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Commissioner	:	M. Batjer
ALJ	:	R. Haga
Witnesses	:	Andresen/Nagesh Pocta

PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Pacific Gas and Electric Company Application for Administration Of the Stress Test Methodology and Related Matters

A.20-04-023

San Francisco, California
October 14, 2020

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I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) regarding the Application (A.) of Pacific Gas and Electric Company (PG&E) for (1) administration of the Stress Test Methodology Developed Pursuant to Public Utilities Code Section[1] 451.2(b) and (2) determination that $7.5 billion of 2017 catastrophic wildfire costs and expense are stress test costs that may be financed through the issuance of recovery bonds pursuant to Section 451.2(c) and Section 850 et seq.

II. SUMMARY OF RECOMMENDATIONS

Cal Advocates has reviewed PG&E's application and supporting testimony, issued discovery, and conducted its own independent analysis. Cal Advocates recommends that the Commission find that $6.0 billion of 2017 catastrophic wildfire costs may be financed through the issuance of recovery bonds.

III. BACKGROUND

As the Commission describes in the decision resolving its Investigation (I.) 19-06-015 (the "Wildfire Decision") and Order to Show Cause regarding the role of PG&E's electrical facilities in recent wildfires:[2]

> In October 2017 and November 2018, multiple wildfires started burning across Pacific Gas and Electric Company (PG&E)'s service territory in Northern California. These wildfires were unprecedented in size, scope, and destruction.

[1] All further references to the "Code" are references to the Public Utilities Code unless otherwise specified.

[2] D.20-05-019 at p. 3.

> The "October 2017 Fire Siege" started on the evening of October 8, 2017 into the morning of October 9, 2017. At the peak of the 2017 wildfires, there were 21 major wildfires that, in total, burned 245,000 acres. Eleven thousand firefighters battled the fires that, at one time, forced 100,000 people to evacuate, destroyed an estimated 8,900 structures (as of October 30, 2017) and took the lives of 44 people: the Atlas Fire (Napa, 6 fatalities), the Cascade Fire (Yuba, 4 fatalities), the Nuns Fire (Napa/Sonoma, 3 fatalities), the Redwood Valley Fire (Mendocino, 9 fatalities), and the Tubbs Fire (Sonoma, 22 fatalities).
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> In the early morning hours of November 8, 2018, a fire ignited near Camp Creek Road near the community of Pulga in Butte County. The resulting Camp Fire burned approximately 153,336 acres, destroyed 18,804 structures, and resulted in 85 fatalities.

The potential nexus of PG&E facilities with these devastating wildfires was sufficient for PG&E's management to begin reporting the risk of contingent liabilities for third-party claims, beginning with PG&E's next financial statements subsequent to the October 2017 Fire Siege.[3]

The Commission's Safety and Enforcement Division (SED) and the California Department of Forestry and Fire Protection (CAL FIRE) opened investigations into the wildfires. By April 30, 2018, PG&E had submitted 23 electric incident reports to the Commission in conjunction with SED's investigations.[4] SED investigated 17 fire incidents that occurred in PG&E's service territory in 2017 and the Camp Fire which occurred in 2018.[5] Of these, CAL FIRE would ultimately determine that PG&E's electrical facilities ignited all but one.[6] SED's investigations would eventually find 33

[3] PG&E 2017 Form 10-K (Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934) at pp. 28-29.

[4] PG&E 2018 Quarter 1 Form 10-Q (Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934) at p. 35.

[5] D.20-05-019 at p. 75, Finding of Fact 1.

[6] D.20-05-019 at p. 75, Finding of Fact 2.

violations of the Commission's General Order (GO) 95 and Resolution E-4184 in connection to the 2017 wildfires.[7]

On August 31, 2018, the Legislature passed Senate Bill (SB) 901, which was signed into law on September 21, 2018.[8] SB 901 requires the Commission to "consider the electrical corporation's financial status and determine the maximum amount the corporation can pay without harming ratepayers or materially impacting its ability to provide adequate and safe service" when allocating costs associated with a 2017 wildfire.[9] In 2019, the Commission opened Order Instituting Rulemaking (R.) 19-01-006 to identify potential criteria and a methodology for the implementation of these provisions. The decision in that rulemaking (the "Stress Test Decision") sets out a methodology that the Commission could apply to a utility that has not declared bankruptcy and whose financial status can be assessed.[10]

SB 901 predated the Camp Fire by a few months. As the Camp Fire did not occur in 2017, but in 2018, the Stress Test Decision would not apply to the Camp Fire-related costs. The Commission considered and rejected the applicability of Section 451.2 to 2018 wildfires in the Stress Test Decision.[11] PG&E and its holding company, PG&E Corporation, filed voluntary Chapter 11 bankruptcy petitions on January 20, 2019.[12]

The Legislature passed Assembly Bill (AB) 1054 on July 11, 2019, and it was signed into law the following day.[13] AB 1054 established a Wildfire Fund that participating investor-owned utilities (IOUs) may access to make payments in

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[7] D.20-05-019 at p. 75, Finding of Fact 3.

[8] Available at <http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB901>.

[9] Section 451.2(a) and (b).

[10] D.19-06-027 at p. 25 et seq. and Attachment.

[11] D.19-06-027 at p. 53, Finding of Fact 2, and pp. 11-13.

[12] See U.S. Bankruptcy Court for the Northern District of California, Case 19-30088.

[13] Available at <http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB1054>.

respect of certain future wildfire costs.[14] In the case of an IOU in bankruptcy, AB 1054 placed specific constraints on the IOU's Plan of Reorganization that the IOU must meet if it seeks to participate in the Wildfire Fund upon emergence from bankruptcy.[15] Among these constraints, the Commission must have determined by June 30, 2020, that "the reorganization plan and other documents resolving the insolvency proceeding" are "neutral, on average, to the ratepayers of the electrical corporation."[16]

The Commission opened an investigation (I.19-09-016) to assess PG&E's proposed Plan of Reorganization. In that proceeding, PG&E represented in its January 31, 2020 testimony, its intention to "pursue a securitization financing that is rate-neutral, on average, for $7 billion of wildfire claims costs in a separate application."[17] PG&E further modified this position, pursuant to an agreement with the Governor's Office in PG&E's primary bankruptcy case:[18]

> Even beyond the Plan itself, PG&E will file an application with the Commission for approval of a single post-emergence Securitization of approximately $7.5 billion which would be neutral, on average, to ratepayers, and also would accelerate deferred payments to the wildfire victim trust under the Plan. If the Commission does not approve the Securitization, PG&E will not seek to recover in rates any portion of the amounts paid in respect of Fire Claims under the Plan.

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[14] Section 3284 et seq.

[15] Section 3292(b)(1)

[16] Section 3292(b)(1)(D). Cal Advocates has not taken a position and requests that the Commission resolve whether PG&E's July 1, 2020, emergence from Bankruptcy violated any other deadlines, specifically, the requirement that the insolvency proceeding be "resolved" no later than July 1, 2020. (Section 3292(b)(1)(A)). See < https://www.pge.com/en_US/about-pge/company-information/reorganization.page#:~:text=PG%26E%20Emerges%20from%20Chapter%2011,Court%20on%20June%2020%2C%202020 >

[17] I.19-09-016, Prepared Testimony of PG&E, Vol. 1, Ch. 2, p. 2 at lines 1-2.

[18] I.19-09-016, PG&E Reply Brief at p. 28.

In its decision (the "Bankruptcy Decision"), the Commission cited the applicability of the ratepayer neutrality standard to the securitization proposal, accepting the prospect of procedurally segregating the substantially interrelated securitization proposal from the Plan of Reorganization itself.[19] Accordingly, the Commission found both that PG&E's Plan of Reorganization "and other documents resolving the insolvency proceeding" are "neutral, on average, to the ratepayers" and that "[s]ome of the proposals made in this proceeding will require additional analysis, development and refinement prior to implementation."[20]

IV. DISCUSSION

Cal Advocates' analysis of PG&E's application and supporting testimony focused on a ratepayer-neutral outcome to the securitization proposal and mitigating adverse ratepayer impacts. AB 1054 applies the *sui generis* standard of ratepayer neutrality to "the reorganization plan and other documents resolving the insolvency proceeding."[21] The Bankruptcy Decision clarifies that the Commission understands PG&E to have committed to the ratepayer neutrality of this securitization, and that such commitment should meet the requirements of Section 3292(b)(1)(D): "[g]iven the close connection between the plan and the proposed securitization and PG&E's commitment that its securitization application will meet the requirements of AB 1054, including ratepayer neutrality, the securitization application should satisfy those requirements."[22]

PG&E's acceptance that ratepayer neutrality must apply to its securitization proposal is within its testimony in I.19-09-016, including both prepared and direct

[19] D.20-05-053 at p. 85.

[20] D.20-05-053 at p. 119, Findings of Fact 6 and 10.

[21] Section 3292(b)(1)(D).

[22] D.20-05-053 at p. 85.

testimony.[23] PG&E affirmed its understanding that ratepayer neutrality applies to its securitization proposal with its agreement with the Governor's Office in bankruptcy court.[24] Collectively, these statements informed the evidentiary record of I.19-09-016, ultimately leading the Commission to recognize PG&E to have "promised" not to seek rate recovery of its wildfire claims costs except through a ratepayer-neutral securitization proposal and to assert, "the Commission intends to hold PG&E to its promise."[25]

PG&E's proposed design of the securitization charges and Customer Credit offsets is not ratepayer neutral. Rather, this proposed design is intended to satisfy the standard because the expected outcome on a probability basis may ultimately be more beneficial to ratepayers. PG&E proposes irrevocable securitization charges that would be subject to three tiers of true-ups: annual, semi-annual, and "interim routine," to ensure that the securitization costs are collected in full each year.[26] In contrast, the proposed offsetting Customer Credits rely on funding sources that may or may not materialize. According to its own testimony, the proposed Customer Credits may fail to fully offset the securitization charges even if the funding does manifest as forecast by PG&E.[27]

The funding of the proposed Customer Credit Trust relies upon an "Initial Shareholder Contribution" of $1.8 billion, of which "the most likely source will be a combination of internally generated cash and an issuance of equity securities."[28] PG&E proposes $7.59 billion in additional funding in later years, related to the

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[23] I.19-09-016, Prepared Testimony of PG&E at various, beginning with Vol. 1, Ch. 2, p. 2 at lines 1-2, and Evidentiary Hearing, February 25, 2020, through March 4, 2020, Reporters' Transcript at pp. 226, 518-519, 574, 662, and 668.

[24] See I.19-09-016, PG&E Motion for Official Notice of Documents or, in the Alternative, to Accept Documents as Late-Filed Exhibits, March 24, 2020. Available at < https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M330/K052/330052550.PDF>.

[25] D.20-05-053 at p. 82.

[26] PG&E Prepared Testimony, Ch. 3, p. 8 at lines 30-32.

[27] PG&E Prepared Testimony, Ch. 6, p. 20 at lines 2-5.

[28] PG&E Response to data request PubAdv_001-Q01-29, Question 7 at p. 5.

expected tax benefits associated with $25.5 billion in PG&E's and PG&E Corporation's contributions to the trusts that will pay their third-party wildfire claimants.[29] PG&E proposes to make these additional funds available according to a formula that applies to certain Net Operating Loss carryforward assets as taxable income deductions in future years with positive taxable income.[30] In years with no positive taxable income, PG&E's proposal results in no guaranteed alternative contributions to the Customer Credit Trust, if the result deviates from the forecast underlying PG&E's showing in this application.

This proposed funding pattern exposes the Customer Credits to a variety of risks associated with PG&E's future ability to meet its taxable income forecasts. These are risks that would negatively affect one or more components of the formula for PG&E's proposed $7.59 billion in additional shareholder contributions. If any of these contingencies arises, then the Customer Credit Trust will underperform PG&E's forecast, and ratepayers will face an increased risk of a shortfall in the Customer Credit Trust. In the event of an actual shortfall, not only will ratepayers make net payments for the securitization charge – ultimately paying for wildfire claims costs that PG&E stipulates are disallowed for recovery – but ratepayers also could risk paying an incremental 38.9 percent tax gross-up on the principal of the shortfall.[31]

Examples of this category of risks include the following potentialities:

- The Commission disallows future imprudent PG&E expenditures;[32]
- PG&E incurs future prudent expenditures in advance of the receipt of offsetting revenues;[33]

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[29] PG&E Prepared Testimony, Ch. 6, p. 7 at lines 10-12.

[30] PG&E Prepared Testimony, Ch. 6, p. 9 at lines 14-20.

[31] PG&E Prepared Testimony, Ch. 6, p. 28 at footnote 18 and PG&E Response to data request PubAdv_003-Q01-04, Question 3.

[32] PG&E Response to data request PubAdv_001-Q01-29, Question 8 at pp. 7-8.

[33] For example, a future catastrophic event may cause PG&E to incur prudent expenditures in advance of any offsetting revenues that the Commission may authorize pursuant to its

(continued on next page)

- Rate base growth deviates from PG&E's forecasts;
- Applicable tax rates decrease; or
- A change of control event occurs.[34]

A second category of risks involves the assumptions that underlie PG&E's Monte Carlo modeling. These assumptions pertain to the inflows and outflows of the Customer Credit Trust, as well as assumptions pertaining to the expected return on the Customer Credit Trust's asset balance. PG&E's enumeration of these variable assumptions includes "the possible behavior of inflation, interest rates, equity market returns, currency movements, and other capital market and economic variables."[35] Specifically, PG&E assumes:

- "[L]ow cost passive index implementation with a weighted average annual expense ratio of 0.05 percent";[36]
- $500,000 in annual administrative expenses;[37]
- Investment guidelines that constrain investments in equities, non-U.S. equities, fixed income securities below investment grade, and active management of assets;[38]
- An asset mix of 20 percent fixed income assets and 80 percent equities (of which 30 percent are non-U.S. equities);[39]
- Forecast 30-year geometric returns, standard deviations, and correlations of U.S. equities, non-U.S. equities, and fixed income assets;[40] and

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reasonableness review.

[34] See Senate Bill 350 (1) for "change of control" and see The Internal Revenue Code, Section 382.g explaining impact of ownership change on NOLs.

[35] PG&E Prepared Testimony, Ch. 6, p. 22, line 28 – p. 23, line 1.

[36] PG&E Prepared Testimony, Ch. 6, p. 23, line 26 – p. 24, line 1.

[37] PG&E Prepared Testimony, Ch. 6, p. 24, lines 3-5.

[38] PG&E Prepared Testimony, Ch. 6, p. 24, line 9 – p. 25, line 5.

[39] PG&E Prepared Testimony, Ch. 6, p. 25, line 22 – p. 26, line 2.

[40] PG&E Prepared Testimony, Ch. 6, p. 27, Tables 6-4 and 6-5.

- A combined tax rate of 27.984 percent.[41]

PG&E's model relies on Additional Shareholder Contributions exactly as forecasted in its testimony.[42] Customer Credit Trust Returns are dependent on both the timing and the total value of Additional Shareholder Contributions, compounding both categories of risks.[43] As with the first category of risks, ratepayers will face an increased likelihood of a funding shortfall in the Customer Credit Trust in the event that any of these assumptions prove overconfident.

Cal Advocates propounded significant discovery on PG&E. Table 1 provides a summary of the results pertaining to various securitization scenarios, the probability of surplus, and the estimated surplus of the Customer Credit Trust at the end of the securitization. Table 2 summarizes the annual Fixed Recovery Charge (FRC) and related customer bill impacts. The tables illustrate that increasing the probability of surplus requires PG&E to contribute additional cash at the outset or make the same initial contribution at lower securitization levels. It also shows, as expected, reducing the securitization amount and shareholder contributions proportionally will result in the same probability of surplus as PG&E's proposal but reduce the annual FRC.

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[41] PG&E Prepared Testimony, Ch. 6, p. 27, line 5.

[42] PG&E Prepared Testimony, Ch. 6, p. 23, lines 22-26.

[43] PG&E Prepared Testimony, Ch. 6, p. 15, Table 6-3 and PG&E's response to data request PubAdv_002-Q01-11, Question 2.a under document titled "2020Securitization_DR_Misc_Chapters 3_6_7_UPDATED08-07 2020_Securitization Application Update Model_Final.xlsx."

Table 1: Various Securitization Scenarios

Ln	Scenario #	1			2	3			4
1	Scenario brief	Reduce Securitization and Additional Contributions, holding Initial at $1.8 Billion[44]			Increase Initial S/H Contrib. only[45]	Reduce Securitization and both Initial and Additional Shareholder Contributions[46]			PG&E's proposal [47]
2	Securitization amount ($ in billions)	7.00	6.50	6.00	7.50	7.00	6.50	6.00	7.50
3	Initial Shareholder Contribution ($ in billions)	1.80	1.80	1.80	2.67	1.68	1.56	1.44	1.80
4	Additional Shareholder Contribution ($ in billions)	7.08	6.57	6.07	7.59	7.08	6.58	6.07	7.59
6	Probability of Surplus (%)	87.9%	90.35%	92.8%	95.5%	84.2%	84.2%	84.1%	84.4%
7	Mean Surplus of Trust in 2050 ($ in billions)	5.543	6.204	6.798	9.715	4.531	4.205	3.877	4.857

[44] Scenario #1 outputs and assumptions are from PG&E's response to data request PubAdv_002-Q01-11 Question 1.b.

[45] Scenario #2 outputs and assumption are from PG&E's response to data request PubAdv_002-Q01-11, Question 8.e.

[46] Scenario #3 outputs and assumptions are from PG&E's response to data request PubAdv_002-Q01-11, Question 8.d.

[47] See PG&E's prepared testimony, Chapter 6, p. 23 at lines 18-21 and PG&E's response to data request PubAdv_001-Q01-29, Question 26.b.

Table 2: Customer Bill Impacts

Ln	Scenario #	1			2	3			4
1	Scenario brief	Reduce Securitization and Additional Contributions, holding Initial at $1.8 Billion			Increase Initial S/H Contrib. only	Reduce Securitization and both Initial and Additional Shareholder Contributions			PG&E's proposal
2	Annual Estimated Fixed Recovery Charge (FRC) (2024-2050) ($ in millions)[48]	368.40	342.10	315.80	394.7	368.40	342.10	315.80	394.7
3	Estimated FRC per kwh ($)[49]	0.00505	0.00469	0.00433	0.00541	0.00505	0.00469	0.00433	0.00541
4	FRC in customer bill ($ @ 700 kwh usage)[50]	**3.54**	**3.28**	**3.03**	**3.79**	**3.54**	**3.28**	**3.03**	**3.79**
5	FRC, if assumptions are proved overconfident[51]	372.08	345.52	318.96	398.65	372.08	345.52	318.96	398.65
6	Estimated FRC per kwh ($)[52]	0.00510	0.00474	0.00437	0.00547	0.00510	0.00474	0.00437	0.00547
7	FRC in customer bill ($ @700 kwh usage)[53]	**3.57**	**3.32**	**3.06**	**3.83**	**3.57**	**3.32**	**3.06**	**3.83**

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[48] See Table 6-3 of PG&E's prepared testimony at Chapter 6, page 15, and PG&E's response to data request PubAdv_003-Q01-04, Question 1.a.

[49] See PG&E prepared testimony, Exhibit 9-1, p.1 for total sales forecast. Divide annual estimated FRC in line 2 with the total sales forecast of 72,933,179,173-kilowatt hour to get estimated FRC per kwh.

[50] Multiply the estimated FRC per kwh in line 3 of the table with 700 to get the increase in the customer bill.

[51] For illustration purposes considered a 1% increase in FRC costs due to overconfident assumptions in different scenarios.

[52] See PG&E prepared testimony, Exhibit 9-1, p.1 for total sales forecast. Divide "FRC, if proved overconfident" in line 5 with the total sales forecast of 72,933,179,173-kilowatt hour to get estimated FRC per kwh.

[53]Multiply the estimated FRC per kwh in line 6 of the table with 700 to get the increase in the customer bill.

Finally, even in the event that none of the aforementioned risks ultimately manifests, PG&E's Monte Carlo modeling nonetheless estimates a 16% chance of a shortfall in the Customer Credit Trust, inclusive of the incremental principal tax gross-up.[54] PG&E's modeling also reveals a more-than-10% chance that the shortfall will exceed $800 million and a more-than-5% chance that the shortfall will exceed $1.9 billion.[55] Given the magnitude of these shortfalls and the probability of their occurrence, PG&E's Customer Credit Trust proposal may not be ratepayer-neutral *even if none of the previously described risks manifests*.

V. RECOMMENDATIONS

Based on its evaluation of the various results and consideration of other factors, Cal Advocates recommends that the Commission authorize $6.0 billion for the securitization, in contrast to PG&E's proposed $7.5 billion. Cal Advocates' proposal provides an equitable balance between the objective to improve PG&E's credit rating through securitization while mitigating adverse ratepayer impacts.

As shown in Table 1, either an increase in the initial contribution by PG&E to $2.67 billion at the $7.5 billion securitization level or a decrease in securitization while leaving the initial shareholder contribution unchanged will both serve to increase the probability that the fund will avoid a shortfall. Although these options would serve to enhance ratepayer neutrality relative to PG&E's proposed securitization, they may not serve to accelerate the path to stronger credit ratings. Therefore, rather than proposing one of these options, Cal Advocates recommends that the Commission authorize the lower securitization level of $6.0 billion with lower shareholder contributions. As described above, there are various additional risks associated with the potential for PG&E not to achieve its forecast taxable income or

[54] PG&E Prepared Testimony, Ch. 6, p. 28, lines 11-13 and response to data request PubAdv_003-Q01-04, Question 3.a. PG&E states, "[a]s with all taxable income, the FRC is grossed up to provide sufficient revenue to pay the taxable income of PG&E of the FRC revenue in a period, if any, in which the FRC exceeds the Customer Credit."

[55] PG&E Prepared Testimony, Ch. 6, p. 29, Table 6-7, lines 18-19.

for PG&E's assumptions to prove overconfident. As these risks are not captured by PG&E's model, the securitization levels presented in Table 1, above, will not appropriately price in all relevant risks that could reduce the ratepayer neutrality of the Customer Credits. A lower securitization level is appropriate to acknowledge these risks and appropriately reduce ratepayer exposure to these risks.

Cal Advocates proposes a securitization level of $6.0 billion with proportional decreases to the initial and additional shareholder contributions (Table 1, Option 3). This proposal equitably balances both shareholder and ratepayer interests. The Stress Test Methodology requires PG&E to demonstrate a path towards investment-grade credit rating which "should mitigate ratepayer harm."[56] PG&E's proposal claims that securitizing at $7.5 billion accelerates the credit rating path by two years and maintains "rate-neutrality."[57] As discussed above, PG&E's proposal has several risks that heighten the long-term financial risk exposure to ratepayers. However, if the Commission approves the securitization at $6.0 billion, its business risk will improve which in turn, will positively impact PG&E's credit rating.[58] Stated another way, this approach will accelerate PG&E's path to achieve an investment-grade credit rating by improving its financial metric (Funds From Operation / Debt) than without the securitization, while minimizing ratepayer exposure to higher long-term financial risk.[59]

The recommended securitization level of $6.0 billion is more equitable because ratepayer neutrality is the core obligation upon PG&E. Section 3292(b)(1)(D) applies this standard to PG&E's "reorganization plan and other

[56] See D.19-06-027, Stress Test Methodology, p. 13.

[57] PG&E prepared testimony, Chapter 5, p. 19, lines 24 to 28 and p. 33, lines 16 to 18.

[58] PG&E prepared testimony, Chapter 5, p. 24, lines 22 to 26 and p. 25 lines 1 to 6. By approving securitization at $6 billion, PG&E could still satisfy S&P and Moody's first two criteria of assessing business risk.

[59] PG&E prepared testimony, Chapter 5, p. 29, lines 3 to 7 and Exhibit 5.5 shows that with no securitization amount approved, PG&E could achieve a Funds From Operation/Debt ratio of 18% by 2024, and if the Commission approves $6 billion, PG&E could have acceleration towards achieving investment-grade while minimizing ratepayer exposure.

documents resolving the insolvency proceeding."[60] The Commission's Bankruptcy Decision recognizes that the securitization application must meet the ratepayer neutrality standard.[61] The Bankruptcy Decision specifically incorporates the standard from Section 3292(b)(1)(D): "[g]iven the close connection between the plan and the proposed securitization and PG&E's commitment that its securitization application will meet the requirements of AB 1054, including ratepayer neutrality, the securitization application should satisfy those requirements."[62]

In developing this recommendation, Cal Advocates maintains that the lower securitization level supports good policy by being equitable to both ratepayers and shareholders and serves the public interest. Cal Advocates' proposal recognizes these other risks and issues within the securitization proposal:

- The lower securitization level will provide shareholders an incentive to ensure prudent management;
- The lower securitization level will prevent ratemaking that could pit core ratepayer interests against each other;
- The lower securitization level will prevent a negative precedent regarding the ability of a utility to game Chapter 11 protections at ratepayers' expense; and
- The lower securitization recognizes the significant ratepayer contributions associated with 1) the Wildfire Fund non-bypassable charge and 2) future securitizations for fire risk mitigation capital expenditures.

These points are discussed in more detail below.

First, by authorizing a lower securitization level, the Commission would improve shareholders' incentives through the retention of a modest amount of non-recoverable debt on PG&E's balance sheet. Such debt would comprise a small portion of the notional amount of non-recoverable debt that PG&E will otherwise carry if the securitization application was rejected wholesale. This will incentivize

[60] Section 3292(b)(1)(D).

[61] D.20-05-053 at pp. 82-85.

[62] D.20-05-053 at p. 85.

shareholders to ensure prudent management, including operational, maintenance, and investment improvements for wildfire mitigation. Without prudent management, shareholders may face disallowances that erode the earnings they can only receive after paying the cost of service of the non-recoverable debt. This recommendation aligns shareholders' responsibility for the health of the company's balance sheet with ratepayers' interest in a public utility that maintains and operates its electric and gas systems in a prudent and responsible manner.

Second, the lower securitization level also will prevent ratemaking that pits critical ratepayer interests against each other. On the one hand, ratepayers must see full nominal offsets to the securitization charge in order for the securitization to be ratepayer neutral. To the extent that the Customer Credits must be funded over time with tax benefits, ratepayers will have a long-term stake in seeing the company reach its taxable income forecasts, manifest tax benefits, and fund the Customer Credits in full. However, any disallowances imposed by the Commission may erode the utility's future taxable income and the expected timing of the tax benefits. Ratepayers maintain a critical public interest in ensuring the enforcement of disallowances when the company's decision-making is imprudent.

If the Commission adopts PG&E's proposal as-is, the resulting ratemaking may put these ratepayer interests – enforcement of disallowances and full funding of the Customer Credits – against each other. Such ratemaking would be untenable, as the statute requires the Commission to enforce disallowances and to ensure the ratepayer neutrality of the securitization.[63] The Commission has no discretion to trade off these outcomes against each other. Reducing the level of the securitization will serve to mitigate this factor.

Third, retaining a modest level of non-recoverable debt will prevent this securitization application from generating a negative precedent that could inappropriately incentivize utilities to game the protections, timing, and uncertainties of the Chapter 11 process, at ratepayers' expense. Through the bankruptcy

[63] See Section 451 regarding the limit of charges to be "just and reasonable" costs, and Section 3292(b)(1)(D) and D.20-05-053 at p. 85 regarding the applicability of ratepayer neutrality.

process, PG&E developed a Plan of Reorganization ("Plan") to refinance PG&E, PG&E Corporation, and its wildfire claims costs. This Plan included two major shareholders as official co-proponents.[64] The Plan was not developed with ratepayer input, and the bankruptcy court did not permit ratepayer interests to participate in that case.[65] Accordingly, the Chapter 11 bankruptcy process produced a Plan of Reorganization that focused on shareholder interests rather than those of ratepayers.

The Plan proponents ultimately decided to raise $9 billion in equity, excluding additional utility equity associated with PG&E Corporation debt and shares to be distributed to the Fire Victims Trust.[66] This amount was lower than previous levels at $14 billion and $12 billion, rebalancing changes over the course of the bankruptcy case that affected other components of the exit financing package.[67] These amounts do not reflect any constraint on PG&E's potential to raise equity that was exogenous to PG&E's negotiations.[68]

PG&E guaranteed its equity raise by electing to negotiate backstop commitments.[69] The equity backstop counterparties included various shareholders, including the shareholder proponents of the Plan.[70] As discussed below, these financing decisions had negative implications for ratepayers. PG&E leveraged the

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[64] See, e.g., U.S. Bankruptcy Court for the Northern District of California Case 19-30088, Docket 5038, *"The 'Tort Claimants RSA Motion,' of the Debtors*, entered December 9, 2019.

[65] See U.S. Bankruptcy Court for the Northern District of California Case 19-30088, Docket 2246, *Order Denying Motion to Appoint a Ratepayers' Committee*, Entered May 28, 2019.

[66] D.20-05-053 at p. 72.

[67] See U.S. Bankruptcy Court for the Northern District of California Case 19-30088, Dockets 4446, 5267, and 6013, *Debtors' Motion[s]* for certain authorizations regarding PG&E's exit financing commitment letters, entered October 23, 2019, January 3, 2020, and March 3, 2020, respectively.

[68] See PG&E's response to data request PubAvd_001-Q01-29, Question 14.

[69] D.20-05-053 at pp. 112-113.

[70] See U.S. Bankruptcy Court for the Northern District of California Case 19-30088, Docket 5267, *Debtors' Second Amended Motion* for certain authorizations regarding PG&E's exit financing commitment letters, entered January 3, 2020, Attachment 4.

equity backstop commitment letters to argue that a potential $200 million Commission fine in the Wildfire Decision would collapse the exit financing package.[71] The fine was proposed in a Presiding Officer's Decision (POD) on February 27, 2020.[72] After the issuance of the POD, PG&E filed its March 3, 2020, motion seeking bankruptcy court approval of its renegotiated equity backstop terms. Those renegotiated terms included enhancements to the equity backstop premia but no provisions for the potential fines associated with the issuance of the POD.[73]

The bankruptcy court authorized the renegotiated equity backstop commitments on March 16, 2020.[74] PG&E filed its responses to the Commission's POD on March 18, 2020.[75] In its responses, PG&E objected to the potential $200 million fine as an untenable threat to PG&E's exit from bankruptcy. PG&E argued that the fine implicated the termination trigger terms of the equity backstop

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[71] See *Pacific Gas and Electric Company's (U 39 E) Appeal of Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Appeal). PG&E argues that its equity backstop partners may terminate their obligations if PG&E agrees to pay more than $25.5 billion "in respect of Fire Claims." See also *Pacific Gas and Electric Company's (U 39 E) Appeal of Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Appeal), pp. 46-47, and *Pacific Gas and Electric Company's (U 39 E) Motion Requesting Other Relief Regarding Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Motion Requesting Other Relief), pp. 42-43.

[72] I.19-06-015, Presiding Officer's Decision at p. 72, Ordering Paragraph 1(a).

[73] Such enhancements included a definition of the fixed number of shares to be distributed for the premia and terms allowing for an additional 20 million shares to be issued in the event that the value of 119 million shares was ultimately less than $764 million.

[74] See U.S. Bankruptcy Court for the Northern District of California Case 19-30088, Docket 6321.

[75] See *Pacific Gas and Electric Company's (U 39 E) Appeal of Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Appeal). PG&E argues that its equity backstop partners may terminate their obligations if PG&E agrees to pay more than $25.5 billion "in respect of Fire Claims." See also *Pacific Gas and Electric Company's (U 39 E) Appeal of Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Appeal), pp. 46-47, and *Pacific Gas and Electric Company's (U 39 E) Motion Requesting Other Relief Regarding Presiding Officer's Decision Approving Settlement Agreement with Modifications*, March 18, 2020 (PG&E Motion Requesting Other Relief), pp. 42-43.

commitments that PG&E had renegotiated and presented to the bankruptcy court for approval.

The Commission in its Wildfire Decision, concluded that PG&E's conduct warranted the $200 million fine but it should be "permanently suspended."[76] Although the Commission recognized the public's interest in the enforcement and collection of fines, it cited PG&E's objection that payment of a fine would "jeopardize confirmation of its Plan of Reorganization."[77] Together, the "permanently suspended" fine and the securitization application call into question PG&E's decision not to seek to raise a modest amount of additional equity for its exit from bankruptcy, even as it decided to pay additional shares to its equity backstop partners.

A small increment of equity could have enabled the payment of the fine. The POD issuance date clarifies that PG&E was aware, or should have been aware, of the potential $200 million fine at the time that its equity backstop commitments were under renegotiation and had not yet been presented to the bankruptcy court for authorization. PG&E made no allowance in that renegotiation for the fine, obtained the bankruptcy court's approval, and immediately turned around to leverage the commitment letters before the Commission in objection to the fine. Similarly, an increment of equity also could have enabled PG&E to reduce the proposed securitization amount to a level that is truly ratepayer neutral. This option would remain available to PG&E, should the Commission authorize the lower securitization level. PG&E would retain some non-recoverable debt on its balance sheet, and this debt could be extinguished in the medium-term with an additional equity issuance.[78]

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[76] D.20-05-019 at p. 32 et seq. (*PG&E Statement on Company's Guilty Plea Related to 2018 Camp Fire*, June 16, 2020. Available at <https://www.pge.com/en/about/newsroom/newsdetails/index.page?title=20200616_pge_statement_on_companys_guilty_plea_related_to_2018_camp_fire>.

[77] D.20-05-019 at p. 49 and at p. 35. The Commission explained that "[t]he purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. … Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result."

[78] "Medium-term" here refers to the five-year deleveraging period that the Bankruptcy Decision envisions. See D.20-05-053 at p. 92.

Such a deferred issuance could allow shareholders the benefit of seeking this equity from the markets at a more advantageous time, given current market conditions.

The Commission should avoid any decision that would set a negative precedent encouraging utilities to advantage themselves and their shareholders using the Chapter 11 process, at ratepayers' expense. The Commission should adopt the lower securitization level of $6 billion, that aligns shareholders' responsibility for the health of PG&E's balance sheet with ratepayers' interest in affordable, safe, and reliable utility service.

Finally, the lower securitization recognizes the significant ratepayer costs and impact on rates associated with 1) the Wildfire Fund non-bypassable charge and 2) future securitizations for fire risk mitigation capital expenditures. The total annual revenue requirement for the Wildfire Fund non-bypassable charge is approximately $404.6 million for PG&E's customers. This charge will remain in effect until January 1, 2036. In addition, PG&E is able to seek financing orders to issue Recovery Bonds in order to recover fire risk mitigation capital expenditures through Fixed Recovery Charges. PG&E's share of the $5 billion authorized under AB 1054 is $3.21 billion. The reduction of the current securitization to $6 billion will serve to slightly reduce the Fixed Recovery cost associated with this current PG&E request and mitigate the impact on ratepayers.

VI. WITNESS QUALIFICATIONS

STATEMENT OF QUALIFICATIONS
ROBERT MARK POCTA

My name is Robert Mark Pocta. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the California Public Utilities Commission as a Program Manager in the Public Advocates Office, Energy Cost of Service and Natural Gas Branch.

I graduated from Purdue University in May 1979 with a Bachelor of Science degree in Civil Engineering. In 1982, I became registered as a Professional Civil Engineer in the State of California.

I was employed by the California Department of Transportation from June 1979 to October 1980. In November 1980, I transferred to the Commission and worked in the Water Branch of the Public Staff Division until December 1984 on numerous rate case applications of Class A water utilities. From January 1985 to August 1986, I worked in the Energy Operational Costs Branch on various energy-related rate applications.

I began to work in the Fuels Branch in September 1986. In 1988, I became Program and Project Supervisor serving in various capacities as a technical and policy expert and project manager in natural gas proceedings. In 2001, I became a Program Manager with responsibility over General Rate Case (GRC) proceedings, natural gas proceedings and other related regulatory cases.

I am responsible for the management, oversight and joint analysis on behalf of the Public Advocates Office for PG&E's securitization application.

This concludes my statement of qualifications.

STATEMENT OF QUALIFICATIONS
RYAN ANDRESEN

My name is Ryan Andresen. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst in the Public Advocates Office, Energy Cost of Service and Natural Gas Branch.

I received a Bachelor of Science degree in Environmental Economics and Policy from the University of California, Berkeley in 2020. For the San Diego Gas & Electric Company Tree Trimming Balancing Account proceeding, I am evaluating and investigating vegetation management expenses.

Prior to joining the Public Advocates Office in 2020, I worked on several research projects analyzing the impact of electric utility regulation on ratepayers. My Bachelor's Honors Thesis estimated the burden of public utility pricing schedules on various ratepayer demographics.

In this proceeding, I conducted joint analysis on PG&E's securitization application and assisted in the preparation of this report.

This concludes my statement of qualifications.

STATEMENT OF QUALIFICATIONS

ANUSHA NAGESH

My name is Anusha Nagesh. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst in the Public Advocates Office, Energy Cost of Service and Natural Gas Branch.

I received a Bachelor of Commerce in finance and accounting from Mount Carmel College, India in 2013 and Post graduate diploma in business administration from Indo-German Chamber of Commerce, India in 2015. Recently, for California American Water 2020 general rate case application, I wrote testimony on operating and maintenance expenses, general and administration expenses and balancing and memorandum accounts. I also testified in the California American Water and Bellflower acquisition on customer bill impact analysis.

Prior to joining the Public Advocates Office in 2018, I worked in Lufthansa Technik under multiple roles, working in financing department, supply chain and customer service departments.

In this proceeding, I conducted joint analysis on PG&E's securitization application and assisted in the preparation of this report.

This concludes my statement of qualifications.