goldmine Sachs" but you can't take "Goldmine Sachs" out of the individual.

And in the several days since the SEC launched its historic civil fraud action against Goldman, it's been difficult to ignore some commonality between two tone-deaf CEOs having a difficult time keeping their companies out of the ditch.

Each has an odd, mildly blasphemous way of mixing divine guidance with his pursuit of Mammon. A [profile in the Sunday Times](#) of Goldman's CEO, Lloyd Blankfein, 55, put it bluntly:

An impish grin spreads across Blankfein's face. Call him a fat cat who mocks the public. Call him wicked. Call him what you will. He is, he says, just a banker "doing God's work."

The British newspaper characterized Goldman Sachs as a cultish teamwork environment with insecurity hardwired into the system. "There is a deep and constant paranoia about everything we do," one senior manager approvingly said. What drives this process?

One former Goldman banker describes the culture as "completely money-obsessed. I was like a donkey driven forward by the biggest, juiciest carrot I could imagine. Money is the way you define your success. There's always room — need — for more. If you are not getting a bigger house or a bigger boat, you're falling behind. It's an addiction."

The 56-year old Darbee, more than a decade out of Goldman at the time, struck a tone of piety in [his inaugural interview](#) as PG&E's CEO in 2005, telling the San Francisco Chronicle that "It's the Ten Commandments that drive my world view."

"You don't lie. You don't cheat. You don't steal. You don't commit adultery ... If you don't have the right set of values in place, you're not going to get anywhere."

Darbee has an awkward and conflicted attitude regarding his own compensation.



On the one hand, as reported [here](#) and [here](#), he massaged PG&E's internal system to produce a \$10.6 million gusher for himself in 2009 -- that's 74% above the median for large utility CEOs measured in the Wall Street Journal's annual compensation survey. And 8% above Blankfein's 2009 take!

In the adolescent, mine's-bigger-than-yours, locker room ambiance that pervades Wall Street, that's a serious scorekeeping threshold.

On the other hand, as Darbee observed [in an interview](#) in mid-2009,

"I think it's fair to say that some earlier administrations here at the company really focused on "let's make money". We found that approach didn't inspire employees, it didn't cause people to admire and respect the company as much, and it didn't help PG&E attract new employees."

The [2005 Chronicle story](#) quoted from Darbee's initial address to employees:

"I think the clear message is you want more from management and more from your leaders in terms of identifying the vision for the company."

As the newspaper account put it, "Turning things around, he said, hinges on restoring a sense of integrity within the company and, in turn, winning back the trust of customers."

In words that may ring particularly loudly for Darbee in today's Proposition 16 context, the Chronicle reported:

In his speech to employees, he said he wants PG&E to "eliminate the term 'ratepayer' from our vocabulary." Instead, he wants workers to always say "customer."

"A customer is someone that we have to go out and ... win day in and day out," Darbee explained. "A ratepayer suggests someone who is the prisoner of a regulated utility."

What to make of these remarks from the sole sponsor of a \$35 million propaganda campaign carefully designed to intentionally mislead said "customers" into building an even higher wall around their captivity? Not to mention that, to date, his cynical defiling of the California initiative process has been denounced by every newspaper editorial board to address Proposition 16.

In Darbee's own words from that prescient 2005 interview:

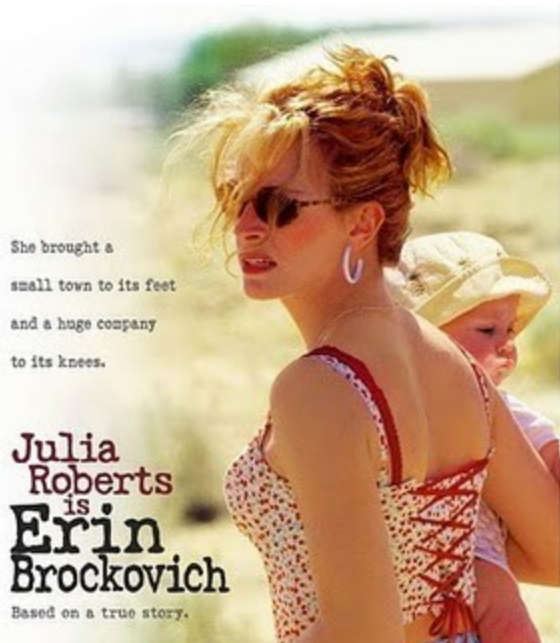
"It's going to be a big job," he acknowledged. "But over a period of three years, five at the latest, my objective is for the customers of this state to say, 'Wow!'"

Wow.

Machete 16: 10 Years After Erin Brockovich – PG&E Is Aiming Its Propaganda at “A Bunch of Dumb Hicks”

Sunday, April 25, 2010

Last month marked the tenth anniversary of the release of the acclaimed docudrama, *Erin Brockovich*, nominated for five Academy Awards and the source of Julia Roberts' first Oscar as best actress. Without PG&E in the role of real-life loathsome polluter, poisoning the small San Bernardino County community of Hinkley with hexavalent chromium over four decades and then covering it up, none of it would have been possible.



As the conservative [New York Post observed](#), it was "the kind of stand-up-and-cheer movie Hollywood is supposed to have forgotten how to make."

Ever since his March 1 buffoonish boast to a Wall Street investor conference that Proposition 16 is really intended to "diminish" voting on who provides electricity, Peter Darbee undoubtedly has more time on his hands. Heeding his consultants' advice that, having gotten so far off-message, he might be a distraction from the \$35 million propaganda effort to disguise the measure as protecting the taxpayer's right to vote, he has become the invisible man. He has abdicated any role in publicly explaining why voters should hardwire his company's business advantage into the State Constitution.

That's a little awkward for Darbee right now, as he waits out the [May 12 shareholder vote](#) on his [Brobdingnagian 2009 compensation](#) -- 74% above the median for large utility CEOs, according to the Wall Street Journal compensation survey, and even 8% above Goldman Sachs' CEO! As the business school textbooks say, public leadership is the corporate CEO's primary duty

He might wisely use some of his freed up time to watch the *Erin Brockovich* DVD. Maybe twice ... a day.

Why? Because some things are hard to change, maybe even impossible, like PG&E's arrogance in dealing with people its executives don't consider their social equals. Or the ease with which the company feels it can bend reality to its liking with just enough iteration and reiteration.

And because the toxins Darbee is disseminating through the airwaves and mailboxes of California may have an even more concentrated impact on his company's future wellbeing than those Ms. Brockovich discovered.

PG&E might well consider using the movie as an instructional video in what to avoid. Perhaps some future management regime will.

The Hinkley disaster resulted in [a \\$333 million settlement](#) by PG&E with more than 600 plaintiffs in 1996, at the time the largest settlement of a direct action lawsuit in history. PG&E had been using hexavalent chromium as a corrosion inhibitor in the cooling towers for its local gas compressor since 1952. The company disposed of the cooling water blowdown in unlined pools, which contaminated local groundwater, and by spraying it into the air, which created a toxic inhalant.

Hexavalent chromium had been known as a cancer-causing chemical since the 1920s. PG&E found levels in local wells 400 times above the EPA safety standard in 1965, but as late as the mid-1980s was downplaying the problem to Hinkley residents. The company claimed senior management had not been informed until 1987 -- in the words of the plaintiffs' trial brief, "The suggestion that senior management in San Francisco didn't know what was happening ... is the biggest lie of all."

PG&E circulated a misleading leaflet to the community claiming that its groundwater cleanup program would result in levels "that meet the very conservative drinking water standards set by the EPA."

"In addition, the form of chromium that will be left on soils after irrigation is nontoxic. In fact, chromium in this form is a naturally occurring metal that is an essential ingredient in the human diet, one that is often included in multiple vitamin/mineral supplements."

As the plaintiffs' trial brief put it, the leaflet might have invited a person to "sprinkle some on your morning cereal." In reality, concentrations of hexavalent chromium in the groundwater basin reached peak levels of 1,000 to 5,000 times the safe limit for drinking water and more than 50,000 times the safe level for inhalation.

Meeting with Hinkley residents in 1988, PG&E officials said there was "no risk at current levels" and "generally, site groundwater is good and suitable for drinking and agriculture." Responding to questions about "green swimming pool water" at local homes, company representatives said it was okay to swim in a pool where levels exceeded EPA limits because chlorine and other pool chemicals "kill any contaminants in the pool, including chromium." One PG&E official said that he and his children would gladly drink the local well water.

The tenacity of the Hinkley plaintiffs, once they were eventually aroused, is the sweeping theme of the *Brockovich* movie. What accounted for that doggedness? As a 1994 Fox News series capsulized in quoting one of the plaintiffs:

"They thought they were dealing with a bunch of dumb hicks, that's what I think."

In 2006, PG&E settled a similar gas compressor station lawsuit for \$335 million with 1,200 plaintiffs from the working class town of Kettleman City, California.



So Peter Darbee, though temporarily quarantined by his political consultants, nevertheless manages to spew carcinogens into the political dialogue of California with saturation advertising unashamedly targeting an electorate of morons. He shared a few of his premises in his [infamously gleeful rant](#) to Wall Street investors:

"...one of the thoughts was we're aiming towards a June election and that it was a more favorable time to do it than as opposed to a November election."

"...it also occurred to us that people aren't very pleased with the job that government is doing these days in general, you know, across the board."

"So it was really a decision about could we greatly diminish this activity for all going forward rather than spending \$10 - 15 million a year of your money ..."

"The answer was yes! The June timeframe looked ideal and in the context of everything that is happening with government today -- the dysfunctionality of it -- we concluded it was a very ideal time!"

What better opportunity to hypnotize the rubes into thinking they're voting to hold down taxes? Why not goad the Tea Party types into believing they can lock down socialist bureaucrats? And while you're rattling the wing nuts into feeling their very right to vote is at stake, why not slip in a new two-thirds majority requirement to build the walls around your captive customers significantly higher?

But Darbee's fundamental miscalculation may be his proclivity to overkill. Trying to fool people is one thing, rubbing their noses in it is a completely different

proposition. Is it wise to be so blatant about the way one monopoly is willing to spend to protect "the Taxpayers Right to Vote"? Is anyone gullible enough not to realize it's customer money which is paying for this campaign? After the average voter has received 6 mailers and been forcibly exposed to 17 television ads and even more radio spots, is the likely reaction one of gratitude for PG&E's selflessness? Or rage?

Machete 17: San Diego Chamber of Commerce Votes 79-2 to Oppose Prop. 16: Is PG&E's Whopper Indigestible?

Sunday, May 2, 2010



A stunning series of lopsided setbacks for Proposition 16 as PG&E wended its way through various subcommittees of the San Diego Regional Chamber of Commerce -- losing 22 - 0, 12 - 0, and 20 - 1 -- which culminated with a 25 - 1 smackdown at the full Board, raises the question all big budget media campaigns dread:

what if the dogs won't eat the dogfood?

Political consultants will tell you that every election is determined by the swing voter -- those who don't bring firm, pre-existing convictions to their voting choice but instead are subject to persuasion. In the Proposition 16 election, that effectively means Southern California -- that majority of the state which has no previous relationship with PG&E and is expected to form its final opinion on the basis of political advertising.

There's probably no better test case than San Diego County, as geographically distant and culturally remote as possible from the repeated political wars PG&E has fought within its Northern California service territory since the 1920s. The nearest municipal utility is 97 miles away in Anaheim, so the public vs. private power issue gets no traction. And the San Diego Regional Chamber of Commerce is precisely the business-oriented, moderately conservative jury pool

for which PG&E has designed its deceptive government-bashing, taxpayer-protecting, right-to-vote hogwash.

Which makes the results so startling. Over a period of 6 weeks, the San Diego Regional Chamber had both sides make 5 - 7 minute presentations at each of three committee meetings and a full Board session, sometimes in person and sometimes by speaker phone. After the presentations, a 10 - 15 minute question-and-answer session would follow. The advocates were asked to leave the room while the committee or Board deliberated. While this was a more sustained and participatory process than any other civic organization has yet conducted, it was hardly a replay of the Lincoln-Douglas debates.

The results are remarkable for their unrelenting consistency across each session. The undeniable conclusion erupting from the experience is the ease with which Proposition 16 disembowels itself when subjected to even modest discussion. That's got to make Peter Darbee wonder just exactly what he's bought with his \$35 million campaign war chest.



The notes written up for the April 22 Board meeting by the Regional Chamber staff provide a pretty good road map for the intrinsic flaws in Proposition 16, which Darbee apparently failed to fully think through before launching his political missile:

ENERGY & WATER COMMITTEE -- March 11, 2010: Oppose Prop. 16 (22 - 0, 4 abstentions)

Committee Questions and Discussion

Is this fight between San Francisco and others to join the Sacramento Municipal Utility District (SMUD)? Why should the rest of the State care?

Several committee members stated that this issue could spill over to other municipalities because Prop. 16 is written broadly to apply to all public power systems. Ms. Alpert (representing the "Yes" campaign -- ed.) said that the measure puts in place uniform procedures.

Committee members asked Ms. Alpert regarding Mr. Geesman's (representing the "No" campaign -- ed.) statement that Prop. 16 contains a serious drafting error in the "grandfather clause." Ms. Alpert responded that the Legislative Analyst report does not support that statement.

Has SDG&E taken a position on Prop. 16? San Diego Gas & Electric and The Gas Company have taken a neutral position on this ballot initiative; Southern California Edison has also taken a neutral position.

Committee members also voiced concerns that prices would increase if the measure passes since PG&E would eliminate any competition.

Overall, committee members agreed with the arguments in opposition. A motion was made, and seconded, to oppose Proposition 16. The motion passed 22-0-4.

LEGISLATIVE & SMALL BUSINESS ADVISORY COMMITTEE -- April 2, 2010: Oppose Prop. 16 (12 - 0, 1 abstention)

Committee Discussion

Committee members were concerned with the large amount of money PG&E is spending to pass the measure and saw that to be a "red flag" and a disservice to consumers. After discussion, the committee agreed that it should support the Energy & Water Committee's recommendation to OPPOSE Prop. 16. A motion was made to that effect, seconded, and passed 12-0-1.

PUBLIC POLICY COMMITTEE -- April 20, 2010: Oppose Prop. 16 (22 - 0, 6 abstentions)

Committee Discussion

Committee members voiced a series of concerns with the measure:

PG&E's sole, high dollar amount funding raises a "red flag." It is a blatant attempt by PG&E to "buy" the passing of this measure.

Rates could increase if the measure passes since PG&E would eliminate any competition.

Why is a 2/3 vote needed? Had this requirement been applied to large public facilities here in San Diego, we would have never been able to build the Convention Center expansion. Ms. Alpert responded that the 2/3 voting requirement is a legitimate requirement for these types of issues because of the need to get into long-term financial obligations.

A representative from SDG&E, representing SDG&E on the Public Policy Committee, commented that SDG&E is neutral on this issue.

After discussion, a motion was made, and seconded, to oppose Prop. 16. One member, voting in opposition to the motion, said that normally the Chamber would not generally support public entities competing against private business. The motion passed 20-1-6.

The Regional Chamber staff has not released a write-up of the full Board's April 22 deliberations, but the 25 - 1 vote to oppose Prop. 16 (with 1 abstention) speaks for itself. Over a period of six weeks, in four separate deliberations, a broad cross-section of the civic-minded elements of the San Diego business community voted 79 - 2 (with 12 abstentions) to repudiate PG&E's adventure in political overreach.

Similar signs of revulsion from the Southern California swing voter: the rejection of Prop. 16 by the Orange County Association of Realtors, and the spontaneous outpouring of disgust registered in published comments when the Orange County Register's ["OC Watchdog: Your Tax Dollars At Work"](#) dissected Prop. 16.

One has to wonder what Darbee's shareholders, [meeting on May 12](#) to vote on his [corpulent compensation package](#), will make of this fiasco.

Machete 18: Prop. 16 Limits on Competition Would Erect “a Constitutional Iron Curtain” to Lock in Customers

Sunday, May 9, 2010



Leave it to the *Bakersfield Californian*, hometown newspaper of blue collar philosophers Merle Haggard and the late Buck Owens, [to find the phrase](#) which succinctly captures the full scope of Prop. 16's sinister rewrite of the rules governing for-profit utilities in California:

"... a yes vote will establish a constitutional iron curtain ..."

The Bay Area Center for Voting Research in 2005 ranked Bakersfield the [eighth most conservative city](#) in America (and number one in California), and it has

been the epicenter of Northern California's ratepayer revolt against PG&E in 2009 - 10. Local residents have been pushed into a combative stance by two separate and sustained utility disinformation campaigns -- **both premised on assuming that customers are idiots** -- which recently imploded.

The first was the fiasco surrounding so-called "smart meters" which prompted sudden exponential increases in monthly bills for some customers. Initially the utility insisted the customers didn't know what they were talking about. Then it said that the old, "dumb meters" had run slow and produced bills that were too low. [Two weeks ago it acknowledged](#) that some 43,000 of the new meters are malfunctioning and generating erroneous bills.

The second was the [continuously shifting explanation](#) of local rates. After prolonged complaints, the utility's spokesman admitted to County Supervisors that Bakersfield rates are unfairly high and subsidize more politically influential parts of the state -- **prompting the Board to immediately vote to put a municipalization measure on the ballot**. Then PG&E took out full-page newspaper ads and sent a SVP from headquarters to deny the previous admission, saying it was all just a big misunderstanding and that Kern County customers actually benefit from a lower average rate (and nearly twice the proportion of CARE program recipients) than the rest of the PG&E service territory. Now the utility has decided it wants to raise everybody else's rates by an average of 14% in order to reduce the top tier rates common in Bakersfield by 40%.

In the words of the *Bakersfield Californian* editorial eviscerating Prop. 16:

"Pacific Gas & Electric Co. is looking for a few million suckers, betting a fortune that we're too thick-headed to know a rip-off when we see it."

Even though every nickel for the \$35 million Prop. 16 propaganda effort has come from PG&E, the impact of hardwiring draconian restrictions on competition into the State Constitution -- where they can only be changed by another ballot measure -- will be felt by every user of electricity in California whether currently served by PG&E or not.

Prop. 16 tries to erect an insurmountable barrier to customer choice in every for-profit electric utility service territory in the State. While the 24/7 saturation advertising emphasizes the "taxpayers right to vote," the **measure has nothing to do with taxes** and is focused much more on altering existing voting rights than creating any new ones. Claiming to treat customer choice of an electricity provider the same as bonded indebtedness -- **the measure has nothing to do with bonds, either** -- Prop. 16 would establish a 2/3's majority vote requirement before any community could entertain a competitive provider.

And the Prop. 16 proponents are even deceptive about the 2/3's requirement -- the real significance of the rule change is to **reduce the threshold** a for-profit utility needs to achieve to fend off competition. If Prop. 16 wins, **the magic number will be 33%** of the voters, considerably below the 50% + 1 required by existing voting requirements.

For utility companies which have always displayed a spend-whatever-it-takes philosophy in previous customer choice elections, arrayed against local governments prohibited by law from spending anything on campaigning, **this reduction of the "win" target to 33% would be an historic windfall**. For those trying to use competition to bring downward pressure on electricity rates, the message would be equally clear: why bother?



As PG&E's \$10.6 million CEO [Peter Darbee has acknowledged](#), **sponsoring Prop. 16 "... was really a decision about could we greatly diminish this activity for all going forward ..."**

A preference for private enterprise over government agencies strikes many as a cornerstone of America's economic success. It would be a serious mistake, however, to confuse regulated for-profit electric utilities with private enterprise. Like FNMA and FHLMC, **they are effectively arms of the government** -- arguably even more so, with their captive customers and guaranteed 11.35 - 11.45% returns on invested capital. Their top executives get to dress up and pretend to be real businessmen (few women ascend), and compensate themselves richly as part of the charade, but in truth they are lobbyists and fixers **whose primary task is to manipulate the regulatory environment**.

And one doesn't have to feast at the Karl Marx feedbag to recognize the deterrent effect that even the threat of municipal utilities (or any other competition) can have on the **endless cycle of cost overruns and rate increases** that surrounds California's regulated utilities. As [Franklin Delano Roosevelt](#) himself said in 1932,

*"I might call the right of the people to own and operate their own utility something like this: a 'birch rod' in the cupboard to be **taken out and used only when the 'child' gets beyond the point where a mere scolding does no good.**"*

If the **mere threat** of turning to a competitor carries the benefit of restraining the for-profit utility's rate increases, by what **warped logic** would customers agree to make that threat **less credible**? Why impose the super-majority requirement traditionally used to discourage higher taxes for efforts designed to encourage lower rates? **How stupid do they think we are?**

Pretty stupid. On May 12, Peter Darbee will slither out of his San Francisco lair in the Spear Tower at One Market (an actual address, surpassing the literary imaginations of either Tom Wolfe or Charles Dickens), climb into his limo and head across the Bay Bridge to the annual PG&E shareholders meeting in San Ramon. Uppermost in his mind will be **whether he has snookered enough shareholder votes to avoid embarrassment over his bloated 2009 compensation** -- 74% above the Wall Street Journal's median for large energy utility CEOs, and 8% more than Goldman Sachs paid its CEO, *fercrineoutloud*.

But uncertainty about the outcome of Prop. 16 -- an even bigger hoodwinking, with much more at stake -- will be hard for Darbee to keep from his thoughts. As he recites to himself the **customers-are-morons catechism** he learned during his 5-year apprenticeship at Goldman Sachs, he just might ask his driver to play an [old Buck Owens song](#) on the car stereo system, an anthem to the kind of people [Darbee once vowed](#) to never denigrate as simply "ratepayers:"

Hey you don't know me, but you don't like me

You say you care less how I feel

But how many of you that sit and judge me

Have ever walked the streets of Bakersfield?

Machete 19: Prop. 16 Drafting Error Would Spew Pestilence Across 48 Real Estate Markets in California

Sunday, May 16, 2010



If the Taliban set out to poison California's frail 2010 real estate market, it would be hard to come up with a better plan than simultaneously disrupting the electricity hook-ups of home buyers and new businesses in 48 different communities.

That's the likely outcome if Proposition 16 is adopted by the voters on June 8, due to [sloppy drafting](#) of the "grandfather clause" intended to exempt new customers within existing municipal utility service territories.

Does it make any sense to subject every new customer account -- every home purchaser, every new or relocated business -- to a public election requiring a two-thirds majority approval before electricity can be turned on?

To qualify for exemption from Prop. 16's election requirement, a municipal utility has to be the "sole provider" within its service territory. Unfortunately, there doesn't seem to be a single one of the state's utilities that meets that standard -- no surprise, given the spread of solar systems, cogeneration projects, and direct access contracts, not to mention legacy accounts still served by for-profit utilities.

The result -- a [viral infestation](#) in each of these 48 communities, which include Los Angeles, Anaheim, Burbank, Cerritos, Glendale, Modesto, Moreno Valley, Pasadena, Rancho Cucamonga, Riverside, Sacramento, Santa Clara and a host of others.

So it's no surprise that among the first organizations to oppose Prop. 16 was the [California Association of Realtors](#). Ditto for the California Manufacturers & Technology Association.

More puzzling is the devil-may-care attitude brandished by a couple of the country club cronies PG&E CEO Peter Darbee has recruited as spokesmen for Prop. 16. Both are nominally "CEOs" of their own organizations, but they're drawn more from the brandy-and-cigars class of political string-pullers than the type of businessman who's ever had to meet a payroll or sell a product or service.

Darbee's been quarantined by his political consultants from talking about Prop. 16 ever since his spectacularly [off-message admissions](#) at an investor conference that, rather than promote voting on electricity choices, the true purpose of the initiative is to "diminish this activity for all going forward."



Consequently, those "official spokesman" duties which have not been subsumed by repetitive bromides from the anonymous actress in the tv spots have fallen to Allen Zaremborg of the State Chamber of Commerce and Jim Wunderman from the Bay Area Council.

Zaremborg, a lawyer and longtime Sacramento operative has addressed the draftsmanship controversy in several [newspaper columns](#). The sum total of his legal assessment (**with editorial rejoinders in bold**):

"Proposition 16 specifically exempts situations where publicly owned utilities extend service to new customers located within their exclusive geographic territories" (yes, but to qualify the utility needs to be a "sole provider").

"This is confirmed by the nonpartisan Legislative Analyst's analysis of Proposition 16" (but the Legislative Analyst doesn't perform a legal analysis),

"and by the measure's own findings and declarations" (which aren't put into the State Constitution, and can't override the "sole provider" restriction which Prop. 16 would insert in the Constitution).

"Moreover, the opponents' argument is based on an absurd, almost laughable, interpretation that no court would ever accept" (generally, this line of reasoning is rarely tried even on television shows about lawyers).

Wunderman's lame response in [a recent radio debate](#) was nothing short of astonishing, given that his organization bills itself as comprised of "the CEO or top executive" from "more than 275 of the largest employers" in the Bay Area. He participated in Public Radio's Forum program, moderated by the respected host of the California Report, Scott Shafer. Confronted by Shafer -- at 33:45 on the above audio link -- about the real estate meltdown scenario attributed to

Prop. 16's sloppy drafting, Wunderman (a former chief-of-staff in the San Francisco Mayor's office) was cavalier:

Mr. Wunderman: *"Well, I've heard the discussion about it and it's a dispute and a, a lot times once these measures -- you know, assuming that the measure were to pass -- there will be some litigation in these areas to clarify what intent was and, and so forth. So, you know, what tends to happen in these campaigns is you get into the law of unintended consequences and no matter what -- where an initiative comes, comes from -- the opposition says that there's some fatal flaw in the document on page 39 and, you know, if you read the fine print"*

Scott Shafer, Forum moderator: *"and sometimes there is."*

Mr. Wunderman: *"and sometimes there is and so I, you know, we didn't write this measure and I, you know, I can't speak to that."*

Wunderman probably would have been wise to consult some of the Bay Area Council's Silicon Valley members before agreeing to saddle up as a spokesman for Prop. 16. The technology industry is the cornerstone of the Bay Area economy and gets much of its electricity from the municipal utility operated by the City of Santa Clara, appropriately named Silicon Valley Power. Despite (or perhaps because of) providing business customers with electricity 24 - 35% cheaper than PG&E (and residential customers 46% cheaper), Silicon Valley Power would be decimated by Prop. 16.

As the [San Jose Business Journal](#) reported about Prop. 16:

"We don't think it's needed, and we're concerned it could negatively impact the sustainability of Silicon Valley Power," said Steve Van Dorn, president of the Santa Clara Chamber of Commerce. *"We have received several legal opinions that if it passed, the addition of a large office building in our city would require us to get a two-thirds vote to provide it with electrical power."*

It could affect the city's ability to provide power for business expansions, including those being pursued by Yahoo Inc. and Nvidia Corp., Van Dorn said. He said he's surprised at the state chamber's support of the measure and has written a letter to its officials seeking an explanation.

"I don't understand it," Van Dorn said. *"It doesn't match the chamber's prior positions on supporting the free market. We've had great success in our city with public power, and Prop. 16 will jeopardize it."*

As Californians seem to be discovering, there is a long list of compelling reasons to vote NO on Prop. 16. Dodging the widely distributed dose of economic ebola virus embedded in its dimwitted drafting must surely rank near the top.

Here comes the Video Cavalry! 10 Short Films that will rock the vote! Just click [here!](#)

Machete 20: LA County Republicans Ain't Buying – Demise of Prop. 16 Among Conservative, Pro-Market Voters

Sunday, May 23, 2010



In an unmistakable signal that PG&E's mass hypnotism strategy isn't working, the Republican Party of Los Angeles County voted last week to oppose the "Taxpayers Right to Vote Act" -- an "ugly" misnomer, in the words of the [San Diego Union Tribune](#), which "ranks right up there with the most deceptive political advertising slogans of all time -- and that covers a lot of deception."

The [Ventura County Star](#) can see the buzzards starting to circle:

*"On Friday, the company kicked in another \$6.5 million to the campaign, bringing its total costs to date to \$44 million. **Clearly, the company's internal polling must be showing that the initiative is in serious trouble.** It could be that the cynical idea that they could promote this little deceit as "taxpayer's right to vote act" just isn't working out the way it had hoped."*

Southern California Republicans are ground zero for PG&E's saturation television advertising. Aimed at an electorate which the San Francisco utility assumes will be dominated by **drooling wingnuts and slobbering knuckledraggers**, the campaign aims at repeating the taxpayer rights mantra over and over enough

times so voters forget that competition drives down prices and customer choice is the cornerstone of capitalism.

A spontaneous groundswell against Prop. 16 appears to be erupting within the Southern California target audience. In recent days, the [San Diego County Taxpayers Association](#), the [Pasadena Chamber of Commerce](#), the [Orange County Association of Realtors](#), the [South Orange County Regional Chamber of Commerce](#), and the [Santa Clarita Valley Chamber of Commerce](#), have all independently -- there being effectively no organized campaign against 16 -- thrown off the trance. They join the earlier apostates at the [San Diego Regional Chamber of Commerce](#) and the [Greater Riverside Chamber of Commerce](#).

The significance of these developments lies in their location outside PG&E's service territory. The preposterous claims in the Yes on 16 advertising are the region's only mass exposure to the issue. And the body politic's low-profile autoimmune system may be forcefully rejecting the toxins. (Which is not to slight the opposition just announced by the [Napa County Republican Central Committee](#) or the [Central Solano Citizen/Taxpayer Group](#), but their prior exposure to PG&E as customers may have influenced their judgment.)

How did the dark suits at PG&E headquarters ever think they could get away with it?

Maybe it's the protected status which government regulation extends to the species, but something about the investor-owned utility industry pushes its worst actors to a relentless drive for political advantage.

How else to describe PG&E's lunge -- relying on what the [Los Angeles Times](#) calls **"commercials and glossy mailers so misleading they could have been written by the Iranian information ministry"** -- for Constitutional lock-in of its monopoly position?

The core falsehood in Prop. 16 is so deviously ingrained that it even eluded the Department of Justice staff that forced PG&E's fraudulent "Taxpayers Right to Vote Act" to be officially retitled the "New Two-Thirds Vote Requirement for Local Electricity Providers."

The operative fraction is one-third, not two-thirds! What Prop. 16 would actually accomplish, if passed, is to reduce the electoral "magic number" to 33% plus one vote whenever the question of competition for incumbent for-profit utilities is put to the voters. That's the vote total required to block any consideration of alternative supply arrangements. Current California law, and some two and a half millennia of democratic conviction, focuses on 50% plus one vote.

In basketball terms, Prop. 16's concealed purpose is to lower the incumbent for-profit utility's basket to 6'8" while raising the basket for the forces of competition to 13'4". That's the effect of Prop. 16's "new two-thirds vote requirement" for electricity choice elections, **taking the monopoly defender's target down to 33% plus one vote and pushing the competition advocate's target up to 66.67%**

Add in the incumbent for-profit's **willingness to spend whatever it takes** to defend its franchise, and the prohibition on local governments from spending anything to campaign, and you start to see why the San Francisco Chronicle -- ordinarily a staunch editorial supporter of PG&E -- concluded, "**Prop. 16 does not level the playing field. It devastates it.**"



On the other hand, by PG&E's calculation, if you jimmy the rules and lower the basket rim far enough, then **even a lead-footed, behemoth for-profit utility can dunk the ball.**

A prime motive of Prop. 16's continuous, mind-numbing repetition of the "taxpayer right to vote" slogan -- **the measure has absolutely nothing to do with taxes!** -- is the perversion of this 1/3 - 2/3 hierarchy. Wrapping its competition-restricting, monopoly-preserving stink bomb in the fabric of taxpayer protection, Prop. 16 tries to evoke the two-thirds majority requirement for new taxes or general obligation bonded indebtedness.

But Prop. 16 would -- if passed -- **flip the rationale for a two-thirds majority precisely upside down.** Votes on new taxes, bonded indebtedness, the state budget, even appropriations bills in the Legislature, all require a two-thirds majority for one simple reason: to create an enduring bias against increased spending. Very simply, if you want to increase public expenditures, you had better have a super-majority consensus for doing so.

Prop. 16 puts the **super-majority onus on efforts to save money.** Saving money has historically been the primary argument made by those local governments which have persuaded their citizenry to get into the electricity business, and California's municipal utilities generally experience a 15 - 30% (sometimes more) cost savings compared to investor-owned utilities -- primarily due to the ability to issue tax-free debt, the absence of dividend payments, **and greatly reduced executive compensation.**

Of course, any claim by government about starting a new enterprise in order to save money ought to be greeted with considerable skepticism. But current voting requirements have proven to be a reliable screen against unrealistic projections and bureaucratic wishful thinking. Among the 48 municipal utilities dispersed across the entire California landscape, there is not one single example of a white elephant. Nor any history of taxpayer bailout. Or bankruptcy.

The state's three investor-owned utilities, on the other hand, **all received taxpayer bailouts** in the 2001 electricity market meltdown when Governor Gray Davis had state government procuring electricity for them. PG&E, of course, **put itself into bankruptcy** after ring-fencing as many of its assets as possible to **escape the jurisdiction of the court** -- a strategy designed and carried out by then CFO and current CEO, Peter Darbee, mastermind of Proposition 16.



What kind of delusional thinking filches \$44 million collected from its customers to [bet the company's reputation](#) on hired consultants' ability to stampede the voters? Thanks to federal securities laws, which carry criminal penalties for intentional misrepresentation of material facts, we have Darbee's now [notorious confessional remarks](#) to investors at a March 1 Wall Street conference:

*"... one of the thoughts was we're aiming towards a June election and that **it was a more favorable time to do it** than as opposed to a November election ... it also occurred to us that people aren't very pleased with the job that government is doing these days in general, you know, across the board ... that was a second factor that drove it to us. And **the idea was to diminish**, you know, rather than year after year different communities coming in as this or that and putting this up for a vote ... we thought that this was a way that **we could sort of diminish that level** ...*

*"So it was really a decision about **could we greatly diminish this activity** for all going forward rather than spending \$10 - 15 million a year of your*

*money to invest in this. The answer was yes! The **June timeframe looked ideal** and in the context everything that is happening with government today -- the dysfunctionality of it -- we concluded that it was a **very ideal time!**"*

A far cry from the "taxpayers right to vote" nostrum PG&E is spending \$44 million to inject into the political bloodstream.

Here comes the Video Cavalry! 10 Short Films that will rock the vote! Just click [here!](#)

Machete 21: Never Underestimate the Voter's Sense of Smell

Monday, May 31, 2010



PG&E's [panicked infusion](#) of an extra \$11 million into its floundering Yes On 16 propaganda machine may trigger a familiar domino-falling, death watch process. [Titillated](#) by even the remote prospect of political upset, and with no public polls to provide guidance, the forensic teams are starting to gather. How could a utility with unlimited access to its customers' pocketbooks -- spending \$46.1 million as of May 27, 84% above the low end of the original budget it reported to shareholders, vs. \$77,000 expended by the No on 16 side -- possibly lose?

What has gone wrong? Why wasn't the original \$25 - 35 million arsenal -- widely condemned by editorial boards across the state as obscenely excessive -- sufficient? In February, PG&E took the [unprecedented step](#) of [disclosing to shareholders](#) that Prop. 16 would cost 6 to 9 cents per share in earnings -- a ploy to reinforce the fiction that the campaign war chest was "shareholder money" despite every dime having been collected from customers. The 84% cost overrun is something one associates with PG&E power plant construction budgets, not political battles with Lilliputians who have already been outspent 325 to 1. Will taking that ratio up to 600 to 1 really make any difference?

Oddly, as of May 31, none of the \$11 million Prop. 16 budget overrun has been reported in 8-K filings with the federal Securities and Exchange Commission -- even though the arithmetic has changed to nearly 12 cents a

share! Maybe it's close enough to Election Day to drop the "shareholder money" pretense. Maybe not.

Memo to the PG&E Law Department: *you guys still awake?* Memo to the PG&E PR Department: *ditto*.

If the Prop. 16 skunk goes down, the postmortems will be voluminous. The almost universal denunciations from what remains of the traditional mainstream media will be justly credited. Some seers will perceive a promising reinvigoration of democracy from the blogosphere and social media. The spontaneous uprising of an ideologically and geographically diverse opposition, in the absence of any visible semblance of an organized campaign, will perplex the pundits.

And that Abraham Lincoln tautology about how many of the people you can fool how much of the time will have been upended.

However, not every voter reads newspapers or blogs. Facebook and YouTube have a finite reach.

But everybody breathes. While difficult to measure empirically, PG&E's Prop. 16 effort has emitted an undeniable stench, wafting through California's televisions, radios, and mailboxes, and building up to nauseating levels. The first rule of human interaction -- apparently lost on PG&E's political consultants -- is pay attention to the nostrils.

And all the money in the world won't mask a certain stink.

Nine years of coddled, post-bankruptcy existence in the regulatory recovery room has bred a smell of hubris in the PG&E executive suite. A small cadre of obsequious yes-men and -women, who have survived endless purges, surrounds CEO Peter Darbee. Their primary function seems to be maintaining a bubble around the Leader. Combined with an almost pathological fear of his customers preferring to flee to other competitors, Darbee has relied on a primitive application of George Orwell to selectively redefine his own reality.



Nowhere was this better on display than at the May 12 annual shareholders meeting. Darbee's freakish oration, preserved for posterity on video [here](#) at the PG&E web site, goes a long way toward explaining the philosophy that produced Prop. 16. Ironically, since Prop. 16 is the first instance in California history that any regulated utility has ever attempted to place its own language into the State Constitution, he made no effort to offer a rationale for doing so -- in fact, no mention of Prop. 16 was made in any of the presentations to shareholders -- and he declined to answer three separate, increasingly pointed questions on the ballot measure from the floor.

The PG&E CEO is obviously quite taken with Orwell's concept of "doublethink," defined in the book, *1984*, as "the power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them," the ability "to tell deliberate lies while genuinely believing in them, to forget any fact that has become inconvenient, and then, when it becomes necessary again, to draw it back from oblivion for just so long as it is needed, to deny the existence of objective reality and all the while to take account of the reality which one denies."

What follows is a verbatim transcript of portions of his remarks (3:50 to 12:15 on the video tape):

"What I'd like to do is explain the strategy of the Company, the common sense strategy that we developed nearly five years ago when we set out to define a new vision for PG&E and the strategy that would support that vision.

"It's a strategy that's driven by values, values of the Company like accountability, open and honest communication, respect, and inclusion. And together with our values, the strategies guide our actions. Now it's important, given the strategy that we have, to reaffirm it on a regular basis

and explain how it reinforces, and to reinforce the strategy that we have, the common sense strategy.

"You know, what's truly remarkable is the strategy we developed more than five years ago is even more relevant and more appropriate given the business environment that we face today. Given that the economy is depressed, and given how business has conducted itself in America over the last several years, America's trust and respect for business has been eroded over the past couple of years.

"In the wake of the financial crisis and the economic downturn, there's a challenge for business today. Americans want to see business doing a number of things. Specifically, focusing on the longer term rather than the short term. Americans are looking for transparency and honesty. Americans are looking for accountability. They want management to step up and take accountability for its actions. And they want managers to be responsible for the way their business impacts society and the environment. And, of course, at the same time, in addition to these lofty ideals, they want to make sure that business is demonstrating competence and providing quality products and services.

"We've recognized that customers come first and if you ever lose sight of serving the customer, you've lost your bearings. We've put an emphasis on operational excellence, so that we continually improve the products and services that we deliver our customers. We've constructed a strategy that is built on accountability, integrity, and open and honest communication. And finally, we have a strategy that's focused on the environment and the community.

"... but beyond that we need to have a culture of accountability. Accountability really comes down to one thing: that is, for each member of the Company, each employee, to ask themselves, 'what more can I do, what more can our team do, to better serve our customers -- better, faster, and more cost-effectively?' So that's something that we're trying to, to communicate, and involve our employees in, saying, 'I may not be in generation, or I may be at the nuclear power plant, or I may be up in Redding, but I stand ready to serve our customers and ask 'what more can I do?'

"The next element of the strategy is to have constructive relationships with our regulators and our policymakers. So how do we do that? Well the first part of any constructive relationship is to listen and to listen to people deeply, to treat them with respect, to attempt to conduct oneself with humility, to be responsive to the questions that regulators and policymakers might have, and to do so in a timely fashion. And then when we're

answering the questions and concerns of the regulators and policymakers, to do so with data. With facts. With good quality analysis. And then, the conclusions and recommendations that we have should follow from that a, from that data and that analysis. But underpinning the overall strategy with respect to regulators and with regard to our policymakers is to pursue win/win collaborative solutions -- to understand what their objectives are and to understand what our objectives are and find the win/win solutions in that.

"Now I have to say that we're not going to agree with our regulators and policymakers each and every time. There will be times when we have a different point of view. But that's only going to happen after we've tried and tried again to find that common ground. And most of the time when it happens, it will be because we have the same objectives in mind, but we have a different view on how to achieve those objectives."



And so Darbee's Prop. 16 spend-a-thon grows in intensity. This week it was the full-page ads in newspapers throughout the state, showcasing the various "rent-a-friend" endorsements an ample budget can procure -- an escort service approach held in low esteem among dating adults, but a strategy someone has persuaded Darbee can build political credibility.

This just in from Pyongyang -- Darbee's horse-choking 2009 [\\$10.6 million compensation package](#) (74% above the median for large energy utility CEOs, according to the Wall Street Journal's annual compensation survey, and 8% more than Goldman Sachs paid its CEO in 2009) was approved by the shareholder ["non-binding advisory vote"](#): 251,040,122 to 10,214,679, with 3,831,599 abstaining.

Only our sense of smell protects us from the abyss.

Here comes the Video Cavalry! 10 Short Films that will rock the vote! Just click [here!](#)

Epilogue



The following email was distributed some 18 hours after the polls closed.

From: A Message From Peter Darbee

Sent: Wednesday, June 09, 2010 2:18 PM

To: All PG&E Mail Recipients; All PGE Corp Employees

Subject: After Election Day, A Reflection On Leadership

To All Employees:

As we look forward after the culmination of a hard campaign on Proposition 16, I wanted to share with you a short opinion essay that we submitted today to the San Francisco Chronicle. It addresses head on some of the questions we have all seen about PG&E's stance on tough issues-from Proposition 16 to climate change, or any number of other examples many of us can no doubt recall. It makes clear that, in each case, our focus is on leadership, even-or maybe especially-when it requires tremendous courage.

I believe passionately that this is one of the aspects of our character that sets PG&E apart from many other companies. That's been true throughout our history, and it's even more true today.

As is always the case, the paper may or may not choose to print this piece. We hope they will. It's an important and timely message for our customers. But it's just as important and timely for all of us as employees. And, whether it appears in print or not, it's a message we can all take heart in and carry forward proudly to others.

The Price of Leadership

By Peter Darbee, Chairman, CEO and President, PG&E Corporation

Prime Minister Tony Blair said a few years ago, "I do not seek unpopularity as a badge of honour, but sometimes it is the price of leadership. And the cost of conviction."

I was reminded of that observation this spring, as Pacific Gas and Electric Company came under widespread criticism for its support of Proposition 16, a statewide initiative to give people the right to vote on proposals to create risky new public agencies to provide electric power.

Many of those who criticized our support of Proposition 16 have long applauded our leadership at the state and national level on environmental issues and as a clean-energy provider. At the state level, PG&E helped champion passage of AB32, the Global Warming Solutions Act of 2006.

PG&E also supported California's aggressive vehicle emissions standards, opposing efforts by a national business organization to overturn them.

At the national level, we were instrumental in forging an historic alliance of major utilities, other large businesses, national environmental groups and labor unions to support comprehensive and effective clean-energy and climate change legislation in Congress. The work of the U.S. Climate Action Partnership, of which PG&E has been a major contributor, is widely credited with inspiring major congressional initiatives on this vital issue.

While PG&E has been frequently honored for its environmental performance and commitment, including Newsweek magazine's ranking as the country's greenest utility in 2009, our environmental leadership has aroused controversy as well.

Last year, in a widely discussed move, PG&E withdrew its membership in a national business organization over fundamental differences on the need for climate change legislation. While a number of other major businesses followed our lead, others questioned why we broke ranks to support actions that could increase energy costs. We have explained, without apology, the science behind our stand and our careful choice of policies to utilize market forces to minimize costs.

Some of our longtime supporters, who decried Proposition 16, believe the PG&E they once admired lost its way somewhere along the line. I would tell them that their disagreement with us—which we respect—is the price of our leadership on important issues of the day. By staking out bold positions, we of course invite controversy. But the alternative is to be cowed by fear of criticism into ducking our leadership opportunities and responsibilities. Surely our society needs more leadership, not less.

After a lively debate, the voters have now spoken on Proposition 16 and we respect the outcome. We hope our critics will equally respect our willingness to participate in the system and engage on the important issues of the day. Through mutual engagement and mutual dialog, we can improve our company, our communities and our country.

Afterword

The following is excerpted from Pulitzer Prize-winning business columnist Michael Hiltzik's June 12, 2010 [blog posting](#) to the electronic edition of the Los Angeles Times:

Only occasionally do a company's customers get the opportunity to sound off about the company's goods or services in a way that counts.

As my Sunday column reports, one such opportunity came in Tuesday's election, when Pacific Gas & Electric Co.'s claim to the respect and loyalty of its ratepayers was put to the test. The subject was Proposition 16, the Trojan horse placed on the ballot by PG&E in an attempt to cripple the competition it faced from public power agencies.

PG&E claims in its PR material to be sedulously devoted to ethical standards as "[the foundation of a successful business](#)." In [presentations to securities analysts](#), it lists "delighted customers" among its goals, and states among its values that it will "act with integrity and communicate honestly and openly."

How does that square with the Proposition 16 campaign, in which PG&E concealed its involvement as best it could and spent \$46 million raised from ratepayers on a nakedly dishonest television campaign? Let's see what the ratepayers thought: In the counties within PG&E's service area, Proposition 16 [lost by margins of up to 40 points](#).

Far from being "delighted," PG&E's customers apparently hate this company. On the evidence of its behavior in the election, they're entirely justified.

Such is the legacy of Peter Darbee, its chairman. Is there a corporate executive in America who has proven himself or herself less qualified to run a customer-based business? If you have a candidate, feel free to send the name along.

And from Hiltzik's [column](#) in the June 13, 2010 Sunday edition of the Los Angeles Times:

That doesn't speak well of the management prowess of the executives in charge. [PG&E Chairman Peter Darbee](#) walked his company down a \$46-million plank to secure it nothing but a permanent place in the corporate citizenship hall of shame. He collected \$10.6 million in compensation last year.

Do the PG&E directors really believe that the outcome of Tuesday's vote is the sort of performance they've so lavishly paid Darbee to achieve? If they do, I have a follow-up question: What makes them qualified to serve on a corporate board? ...

The most striking statistic that emerges from Tuesday's results, as my colleagues Marc Lifsher and Dianne Klein have observed, is the [margin by which Proposition 16 got beaten within PG&E's service area](#) in Northern and Central California — a "no" vote of more than 60% in much of the region.

The measure lost by narrower margins in many Southern California counties, where there wasn't enough familiarity with PG&E to breed that much contempt...

PG&E's reputation for customer service and its compliance record on regulatory directives are unremittingly foul — so much so that the Public Utilities Commission had

to issue a four-page letter last month explaining to the company, in terms even a 4-year-old could understand, how [its machinations against Marin County's renewable energy initiative](#) violated the law...

One lesson of the Proposition 16 and 17 campaigns may be that PG&E and Mercury, as regulated companies, have been treated far too indulgently by government overseers. The regulators plainly have allowed both companies to overcharge their customers so much that the excess cash has been burning a hole in their pockets.

Take PG&E, which currently has an application before the PUC for a multibillion-dollar rate hike. The utility maintains that the \$46 million it spent on Proposition 16 belongs to its shareholders, not ratepayers, but that's a typically neat piece of deception. The truth is that every penny PG&E has comes from its customers' pockets; it's possible that eventually the firm will have to cut shareholder returns to cover the Prop. 16 campaign, but it won't have to document for the PUC how it accounted for those expenditures until years have passed. In the meantime, it was able to use the customers' money, essentially for free, against those customers' interests.

As for Mercury, it reported that it spent well below 70% of its collected premiums on claims last year. Even health insurers typically pay out more than that.

Both firms have proved that they can't be trusted to use their spare cash for their shareholders' good, much less the public interest. The PUC and Insurance Department should take the evidence to heart: Give companies like this too big an allowance, and they'll only use the money to cause trouble.

Postscript



Click [KNBC](#) for my nine word summation of PG&E's fatal miscalculation.

Image credits: Peter Darbee: Genesis Photo Agency; Darrell Steinberg, Deseret News; Julius Caesar, QED Book Publishing; Vladimir Putin, Robert Amsterdam Deutsch.

Coda: For an amateur participant in our true national pastime since 1968, no campaign has proven more satisfying than the No On 16 effort. From my foxhole, that experience was shaped by steering committee colleagues: Mark Toney, Jim Pope, Jim Metropolous, and Paul Fenn; and those with whom I had the most contact: Mindy Spatt, Megan Matson, and Nancy Miller. But there were dozens of others spread out across the state. Suddenly the closing music rises and Bob Hope begins to sing, "Thanks for the memories." So do I.

###