Docket: A.20-04-023

Exhibit Number: A4NR-04

Alliance for Nuclear Responsibility

Cross-Examination Exhibit

PG&E Data Response No. ED_001-Q01-04

Questions 02 and 03

PACIFIC GAS AND ELECTRIC COMPANY
Securitization 2020
Application 20-04-023
Data Response

PG&E Data Request No.:	ED_001-Q01-04		
PG&E File Name:	Securitization2020_DR_ED_001-Q01-04		
Request Date:	August 19, 2020	Requester DR No.:	001
Date Sent:	September 2, 2020	Requesting Party:	Energy Division
PG&E Witness:	Q1: David Thomason Q2: David Thomason Q3: Joseph Sauvage Q4: David Thomason	Requester:	Michael Conklin

QUESTION 01

Please provide the following underlying supporting financial models and materials provided to the credit rating agencies and as mentioned in Chapter 1, Exh. 1.3, p.8:

a. Moody's RES Presentation – March 2020.pdf
b. PCG – $6bn OpCo Waiver (03.3.2020) vDRAFT.xlsx
c. PCG – $7bn Sec Modified $6bn OpCo Bridge (03.3.2020) vDRAFT.xlsx
d. PCG – Moody's Backup_v02.xlsx
e. PCG – Regulatory BA – Current Noncurrent200307.xlsx
f. PCG – Securitization Assumptions (2020.3.9).xlsx
g. PCG – Equity Ratio Detail.xlsx

ANSWER 01

PG&E will provide the identified documents, which are confidential documents that were provided to Moody's in March 2020 in connection with a rating assessment process regarding the potential credit ratings for PG&E based on specified assumptions related to two hypothetical scenarios associated with PG&E's emergence from bankruptcy—one scenario with the post-emergence securitization transaction contemplated at that time (not the current structure of the proposed Securitization) and the other without securitization. PG&E notes that the financial forecast information contained in these documents is no longer current.

QUESTION 02

Provide any and all assumptions related to PG&E's financial projections from 2025 through 2050 (e.g., ratebase, rate growth, ROE, capitalization, assumed loss events, among others).

ANSWER 02

PG&E objects to this request as vague and ambiguous, and overbroad. Subject to its objections, PG&E responds as follows:

Financial projections from 2025 through 2050 are based on the underlying assumption that annual rate base growth, and hence earnings and taxable earnings, is 7% through 2030, and 5% from 2031 through 2050. The 7% growth rate is initially applied to 2024 taxable income before interest to estimate 2025 taxable income before interest, and so on and so forth. Holding company earnings are assumed to remain flat at their 2024 level from 2025 through 2050. Other assumptions not otherwise described in the testimony or tables set forth in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, include:

a) The initial and ongoing contributions to the Go-Forward Wildfire Fund are amortized from 2020 through 2034 for federal tax purposes, and the ongoing contributions to the Go-Forward Wildfire Fund are deducted in the year of payment for state tax purposes.

b) Annual earnings on the Customer Credit Trust are assumed to be deducted in the year after they are earned in order to avoid a circular reference in the calculations.

c) Construction Work in Progress (CWIP) is assumed to grow 1% annually from 2024 through 2050.

d) PG&E's common equity ratio is constant at 52%, its adopted return on equity (ROE) remains constant at 10.25%, its long-term cost of debt remains constant at 4.17%, and its short-term borrowing cost is constant at 2.83%.

e) The interest rate on PG&E Corporation's debt is constant at 5.56%.

f) Utility short-term debt is constant at $2 billion.

g) PG&E Corporation's debt is paid down to $350 million in 2030 and then remains constant through 2050.

QUESTION 03

Provide and explain the low, midpoint, and financial target variances in Exhibit 5.1 (i.e. clarify why the Interest-Adjusted OpCo FFO is different under the low, midpoint, and financial target).

ANSWER 03

FFO is calculated by S&P after interest costs and after tax. Therefore, as recognized by the Stress Test Methodology adopted by the Commission in D.19-06-027 (*see* Attachment A, at page 10, note 10), to compare the maximum amount of debt at different ratios of FFO/Debt, FFO has to be adjusted for the after-tax interest component for the change in debt. In the example below, the starting FFO is $6,242 million and the starting FFO/Debt ratio is 15.3%. To calculate the comparable maximum debt at an FFO/Debt ratio of 13% for scenario 1), the increased debt results in increased interest expense and a corresponding reduction to FFO. The variance in interest-adjusted OpCo FFO across the four FFO/Debt ratio scenarios reflects the changes in after-tax interest that accompany changes in OpCo debt.

2020 STC Scenarios

		Before Chg in Opco Debt		Exhibit 5.1 FFO/Debt Scenarios							
			AT Interest Adjust.	1) Low FFO/ Debt 13%	AT Interest Adjust.	2) Midpoint FFO/ Debt 18%	AT Interest Adjust.	3) Financial Target FFO/ Debt 23%	AT Interest Adjust.	4) CA Peer FFO/ Debt 20%
Interest-Adjusted OpCo FFO	$M	6,242	(179)	6,063	163	6,406	374	6,617	259	6,501
FFO/ Debt	%	15.3%		13.0%		18.0%		23.0%		20.0%
S&P Maximum Overall Debt Capacity	$M	40,858		46,640		35,586		28,768		32,505
S&P Adjusted Debt (Forecast Without Securitization)	$M	40,858		40,858		40,858		40,858		40,858
Stress Test Costs	$M	na		(5,783)		5,271		12,089		8,353

The table shows that to achieve an FFO/Debt ratio of 23% under the Financial Target scenario, FFO must be adjusted *upward* by $374 million to reflect the reduction in post-tax interest implied by that scenario. The adjustment of $374 million is calculated as follows:

FFO Before Change in Opco Debt	=	6,242	$ M
Plus:			
Change in Opco debt to achieve FFO/ Debt of 23%	=	12,089	$ M
After-tax interest rate	=	3.1%	
After-tax interest	=	374	$ M
FFO After Change in Opco Debt	=	6,617	$ M

QUESTION 04

Disclose all rate mitigating non-core asset sales considered.

ANSWER 04

PG&E objects to this request as vague and ambiguous, and overbroad. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

Pursuant to the Stress Test Methodology adopted in D.19-06-027, "[t]he Excess Cash component shall also consider prudent alternatives available to the utility to monetize