



The Pacific Gas & Electric Company, the utility whose natural gas pipeline in San Bruno, California exploded several months ago, failed to spend \$183 million on pipeline safety that it had been authorized to collect between 1987 and 1999. According to the [San Francisco Chronicle](#), U.S. Representative Jackie Speier wants to know what PG&E did with the money. There is one thing that is absolutely clear: she will never find out.

That's the way of utility ratemaking. A company asks today for money to spend tomorrow, and has to justify its request based on the expenses it expects to undergo. But once rates are approved, the utility can spend the money just about any way it wants. And anything that's left over can be divvied up among shareholders, or tucked under a mattress. Any effort to track the dollars that were not spent on pipeline inspections and replacement is meaningless.

But that doesn't mean there isn't anything interesting to say about the matter. The Chronicle reports that most of the under-spending happened between 1987 and 1995. That is the period of time when PG&E and other utilities were anticipating and preparing for the introduction of competition in the electric generation business. PG&E established first one unregulated affiliate to build power plants around the world and then another to buy up existing plants around the country. Over the course of several years, PG&E shifted billions of dollars from the regulated to the unregulated side of the house. And when the new competitive markets began to collapse in 2000-2001, PG&E took steps to shield those shifted funds from its utility creditors. PG&E did not fare so well in the competitive marketplace, and much of that money was ultimately lost.

None of this is shocking, in light of the forward-looking way that rates are set, but the results are not inevitable. When there is something that regulators want to make sure gets done, they can order the utility to hold the funds in a special account, spend them only on the specific activity, and then refund to its customers anything left over. The California regulators have done that with funds for things like tree-trimming, or energy efficiency programs. In the future, if the Commission cares as much about pipeline safety as I am guessing that it now does, it can set up this kind of special account for pipeline inspection and replacement. I'll bet that is just what the Commission will do.