CPUC Docket: A.20-04-023
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Witness: Margaret A. Meal

PREPARED TESTIMONY OF MARGARET A. MEAL ON BEHALF OF THE CITY AND COUNTY OF SAN FRANCISCO REGARDING PACIFIC GAS AND ELECTRIC COMPANY PROPOSED SECURITIZATION

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TABLE OF CONTENTS

Attachment J: **PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 4**

Attachment K: **PG&E Response to Public Advocates Office Second Set of Data Requests (dated September 14, 2020), Question 9**

Attachment L: **PG&E Response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 11**

Attachment M: **PG&E Response to Energy Division First Set of Division Data Requests (dated September 2, 2020), Question 2**

Attachment N: **PG&E Response to CCSF Third Set of Data Requests (dated October 2, 2020), Question 8**

Attachment O: **PG&E investor presentation provided in response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 2**

Attachment P: **PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 2**

SECTION 1. INTRODUCTION AND SUMMARY

- PG&E proposes to raise $7.5 billion by selling bonds that would be repaid by charges on customer bills for 30 years. The money would cover costs PG&E incurred for wildfire damages in 2017. There is no dispute that these imprudently incurred costs are the responsibility of PG&E and its shareholders. A California law adopted in 2018 allows the Commission to approve such a proposal, if the utility lacks the financial ability to pay the costs without endangering provision of adequate and reliable service to customers.
- The Commission has found that such extraordinary proposals would be considered only in limited circumstances and as a last resort where needed to prevent harm to utility customers. The Commission has specified the requirements for proposals like the one PG&E makes here. PG&E has not met those requirements.
- PG&E's proposal does not provide a path to achieving an investment grade credit rating, as is required for a utility that is rated below investment grade, like PG&E. PG&E has not shown that the cost and risk for customers will meaningfully improve PG&E's financial condition.
- PG&E has not utilized all other means to raise the money it needs to minimize the amount it would ask ratepayers to finance. One example is PG&E's failure to consider the four recent offers it received from local public entities to purchase PG&E assets and reduce PG&E's future service obligations. Together, these offers total $3.2 billion, or over 40% of PG&E's request of $7.5 billion.
- PG&E's proposal is not "ratepayer neutral" as required by the Commission. PG&E's proposal would establish a new irrevocable, non-bypassable charge to be levied on all of PG&E's electric customers – current and future customers, as well as any customers that terminate their electric service from PG&E and move to another provider in PG&E's service area. Customers will pay nearly $400 million per year, for 30 years to cover these charges, which under PG&E's proposal may not be fully repaid. This built-in uncertainty

of ratepayer neutrality stands in stark contrast to the solid assurance shareholders have under PG&E's proposal, where their obligations are capped, and PG&E expects them to cease by 2035.

- The benefits to customers from this arrangement are scant. PG&E's offer of ratepayer neutrality is largely dependent on PG&E's future operating and financial success, as measured by its taxable earnings (profits) for shareholders. If PG&E is able to grow its shareholder earnings (profits) consistently over the next five to ten years, to levels it has never reached over the last 25 years, PG&E "expects" its customers to be made whole, but only as measured over a 30-year period. Further, in order for PG&E's earnings to grow as it predicts, PG&E would need the CPUC's approval of steady rate increases to support that growth.
- In view of the requirements established by the Commission, PG&E's proposal should be denied or significantly changed.

Q1. Please state your name and title.

A1. My name is Margaret Meal. I am presently employed by the City and County of San Francisco ("San Francisco" or "City") Public Utilities Commission ("SFPUC") as a Manager in the Power Enterprise.

Q2. Please describe your current job responsibilities and background.

A2. I am responsible for supporting the SFPUC's access to low-cost debt financing to meet Power Enterprise's capital needs. I am also responsible for policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and business opportunities. I monitor and analyze current and proposed state and federal energy policies and regulations, rate making, rate design and cost structures for electric utilities, and risk assessment of power supply alternatives on behalf of the SFPUC. I have worked in the electric power industry for my entire professional career (over thirty years), primarily as a consultant advising business interests, public agencies, investors, lenders, and regulatory agencies on financial and economic issues, including asset valuation, risk assessment, financing alternatives, utility cost of capital, and ratemaking. I have provided written and oral testimony to this and various other state public utility commissions on numerous occasions. My statement of qualifications is attached as Attachment A to this testimony.

Q3. Please briefly describe the City's interest in this case.

A3. Pacific Gas and Electric Company ("PG&E") is the investor-owned utility that serves San Francisco. Therefore, the citizens of San Francisco are impacted by PG&E's rates regardless of whether they take gas and electric service solely from PG&E, or are customers of San Francisco's publicly owned utility (Hetch Hetchy Water and Power) or San Francisco's community choice aggregation program ("CCA"), CleanPowerSF. In addition, San Francisco has made an offer to PG&E to acquire certain PG&E electric distribution and transmission assets used to provide electric service to San Francisco. San Francisco's offer to PG&E, as well as other offers made to PG&E by other public agencies (including the Nevada Irrigation District, South San Joaquin Irrigation District, and the Valley Clean Energy Alliance) have not been seriously considered or evaluated by PG&E, but these offers are directly relevant to this proceeding because the Stress Test Methodology adopted in D.19-06-027 ("STM Decision") identifies asset sales as a way of raising cash..

Q4. Please provide the recent historical background that is relevant to your testimony in this proceeding.

A4. PG&E's Application in this proceeding stems from the state of California's SB 901,[1] implemented in part through the Commission's STM Decision, and from PG&E's bankruptcy plan of reorganization ("POR"),[2] which the Commission recently approved in I.19-09-016 in D.20-05-053 ("Bankruptcy Decision"). SB 901 and the STM Decision provide a "last

[1] See Pub. Util. Code §§ 451.2 and 850 et seq.

[2] The Plan of Reorganization referred to throughout this testimony is the Chapter 11 Plan of Reorganization Dated June 19, 2020, confirmed by the Bankruptcy Court by Order dated June 20, 2020, and which became effective on July 1, 2020, *In re PG&E Corporation*, No. 19-30088 (Bankr. N.D. Cal. June 19, 2020) ECF No. 8048.

resort" safety net for California's investor-owned utilities by allowing a utility's ratepayers to step in to cover imprudently-incurred wildfire-related costs[3] to prevent a pending financial disaster for that utility.

This Application proposes a new, additional issuance of $7.5 billion in securitized bonds, with those proceeds used to retire the $6 billion in Temporary Utility Debt issued upon PG&E's emergence from bankruptcy in July 2020,[4] and to make and partially accelerate PG&E's future payment obligations of $1.35 billion to the Fire Victim Trust.[5] The $150 million in proceeds remaining would be used to pay new transaction and administrative costs.

Q5. What is the purpose of your testimony?

A5. The purpose of my testimony is to show three factual flaws in PG&E's Application, such that PG&E's proposal does not meet the requirements of the STM Decision, nor does it meet the requirements of ratepayer neutrality in the Bankruptcy Decision:

(i) PG&E has not demonstrated that $7.5 billion is eligible to be securitized pursuant to SB 901 and the Commission's STM Decision (**Section 2**).

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[3] This safety net is available only for recovery of costs tied to wildfires in 2017. D.19-06-027, at 53, Finding of Fact 2, states that "[t]he methodology developed in this proceeding applies to costs incurred by an investor-owned utility due [to] a 2017 fire."

[4] Module 5 (Chapter 11 Plan Overview, Financing & Arrangement (May 2020)), available on PG&E website "PG&E Progress", http://investor.pgecorp.com/PGE-Progress/. Accessed October 3, 2020, at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf. Excerpts of this presentation are included in Attachment B. See, for example, Slide 7. Total new debt issued by PG&E upon its emergence from bankruptcy was significantly higher, with the proceeds used to fund additional obligations outstanding and to fund its uncovered operating needs (Slides 4 and 8).

[5] PG&E Testimony, at 3-1, line 25; 3-2, line 2; 1-2, fn. 5; 1-6, fn. 13. References to PG&E's Testimony are to PG&E's Prepared Testimony, dated April 30, 2020, as revised by PG&E's Prepared Testimony (Updated), dated August 7, 2020. According to its Plan of Reorganization, PG&E has committed to make future payments totaling $1.35 billion to the Fire Victim Trust, or earlier if the Commission approves the proposed Securitization. See, PG&E's Testimony at 1-6, fn. 13, PG&E's Plan of Reorganization § 1.6 (describing the first payment of "$650 million to be paid in cash on or before January 15, 2021" and the second "$700 million to be paid in cash on or before January 15, 2022"); Tax Benefit Payment Agreement, *In re PG&E Corporation*, U.S. Bankruptcy Court for the Northern District of California, Case No. 19-30088, ECF No. 7929-1 (June 12, 2020), at §§ 1.1(l) and 2.3(b) (describing acceleration of payment to Fire Victim Trust if the Securitization is consummated).

(ii) PG&E has not demonstrated that its proposal (the "Securitization") is neutral, on average, to PG&E's ratepayers, as required by the Bankruptcy Decision and AB 1054, nor does it recognize the contributions of ratepayers or compensate ratepayers appropriately for the lack of ratepayer neutrality. Unless PG&E provides assurance regarding the Customer Credits, ratepayers could see bill increases of nearly $0.005 per kWh, (a bill increase of about 2% for PG&E's bundled customers) (**Section 3**).

(iii) PG&E has not demonstrated that its application of future "Fixed Recovery Charges" to departing municipal customers will be fair and equitable as compared to PG&E's other customers. Fair and equitable treatment of customers who become electric customers of a public entity, is required to ensure ratepayer neutrality and to ensure that PG&E's proposed transaction does not unreasonably constrain the constitutional and statutory rights of local public entities to provide utility service to their constituents (**Section 4**).

Given these factual flaws, each on their own or taken together, the Commission should reject PG&E's Application as submitted. Should PG&E choose to resubmit its Application, these deficiencies must be corrected.

Q6. Does your testimony include any recommendations to guide the Commission's decision in this proceeding?

A6. **Section 4** of my testimony addresses ways to ensure consistent treatment across PG&E's bundled and departing load customers. **Section 5** of my testimony identifies steps that the Commission can take toward a Securitization that (i) meets the eligibility requirements of the STM Decision and (ii) meets the ratepayer neutrality requirement of the Bankruptcy Decision.

Q7. What is your understanding of what PG&E is trying to accomplish with its Securitization as proposed in its Application?

A7. Fundamentally, PG&E is attempting to improve its financial strength and condition by replacing $6 billion of new, "temporary" debt[6] it issued to emerge from bankruptcy with $7.5 billion of new, long-term, 30-year debt. By issuing $7.5 billion in long-term debt to pay off $6 billion in shorter-term debt, cash proceeds of $1.5 billion are made available, and annual debt service obligations are reduced because principal payments are spread out over thirty years. The interest rate on the existing "temporary debt" is approximately 2%,[7] compared to PG&E's expected interest rate on the new debt of 2.9%.[8] PG&E proposes to use the $1.5 billion in cash proceeds to make and accelerate its remaining payments to the Fire Victim Trust ($1.35 billion) and to cover the up-front costs of executing the financial transactions required. Neither the $6 billion in temporary debt nor the future payments PG&E owes to the Fire Victim Trust are recoverable from ratepayers, except in connection with this Application.[9]

PG&E proposes to recover <u>all</u> future interest, servicing costs and principal payments on the new $7.5 billion in 30-year debt from its ratepayers, over a 30-year period.[10] Recovery of those costs will be implemented through a new, irrevocable, non-bypassable customer charge (fixed recovery charge or "FRC")[11] levied on all of PG&E's electric customers – both its current and future customers, as well as any customers that terminate their electric service from PG&E and take electric service from another provider in PG&E's service area.[12]

This transfer of shareholder obligations of $7.35 billion into ratepayer obligations of $7.5 billion (not including the ratepayers' costs of meeting those obligations over a 30-year period)

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[6] Attachment C, PG&E Response to A4NR First Set of Data Requests (Updated) (dated August 14, 2020), Question 9: "The $6 billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility."

[7] Attachment D, PG&E Response to CCSF Fourth Set of Data Requests (dated October 9, 2020), Question 1.

[8] PG&E Testimony, at 3-22, lines 1-3.

[9] D.20-05-053, at 82.

[10] PG&E Testimony, at 3-8, line 33 - 3-9, line 2.

[11] *Id.*, at 3-3, lines 10-12.

[12] *Id.*, at 9-2, lines 14-21.

clearly transfers risk and cost responsibility of imprudently-incurred costs from PG&E's shareholders to PG&E's ratepayers.

Q8. How does PG&E justify this transfer of cost responsibility and risk from shareholders to ratepayers?

A8. PG&E establishes "Customer Credits" from a Customer Credit Trust ("CCT" or "Trust") and <u>expects</u> the Customer Credits to be equal to the new, non-bypassable charges (FRC), thereby protecting ratepayers from overall rate and bill increases due to the transfer of shareholder costs and risks to ratepayers, but only if PG&E's expectations are realized. PG&E does not provide any assurance that the Customer Credit will equal the new, non-bypassable FRCs, either at any point in time or over any time period, and only <u>shows</u> Customer Credits to be equal to or greater than the FRCs under one 30-year projection of PG&E's future taxable income.

The details of the transfer of obligations from PG&E's shareholders to PG&E's ratepayers are summarized in Table 1 below. Section 3 of my testimony shows how this transfer of cost responsibility and risk from shareholders to ratepayers is inequitable, imbalanced, not ratepayer neutral, and without sufficient compensation for ratepayers for the risks and costs they would be undertaking.

Table 1. Details of cost and risk responsibilities transferred from PG&E's Shareholders to PG&E's Ratepayers

Current—Without Proposed Securitization **$7.35 billion in future <u>shareholder</u> obligations**	**With Proposed Securitization** **$7.5 billion in future <u>ratepayer</u> obligations**
– **$ 6 billion Temporary Debt (shareholder responsibility)** – short-term (**1-2 yrs** with potential for refinancing to 5-10 yrs) – interest rate **~2%** today, ~3.84% if refinanced[13] – **no cost recovery from ratepayers**; shareholders bear all repayment obligations	**$ 7.5 billion securitized bonds (ratepayer responsibility)** – long-term (**30 yrs**) – projected interest **2.9%** plus administrative costs to service the securitized bonds[14] – **payments of principal, interest and expenses guaranteed by ratepayers**; offset by (i) initial shareholder commitments of $1.8 billion and (ii) timing-uncertain future shareholder commitments capped at $7.59 billion
$1.35 billion paid to Fire Victim Trust (shareholder responsibility) – $650 million 1-15-2021 – $700 million 1-15-2022	**$1.35 billion paid to Fire Victim Trust (ratepayer responsibility)[15]** – $650 million 1-15-21 (no change) – $700 million early 2021 (6-12 months sooner)[16]
Issuer Rating (PG&E Utility) – BB-, Negative/Ba2, Stable[17]	**Issuer Rating (PG&E Utility)** – ????[18]

SECTION 2. PG&E'S PROPOSAL IS FLAWED IN ITS DETERMINATION THAT $7.5 BILLION IS ELIGIBLE TO BE SECURITIZED PURSUANT TO SB 901 AND THE STRESS TEST METHODOLOGY DECISION (SCOPING MEMO ISSUE 1)

Q9. Which elements that govern PG&E's eligibility for issuing securitized bonds and the dollar amount to be securitized does your testimony address? (Scoping Memo Issues 1, 1.a - 1.e)

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[13] Attachment D, PG&E Response to CCSF Fourth Set of Data Requests, Question 1.
[14] PG&E Testimony, Chapter 6, Table 6-3.
[15] Ratepayers are obligated to repay securitized bonds; the bond proceeds fund PG&E's final obligations to the Fire Victim Trust.
[16] The date of the bond issuance is a function of the timing of the CPUC's decisionmaking process, which will be completed within 120 days (4 months) of PG&E filing an application for approval of a financing order.
[17] See Moody's report, August 19, 2020, and S&P's report, September 16, 2020, non-confidential version provided by PG&E to the service list in this proceeding on October 7, 2020, and included as Attachment E.
[18] Improvement is uncertain because it is reliant on qualitative improvements (see Section 2) and reduction in PG&E Corp. debt burden.

A9. My testimony in this section addresses two components of the STM Decision that govern PG&E's eligibility and the limits on the dollar amount to be securitized:[19]

1. PG&E's estimates of Excess Cash ($0) and the appropriate Regulatory Adjustment ($0) (as defined in the STM Decision), are significantly understated, primarily due to PG&E's failure to recognize the potential value of non-core asset sales that include the removal of PG&E's service obligations to customers that PG&E serves using those assets. (PG&E Testimony Chapter 5).
2. PG&E has not demonstrated that its proposal allows PG&E "to regain a stable minimum investment grade credit rating and a pathway for improved financial health over time."[20] (PG&E Testimony Chapter 5)

Corrections to Excess Cash and the Regulatory Adjustment could reduce the dollar amount to be securitized to less than $7.5 billion. PG&E's failure to demonstrate a path to investment-grade credit ratings makes PG&E ineligible to securitize <u>any</u> amount of its 2017 wildfire claims costs.[21]

My testimony does not evaluate PG&E's testimony that its 2017 disallowed, recoverable wildfire claims costs are $7.5 billion (PG&E Testimony Chapter 4).

Q10. What is your understanding of the purpose of the STM described in Appendix A to the STM Decision? (Scoping Memo Issues 1, 1.a)

A10. SB 901 and the STM Decision provide a "last resort" safety net for California's investor-owned utilities such that a utility's ratepayers will step in to cover imprudently-incurred wildfire-related costs to prevent a pending financial disaster for that utility, to ensure that the utility is able to continue to provide adequate and safe service. The STM Decision emphasizes

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[19] The STM Decision also requires that PG&E provide "meaningful ratepayer protection measures." D.19-06-027 at 55, Finding of Fact 20, and at 49. The extent of meaningful ratepayer protection measures is addressed in Section 3, regarding PG&E's failure to provide ratepayer neutrality.

[20] D.19-06-027, Attachment A, at 17.

[21] D.19-06-027, at 55, Finding of Fact 20.

the "last resort" nature of allowing for imprudently-incurred costs to be collected from ratepayers:

> They [ratepayer protection measures] are also intended as a safeguard to encourage utilities to maximize the share of disallowed costs they absorb and ensure utilities view the Stress Test as a financing mechanism of last resort.[22]

The STM Decision implements Public Utilities Code section 451.2 and adopts a Stress Test Methodology for determining the maximum amount a utility can pay without harming ratepayers or materially impacting its ability to provide adequate and safe service (the "Customer Harm Threshold" or "CHT"). Imprudently incurred 2017 wildfire costs that are disallowed for recovery in rates should not exceed the Customer Harm Threshold. In the event that these imprudently incurred costs exceed that threshold, meaning that the utility is under severe financial distress to the point where reliability of service is threatened, the utility may apply for a financing order to cover the above-threshold costs by issuing securitized bonds that are repaid by the utility's ratepayers pursuant to Public Utilities Code section 850 et seq.[23]

In order to go this route, the utility needs Commission approval. The STM Decision lays out what the utility must demonstrate to receive this approval.

Q11. Please summarize the various steps in the Stress Test methodology. (Scoping Memo Issues 1, 1.a)

A11. Step 1. First, the utility must show the amount of its imprudently-incurred costs associated with the 2017 wildfires.[24] PG&E's Application determines that those costs are $7.5 billion.[25]

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[22] *Id.*, at 48.
[23] Pub. Util. Code § 451.2(c).
[24] PG&E has waived its ability to assert that any of the costs associated with prepetition wildfires are just and reasonable (Application, at 10).
[25] PG&E Testimony, at 1-3, lines 4-7.

Step 2. Next, the STM decision details a formula (and the basis for the inputs to the formula) to determine if and how much of these utility-imprudently-incurred costs are eligible to be securitized. The formula uses the following components:

- The utility's Maximum Incremental Debt Capacity (**MIDC**, in dollars) – this is the amount of debt the utility is able to issue while maintaining investment grade credit ratings.[26] PG&E's Application determines that its MIDC is "effectively zero."[27]
- The utility's **Excess Cash** (in dollars) – this is the utility's "cash on hand" not otherwise committed to future uses.[28]
- A **Regulatory Adjustment** (in dollars), determined by the Commission in its discretion, that allows for qualitative factors appropriate for the specific circumstances.[29] The appropriate Regulatory Adjustment can be positive, negative or zero.[30]

These three factors (MIDC, Excess Cash, Regulatory Adjustment), when combined together (the CHT), represent the utility's existing, unused financial capacity to bear its imprudently-incurred costs on its own, prior to the last resort of using SB 901 and the utility's ratepayers to prevent financial disaster and loss of reliable and adequate service. To the extent that the imprudently-incurred costs exceed the utility's existing, unused financial capacity, those "excess" imprudently-incurred costs, and only those excess costs, are eligible to be transferred from shareholder cost responsibility to recovery from the utility's ratepayers through issuance of securitized bonds that become the cost responsibility of ratepayers, irrevocably, until those bonds are repaid in full.

Step 3. Next, and only if the utility's credit ratings are currently below investment grade, the utility must show that its proposed Securitization, once executed, provides "a path to

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[26] D.19-06-027, Attachment A, at 4 (MIDC is "the implied maximum additional debt that a utility can take on and maintain a minimum investment grade issuer-level credit rating").
[27] PG&E Testimony, at 5-52, lines 8-9.
[28] D.19-06-027, Attachment A, at 11.
[29] D.19-06-027, at 36 and Finding of Fact 13 at 54.
[30] D.19-06-027, Attachment A, at 12.

investment grade credit ratings," i.e., a path that is achievable based on its current financial position and outlook, with the Securitization completed. If no reasonable path is available, no amount (zero) of the utility's imprudently-incurred costs are eligible for transfer to ratepayer cost responsibility using the relief available using SB 901 and the STM Decision.[31]

Q12. What is your concern with PG&E's determination that its Excess Cash is zero? (Scoping Memo Issues 1, 1.a, 1.b, 1.d)

A.12 First and most critically, PG&E has ignored the Excess Cash that could likely be generated through sales of assets to public entities, where those sales are "non-core" because they include removal of PG&E's retail service obligations to the customers served by the assets. Moreover, PG&E has been aware of at least four of these opportunities for some time, but largely dismisses them in its determination of Excess Cash, because it claims that necessarily, such sales would be sales of "core" assets.[32]

Q13. What does the STM Decision say regarding the determination of Excess Cash? (Scoping Memo Issues 1, 1.a, 1.b, 1.d)

A13. According to D.19-06-027, in determining whether the utility has Excess Cash available:

> . . . asset sales are intended to capture identifiable cash proceeds from pending and rate mitigating asset sales. The excess cash component shall also consider prudent alternatives available to the utility to monetize non-core assets as determined to be in the best interest of ratepayers. <u>The utility shall provide a detailed analysis and explanation of the potential opportunities to effectuate ratepayer mitigating non-core asset sales.</u> The analysis of ratepayer mitigating non-core asset sales will consider the market environment implications of forced sales of assets and the implications of such asset sales on the Customer Harm Threshold as well as the utility's access to capital on acceptable terms.[33]

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[31] D.19-06-027, at 55, Finding of Fact 20, "A utility that has a credit rating below investment grade at the time of a Stress Test application must demonstrate how it will achieve an investment grade rating through the Stress Test process."
[32] Attachment F, asset purchase offer letters provided to PG&E by San Francisco, South San Joaquin Irrigation District, Valley Clean Energy, and Nevada Irrigation District, and Attachment G, PG&E's dismissal of San Francisco's offers, SSJID's offer, and VCE's offer; PG&E Testimony, at 5-51, lines 21-23; Attachment H, PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 1.
[33] D.19-06-027, at 32 (emphasis added).

Q14. Please elaborate on why asset sales to a public entity is a "non-core" asset sale, for purposes of determining Excess Cash? (Scoping Memo Issues 1, 1.a, 1.d)

A14. Sales of assets to public entities are "non-core" when the asset sale includes the transfer of service obligations from PG&E to the public entity. In most instances where a public entity purchases PG&E-owned assets, PG&E's service obligation is removed at the time of the sale.

PG&E's Testimony recognizes that the impact of an asset sale on PG&E's service obligations is critical for the core vs. non-core distinction:

> This [Excess Cash] factor considers utility assets that, if sold, would have no impact on the utility's ability to provide safe and reliable service, and would increase the utility's ability to fund claims resulting in a net financial benefit to customers. A "non-core" asset is one that is not necessary to the provision of utility service and may also be referred to as a "non-utility" asset.[34]

Q15. Has PG&E seen any interest from public entities that they would like to pursue such "non-core" asset sales? (Scoping Memo Issues 1, 1.a, 1.d)

A15. Yes. San Francisco recently made a serious offer to PG&E to purchase electric utility assets serving San Francisco. Offers were also made to PG&E by the Nevada Irrigation District, the South San Joaquin Irrigation District, and Valley Clean Energy (see Attachment F). The potential adjustment to Excess Cash based on these offers is significant, as discussed further below.

Q16. What has PG&E done in response to these asset sale opportunities? (Scoping Memo Issues 1, 1.a, 1.b, 1.d)

A16. I don't know about all of the communications related to the other offers, but PG&E has not engaged with San Francisco except to summarily reject its offer and indicate that the assets involved are "not for sale." Attachment G includes PG&E's public written responses to the letters from San Francisco, SSJID and VCE.

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[34] PG&E Testimony, at 5-51, lines 5-9 (emphasis added).

Q17. Does PG&E include consideration of these asset sale opportunities in its determinations of Excess Cash? If not, why not? (Scoping Memo Issues 1, 1.a, 1.b, 1.d)

A17. No. The STM decision requires a detailed and thorough analysis and accounting of these asset sale opportunities. PG&E's Application presents no such analysis and accounting. Instead, PG&E's Testimony consists of dismissive assertions that PG&E has no material non-core assets,[35] that "there would be no net benefit to customers from such sales,"[36] and that "to the extent that PG&E could use other opportunities to raise capital to fund disallowed wildfire costs, that is irrelevant…"[37]

In response to a data request, PG&E expanded on its rationale for not including these asset sales, stating they are "not relevant to evaluation of the Stress Test Methodology in this proceeding" and that "In context of the Chapter 11 Cases, it was not reasonable for PG&E to pursue piecemeal asset sales as part of its reorganization, which had to be accomplished by June 30, 2020."[38]

Q18. What do you recommend for Excess Cash for the Commission's application of the STM? (Scoping Memo Issues 1, 1.a, 1.b, 1.d)

A18. As detailed above, PG&E has received offers from four local government entities to purchase PG&E assets used to serve its customers that, as the result of the purchase, would be transferred from PG&E to the public entity, removing PG&E's service obligations for those customers. Together, these offers from qualified buyers would generate cash payments to PG&E of $3.2 billion. [39] PG&E has not considered these as asset sales in its determination of Excess Cash. Given that these sales would leave PG&E with no future service obligations related to the assets that are sold, these sales are non-core asset sales, and must be recognized as such. I

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[35] *Id.*, at 5-51, lines 8-13.
[36] *Id.*, at 5-54, line 9.
[37] *Id.*, at 5-53, lines 13-15.
[38] Attachment H, PG&E Response to CCSF Second Set of Data Requests, Question 1.
[39] See Attachment F, San Francisco offered $2.5 billion, SSJID offered $116 million, NID offered $300 million, VCE offered $300 million.

recommend that, at a minimum, PG&E re-calculate Excess Cash to include these non-core asset sales.

The impact of including these known non-core asset sale opportunities on amounts to be securitized could be significant, but PG&E has not taken these offers seriously, falling far short of the requirements in the STM Decision. On a gross proceeds basis, these four asset sales would generate $3.2 billion in Excess Cash. Based on these public offers, the cash proceeds could be $3 billion or more. At that order of magnitude, the amount PG&E could securitize pursuant to SB 901 and the STM decision would be significantly lower than $7.5 billion. Absent the evaluation required by the STM Decision, should the Commission decide to approve PG&E's proposal, the determination of Excess Cash should use the offer prices because that is the only information available. Using the offer prices, the amount allowed to be securitized would drop from $7.5 billion to $4.3 billion.

Q19. What is the purpose of the Regulatory Adjustment, and what are your concerns regarding PG&E's recommendation that the Commission determine that the appropriate Regulatory Adjustment is zero? (Scoping Memo Issues 1, 1.a, 1.b, 1.e)

A19. The Commission may apply a Regulatory Adjustment, up or down, to Excess Cash and MIDC, to use its discretion to better reflect what portion of a utility's qualified, disallowed costs should be borne by the utility's shareholders, before any amount of qualified, disallowed costs can be transferred to ratepayers.

In applying the Regulatory Adjustment, the Commission will consider "every opportunity at the utility's disposal to satisfy disallowed wildfire costs, or to otherwise access capital on reasonable terms,"[40] which could include "asset sales not already included in the excess cash calculation (both used and useful as well as non-revenue generating assets where the value of the asset is not clearly defined at the time of the Stress Test)."[41]

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[40] D. 19-06-027, at 54, Finding of Fact 16 .
[41] *Id.*, at 39.

While non-core asset sales are to be considered under the Excess Cash calculation, for any potential asset sales that are not accounted for as Excess Cash, the Commission may "consider potential asset sales in the Regulatory Adjustment,"[42] whether they be core or non-core. [43] PG&E's recommendation that the Commission apply a Regulatory Adjustment of zero also fails to recognize the offers from public entities to purchase PG&E assets, and fails to identify any other potential asset sales that it seriously considered.[44]

The STM Decision supports the Commission applying the maximum Regulatory Adjustment here, whether or not the proceeds from asset sales to public entities are included in Excess Cash. Real asset sale opportunities exist (the offers from public entities), and PG&E has not shown that it has pro-actively sought out other asset sale opportunities beyond the few it references in its Testimony, and claims that those have been accounted for elsewhere.[45] Absent a full exploration, the Commission must recognize that it is likely that other reasonable business opportunities for assets sales exist and are a means for PG&E to access capital to help satisfy its wildfire costs.[46]

However, a positive Regulatory Adjustment is limited to (i) 20% of the sum of MIDC and Excess Cash (the first two components of the Customer Harm Threshold), less asset sales accounted for in Excess Cash or (ii) 5% of the utility's disallowed costs requested for recovery, whichever is larger.[47]

Q20. Using these two constraints on the Regulatory Adjustment, what would be the appropriate Regulatory Adjustment for PG&E's proposed Securitization? (Scoping Memo Issues 1, 1.a, 1.b, 1.e)

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[42] *Id.*, at 32.
[43] *Id.*, at 36. As part of the consideration for setting the Regulatory Adjustment the Commission will consider how the utility exhausted <u>every reasonable opportunity at the utility's disposal</u> to satisfy disallowed wildfire costs, or to otherwise access capital on reasonable terms.
[44] *Id.*, at 32, "the Commission may consider potential asset sales in the Regulatory Adjustment (both used and useful as well as non- revenue generating assets) where the value of the asset is not clearly defined at the time of the Stress Test."
[45] PG&E Testimony, at 5-54, lines 12-17.
[46] D. 19-06-027, at 36, 38.
[47] *Id.*, at 36.

A20. The impact of the two constraints above (here referred to as the "5% rule" and the "20% rule") are shown in Table 2 below, using PG&E's request for $7.5 billion in disallowed costs eligible for recovery from ratepayers, and assuming that MIDC is zero.

Table 2. Appropriate Regulatory Adjustment: Maximum of 5% Rule and 20% Rule

	5% Rule[48]	**20% rule**[49]
Disallowed costs requested for recovery from ratepayers	$7.5 B	n/a
First two components of CHT (MIDC + Excess Cash adjusted for asset sales), MIDC=0	n/a	Excess Cash, adjusted to exclude asset sales
Regulatory Adjustment (20% of Adj. Excess Cash) - Adjusted Excess Cash = $0 (PG&E) - Adjusted Excess Cash = $1 B (illustrative only) - Adjusted Excess Cash = $3 B (illustrative only)	**$375 M**	20% of Adj. Excess Cash **$0** **$200 M** **$600 M**

Using the STM Decision's emphasis that the Regulatory Adjustment should consider "every reasonable opportunity at the utility's disposal to satisfy disallowed wildfire costs, or to otherwise access capital on reasonable terms,"[50] and should be used to protect ratepayers, [51] and to account for uncertainties inherent in PG&E's application of the Stress Test,[52] the maximum Regulatory Adjustment using these illustrative components would be $375-$600 million. The low end is the Regulatory Adjustment if Adjusted Excess Cash is zero; the high end is the Regulatory Adjustment if Adjusted Excess Cash is $3 billion.

Q21. What is your concern regarding PG&E's determinations for Step 3, that the proposed Securitization will provide a path to investment grade credit ratings for PG&E? (Scoping Memo Issues 1, 1.a - 1.c)

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[48] Using the 5% rule, the Regulatory Adjustment is 5% of qualified disallowed costs.

[49] Using the 20% rule, the Regulatory Adjustment is 20% of MIDC + Excess Cash – Any Asset Sales included in Excess Cash.

[50] D. 19-06-027, at 54, Finding of Fact 16.

[51] *Id.*, at 36.

[52] D.19-06-027, Attachment A, at 5.

A21. For Step 3, PG&E has not demonstrated that its proposal will meaningfully provide a path to investment-grade credit ratings.

The STM Decision's requirement that PG&E must demonstrate a path to achieving an investment grade rating is clear. Further, that decision advises that access to the Stress Test may not be the right tool for PG&E:

> …the Stress Test is designed to ensure utilities maintain access to necessary capital on acceptable terms. <u>If a utility has already been downgraded to a junk credit rating, the Stress Test may not be the right tool to prevent ratepayer harm</u> and may not be sufficient to prevent material impacts to the utility's ability to provide adequate and safe service.
>
> Therefore, for <u>a utility that is currently below investment grade ratings, there is a pre-condition that it must demonstrate an ability (pathway) to achieving an investment grade credit rating to access the Stress Test</u>. A demonstrated ability to achieve a minimum investment grade credit rating could include, for example, the allowance of wildfire related liabilities for recoveries in rates, equity issuances, asset sales, or other forms of capital infusions.[53]

Following emergence from bankruptcy, PG&E and PG&E Corp. both received sub-investment grade issuer credit ratings from two credit rating agencies (S&P BB-, Moody's Ba2).[54]

According to Standard & Poor's June and July 2020 Ratings Action and Report,[55] S&P based its BB- issuer credit rating on its assessment that: (i) PG&E's financial risk profile is "significant," based on quantitative metrics, and (ii) PG&E's business risk profile is "satisfactory," including two "negative modifiers:" a "comparable ratings analysis" modifier and "management and governance" modifier.[56] The business risk profile and any modifiers are largely qualitative assessments, independent of quantitative metrics.[57]

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[53] *Id.*, at 13.
[54] PG&E Testimony, Exhibits 5.6 and 5.7.
[55] PG&E Testimony, Exhibit 5.6.
[56] S&P's September 2020 report, at 5-6 (Attachment E) confirms S&P's July 2020 findings regarding PG&E's financial and business risk profiles and S&P's application of two negative modifiers.
[57] PG&E Testimony, at 5-Exh5.6-15 and 5-Exh5.6-17.

In order to achieve an investment grade issuer credit rating from S&P, PG&E would need to achieve a three-notch upgrade.[58] For S&P, the Securitization will help to improve PG&E's quantitative metrics, because S&P is likely to treat the debt portion of the Securitization as "off balance sheet," improving leverage metrics due to the retirement of temporary debt. However, even after the Securitization, PG&E's leverage metrics will remain well outside of S&P's criteria for investment grade based on PG&E's own assessment of the median levels required. Even with PG&E's ambitious spending plan, it is not clear that the improvement in quantitative metrics needed for an investment grade rating are achievable in any reasonable time frame. The needed improvement requires PG&E to execute other operating and financing activities that are not impacted by the Securitization, such as executing on its ambitious capital spending plan over the next few years, and demonstrating to the Commission that those expenses are reasonable and prudent, all while paying down a significant quantum of PG&E's existing (post-Securitization) debt.[59] In fact, using PG&E's own analysis, by 2022 the S&P Adjusted PG&E Debt will exceed S&P's Maximum Overall Debt Capacity [for an investment grade rating] by $7 billion.[60] Further, PG&E's results for its S&P's and Moody's credit metrics shown in PG&E's Exhibit 5.5[61] for the period 2020-2024 shows that the improvement in metrics is driven by increasing FFO, and in turn, earnings. Exhibit 5.5 also shows that the difference in metrics, with and without securitization, is relatively small over the five-year period

For S&P's qualitative assessment (holding credit metrics constant), PG&E's business risk profile would likely need to be raised from satisfactory to strong, <u>and</u> one or both of S&P's

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[58] PG&E Testimony, at 5-16, lines 14-17.

[59] When and if that growth occurs, PG&E's leverage metrics will improve. See, for example, from Moody's August 2020 report (Attachment E), "rate base growth through the significant infrastructure investments required will improve cash flow generation." Note that the improvement in financial metrics will only occur with rate increases, and only assuming that PG&E's expenditures are determined to be prudent and thus are recoverable from ratepayers through rate increases authorized by the Commission and/or FERC.

[60] This is the case even with an adjustment downward of $6 billion reflecting the Temporary Debt retired by the Securitization. PG&E Testimony at 5-45, Figure 5-13.

[61] PG&E Testimony, at 5-Exh5.5-1.

negative modifiers would likely need to be removed. All of this would need to happen before it is realistic for PG&E to achieve an investment grade issuer credit rating from S&P.[62]

For the Securitization to remove S&P's "management and governance" negative modifier, PG&E would likely need to overcome S&P's findings of "negative public sentiment."[63] PG&E's long history of problems, and the time needed to reliably demonstrate ways to improve its operational performance, will likely hamper or even prevent any improvement in "negative public sentiment."[64] The Securitization is a one-time financing event that has little or no ability, on its own, to improve PG&E's track record regarding ongoing governance, management and safety performance.[65] PG&E does not have a path to an investment grade rating unless and until PG&E's quantitative metrics <u>and</u> its qualitative performance are improved, with or without the Securitization.

Both S&P (in September 2020) and Moody's (in August 2020) cast doubts on PG&E's prospects for an investment grade issuer rating.[66] In its September report, S&P revised its Outlook for PG&E from "stable" to "negative." This is not a path towards investment-grade ratings.

In its September 2020 report, S&P also notes, for example:

- "Should the frequency of these [PSPS] blackouts and shut-offs increase, frustrated customers and politicians could negatively affect California's investor-owned electric utilities ability to consistently manage regulatory risk."
- "We could affirm the ratings and revise the outlook to stable over the next 6 to 12 months if PG&E's consolidated FFO to debt is consistently above 13%, California's

[62] PG&E Testimony, at 5-14 - 5-17 ("S&P Methodology and Assessment," including Figure 5-2).
[63] *Id.*, at 5-25, lines 13-19.
[64] *Id.*, at 5-25, line 15.
[65] PG&E Testimony, Exhibit 5.6, at 5-Exh5.6-3, regarding the "management and governance modifier" S&P states "we believe that it could take many years for the company to improve its culture and to consistently demonstrate improved oversight that is necessary to account for the company's unique enterprise risks."
[66] Attachment E.

investor-owned electric utilities are not found to be the cause of a catastrophic wildfire, and Pac Gas consistently demonstrates effective management of regulatory risk."

Moody's August 2020 report notes, for example:

- "Proposed securitization financing to be credit neutral."
- "Because of PG&E's history of safety problems, the company already faces greater social risk than most of its regulated electric and gas utility peers. PG&E needs to regain the trust of California regulators, state policymakers and, most importantly, its customers."
- "PG&E's credit quality will improve with each passing year as long as operational improvements and mitigation investments prevent the outbreak of catastrophic wildfires in its service territory."

Neither PG&E nor either of the rating agencies have indicated any "pathway" back to an investment grade rating.

Q22. Given your testimony and findings above, what would be the appropriate dollar amount for PG&E's 2017 wildfire costs that are eligible to be securitized, to ensure compliance with SB 901 and the STM Decision? (Scoping Memo Issues 1, 1.a, 1.b, 1.d, 1.e, 2.a)

A22. First, I recommend that the Commission take a conservative approach to ensure that SB 901 and the STM methodology do not impose avoidable harm to PG&E's ratepayers, because the Securitization transfers responsibility for imprudently-incurred costs from PG&E's shareholders to PG&E's ratepayers. The use of the Stress Test methodology to recover imprudently-incurred costs from ratepayers is intended to be a fix of last resort, used only in the most unusual circumstances, to ensure adequate and reliable service.[67]

Second, I accept PG&E's determinations that $7.5 billion of its total wildfire claims costs for 2017-2019 are attributable to 2017, and that its MIDC is "effectively zero."

[67] D.19-06-027, at 49-50.

A. Wildfire claims costs attributable to the 2017 wildfires (PG&E's request): $7.5 billion

B. PG&E's Maximum Incremental Debt Capacity: $0 billion

Third, as described above, I recommend the following for Excess Cash and the Regulatory Adjustment, taking a conservative approach for each:

C. PG&E's Excess Cash, accounting for offers received from public entities: $3.2 billion

D. The Commission-determined Regulatory Adjustment, based on 5% of the costs requested for recovery $375 million

Applying the Stress Test formula, the amount of imprudently-incurred costs to be recovered from ratepayers is A - (B+C+D),[68] so that amount can be no higher than **$7.125 billion.** Given the offers from the four public entities, this amount should be further reduced to **$3.9 billion**, so would be substantially lower than PG&E's request of $7.5 billion. However, PG&E does not have access to the Stress Test because PG&E has not shown a meaningful path to investment-grade issuer credit ratings.

[68] The STM Decision provides this formula: "The amount []allocated to ratepayers equals the total disallowed wildfire costs presented in the application for recovery [A above], minus the Customer Harm Threshold amount," (D.19-06-027, at 15-16; D.19-06-027, Attachment A, at 3) where the Customer Harm Threshold is equal to the sum of MIDC (B above), Excess Cash (C above), and the Regulatory Adjustment (D above) (D.19-06-027, Attachment A, at 4). This formula is identical to PG&E's formulas as shown in PG&E's Testimony, at 5-35, lines 10-14.

SECTION 3. PG&E'S PROPOSED SECURITIZATION IS NOT RATEPAYER NEUTRAL (SCOPING MEMO ISSUE 3)

Q23. Please summarize your findings regarding PG&E's determination that its proposed Securitization is neutral, on average, to ratepayers, as required by D.20-05-053.[69] (Scoping Memo Issue 3)

A23. PG&E's proposed future "Fixed Recovery Charges" (in $ and $/kWh) and "Customer Credits" (in $ and $/kWh) on customer bills are formulaic and include several variables that can (and will) change over time, allowing those two charges to change independently of each other. PG&E's proposed Securitization includes no requirement or assurances that the Customer Credits be equal to or even within an allowable margin of the Fixed Recovery Charges at any given time or over any period. To demonstrate ratepayer neutrality, PG&E only requires that there be an expectation that Customer Credits will be equal to or greater than the Fixed Recovery Charges, as measured cumulatively over 30 years, at the end of year 30, and on a nominal basis. To the extent that PG&E's expectations are not realized, ratepayers will not be adequately compensated for or protected from the costs and risks they have assumed.

Q24. Can you quantify the potential rate increase for PG&E's customers, if PG&E's Customer Credits to ratepayers are less than Fixed Recovery Charges? (Scoping Memo Issue 3)

A24. I can only provide a range of outcomes, because the extent and duration of potential rate increases depends on future circumstances (as explained further in my testimony).

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[69] By addressing ratepayer neutrality, this section also covers PG&E's provision of meaningful ratepayer protection measures, as required by the STM Decision. Note that the STM Decision includes two options for these protections, (i) equity warrants, or (ii) an alternative proposal by the utility that offers "equivalent or greater protections to ratepayers when compared to the equity warrants concept." D.19-06-027, Attachment A, at 15. For a request of $7.5 billion, use of the equity warrants concept would require about $2.8 billion of ratepayer protection, up front (15% of PG&E's equity value of $19 billion, at today's stock price of about $10/share (https://www.bloomberg.com/quote/PCG:US, accessed October 12, 2020).

However, PG&E's bill insert[70] on this topic provided to its residential and business customers shows the potential immediate rate increase before the application of any offsetting Customer Credits. Should there ever be a period during which Customer Credits are insufficient, the maximum rate increase would be at the levels shown ($0.0048/kWh, 2.2% average increase over all customer classes, based on rates current at the time of the bill insert).[71] This exposure to bill increases would extend for 30 years.

PG&E bill insert, June 2020, bottom of page 1:

A summary of the maximum impact for customers is included inside based on the proposals in this application.

PG&E bill insert, June 2020, top of page 2:

PROPOSED 2021 ELECTRIC RATE IMPACT

Customer Class	Current Average (¢/kWh) As of 3/1/20	Proposed Average (¢/kWh) As of 1/1/21	Total Change (¢/kWh)	Percentage Change
Bundled Service				
Residential	22.67	23.11	0.44	1.9%
Small Commercial	25.93	26.44	0.51	2.0%
Medium Commercial	23.12	23.63	0.51	2.2%
Large Commercial	20.34	20.84	0.51	2.5%
Streetlight	26.63	27.16	0.53	2.0%
Standby	16.66	17.16	0.51	3.0%
Agriculture	22.02	22.53	0.51	2.3%
Industrial	16.25	16.75	0.51	3.1%
Average System Rate Change	21.56	22.04	0.48	2.2%

Q25. Please explain your understanding of PG&E's definition of "ratepayer neutrality" as those terms are used in the STM Decision and the Bankruptcy Decision. (Scoping Memo Issue 3)

[70] https://www.pge.com/pge_global/common/pdfs/your-account/your-bill/un derstand-your-bill/bill-inserts/2020/0620-Recovery-Bond-Charge.pdf

[71] A rate increase of $0.0048/kWh is roughly the same magnitude as the DWR Bond Charge (now used to fund ratepayer contributions to the Go-Forward Wildfire Fund, available to fund future catastrophic wildfire damages under specific circumstances).

A25. In this proceeding, PG&E claims that the Securitization is "designed to be rate-neutral,"[72] and that this design meets the requirements of AB 1054, to which the transaction must be held, according to Decision 20-05-053.[73] PG&E asks the Commission to rely on PG&E's <u>expectation</u> that Customer Credits will equal Fixed Recovery Charges in each year,[74] but PG&E concedes that shortfalls in Customer Credits (in a billing period or longer) may occur: "PG&E recognizes that customers would bear some risk that the Customer Credit Trust could experience a shortfall in some period(s) or become exhausted prior to the repayment of the Recovery Bonds and associated financing costs."[75] PG&E's definition of "ratepayer neutrality" is measured only in nominal terms, at the end of 30 years.[76]

To compensate ratepayers for the risks and costs imposed on them, PG&E proposes to share 25% of any additional funds remaining in the Trust in year 30 with ratepayers, and contends that "this represents a significant opportunity for customers."[77] PG&E argues that this opportunity, along with reductions in PG&E's authorized cost of capital should it achieve investment grade credit ratings,[78] "adequately mitigate" the risks and costs imposed.[79] Without a path to investment grade credit ratings, compensation and protection for risks and costs is de minimis.

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[72] PG&E Testimony, at 5-3, lines 22-25.
[73] PG&E Application, at 9, fn. 20.
[74] See Attachment I, PG&E Response to Public Advocates Office First Set of Data Requests (dated July 6, 2020), Question 17: "PG&E has committed to a rate-neutral Securitization. As PG&E stated in the Chapter 11 Cases: 'The Securitization structure is anticipated to yield a full (nominal) offset each year to securitized charges.' PG&E submits that this is the relevant standard for purposes of evaluating rate neutrality pursuant to the Plan of Reorganization OII Decision, D.20-05-053." See also, PG&E Testimony, at 1-2, lines 15-17.
[75] PG&E Application, at 10, "PG&E submits that this modest risk is adequately mitigated by the significant customer benefits associated with the proposed Securitization."
[76] PG&E Testimony, at 6-2, lines 11-18, and PG&E Testimony, at 6-14, lines 4-8: "PG&E forecasts that the combination of the Initial Shareholder Contribution, the Additional Shareholder Contributions and the Customer Credit Trust Returns will be sufficient to equal or exceed the FRCs over the period the Recovery Bonds are outstanding, thereby providing rate neutrality for customers."
[77] PG&E Testimony, at 1-14, lines 2-3.
[78] *Id.*, at 6-19, lines 8-11.
[79] PG&E Application, at 10.

Q26. What specific financial commitments is PG&E making towards achieving ratepayer neutrality? (Scoping Memo Issues 3, 3.b)

A26. While PG&E's shareholders are making significant financial commitments to support this transaction, PG&E's commitments to make Additional Shareholder Contributions make up the bulk of those commitments, and those are conditional and capped, such that the amount and timing of those Additional Shareholder Contributions are not tied to the securitized debt obligations that are transferred to ratepayers. This structure separates PG&E's obligation to support its going-forward commitments from its ratepayers' irrevocable obligations to cover the semi-annual costs of servicing the bonds on a timely basis. This structure makes PG&E's commitment to rate neutrality conditional, such that PG&E can only offer its expectations that the transaction will be ratepayer neutral.

As explained above, PG&E states as much in its Testimony. PG&E's commitments to the Customer Credit Trust are not assured,[80] and will only occur to the extent that PG&E is able to generate taxable income[81] in a given period, and then only to the extent that its taxable income in that period is not exhausted by other tax losses that remain unused and are not otherwise dedicated to this transaction.[82] According to PG&E, there is likely nothing PG&E can do to address this disparity.[83]

PG&E's shareholder commitments (in $ and terms) relative to the payment obligations PG&E proposes to put on its ratepayers are summarized in Table 3. Before any consideration of timing mismatches or shortfalls that may occur, the obligations PG&E places on ratepayers exceed PG&E's obligations to support the transaction by 22%, or $2 billion.[84]

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[80] See, for example, PG&E Testimony, at 6-9, lines 21-27; at 6-12 lines 7-17.

[81] In ratemaking, revenue requirement, and accounting terminology, "taxable income" is the same as "earnings before taxes" and represents returns to shareholders prior to PG&E's payment of its tax obligations. "Taxable Income in a given period" is the same as "Current Period Taxable Income."

[82] PG&E Testimony, at 6-8, lines 27 – 6-9, line 3.

[83] *Id.*, at 1-14, lines 7-12.

[84] Here, returns earned on the Trust balance are treated as earned by the Trust, so are excluded from the up-front dollar commitment provided by PG&E.

Table 3. Ratepayer commitments exceed PG&E's commitments by $2 billion
(nominal $ over 30 years)

PG&E Shareholder Commitments to Ratepayers In $		Shareholder Commitment Limits, Constraints, Contingencies[85]
1	Initial Shareholder Contribution: **$1.8 billion** in cash when transaction is completed	None
2	Additional Shareholder Contributions: **Up to $7.59 billion** in cash, but no commitment on when, except as determined by a formula	**Several**; timing and level of PG&E's future annual obligations is limited by: o PG&E's future earnings (taxable income) o PG&E's ability to grow its rate base as projected o Timing of PG&E's use of Ratepayer NOLs
3	25% of any Customer Credit Trust **Residual in year 30**	Value of the Residual in year 30 is driven by: o Actual timing and level of PG&E's Additional Shareholder Contributions (#2) o Actual interest and servicing costs on the bonds, and administrative costs of the Trust o Actual investment earnings on the balance in the Trust
Total PG&E Commitment	**$9.4 billion maximum** + 25% of 30-yr residual, if any nominal $ over a 30-year period	Contributed over time based on future circumstances; no adjustments based on actual timing of contributions

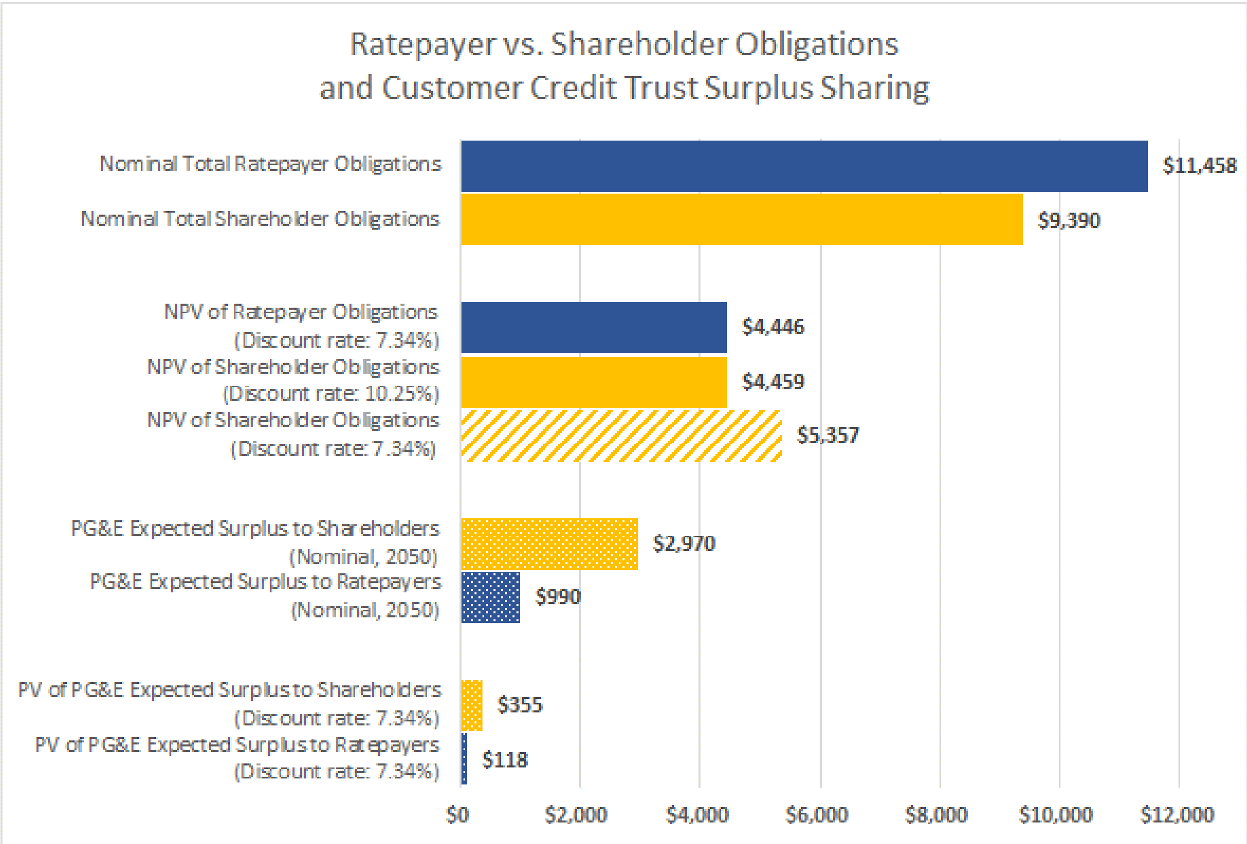
Ratepayer Commitments to Pay Annual Costs to Service the Securitized Bonds in $		Ratepayer Commitment Limits, Constraints, Contingencies
Total Ratepayer Commitment	**$11.5 billion**[86] nominal $ over a 30-year period	**None**; timing and level fixed upon issuance of the securitized bonds

Ratepayer Commitment in Excess of PG&E's commitment	**$2.1 billion** (less 25% of residual in 2050, if any) nominal $ over a 30-year period **+22% higher burden on ratepayers**

[85] Not intended to be an exhaustive list.

Figure 1 shows the relative value of the obligations and benefits of the transaction over its 30-year life, for both PG&E and PG&E's ratepayers. From most of these perspectives, ratepayer obligations exceed shareholder obligations, and shareholder benefits exceed ratepayer benefits.[87]

Figure 1[88]



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[86] Debt service, fees and expenses on $7.5 billion of debt over 30 years; average annual cost = $382 million/yr. PG&E Testimony, Table 6-3.

[87] Only on a net present value basis are ratepayer obligations less than PG&E's obligations, and because of the mismatch in the duration of the obligations, that result is sensitive to the discount rate used. Due to the uncertainty of the timing of PG&E shareholder obligations, primarily driven by uncertainty in PG&E's future taxable income over the next 5-10 years, a more appropriate discount rate at which to value those future obligations over time would be 10.25% or greater (PG&E's currently authorized return on equity).

[88] PG&E's "expected surpluses" as provided in PG&E Testimony, at 1-14, lines 1-2. The "expected" case is based on the results of PG&E witness Allen's testimony in PG&E Testimony, Chapter 6.C (Investment Returns).

Figure 1 also shows the value of the sharing of the dollars remaining in the Trust at the end of year 30. Not only is the value of the benefits to be shared small relative to the total obligations, PG&E's proposed sharing of those benefits (75% PG&E, 25% to ratepayers) favors PG&E, while the obligations are greater for ratepayers.

These comparisons largely refute PG&E's claims that benefits to ratepayers are "substantial" and "more beneficial for ratepayers than rate neutrality." [89]

Q27. Beyond the ratepayers' excess burden of $2 billion that results from PG&E's proposed Securitization, are PG&E's shareholder obligations at all balanced with ratepayer obligations over time? (Scoping Memo Issues 3, 3.a, 3.b)

A27. The details of the extent of PG&E's commitment to support its obligations to ratepayers reveal that, in fact, PG&E's financial commitments to the transaction are not at all matched to the commitments ratepayers are making to cover nearly $400 million/yr in debt service due on $7.5 billion in bonds every year for the next thirty years.

PG&E's Testimony, Figure 6-1[90] (excerpted below) is a graphical representation of PG&E's financial commitments to ratepayers #1 and #2 in Table 3 above, for a single scenario (red bars). The blue bars of Figure 6-1 also equate to ratepayers' financial commitments to bond holders, which are fixed in all scenarios.

[89] Attachment I, PG&E Response to Public Advocates Office First Set of Data Requests, Question 17.
[90] PG&E Testimony, at 6-24. In this specific scenario, the Customer Credits are equal to the FRCs in all years.

FIGURE 6-1
CUSTOMER CREDIT TRUST CASH FLOWS

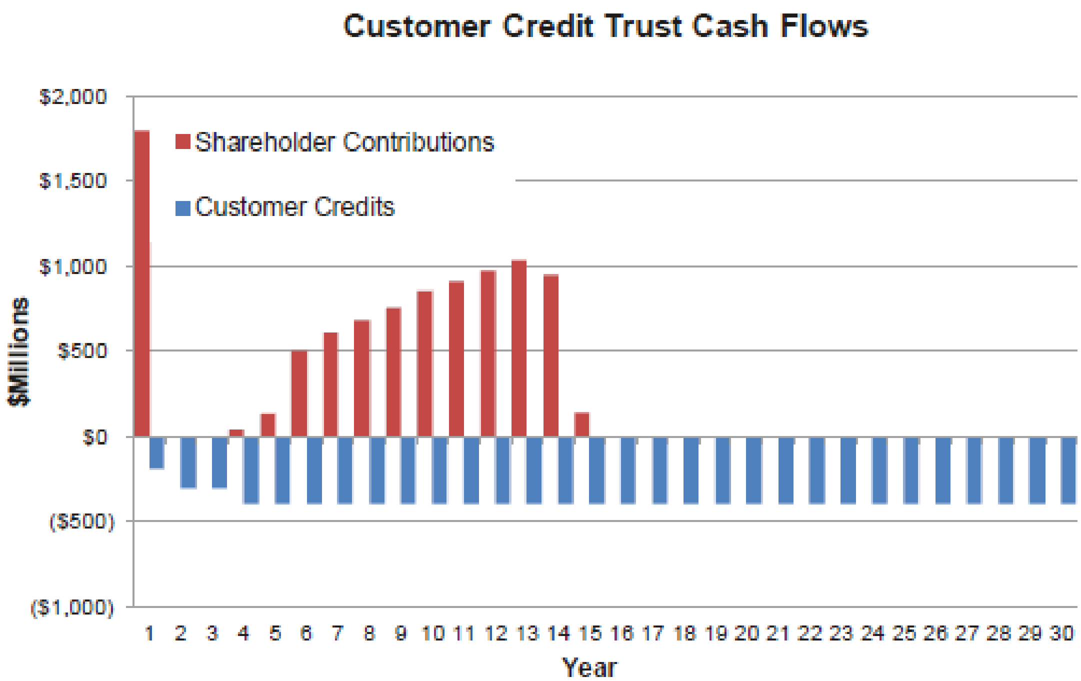
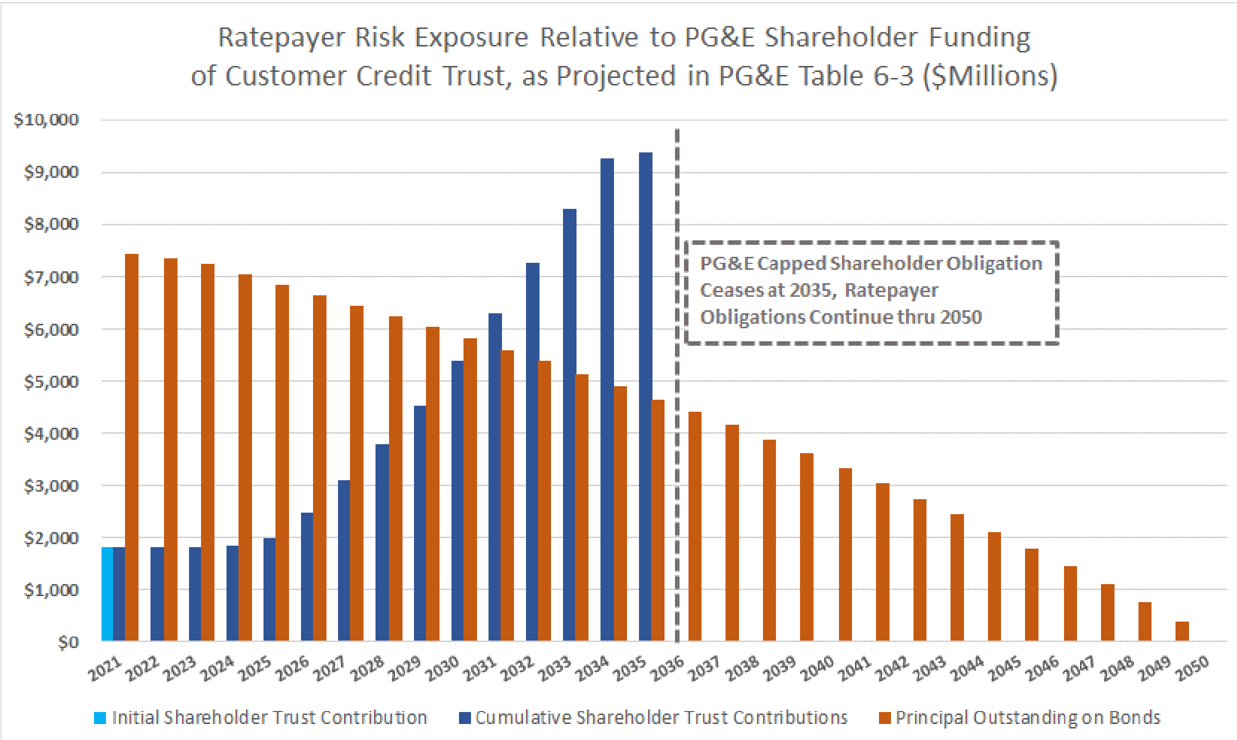


Figure 2 provides a different perspective, showing ratepayer risk exposure over time (shown as the remaining balance on the securitized bonds) relative to shareholder risk exposure over time (shown as PG&E's cumulative contributions to the Trust).[91]

[91] Note that PG&E's Additional Shareholder Contributions are contingent on future circumstances, with no assurances or financial reserves provided up-front or during the term of PG&E's obligations. In the event of a bankruptcy at any time prior to the expiration of PG&E's commitments, for example, PG&E's going-forward obligations would be terminated. Once PG&E's contributions are made, PG&E has no remaining obligations. This chart shows PG&E's commitments as reflected in PG&E's Figure 6-1, where its contributions are expected to be completed in 2035.

Figure 2



Q28. What are some of the future uncertainties and circumstances that could result in Customer Credits that are insufficient to cover Fixed Recovery Charges? (Scoping Memo Issues 3, 3.a, 3.b, 4.a, 4.c, 4.d)

A28. From my review of PG&E's Testimony, Chapters 5 and 6, changes in at least the following variables will delay PG&E's obligations to fund the Customer Credit Trust or increase ratepayers' Fixed Recovery Charge obligations.

1. Higher actual interest cost and administrative expenses for the securitized bonds (2.9%/yr interest on the bonds and $4 million/yr in expenses assumed in Figure 6-1).[92]

[92] PG&E Testimony, Table 6-3, lines 3-5 and notes (not numbered).

2. Lower actual investment earnings (investment returns on the balance of the Customer Credit Trust) or higher administrative expenses for maintaining the Customer Credit Trust in any given year (2.79% constant return after taxes and annual Trust expenses of $500,000/yr and investor advisor fees assumed in Figure 6-1).[93]

3. Lower annual taxable income for PG&E (the utility, excludes PG&E Corp.) than assumed in PG&E's Testimony Table 6-2, lines 3 (Federal) and 12 (State), e.g., due to lower rate base growth than expected, higher operating costs than expected, lower rate increases than projected, unexpected catastrophic losses not covered by insurance or other support, or other financial performance issues.

4. Higher volatility in PG&E's taxable income year over year (constant growth in PG&E's taxable income is forecasted in Table 6-2).

5. Lower Federal or State tax rates (21% federal and 8.84% assumed in Table 6-6-2).

6. A slower pace for utilization of Ratepayer NOLs than assumed in Table 6-2 (PG&E's pace of its utilization of Ratepayer NOLs is also driven by PG&E's taxable income).

If these circumstances occur (individually or taken together), the Customer Credit Trust balance may be less than amounts then due on the securitized bonds, resulting in Customer Credits that are less than the Fixed Recovery Charges. Customer Credits insufficient to cover Fixed Recovery Charges at any time would result in overall rate and bill increases for ratepayers.

In response to data requests,[94] PG&E acknowledges that its obligations to fund its Additional Shareholder Contributions are limited and constrained by future circumstances:

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[93] PG&E, Testimony, Table 6-3, notes (not numbered) and note 6.

[94] Attachment J, PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 4.

> Under PG&E's proposal, there are no circumstances where PG&E would contribute more than $7.59 billion of Additional Shareholder Contributions…
>
> and
>
> The Additional Shareholder Contributions could be less than $7.59 billion if income tax rates decline, if there is a change in tax law that limits the use of Shareholder Deductions, if there is a change of ownership under section 382 of the Internal Revenue Code that limits the use of Shareholder Deductions, or if PG&E does not generate sufficient taxable income over the life of the bonds to utilize the Shareholder Deductions…

Q29. Has PG&E tested the sufficiency of Customer Credits to fully offset ratepayers' Fixed Recovery Charges under any of the circumstances you've identified above? (Scoping Memo Issues 3, 3.a, 3.b, 4.a, 4.c, 4.d)

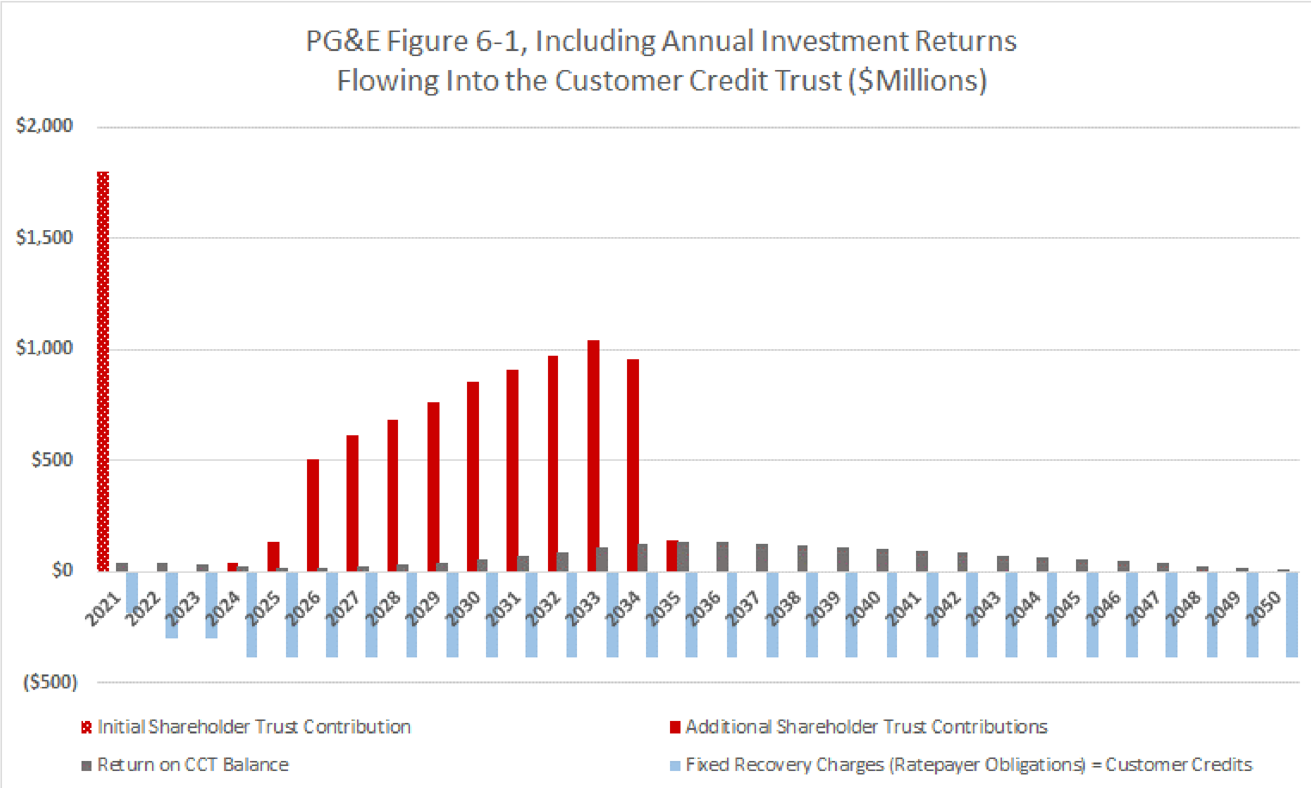
A29. From my review of PG&E's Testimony, the only uncertainty that PG&E tested is #2 above, future investment returns on the balance in the Customer Credit Trust.[95] The dollars of investment returns is a relatively small component of the cash flows into and out of the Trust. Figure 3 replicates PG&E's Figure 6-1 (shown above), but adds the flow of investment returns to show their relative scale. Even if the average annual level of returns was significantly higher than in PG&E's Figure 6-1, the annual increase in the balance of the Trust would be dwarfed by the relative value of PG&E's Additional Shareholder Contributions.

Through data request responses,[96] PG&E confirms that it did not provide analysis of any of the other uncertainties I have identified above.

[95] This uncertainty is reviewed in PG&E Testimony, Chapter 6.C (Investment Returns).

[96] See Attachment K, PG&E Response to Public Advocates Office Second Set of Data Requests (dated September 14, 2020), Question 9: "All of the 2,000 simulations referenced in Mr. Allen's testimony used the same assumptions for the Additional Shareholder Contributions."

Figure 3



Q30. Have you tested any of the uncertainties above that were not addressed in PG&E's Testimony? (Scoping Memo Issues 3, 3.a, 3.b, 4.a, 4.c, 4.d)

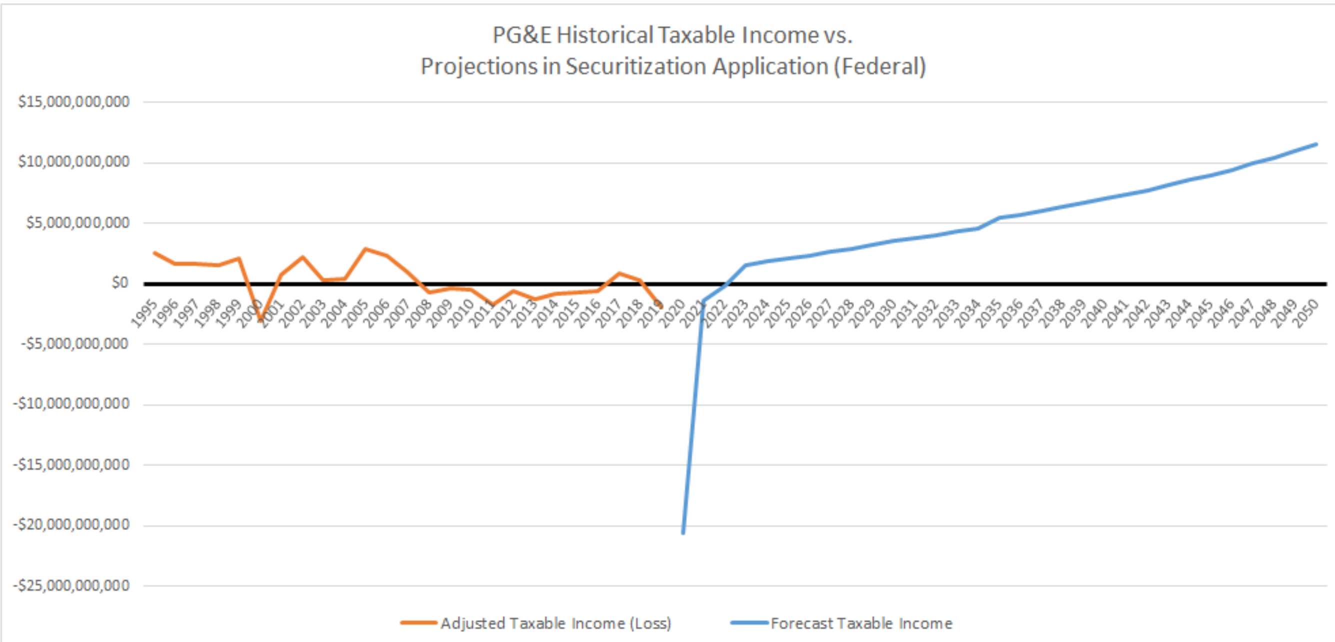
A30. Yes. My primary focus is on potential variations to PG&E's forecast of its taxable income, particularly over the first 5-10 years of the 30-year Securitization. Although I have not tested every variable, I am confident that deviations from PG&E's forecast of its taxable income is the or one of the most significant factors that undermines the ratepayer neutrality of PG&E's proposed Securitization.

First, Figure 4 shows PG&E's projection of its "Forecast Taxable Income" used in Figure 6-1 and in Table 6-2, and PG&E's "Adjusted Taxable Income" historically, as provided by PG&E in a response to a San Francisco data request for historical results that would be parallel to PG&E's projections of its Forecast Taxable Income.[97] Clearly, PG&E is forecasting a much

[97] Attachment L, PG&E Response to CCSF First Set of Data Requests (Revised) (October 5, 2020), Question 11.

steeper and smoother path of income growth compared to its historical results for the same measure.

Figure 4



Q31. What is likely to drive PG&E's future taxable income? (Scoping Memo Issues 3.b, 4.a, 4.c, 4.d)

A31. In general, for a regulated utility, one would expect future earnings growth to be in line with and driven by future expected rate base growth.[98] Especially more recently, but prior to the 2017 wildfires and PG&E's significant financial difficulties, PG&E's rate base has grown while its taxable income has not.[99] PG&E is forecasting significant increases in its rate base,[100] but that growth is dependent on several factors, some of which are outside of PG&E's control. These factors include PG&E's ability to execute its capital spending plan, the Commission's approval of rate base additions at these levels, avoidance of significant losses due to unforeseen

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[98] PG&E agrees. Attachment M, PG&E Response to Energy Division First Set of Division Data Requests (dated September 2, 2020), Question 2.

[99] Attachment N, PG&E Response to CCSF Third Set of Data Requests (dated October 2, 2020), Question 8.

[100] PG&E investor presentation provided in response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 2 (Attachment O).

catastrophic events that are not otherwise covered, unexpected reductions in load (for example, due to the COVID-19 pandemic or similar events) without offsetting rate increases, and outside factors such as competition for labor and materials alongside other utility and non-utility construction projects.

Q32. What happens to the balance in the Customer Credit Trust if PG&E's actual taxable income falls below its projections? (Scoping Memo Issues 3, 3.a, 3.b, 4.a – 4.d)

A32. Using three simple reductions to PG&E's taxable income forecast as the result of reductions in PG&E's Adjusted[101] Income Before Taxes (at 80%, 70%, and 60% of PG&E's forecast) shows that the balance in the Customer Credit Trust could fall below the funds needed to offset ratepayers' Fixed Recovery Charges. In that event, and until the balance is restored, PG&E ratepayers will see bill increases (because the Customer Credits will be automatically reduced).

Both PG&E's taxable income forecast and the lower taxable income scenarios tested are shown in Figure 5.

[101]For these scenarios, I reduced PG&E's forecasts of its "Preliminary Adjusted Utility Income Before Taxes" in the Taxable Income Forecast tab of its workpapers to Chapters 3, 6, and 7. I also changed the formulas in PG&E's Table 6-2 tab (in PG&E's workpapers) so that the balance in the CCT could not fall below zero.

Figure 5

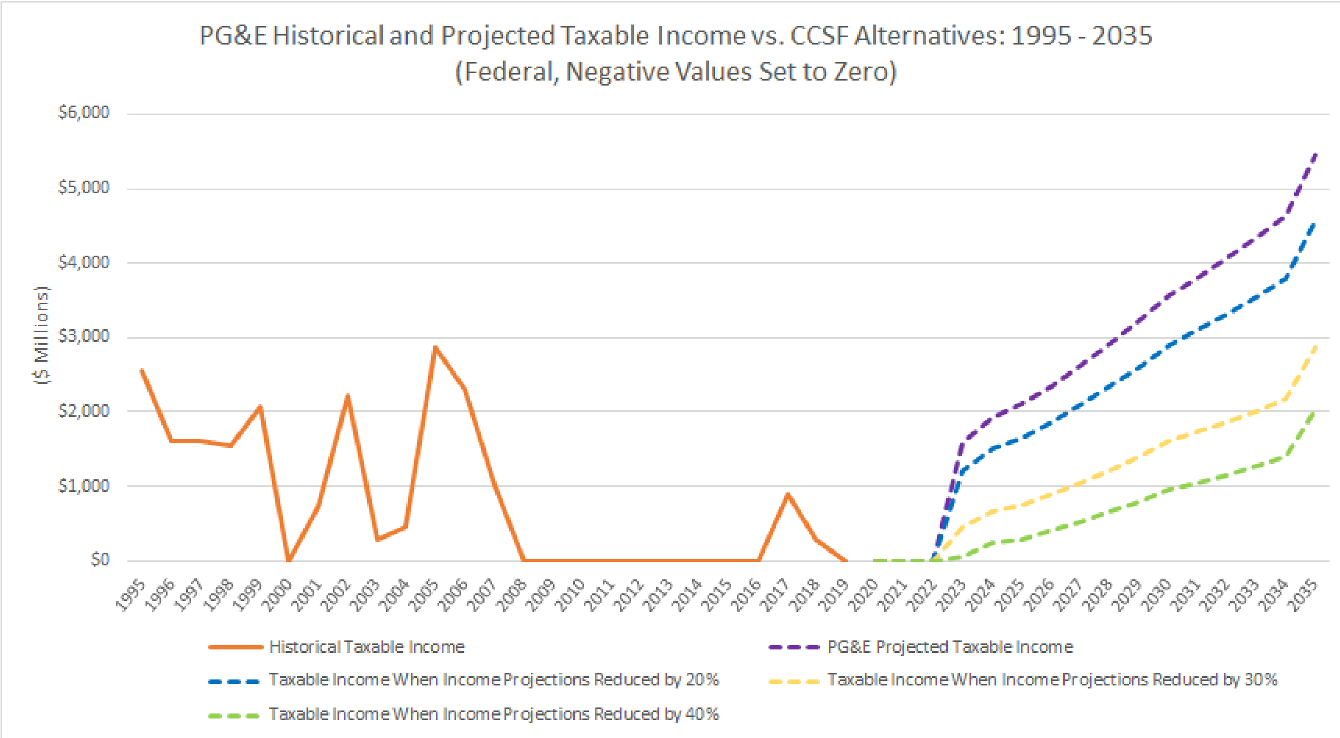


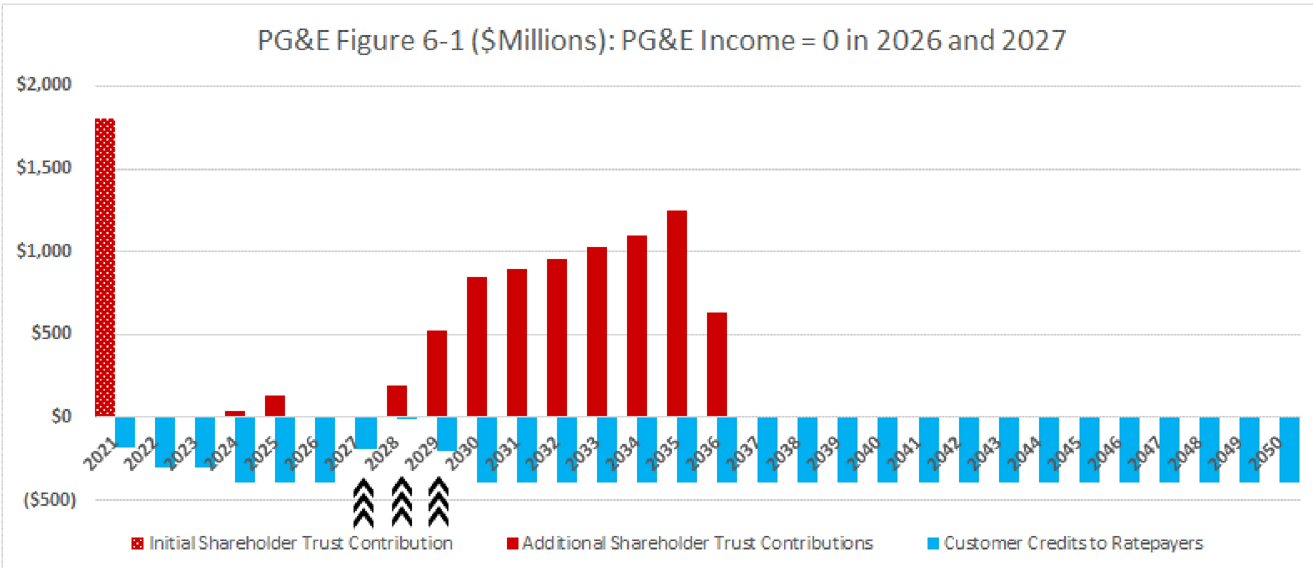
Figure 6 shows the cash flows into and out of the Trust using these four forecasts of taxable income. The black arrows show the years in which the balance in the Trust is insufficient to fund Customer Credits to cover Fixed Recovery Charges, resulting in bill increases for ratepayers.

Figure 6


PG&E Figure 6-1 ($Millions): PG&E Projections
PG&E Figure 6-1 ($Millions): 20% Reduction in PG&E Income Projections
PG&E Figure 6-1 ($Millions): 30% Reduction in PG&E Income Projections
PG&E Figure 6-1 ($Millions): 40% Reduction in PG&E Income Projections
$2,000
$1,500
$1,000
$500
$0
($500)
2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050
Initial Shareholder Trust Contribution
Additional Shareholder Trust Contributions
Customer Credits to Ratepayers

Figure 7 tests a two-year period during which PG&E's Preliminary Adjusted Utility Income Before Taxes is zero, for example, in the event of catastrophic losses totaling more than about $8-$10 billion for the two years 2026 and 2027. In this scenario, Customer Credits are lower than Fixed Recovery Charges for the three years 2027-2029.

Figure 7



Q33. What do these results show in terms of the ratepayer neutrality of PG&E's proposed Securitization? (Scoping Memo Issues 3, 3.a, 3.b, 4.a – 4.d)

A33. These results show that PG&E's proposed Securitization will not be ratepayer neutral, and will provide no meaningful ratepayer protections or compensation. Ratepayers are vulnerable over the next five to ten years, and also over the next 30 years.

Over these same time periods, there is little doubt that PG&E will provide its shareholders with benefits totaling millions or billions of dollars, in the form of dividends, cash used to pay down PG&E corporate debt, executive employee salary increases and stock benefits, and other benefits.

SECTION 4. PG&E'S CALCULATION AND APPLICATION OF CUSTOMER CREDITS TO FUTURE DEPARTING MUNICIPAL CUSTOMERS MUST BE THE SAME AS FOR PG&E'S OTHER CUSTOMERS THAT ARE SUBJECT TO FIXED RECOVERY CHARGES (SCOPING MEMO ISSUE 9)

Q34. How does PG&E intend to treat departing municipal customers,[102] with respect to the proposed Securitization transaction, Fixed Recovery Charges, and Customer Credits? (Scoping Memo Issue 9)

A34. PG&E's proposed treatment of departing municipal customers with respect to the proposed Securitization transaction is not clear. As stated in San Francisco's protest to this Application:

> There does not appear to be any discussion of a means or methodology for departing municipal customers to continue to receive the Customer Credits, which raises the concern that those customers will be responsible for paying the fixed recovery charges, but will not receive associated credits. Further, relieving the Trust of the obligation to make Customer Credit payments to departing municipal customers would increase the amount of projected Trust "surplus" on a dollar for dollar basis, 75% of the benefit of which would go to PG&E shareholders. This outcome would be unfair and unnecessary and would unreasonably interfere with the constitutional and statutory rights of public entities to provide utility service.[103]

Based on further review of the Testimony and PG&E's responses to data requests, San Francisco's concerns remain. PG&E is quite clear that departing municipal customers' burden to pay the fixed recovery charges will not change regardless of whether they continue to be served

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[102] Here, departing municipal customers are those customers who leave PG&E electric service for electric service from a public entity, and to the extent that the loads of those customers are subject to the FRCs proposed in PG&E's Application. These departing municipal customers include individual customers in overlapping service areas or groups of customers departing as a result of a municipalization by an entity that does not set retail rates subject to the Commission's regulation.

[103] Protest of the City and County of San Francisco to A.20-04-023 (June 4, 2020), at 12, fn. 33, citing Cal. Const. Art. XI, sec. 9 (local governments have the right to provide electric service) and Art. I, sec. 19 (local governments have the right to take property by eminent domain); also see, California Water Code section 22115 (irrigation districts may provide for the generation, transmission, distribution, sale, and lease of electric power) and California Water Code section 22456 and California Code of Civil Procedure section 1240.020 (irrigation districts are vested with authority to exercise the power of eminent domain).

by PG&E. Any approval of PG&E's proposed Securitization must be equally clear that to the extent that any departing municipal customers continue to bear the burden of FRCs, they will also receive associated Customer Credits and Customer Trust surplus on the same basis as other customers who depart PG&E service, as well as customers who remain on PG&E service. PG&E's Testimony and data request responses seem to provide inconsistent views on this basic point.

In its Testimony, PG&E makes several general statements regarding the interaction between departing municipal customers and the cash flows associated with its proposed Securitization transaction. On page 3-15 of its Testimony, PG&E states:

> In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would ensure continued payment of FRCs and funding of the Customer Credit Trust (as defined in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen)) for the Customer Credit by placing conditions on the Commission's approval of the transaction. By conditioning its approval on the continued payment of FRCs and funding of the Customer Credit Trust for the Customer Credit, the Commission's approach would respect the State's legal obligation not to limit or alter the FRCs until the Recovery Bonds are fully paid.[104]

My concern with this language is that it only addresses continued collection of FRCs from departing municipal customers. This language does not state that those customers would also receive the associated Customer Credits and Customer Credit Trust surplus like other departing customers and PG&E's bundled customers.

In Chapter 9 of its Testimony, PG&E seems to imply that departing municipal customers subject to the FRCs would receive Customer Credits and their share of the Customer Credit Trust Surplus in a manner consistent with other departing customers and PG&E's bundled customers.

[104] PG&E Testimony, at 3-15, line 21 – 3-16, line 5.

> For [departing] customers, PG&E proposes to calculate the FRC-related amounts that would need to be paid, as well as the amounts of the Customer Credit, using an approach that is consistent with the method currently in place for calculation of other DL charges. For example, new municipal DL customers would pay the FRC (and be entitled to receive the associated benefit of the Customer Credit) based on one of the following: (1) the last 12 months of the customer's recorded pre-departure use; or (2) actual use.[105]

In addition, Exhibit 3.1, Form of Financing Order for Proposed Securitization, includes a proposed finding of fact related to departing municipal customers:

> Consumers in PG&E's Service Territory that no longer take transmission or distribution retail service from PG&E after the date of this Financing Order, or that meet relevant criteria in the applicable tariff, will be treated as departing load (DL) Consumers using applicable language under existing tariffs for DL Consumers, and will be subject to pay Fixed Recovery Charges and entitled to receive the Customer Credit.[106]

However, in response to a data request, PG&E seems to modify its position and states that, "In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, <u>the Commission would determine the continued application of the Customer Credits and Customer Credit Trust surplus sharing</u>."[107]

Q35. What is your concern with the language in PG&E's Testimony related to municipal departing customers? (Scoping Memo Issue 9)

A35. It is unclear whether PG&E's proposed transaction includes a commitment that departing municipal customers subject to the FRCs will also receive the associated Customer Credits and Customer Credit Trust surplus like other departing load customers and PG&E's bundled customers. While PG&E emphasizes the importance of collecting the FRC from departing municipal customers, the Commission must recognize the importance of also providing

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[105] *Id.*, at 9-2, lines 14-21; also see, similar language in PG&E Testimony, Exhibit 3.1, at 3-Exh3.1-76, proposed Ordering Paragraph 12.
[106] PG&E Testimony, Exhibit 3.1, at 3-Exh3.1-50, proposed Finding of Fact 23.
[107] Attachment P, PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 2 (emphasis added).

those customers with any and all corresponding benefits associated with the Customer Credit Trust.

Q36. Why should municipal departing customers be treated the same as other customers in this regard? (Scoping Memo Issue 9)

A36. An obligation to pay the FRC without the associated Customer Credits and Customer Credit Trust surplus would not be neutral to departing municipal customers, and would be manifestly unfair and discriminatory in that municipal departing customers would be subsidizing the Trust balance to the benefit of remaining bundled customers, other departing customers subject to the FRC, and PG&E shareholders. This patently inequitable result could have the consequence, intended or otherwise, of discouraging public entities from exercising their constitutional and statutory rights to provide utility service to their constituents, and would be an unreasonable and altogether unnecessary outcome of PG&E's proposed Securitization.

Q37. How does San Francisco propose to resolve this issue? (Scoping Memo Issue 9)

A37. The Commission's decision in this proceeding should be explicit in a Finding of Fact and/or Conclusion of Law that departing municipal customers should be treated the same as PG&E's other customers by receiving any benefits of the Securitization to the extent those customers must contribute to the costs of the transaction. The Commission does not need to wait for a future municipalization or acquisition of PG&E's facilities by a public entity in order to make such findings or conclusions.

SECTION 5. RECOMMENDATIONS

Q38. Are there ways to improve PG&E's proposal to ensure that it has met the requirements of SB 901, the STM Decision, and the ratepayer neutrality requirement in the Bankruptcy Decision? (Scoping Memo Issues 3.b, 3.d, 3.e)

A38. Yes, at a minimum PG&E needs to comply with SB 901, the STM Decision, and the Bankruptcy Decision. First, PG&E needs to provide the Commission with a comprehensive evaluation of the offers recently received from public entities to purchase assets and take over service obligations in their communities. In addition, the Commission should apply the maximum regulatory adjustment allowed pursuant to the STM Decision (here, the greater of $375 million or 20% of any potential asset sales not already included in Excess Cash).

Second, PG&E must demonstrate the Securitization (in whatever amount is ultimately allowed pursuant to the Stress Test) will meaningfully provide a path to PG&E's achievement of investment-grade issuer ratings. That path must consider PG&E's current circumstances, and be free and clear of barriers that preclude an investment-grade issuer rating.

Finally, to provide ratepayer neutrality, PG&E needs to demonstrate that it will, and not just expect to, provide ratepayer neutrality as long as the Securitization remains in place. Fixed Recovery Charges collected from ratepayers and the Customer Credits provided by shareholders must be equal when measured not only over the life of the Securitization, but also when measured over periods at least as short as one year, for all years. To the extent Customer Credits fall short, PG&E must commit to make up the shortfall, with no expiration of that commitment until ratepayers are made whole. In addition, ratepayers must be compensated for the risks they are taking in an amount that is commensurate with the size and duration of the $7.5 billion, 30 year obligation that ratepayers are assuming.

Q40. Does that conclude your testimony?

A40. Yes.

Attachment A

Margaret A. Meal Statement of Qualifications and Resume

ATTACHMENT A

STATEMENT OF QUALIFICATIONS FOR MARGARET A. MEAL

Margaret Meal is presently employed by the City and County of San Francisco Public Utilities Commission (SFPUC) as the Manager for Acquisition Analysis for the Power Enterprise. Since joining the SFPUC in February of 2010, Ms. Meal has been responsible for negotiating and structuring contracts for operating services and other arrangements. She is also responsible for policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and commercial opportunities. Her duties include monitoring and analyzing current and proposed state and federal energy policies and regulations, rate making, rate design and cost structures for electric utilities, and risk assessment of power supply alternatives on behalf of the SFPUC. In addition, she led the team that developed the business plan for the Power Enterprise in 2016 and the analytical team supporting Power Enterprise's recent efforts to acquire PG&E's electric delivery assets in San Francisco.

Ms. Meal has worked in the electric power industry for the entirety of her career (over thirty years), primarily as a consultant advising business interests, public agencies, investors, lenders, and regulatory agencies on financial and economic issues, including asset valuation, risk assessment, financing alternatives, utility cost of capital, and ratemaking. She has provided written and oral testimony to the California Public Utilities Commission, the Federal Energy Regulatory Commission, and various other state public utility commissions on numerous occasions.

Ms. Meal earned her B.S. in Civil Engineering from Stanford University and her M.S. in Energy and Resources from the University of California, Berkeley. Her resume is also included in this attachment.

Margaret (Meg) A. Meal

Ph 415-554-1518

MAMeal@sfwater.org

BUSINESS DECISION MAKING AND REGULATORY/LEGISLATIVE ADVOCACY

Expert in financial and business planning, legislative and regulatory interpretation and analysis, risk assessment, and development of risk mitigation strategies, with a focus on stakeholders in the electric power sector. Successful advocacy for legislative and regulatory modifications to support public policy initiatives and to improve commercial opportunities for both public and private-sector stakeholders. Provision of expert witness testimony in support of legislative and regulatory interpretation and proposed modifications, civil litigation and dispute resolution. Development of analytical tools for financial forecasting, comparison of characteristics across alternative operating and capital deployment strategies, estimates of stakeholder impacts, and scenario analyses. Proven ability to develop and execute results-oriented analysis and recommendations.

CORE COMPETENCIES

- Financial Modeling, Scenario Analysis
- Asset and Corporate Valuations
- Risk Assessment, Contract and Credit Analysis
- Infrastructure Planning for New Service Needs
- Legislative/Regulatory Analysis and Advocacy
- Utility Rate Making and Rate Design
- Expert Witness Testimony
- Training, supervision and mentoring

CAREER SUMMARY

SAN FRANCISCO PUBLIC UTILITIES COMMISSION San Francisco, CA 2010-2017, April 2018-present

The SFPUC is San Francisco's municipal power, water and sewer provider.

Manager, Business and Financial Analysis and Utility Specialist. Expertise, analysis and advocacy regarding legislative, regulatory and financial issues that affect the SFPUC's electricity operations and its clean power initiatives. Policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and commercial opportunities. Led team that developed the business plan for the Power Enterprise in 2016 (sfwater.org/modules/showdocument.aspx?documentid=14488) and analytical team supporting Power Enterprise's 2019 efforts to acquire PG&E's electric delivery assets in San Francisco.

CONSULTANT San Francisco, CA 1997-2010

Business, financial and regulatory consulting for participants in the electric power industry.

- Legislative and regulatory advocacy, review of existing and proposed statutes and regulations and analysis of likely impacts on stakeholders
- Litigation support, including development of discovery requests and analysis of responses, development of expert reports and expert testimony, and assistance with briefs and pleadings; preparation and delivery of oral and written testimony
- Economic and financial analysis, including financial structuring, risk assessment, analysis and negotiation of power purchase and other commercial agreements, due diligence, asset and corporate valuations
- Development of business plans, market and technology assessments, debt and equity offerings

MRW & ASSOCIATES, INC. Oakland, CA 1991-1997

MRW & Associates is a premier consulting firm internationally recognized for its expertise in electric power and fuel markets, power and gas market analysis, economic forecasting, regulatory advocacy and litigation support.

Senior Project Manager and Principal. Structured and negotiated debt and equity investments in renewable and conventional power facilities. Provided strategic advice to new and established market players regarding financial structuring, market potential, regulatory constraints and uncertainties, and competitive threats and opportunities. Led and supervised project teams, managed project budgets and supervised and trained junior staff.

ADDITIONAL PROFESSIONAL EXPERIENCE 1981-1991

1989-1991: Assistant Vice President for Trust Company of the West, a leading investment management firm with over $100 billion in assets under management. 1987-1989: Financial Analyst for Hansen, McOuat and Associates, a financial consulting firm representing small power producers and end users. 1986: Guest Scientist, International Energy Agency, Karlsruhe, West Germany. 1983-1985: Research Assistant, Energy Efficient Buildings Program, Lawrence Berkeley National Laboratory. 1981-1983: Energy Management Representative, Pacific Gas and Electric Company.

EDUCATION AND CREDENTIALS

- **BS, Stanford University**, Civil Engineering, with distinction
- **MS, University of California at Berkeley**, Energy and Resources
- Chartered Financial Analyst (CFA), retired

WRITTEN AND ORAL TESTIMONY

1. Before the California Public Utilities Commission in Investigation 19-09-016, on behalf of the City and County of San Francisco, regarding Pacific Gas and Electric Company's proposed Bankruptcy Plan of Reorganization and compliance with Assembly Bill 1054 requirements (reply testimony February 2020, https://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=595675, and oral cross-examination March 2020).

2. Before the Federal Energy Regulatory Commission in EL 15-3-000 *et al*, on behalf of the City and County of San Francisco, regarding comparative analysis of service territories and customer demographics, locations and characteristics of the City and County of San Francisco's municipal electric utility and Pacific Gas and Electric Company's investor-owned electric utility, and interpretation of legislative and regulatory language as applied San Francisco and its rights to wholesale distribution service. Declaration (October 2014, Exhibit SF-30 https://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=14136500), direct testimony (February 2016, Exhibits SF 29-41 https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14425636), rebuttal testimony (April 2016, Exhibits SF 144-151 https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14447463), oral cross-examination (May 2016, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14467938).

3. Before the California Public Utilities Commission in Rulemaking 07-05-025, on behalf of the Joint Parties, on a fair and reasonable methodology to determine the Power Charge Indifference Adjustment (PCIA) and the Competition Transition Charge (CTC), with John P. Dalessi and Mark E. Fulmer (direct testimony January 2011 and reply testimony February 2011).

4. Before the California Public Utilities Commission in Pacific Gas and Electric Company's General Rate Case Application 10-03-014, on behalf of the City and County of San Francisco, regarding PG&E's proposals for a Conservation Incentive Adjustment and to increase rates for low-income customers (October 2010, https://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=201690).

5. Before the Michigan Public Service Commission, on behalf of the Michigan Wholesale Power Association, in Consumers Energy's and Detroit Edison's Renewable Energy Plan proceedings, regarding financing constraints and debt equivalence costs and penalties for bidders offering long term power purchase agreements in the utilities' proposed design of their requests for proposals and bid evaluation for procurement of renewable resources (Consumers Energy testimony March 2009, Detroit Edison testimony April 2009).

6. Before the Public Utilities Commission of Colorado, on behalf of the Colorado Independent Energy Association, in Public Service Company of Colorado's 2007 Integrated Resource Plan proceeding, regarding the impact of

power purchase agreements on the credit profile of Public Service Company of Colorado and the use of proposed adders in bid evaluation (answer testimony April 2008; cross-answer testimony June 2008).

7. Before the California Public Utilities Commission in R.06-02-013, on behalf of Hercules Municipal Utility, regarding proposals for non-bypassable charges to be imposed on departing customers (April 2007).

8. Before the California Public Utilities Commission in R.06-02-013, on behalf of the Independent Energy Producers Association, regarding the impact of power purchase agreements on the credit profiles of the California investor-owned utilities (March 2007).

9. Before the Minnesota Public Utilities Commission, on behalf of Excelsior Energy, Inc., regarding the impact of a proposed power purchase agreement on the credit profile of Northern States Power Company (Minnesota) (October 2006).

10. Before the Public Utilities Commission of Colorado, on behalf of the Colorado Independent Energy Association, regarding the impact of power purchase agreements on the credit profile of Public Service Company of Colorado (August 2006).

11. Before the City and County of San Francisco Assessment Appeals Board, on behalf of the City and County of San Francisco, regarding the fair market value of the Potrero Power Plant (November 2005).

12. Before the California State Senate Energy, Utilities and Communications Committee, on behalf of The Utility Reform Network, to describe and quantify the impacts of various plans of reorganization on both PG&E's ratepayers and PG&E's shareholders (September 2003).

13. Before the California Public Utilities Commission in OII 02-04-026 (Ratemaking Implications of the PG&E Bankruptcy), on behalf of The Utility Reform Network, quantifying the cost of PG&E's proposed settlement agreement for ratepayers, and demonstrating that the excess cost generates windfall profits for PG&E's shareholders as compared to traditional cost-of-service ratemaking (August 2003).

14. Before the California Public Utilities Commission in OII 02-04-026 (Ratemaking Implications of the PG&E Bankruptcy), on behalf of The Utility Reform Network, regarding the savings potential of using a bond issuance supported by a dedicated rate component as part of a plan for Pacific Gas and Electric Company's emergence from bankruptcy (January 2003).

15. Before the New Hampshire Public Utilities Commission, New Hampshire Docket No. DR 96-150, Direct Testimony on Behalf of Cabletron Systems Regarding Interim Stranded Costs (September 1997).

16. Before the California Public Utilities Commission, CPUC Rulemaking 94-04-031 and Investigation 94-04-032, Prepared Testimony, with Paula A. Zagrecki, on Behalf of the Energy Finance Forum Regarding Uneconomic Assets and Obligations and Their Disposition in Electric Restructuring (December 1994).

[CONFERENCE AND OTHER PRESENTATIONS, SELECTED PUBLICATIONS OMITTED]

Attachment B

Excerpts from PG&E Progress, Module 5, Chapter 11 Plan Overview, Financing & Arrangements (dated May 2020)

Chapter 11 Plan Overview, Financing & Arrangements

May 2020

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Plan of Reorganization Summary

Key Elements of the Plan of Reorganization

Plan Has Stakeholder Support

RSA with Official Committee of Tort Claimants

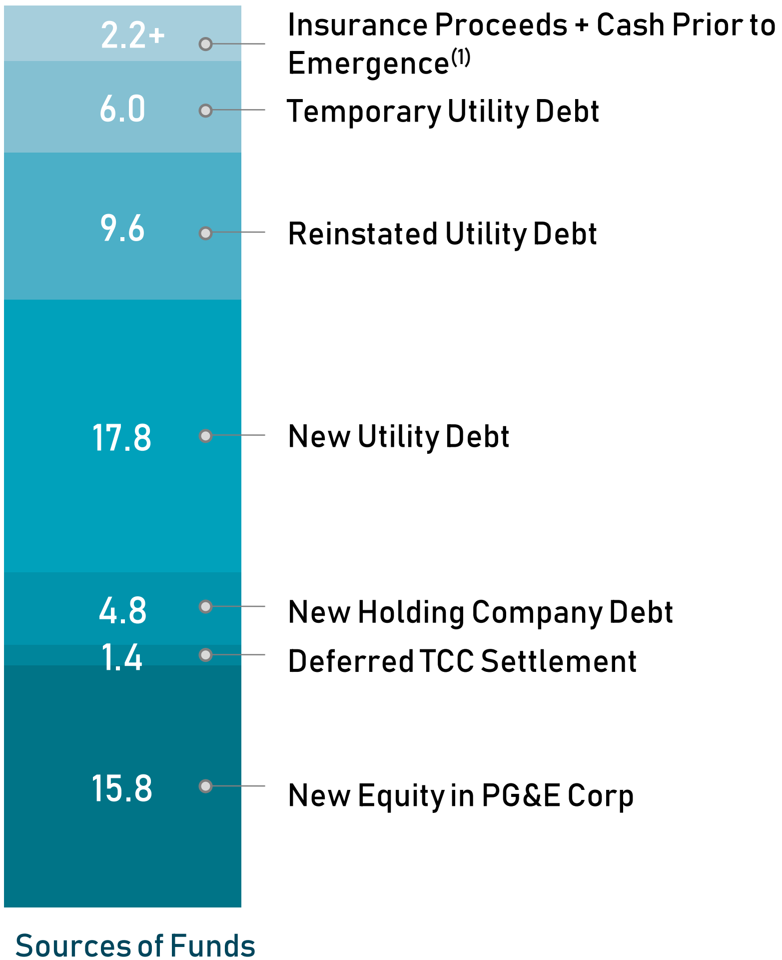
Attorneys representing fire victims who hold over 70% of the more than 70,000 claims that have been filed

Subrogation Claimants and Key County and Local Public Entities

Ad Hoc Noteholder Committee

Labor (IBEW)

~$59 Billion in Plan Funding Sources ($B)



Note: Assumes June 30 emergence.

(1) Insurance proceeds of ~$2.2B. Cash figure to be refined as Company proceeds toward emergence from Chapter 11.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

Overview of Wildfire Settlements

$25.5 billion settlement at Plan Value

Subrogation Claimants

$11.0 billion[1]

Paid in cash

Fire Victims

$13.5 billion

- A $6.75 billion paid in equity at a 14.9x multiple to normalized estimated net income
- B $6.75 billion paid in cash; $5.4 billion of which is paid at emergence and $1.35 billion paid in accordance with the Plan

Municipal Entities

$1.0 billion[2]

Paid in cash

(1) Settlement includes an additional $55 million of professional fees.
(2) Settlement includes an additional $10 million of professional fees.

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Pro Forma Capital Structure

($ in millions unless stated otherwise)

The below contemplates the pro forma capital structure at emergence under the Company's POR:

Noteholder RSA Debt = $21,425 million

$9.575 billion Utility Reinstated Senior Notes

$6.2 billion New Utility Long-Term Notes(1)

$1.75 billion New Utility Short-Term Notes(2)

$3.9 billion New Utility Funded Exchange Notes(3)

Pro Forma Capital Structure

Pacific Gas and Electric Company	Face Amount	Rate
4.75% due 2044	$675	4.75%
4.65% due 2028	300	4.65%
4.60% due 2043	375	4.60%
4.50% due 2041	250	4.50%
4.45% due 2042	400	4.45%
4.30% due 2045	600	4.30%
4.25% due 2023	500	4.25%
4.25% due 2046	450	4.25%
4.00% due 2046	600	4.00%
3.95% due 2047	850	3.95%
3.85% due 2023	300	3.85%
3.75% due 2024	450	3.75%
3.75% due 2042	350	3.75%
3.50% due 2025	600	3.50%
3.40% due 2024	350	3.40%
3.30% due 2027	400	3.30%
3.30% due 2027	1,150	3.30%
3.25% due 2023	375	3.25%
2.95% due 2026	600	2.95%
Reinstated Pre-Petition OpCo Debt / Weighted Average	**$9,575**	**3.88%**
4.55% due 2030	3,100	4.55%
4.95% due 2050	3,100	4.95%
3.45% due 2025	875	3.45%
3.75% due 2028	875	3.75%
3.15% due 2025	1,950	3.15%
4.50% due 2040	1,950	4.50%
Settled and Refinanced Pre-Petition OpCo Debt / Weighted Average	**$11,850**	**4.28%**
Total Reinstated /Settled or Refinanced Pre-Petition OpCo Debt	**$21,425**	**4.10%**
Incremental OpCo Debt Raised at Emergence	5,925	TBD
Temporary Utility Facility Raised at Emergence	6,000	TBD
Incremental OpCo Debt Raised at Emergence	**$11,925**	**TBD**
Pro Forma OpCo Debt @ Emergence	**$33,350**	**TBD**
Total Pacific Gas and Electric Corporation Debt @ Emergence	**$4,750**	**TBD**
Total Pro Forma Consolidated Debt @ Emergence	**$38,100**	**TBD**

Post-Emergence Working Capital Facilities

	Face Amount	Rate
OpCo RCF	$3,500	TBD
OpCo A/R Facility	1,000	TBD
HoldCo RCF	500	TBD
Total / Weighted Average	**$5,000**	**TBD**

$11.925 billion of Utility debt and $4.75 billion of HoldCo debt is contemplated to be issued upon emergence

(1) Pre-Petition $6.2 billion of Utility Long-Term Notes matured through November 2043 with a weighted average maturity of November 2036 and weighted average interest rate of 5.89%.
(2) Pre-Petition $1.75 billion of Utility Short-Term Notes matured through August 2022 with a weighted average maturity of June 2021 and weighted average interest rate of 3.35%.
(3) Pre-Petition $3.9 billion of Utility Funded Debt was comprised of a $2.888 billion RCF due April 2022 with an interest rate of L+128, a $250 million Unsecured Term Loan due February 2019 with an interest rate of L+60 and $762 million of Pollution Control Bonds with a weighted average maturity of August 2020 and interest rate of 2.40%.

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Proposed Post-Emergence Securitization

With support from the Governor's Office, PG&E has proposed a post-emergence securitization for $7.5 billion of wildfire claims costs that is designed to be rate-neutral to customers.

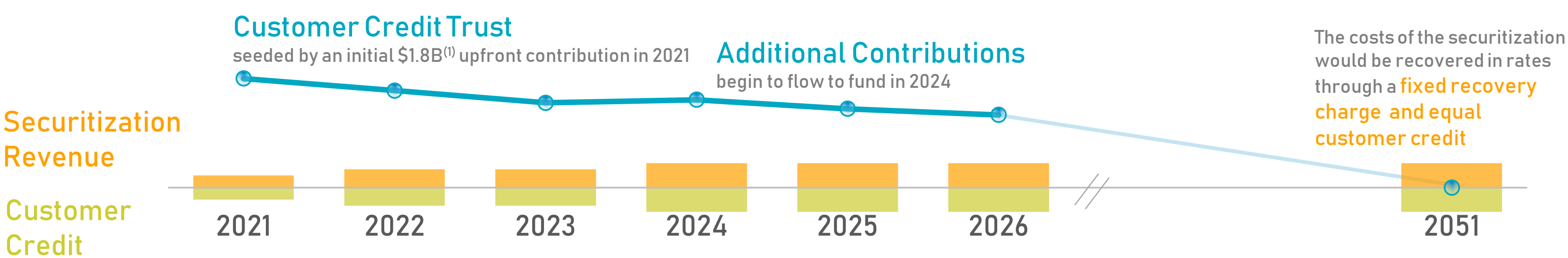
- Securitization will enable PG&E to accelerate and defray the final payment to wildfire victims in accordance with the Plan and retire the $6 billion temporary utility debt
- Securitization will accelerate improvement of PG&E's credit metrics, which will reduce the cost of financing over time for the benefit of all customers

Proposed Securitization Structure

- PG&E will recover the costs of the securitization via a fixed recovery charge (FRC) on customers' bills
- PG&E will create a Customer Credit Trust to provide Customer Credits designed to equal the FRC
- PG&E shareholders will fund the Customer Credit Trust from their tax benefit cash flows created by paying wildfire-related claims, investment returns and an initial contribution in 2021

Securitization is Expected to be Rate-Neutral to Customers

The annual customer impact is expected to be $0 and the total value of the Customer Credit Trust is forecasted to equal or exceed the full value of securitization charges to customers, and customers will receive 25% of any remaining surplus in the Customer Credit Trust



(1) The nominal amount of customer credits are recorded as a $9.4B regulatory liability and the securitization principal is recorded as a $7.5B regulatory asset, resulting in an upfront $1.9B GAAP charge (subject to certain accounting language being included in the final CPUC order supporting Regulatory Liability treatment for the initial contribution).

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Customer Credit Trust

The following provides a summary of the Company's securitization application filed with the CPUC on April 30, 2020.

TRUST RETURNS

The Trust is expected to realize at least an arithmetic annual average return of 3.50% after-tax through 2050, contributing $2.08B to the Trust over the life of the securitization

ADDITIONAL CONTRIBUTIONS

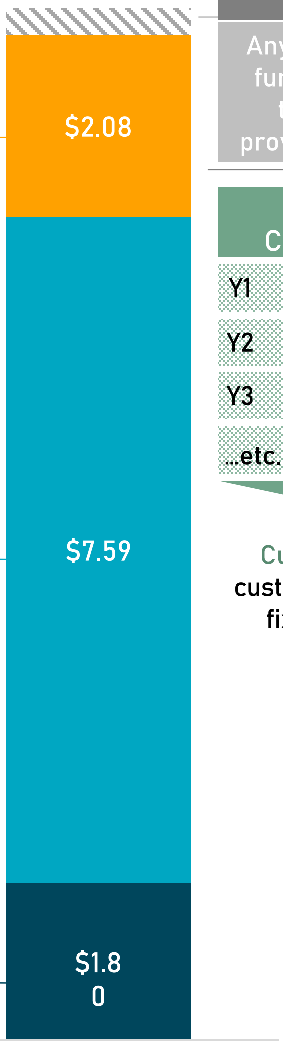
Additional contributions of up to $7.59B will be made to the Trust based on available Shareholder Tax Benefits resulting from certain wildfire-related payments and existing shareholder deductions

Tax Benefits ($M)	2020 Federal	2020 State
Wildfire Claims, less Insurance	($23,300)	($23,300)
Initial & Ongoing Wildfire Fund Contribution	($512)	($4,992)
Existing Shareholder Deductions	($423)	-
Total Shareholder Tax Deductions	($24,235)	($28,292)
(x) applicable tax rate	*21.00%*	*8.84%*
Forecast Cash Value = $7,590	**$5,089**	**$2,501**

Contributions will be calculated based on annual forecasted taxable income and contributed to the Trust once PG&E realizes the cash tax benefit, est. 2024-2036

INITIAL CONTRIBUTION

Trust will be seeded by an upfront shareholder contribution of $1.8B in 2021, when the securitization is approved, funding the Customer Credit through 2024



Customer Credit Trust ($B)

Trust Surplus

Any 2050 surplus will fund prior shortfalls then 25% will be provided to customers

Illustrative Customer Credit

Y1	~$190M
Y2	~$304M
Y3	~$304M
...etc.	~$395M

Customer Credit on customer bills equal the fixed rate charge(1)

(1) Amounts shown reflect debt service payments for illustrative purposes and assume Trust ends with a zero balance or surplus.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Attachment C

PG&E Response to A4NR First Set of Data Requests (Updated) (dated August 14, 2020), Question 9

ANSWER 8:

Subject to its objections, PG&E responds as follows:

PG&E does not presently intend to modify the requested adjustments to PG&E's ratemaking capital structure based on D.20-05-053, although PG&E will update discussion of the requested adjustments in Chapter 1 to incorporate the final decision.

QUESTION 9:

Please provide a copy of any bond indenture, loan agreement, or credit facility which serves as a document governing the terms and conditions of the $6 billion Temporary Utility Debt that is expected to be retired by the securitization.

ANSWER 9:

Subject to its objections, PG&E responds as follows:

The $6 billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility. PG&E refers A4NR to the indenture agreements attached as Exhibits 4.1 and 4.2 to the Form 8-K filed by PG&E on June 19, 2020, and the $3.0 billion secured term loan credit agreement attached as Exhibit 10.4 to the Form 8-K filed by PG&E on July 2, 2020. These Form-8K submissions are available at the following links:

http://d18rn0p25nwr6d.cloudfront.net/CIK-0001004980/2874635f-6939-4e4e-9ba5-fc33a3f9827f.pdf

http://d18rn0p25nwr6d.cloudfront.net/CIK-0001004980/af821654-65ab-4b30-9515-1b4713aea86a.pdf

QUESTION 10:

Please explain the basis for the following statement at page 1-8, lines 13 – 16, of PG&E's testimony: "In the event that PG&E were to guarantee the Customer Credit mechanism, S&P Global Ratings (S&P) would likely treat it as an enforceable contractual commitment and, therefore, the Securitization would be on-credit and the forecasted improvement in financial metrics would not occur."

ANSWER 10:

Subject to its objections, PG&E responds as follows:

S&P's ratings methodology defines a financial guarantee as a promise by one party to assume a liability of another party if that party fails to meet its obligations under the liability. If PG&E guarantees the Customer Credit, PG&E believes that S&P would treat that obligation as a guarantee for which PG&E would be liable and include a liability on

Attachment D

PG&E Response to CCSF Fourth Set of Data Requests (dated October 9, 2020), Question 1

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

PG&E Data Request No.:	CCSF_004-Q01-04		
PG&E File Name:	Securitization2020_DR_CCSF_004-Q01-04		
Request Date:	September 25, 2020	Requester DR No.:	004
Date Sent:	October 9, 2020	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1-Q2: Mari Becker Q3-Q4: David Thomason	Requester:	Suzy Hong

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

QUESTION 01

For the years 2020-2024, please provide the following assuming California Public Utilities Commission denial of PG&E's Application 20-40-023:

a. The annual principal and interest payments on the Temporary Utility Debt of $6 billion, both (i) pursuant to the current terms applicable to the Temporary Utility Debt; and (ii) as PG&E contemplates refinancing the Temporary Utility Debt.

ANSWER 01

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

The $6 Billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility. The weighted average cost of debt for the $6 Billion Temporary Utility Debt is 2.01%, exclusive of financing-related fees. For variable interest rates, PG&E used rates as of September 28, 2020 for the cost of debt calculation. If the proposed Securitization is not approved, PG&E anticipates refinancing the $6 Billion Temporary Utility Debt with long-term debt. The interest rates for the long-term debt to be issued by PG&E will be based on PG&E's credit profile and market conditions at the time the debt is issued. For purposes of the Utility Financial Projections in Exhibit 5.4, PG&E assumed future interest rates at the same level as its current weighted average long-term debt of 3.84%, exclusive of financing-related fees and the $6 Billion Temporary Utility Debt. As noted, this is an assumption and the actual interest rate will be determined at the time of the refinancing.

QUESTION 02

For the years 2020-2024, please provide the following assuming California Public Utilities Commission approval of PG&E's Application 20-04-023:

a. The annual principal and interest payments on any additional securitized debt PG&E plans to issue that is not included under Application 20-04-023.
   i. Please note the California Public Utilities Commission proceedings in which PG&E has described its intentions to issue additional securitized debt and the California Public Utilities Commission's Decision or Decisions authorizing the issuance of additional securitized debt.
   ii. Please also note the enabling legislation that authorizes the issuance of any additional securitized debt, and whether additional enabling legislation is required to authorize the issuance of any additional securitized debt.
b. The annual principal and interest payments on any first mortgage bonds PG&E has issued or plans to issue since the date of filing of PG&E's Application 20-04-023.
c. The annual principal and interest payments on the PG&E Corp. debt of $4.75 billion issued by PG&E Corp. as part of PG&E's exit from bankruptcy (as described in, for example,http://www.pgecorp.com/news/press_releases/Release_Archive2020/200621press_release.shtml).
d. The annual principal and interest payments on any other debt PG&E has issued or plans to issue since the date of filing of PG&E's Application 20-04-023 that is not included in a. through c., above.

ANSWER 02

PG&E objects to this request as vague, ambiguous, unduly burdensome, and not relevant. Subject to its objections, PG&E responds as follows:

a. PG&E plans to file an application or applications to securitize costs and expenses related to catastrophic wildfires, including $3.2 billion of fire risk mitigation capital expenditures identified in subdivision (e) of Section 8386.3 of the Public Utilities Code, under Sections 850, et seq. of the Public Utilities Code pursuant to AB 1054.

Attachment E

Moody's Report (dated August 19, 2020), and S&P's Report (dated September 16, 2020)

MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
19 August 2020

Rate this Research

RATINGS

PG&E Corporation

Corporate family rating	Ba2
Outlook	Stable

Pacific Gas & Electric Company

First mortgage bonds	Baa3
Preferred stock	B1
Outlook	Stable

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

PG&E Corporation

FAQ on what's next after emergence from bankruptcy

» **Ability to mitigate wildfire risk to be key determinant of credit quality.** PG&E Corporation's (Ba2 stable) ability to improve its credit quality will depend heavily on whether it can mitigate the risk of wildfires in its service territory. This will require substantial financing through the issuance of new debt. If the company is not able to recover future costs and investments related to wildfire mitigation in a timely manner, its financial performance will deteriorate. While climate models are subject to change as mitigating efforts alter projected trajectories, they currently suggest that California faces rising wildfire risk over the next three decades, regardless of greenhouse gas mitigation efforts.

» **Credit quality would deteriorate if equipment failures were to trigger another string of catastrophic wildfires in its service territory.** Although the wildfire fund established by California Assembly Bill 1054 (AB 1054) was set up to mitigate the financial impact a major wildfire can have on a utility, catastrophic wildfires over a multi-year period could potentially exhaust the fund. Moreover, the liability cap in place would lapse upon the fund's depletion, which would make AB 1054 less credit supportive for California utilities. However, a single catastrophic fire this year would unlikely have an immediate material financial impact on PG&E, given the current full availability of the wildfire fund and the time it takes to determine both the cause of a fire and the amount of damages that the utility must pay.

» **PG&E will have ample opportunity to strengthen key credit metrics if it does not incur wildfire-related liabilities.** Rate base growth through the significant infrastructure investments required will improve cash flow generation. At the same time, we expect PG&E to be able to use any residual cash flow remaining after capital investments to pay down holding company debt, given that the company is prohibited from distributing dividends to shareholders until at least 2023. PG&E's $2.75 billion term loan maturing in 2025 provides increased financial flexibility to reduce leverage by paying off this debt either partially or in full ahead of maturity.

» **Proposed securitization financing to be credit neutral**. We typically view a utility's use of securitization bonds as a credit positive financing tool. But PG&E is proposing to establish a customer credit trust that will be used to provide customers with bill credits to offset the securitization bond principal and interest charges annually. PG&E expects to fund the customer credit trust largely through cash flow generated from tax benefits created by paying past wildfire-related claims.

Ability to mitigate wildfire risk to be key determinant of credit quality

On 1 July 2020, PG&E Corporation and its principal utility subsidiary, Pacific Gas & Electric Company (PG&E, Baa3 first mortgage bonds stable) exited from bankruptcy. Upon plan confirmation and the fulfillment of AB 1054 requirements, PG&E will be able to participate in California's wildfire fund and benefit from other credit supportive provisions incorporated in the law.

PG&E's ability to improve its credit quality will depend heavily on whether it can mitigate the risk of wildfires in its service territory. The company plans to make significant investments in its infrastructure in the years ahead, particularly around wildfire mitigation. This will require substantial financing through the issuance of new debt. If PG&E is not able to recover future costs and investments related to wildfire mitigation in a timely manner, the company's financial performance will deteriorate.

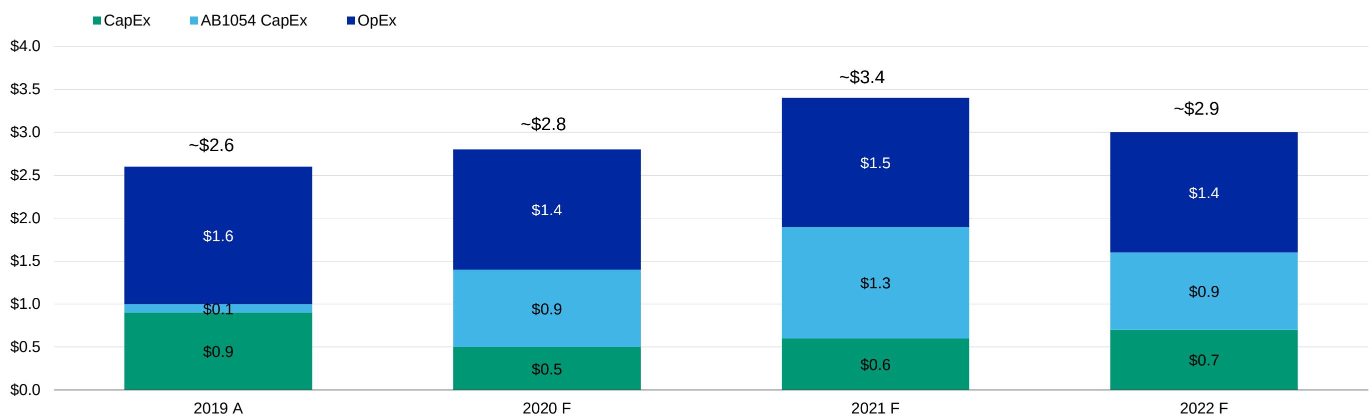
Can PG&E reduce the risk of wildfires in its service territory?

Only time will tell. PG&E continues to invest significantly on wildfire mitigation, including system hardening, enhanced inspections and vegetation management, and has a plan to regionalize its operations to increase its focus on local communities. The company is endeavoring to develop an effective wildfire mitigation program through the establishment of a fire hardened electric system that is rigorously inspected and maintained. With these efforts, PG&E is striving to emulate San Diego Gas & Electric Company (SDG&E, Baa1 positive), which has had a relatively long and successful track record of wildfire mitigation, albeit in a considerably smaller service territory with different topography.

PG&E continues to invest in monitoring equipment to improve situational awareness of its network to anticipate, prepare for and react to extreme weather conditions. As part of the company's approximately $6.2 billion in wildfire mitigation investments being made during 2020-2021, PG&E plans to install an additional 400 weather stations and 200 high-definition cameras by the end of the year and a total of 1,300 weather stations and 600 HD cameras by the end of 2021. SDG&E has used these and other technologies to substantially reduce wildfire risk in its service territory since it last contended with major wildfires in 2007.

Exhibit 1

PG&E's wildfire mitigation plan includes significant annual investments
($ in billions)



Source: PG&E Corporation

In June, PG&E filed a regional restructuring plan application with the California Public Utilities Commission (CPUC) to provide greater accountability at the local level. This regionalization model is aimed at improving safety and responsiveness to customers and local communities, such as by replacing faulty equipment more quickly and reducing outage response times, particularly when utilizing public safety power shutoffs.

Over the long term, climate change is likely to increase the risk of wildfires in California. Cal-Adapt, a state-funded climate data tool maintained by the University of California at Berkeley, models a 10.6% increase in the number of square miles at risk in PG&E's service territory over the next 30 years, compared to the previous 13 years. Exhibit 2 illustrates the outcomes of Cal-Adapt's model, which uses representative concentration pathways (RCPs) as adopted by the United Nations' Intergovernmental Panel on Climate Change. Cal-Adapt's model does not include the impact of high winds in certain parts of the state.

While climate models are subject to change as mitigating efforts alter projected trajectories, they continue to point to a statewide increase in wildfire risk over the next three decades. Physical climate risks, like rising temperatures and declining or variable precipitation, which can create hotter and drier conditions, are largely locked in globally until 2050 (see "ESG – Global: Climate scenarios vital to assess credit impact of carbon transition, physical risks"). Hence, We expect wildfire risks to intensify regardless of greenhouse gas mitigation efforts. Beyond 2050, carbon mitigation might be able to reduce the risk of climate hazards that contribute to wildfires.

Exhibit 2

Cal-Adapt projects an increase in square miles at risk of wildfires over the next 30 years

Cal-Adapt data using RCP 8.5 as base case	California (State of)	PG&E (utlity)
Issuer rating	Aa2	NA
Senior Secured	NA	Baa3
Outlook	Stable	Stable
Service area size in square miles	163,695	70,000
Annual mean square miles at risk per Cal-Adapt		
1950-2005	664	379
2006-19	767	416
2020-50	817	461
2050-99 (RCP 8.5)**	1,094	651
2050-99 (RCP 4.5)**	920	535
Risk over last 13 years compared to prior 55 years	15.6%	9.9%
Future risk in next 30 years compared to last 13 years	6.5%	10.6%
Long-term risk 2050-99 compared to 2006-19 with no GHG mitigation efforts	42.7%	56.4%
Long-term risk 2050-99 compared to 2006-19 with GHG mitigation efforts; GHG emissions peak in 2040 before declining thereafter	20.0%	28.5%
% of service territory at risk per Cal-Adapt		
1950-2005	0.41%	0.54%
2006-19	0.47%	0.59%
2020-50	0.50%	0.66%
2050-99 (RCP 8.5)**	0.67%	0.93%
2050-99 (RCP 4.5)**	0.56%	0.76%

We assume the service territory at risk equals the variable square miles projected to be burned over the constant total service area. Lack of clarity in Cal-Adapt public site.
** We assume RCP 8.5 (high emissions scenario) as Moody's global scenario up to 2050 due to "locked in" effects of climate change. After 2050, one can differentiate between RCP 8.5 (high emissions scenario) vs RCP 4.5 (a scenario with GHG emissions mitigation).
Note: Exhibit includes partial data from exhibit initially published in "Public Power Electric Utilities – California: Rising wildfire risks manageable for CA publicly owned electric utilities, except in extreme scenarios."

Source: Cal-Adapt

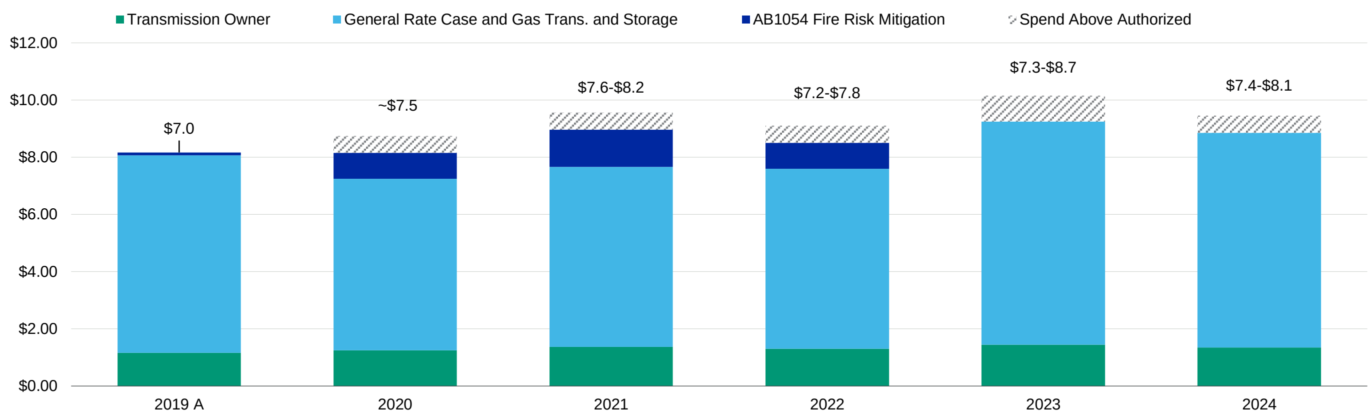
What factors could erode PG&E's credit quality?

PG&E's credit quality would deteriorate if equipment problems were to trigger another string of catastrophic wildfires in its service territory, akin to what the utility experienced from 2015 through 2018. During 2017 and 2018, faulty PG&E equipment was linked to at least 17 major wildfires, causing more than $30 billion in damages. Although the wildfire fund established by AB 1054 was set up to mitigate the financial impact a major wildfire can have on a utility, catastrophic wildfires over a multiyear period could potentially exhaust the fund. Moreover, the liability cap in place would lapse upon the fund's depletion, which would make AB 1054 less credit supportive for California utilities (see "Regulated electric and gas utilities – US: California's wildfire fund is sufficiently capitalized to pay out claims").

AB 1054 remains untested. If there is an unexpected failure by state regulators to effectively implement the law's credit supportive mechanisms, such as a revised prudency standard, the credit quality of PG&E and California's other investor-owned utilities would deteriorate. In the event of a wildfire, the utility is presumed to have acted prudently unless intervenors create a serious doubt as to the reasonableness of the utility's conduct. Furthermore, the CPUC can also consider factors that are beyond the utility's control, such as weather conditions like humidity, temperature and wind. The revised prudency standard appears to be more consistent with that of the Federal Energy Regulatory Commission (FERC), which we view as more constructive.

Poor operational performance or less than timely recovery of costs and investments would also impair PG&E's credit quality. In addition to its wildfire mitigation investments, the utility will undertake substantial capital investment projects to construct, replace, and improve its electricity and natural gas facilities. The investments are being financed with a mix of about half equity and half debt. Over the 2020-2022 period included in its recent general rate case settlement, PG&E plans to invest an average of $4.6 billion a year in electric and natural gas distribution, as well as generation infrastructure. The settlement agreement, which is awaiting CPUC final approval, includes revenue requirement increases of $454 million in 2021 and $486 million in 2022 for PG&E's gas and electric distribution service. PG&E's electric transmission and natural gas transmission and storage investments are recovered through separate FERC regulatory proceedings. Besides the approved wildfire mitigation investments that the company will not earn an equity return on pursuant to AB 1054, recovery of additional capital investments above authorized levels will be addressed in future rate case proceedings. A delay or inability to earn a return on and of investments would weaken the company's financial profile during this period.

Exhibit 3
PG&E's increasing capital investment plans will require substantial new debt issuance
($ in billions)



Source: PG&E Corporation

Would a catastrophic wildfire in PG&E's service territory this year hurt its credit quality?

Yes, but a new wildfire would likely increase social and reputational risk more than financial risk. Because of PG&E's history of safety problems, the company already faces greater social risk than most of its regulated electric and gas utility peers. PG&E needs to regain the trust of California regulators, state policymakers and, most importantly, its customers. The company's involvement in another catastrophic wildfire would also signal that its wildfire mitigation efforts continue to severely lag those of its peers, which would be credit negative. However, a catastrophic fire this year would be less likely to have an immediate material financial impact on the company.

First, it can take many months to determine how a wildfire was ignited. For example, the California Department of Forestry and Fire Protection (Cal Fire), the agency that investigates fires in the state and determines the cause of ignition, announced on 16 July that it had determined – about eight months after the fact – that faulty electrical transmission lines owned and operated by PG&E had sparked the 2019 Kincade fire in Sonoma County (see "CAL FIRE's determination that PG&E equipment caused the 2019 Kincade fire has no material financial impact"). In the case of the 2017 Tubbs fire, one of the largest wildfires that year, it took Cal Fire about 16 months to conclude its investigation.

Second, it can take even longer for most claims to be filed in the wake of a major wildfire to calculate a reasonable estimate of the impact on an investor-owned utility's financial profile. Finally, and most important, AB 1054's credit supportive provisions, including its wildfire insurance fund, are intended to help mitigate the financial burden a wildfire event could have on credit quality. The wildfire insurance fund provides a utility with immediate access to a substantial liquidity resource to cover potential damages caused by a future catastrophic wildfire ignited by its equipment, when the damages exceed the greater of $1 billion or the utility's insurance coverage.

Finally, AB 1054 includes other important provisions including a liability cap calculated as 20% of the utility's equity portion of its transmission and distribution (T&D) rate base over any three-year period. The state's utilities should also benefit from a more favorable prudency standard and a more expedient subrogation claims settlement process. If the wildfire insurance fund's claims paying capability is ultimately exhausted, the disallowance cap will no longer be available, but the more favorable prudency standard will remain. We note that, although AB 1054 includes these credit supportive mechanisms, it has yet to be tested in its application in response to a wildfire event (see the "Regulated electric utilities – US: FAQ on the credit implications of California's new wildfire law").

What could improve PG&E's credit?

PG&E's credit quality will improve with each passing year as long as operational improvements and mitigation investments prevent the outbreak of catastrophic wildfires in its service territory. While there are many variables involved in the ignition and spread of wildfires, PG&E will likely have to get through at least three years without a catastrophic wild fire in order to adequately demonstrate that it has substantially reduced its exposure to wildfire risk. Improved pre-incident planning and coordination with local authorities to help contain the spread of fires before they exact a significant toll on customers and property would go a long way toward restoring confidence in the utility's mitigation efforts.

The company also has to address near-term governance risks. PG&E's senior management and financial policies are in a period of transition following the company's 1 July emergence from bankruptcy protection for the second time in two decades. Eleven of the 14 members on PG&E's board of directors were appointed in June. The company asserts that the new board members bring expertise in key areas, such as utility operations and management, safety and environment, risk management, customer engagement and corporate governance.

The revamped board has been tasked with the search for a new chief executive for both the parent company and the operating subsidiary following the 30 June retirement of PG&E Corporation CEO and president William D. "Bill" Johnson and the 30 July departure of PG&E CEO Andy Vesey (see "PG&E Corporation: Utility subsidiary's CEO departure adds to heightened governance risk"). While the opportunity to run such a large investor-owned utility would normally draw strong interest from a deep pool of experienced candidates, PG&E's checkered recent history and its myriad operational and regulatory issues may pose challenges for the search.

Can PG&E improve its financial profile over the next 12 to 18 months?

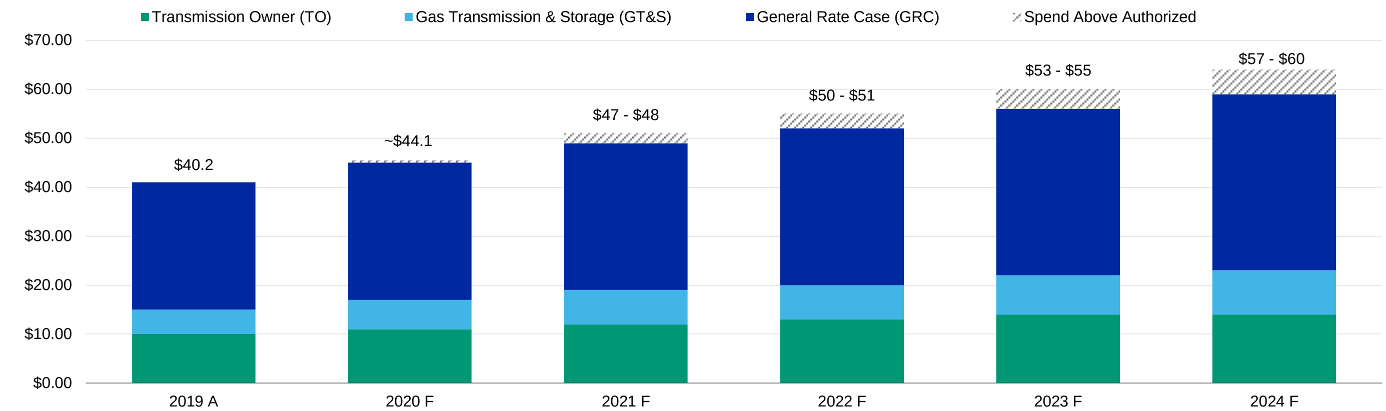
We think the company will have substantial opportunity to strengthen its key credit metrics if it does not incur material liabilities arising from a catastrophic wildfire. Rate base growth through significant infrastructure investments will improve cash flow generation. At the same time, we expect PG&E to be able to use any residual cash flow remaining after capital investments to pay down holding company debt, given that the company is prohibited from distributing dividends to shareholders until at least 2023. Strengthening the company's financial profile is an important credit consideration, but it is less of a priority than mitigating wildfire risk and improving stakeholder relationships.

As part of the plan of reorganization, the bankruptcy court approved a motion filed by PG&E to restrict shareholder dividends. PG&E is precluded from paying common dividends to equity holders until the company has recognized $6.2 billion in non-GAAP core earnings, or GAAP earnings adjusted for certain non-core items identified in a separate disclosure statement. As such, we do not expect the dividend restriction to be lifted until sometime in 2023. While the ability to pay shareholder dividends is a common practice of investment-grade utility holding companies, the dividend restriction will enable PG&E to retain cash and use residual funds available after capital investments to pay down debt, which is credit positive.

As part of the company's exit financing, PG&E Corporation entered into a $2.75 billion term loan maturing in 2025 as well as issuing $2 billion in notes, half of which mature in 2028 and 2030. The term loan offers the company increased financial flexibility to reduce leverage by paying off this debt either partially or in full ahead of maturity. Upon exit, we estimate parent debt to represent about

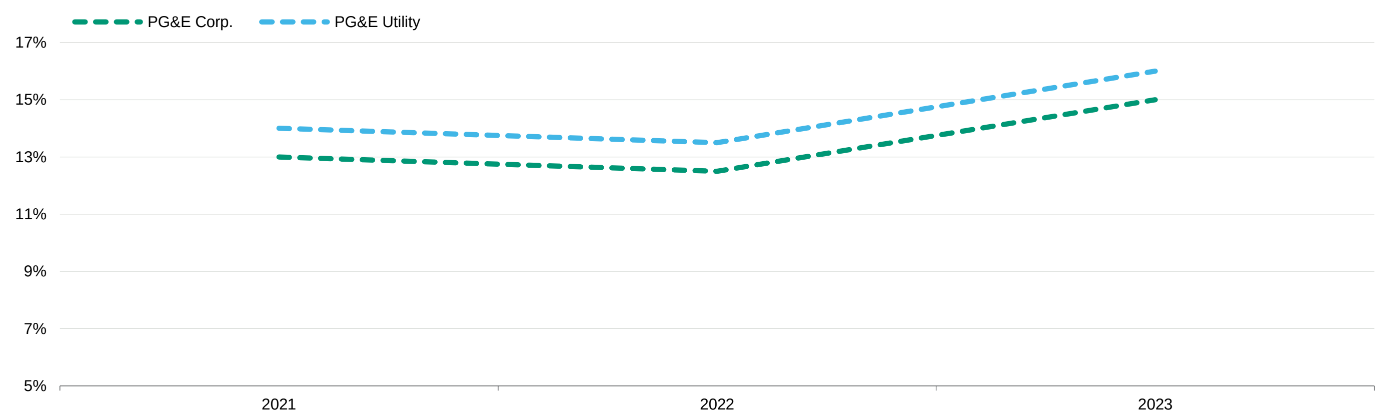
12% of consolidated debt. However, we expect parent debt to gradually decline over the next few years as the company has disclosed that it expects to pay down about $2.5 billion of holding company debt by 2023. Through increased cash flow generation and debt reduction, particularly at the parent level, we expect the companies' financial profiles to gradually strengthen, such that we project PG&E Corporation's ratio of cash flow from operations pre-working capital changes (CFO pre-W/C) to debt to increase from about 12% in 2021 to 15% in 2023. Similarly, we project the operating company's ratio of (CFO pre-W/C) to debt to increase from about 14% to 16% over the same period.

Exhibit 4
PG&E's weighted average rate base forecast should drive increased cash flow generation
($ in billions)



Source: PG&E Corporation

Exhibit 5
Moody's projected ratio of CFO pre-WC/debt for PG&E Corp. and PG&E during the 2021-2023 period



Source: Moody's Investors Service

What are the credit implications of PG&E's proposed $7.5 billion securitization financing?

PG&E is seeking CPUC approval to issue $7.5 billion in rate-neutral securitization bonds to be issued in the first half of 2021. If the CPUC approves the plan, the proceeds from the securitization bonds would be used to pay down $6 billion of temporary debt and the CPUC would not consider it as a permanent debt component within the utility's regulated capital structure.

We typically view securitization bonds as a credit positive financing tool (see "Regulated utilities – US; Utility cost recovery through securitization is credit positive"). However, unlike traditional utility securitization structures in which the customer is the ultimate payor of the principal and interest on the bonds, PG&E is proposing this securitization structure to be rate-neutral to customers. Although specific details on the structure have yet to be finalized or approved, PG&E is proposing to establish a customer credit trust that will be used to provide customers with bill credits to offset the securitization bond principal and interest charges annually. PG&E expects to fund the customer credit trust largely through cash flows generated from tax benefits created by paying past wildfire-related claims. The credit offset back to customers will reduce PG&E's revenues and cash flows while the securitization bonds would be considered as on-credit debt and reflected in our key credit metrics. Credit metrics will, however, benefit from the amortizing nature of the bonds.

Moody's related publications

Credit Opinion

» PG&E Corporation: Update to credit profile upon exit from bankruptcy, 16 June 2020

Issuer Comment

» PGE& Corporation: Utility subsidiary's CEO departure adds to heightened governance risk, 30 July 2020

» PG&E Corporation: CAL FIRE's determination that PG&E equipment caused the 2019 Kincade fire has no material financial impact, 17 July 2020

Sector Comments

» Regulated electric utilities – North America: Bill proposing fines for power shutoffs is credit negative for California utilities, 31 January 2020

» Regulated electric and gas utilities – US: California's wildfire fund is sufficiently capitalized to pay out claims, 20 November 2019

» Regulated electric utilities – California: Customer bill credits after power shutoffs signal weakening political support, 31 October 2019

» ESG - California: Public safety power shutoffs highlight links between environmental and social risks, 28 October 2019

» Regulated electric utilities – US: Proposed California wildfire risk legislation is credit positive but questions remain, 10 July 2019

» Electric utilities – US: Limiting utility liabilities looms large after release of SB 901 Commission draft report, 4 June 2019

» Regulated electric utilities – US: California wildfire strike force report is credit positive, but details are still pending, 15 April 2019

Sector In-Depth

» Public Power Electric Utilities – California: Rising wildfire risks manageable for CA publicly owned electric utilities, except in extreme scenarios, 27 May 2020

» Regulated electric utilities – US: FAQ on the credit implications of California's new wildfire law, 6 August 2019

» Electric and Gas Utilities - US: California utilities struggle with inverse condemnation exposure, 15 April 2019

» Electric Utilities - US: Potential remedies to reduce California fire risk face competing interests, 3 April 2019

REPORT NUMBER 1239753

MOODY'S
INVESTORS SERVICE

S&P Global Ratings

RatingsDirect®

Research Update:

PG&E Corp. And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BB-' Ratings Affirmed

September 16, 2020

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Rating Action Overview

- Unprecedented wildfire activity throughout California at just the beginning of this wildfire season, in our view, could be indicative of a worsening environment that is more susceptible to frequent and more severe wildfires. This could increase the probability that a California investor-owned electric utility causes a catastrophic wildfire at a more regular occurrence than our prior base-case assumptions. These deteriorating conditions may also adversely affect the utility's ability to effectively manage regulatory risk.
- As such, we are revising our outlook on PG&E Corp. and subsidiary Pacific Gas & Electric Co. (Pac Gas) to negative from stable.
- We are affirming our ratings on PG&E and Pac Gas including our 'BB-' issuer credit ratings, the 'BB-' rating on PG&E's senior notes, and the 'BBB-' rating on Pac Gas' senior secured debt.
- The negative outlook reflects the accelerated rate of wildfire activity as demonstrated by the record-setting pace of California's wildfires, which is still in the early stages of the 2020 wildfire season. In our view, the lack of sufficient rainfall, the dry environment, and the ease that relatively routine wildfires can develop into catastrophic wildfires increases the likelihood that a California investor-owned electric utility could potentially be the cause of a catastrophic wildfire.

Rating Action Rationale

The negative outlook reflects the evidence of accelerated catastrophic wildfires. Although AB 1054 establishes a wildfire fund that reduces much of the credit risk exposure associated with California's interpretation of the legal doctrine of inverse condemnation--whereby a California utility can be financially responsible for a wildfire if its facilities were a contributing cause of a wildfire, regardless of its negligence—the fund does not automatically replenish. Every catastrophic wildfire caused by a California investor-owned electric utility reduces the relative size of the fund, weakening credit quality. The evidence of wildfire acceleration in just the beginning of this wildfire season could, in our view, increase the probability of a California investor-owned electric utility causing a catastrophic wildfire, depleting the wildfire fund sooner than expected.

The pace of wildfires at just the beginning of this season has been unprecedented and could eventually strain available resources. To date, California has experienced more than 7,700 wildfires that have burned more than 3 million acres, damaged more than 5,300 structures and has led to more than 20 fatalities. This contrasts to 2019 when California experienced for the entire wildfire season about 7,900 wildfires, less than 260,000 acres burned, less than 750 structures destroyed, and 3 fatalities. We believe the acceleration of adverse wildfire conditions is partially affected by the 2020 below-average rainfall, which we believe could potentially signal a longer and more devastating wildfire season. While California's state agencies including the California Department of Forestry and Fire Protection have performed remarkably given the extraordinary difficult conditions, these conditions have contributed to a very difficult regulatory and political environment.

Managing regulatory risk could become more challenging. Many of California's electric customers have already faced rolling blackouts in 2020 due to the extraordinary hot weather and we expect the pace of public safety power shut-offs to accelerate, reflecting California's utilities proactively reducing the risk of causing a catastrophic wildfire. Should the frequency of these blackouts and shut-offs increase, frustrated customers and politicians could negatively affect California's investor-owned electric utilities ability to consistently manage regulatory risk.

Financial measures remain in line with expectations. We assess the company's financial risk profile using our medial volatility table, consistent with its regulated utility business. We expect 2020 funds from operations (FFO) to debt at about 15%, consistent with the lower end of the range for its financial risk profile category. Given the company's robust capital spending program of about $8 billion annually, we expect that PG&E will continue to have negative discretionary cash flow.

Environmental, social, and governance (ESG) credit factors for this credit rating change.

- Natural conditions

Outlook

The negative outlooks on PG&E and Pac Gas reflect the increased probability for a downgrade incorporating the accelerated rate of adverse wildfire activity as demonstrated by the record-setting pace of California's wildfires, which is still in the early stages of the wildfire season. In our view, the lack of sufficient rainfall, the dry environment, and the apparent ease that relatively routine wildfires can develop into a catastrophic wildfire, increases the likelihood that a California investor-owned electric utility could potentially be the cause of a catastrophic wildfire.

Downside scenario

We could downgrade PG&E and Pac Gas over the next 6 to 12 months if risks increase, such as any of California's investor-owned electric utilities are found to be the cause of a catastrophic wildfire, thereby increasing the probability that the wildfire fund could deplete sooner than expected. We could also lower ratings if PG&E's consolidated FFO to debt weakens to below 13%.

Upside scenario

We could affirm the ratings and revise the outlook to stable over the next 6 to 12 months if PG&E's consolidated FFO to debt is consistently above 13%, California's investor-owned electric utilities are not found to be the cause of a catastrophic wildfire, and Pac Gas consistently demonstrates effective management of regulatory risk.

Company Description

PG&E Corp. is a San Francisco-based utility holding company. Its wholly owned utility subsidiary is Pac Gas, which operates in northern and central California. Pac Gas generates revenues through the sale and delivery of electricity and natural gas to 5.5 million electric and 4.5 million gas customers and has about 7,700 MW of generation capacity. The utility is regulated by the CPUC, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission.

Liquidity

We assess PGE's liquidity as adequate to cover its needs over the next 12 months. We expect the company's liquidity sources will exceed its uses by 1.1x, and that the company will meet our other criteria for such a designation. PG&E benefits from the preponderance of regulated utility operations that provide for stable cash flow generation. Moreover, we expect liquidity should benefit from the company's well-established and solid relationships with banks, and its likely ability to absorb high-impact, low-probability events without the need for refinancing, as evidenced by the company's ability to access the wildfire fund.

Principal Liquidity Sources

- Available cash of about $1 billion;
- Credit facility availability of $3.7 billion; and
- Cash FFO of about $2.5 billion.

Principal Liquidity Uses

- Debt maturities of about $1.5 billion over the next 12 months; and
- Maintenance capital spending of about $4 billion over the next 12 months.

Covenants

PG&E's revolver contains a debt to capital limit of 70% and Pac Gas' revolver has a debt to capital limit of 65%. We expect the companies to consistently be in compliance with these covenants and have at least 15% financial covenant headroom.

Issue Ratings - Subordination Risk Analysis

Capital structure

PG&E has about $38 billion of debt. About $5 billion consists of senior notes at PG&E and approximately $33 billion of senior secured debt at Pac Gas that are backed by first-mortgage bonds (FMB). The secured notes will all be collateralized, backed by FMBs, and will be rated in-line with Pac Gas' senior secured issue rating.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our recovery rating on Pac Gas's first-mortgage bonds and its secured revolving credit facility reflects the substantial value of the company's regulated utility assets that is sufficiently larger than the company's secured debt, limited priority claims, and other liabilities at the utility at this time. For our recovery analysis we treat the accounts-receivable securitization as a priority claim due to its senior claim to the value of the company's account receivables and the structural protections of this financing structure.
- Pac Gas' secured debt has a '1+' recovery rating, indicating our highest expectation for a full recovery, and resulting in an issue rating three notches above the issuer credit rating. The recovery rating reflects collateral coverage in excess of 150%, consistent with our criteria for recovery ratings on debt issued by regulated utilities that is secured by the key utility assets.
- We view the secured debt at PG&E as effectively unsecured because it is unguaranteed by Pac Gas and is essentially the junior-most debt liability in PG&E's consolidated capital structure, behind unsecured liabilities and preferred equity interests at Pac Gas. As such, we cap the recovery rating on this debt at '3', consistent with our approach to rating unsecured debt issued by companies with an issuer credit rating of 'BB-' or higher.
- The '3' recovery rating cap recognizes that 'BB' category entities are more likely to significantly increase debt before default and that recovery prospects for unsecured debt are most likely to be impaired by additional debt. Further, claims of PG&E's debt would be structurally junior to potential non-debt liabilities at Pac Gas, including future potential wildfire liabilities. Notwithstanding the cap, based on PG&E's current capital structure, the recovery rate on PG&E's debt could be higher than the 50%-70% indicated by our '3' recovery rating.
- A default scenario could stem from sudden liquidity pressure from an unpredictable weather, cost, or market event outside of the company's control, consistent with past utility defaults. Further it could reflect significant future litigation exposure at Pac Gas, consistent with PG&E's prior default.
- We expect Pac Gas to continue to operate and reorganize after default given the essential nature of its services. We also assume the value of the utility's assets will be preserved and we use the net value of its regulated fixed assets as a proxy for the company's enterprise value. The company's regulated asset value is currently roughly $66 billion.

Simulated default assumptions

- Simulated year of default: 2024
- Gross enterprise value--discrete asset valuation (DAV) approach: $66 billion
- Valuation split—PG&E/Pac Gas: 0%/100%

Simplified waterfall

- Net recovery value after administrative costs (5%): $62 billion
- Pac Gas value: $62 billion
- Priority claims at Pac Gas (A/R securitization): $1 billion
- Secured debt claims at Pac Gas (FMBs and bank debt): $37 billion
- Recovery estimate: 100%
- Residual value available to Pac Gas equity: $24 billion
- Pac Gas Preferred Stock claims: $250 million
- Residual value available to Parent creditors: $24 billion
- Debt claims at Parent (effectively unsecured): $5.3 billion
- --Recovery range: Capped at 50%-70%; rounded estimate: 65%

Notes: Debt amounts include six months of accrued interest that we assume will be owed at default. We assume the cash flow revolvers at Pac Gas ($3.5 billion) and PG&E ($500 million) at 85% utilized at default and that the $1 billion accounts receivable securitization is fully utilized. We assume any debt maturing before default is refinanced on similar terms before maturity.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Negative/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Fair

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Weak (-1 notch)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb-

- Group credit profile: bb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed/Outlook Action

	To	From
PG&E Corp.		
Pacific Gas & Electric Co.		
Issuer Credit Rating	BB-/Negative/NR	BB-/Stable/NR

Ratings Affirmed/Outlook Action (cont.)

Ratings Affirmed; Recovery Rating Unchanged

PG&E Corp.	
Senior Secured	BB-
Recovery Rating	3(65%)
Pacific Gas & Electric Co.	
Senior Secured	BBB-
Recovery Rating	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Attachment F

Asset purchase offer letters provided to PG&E by San Francisco, South San Joaquin Irrigation District, Valley Clean Energy, and Nevada Irrigation District

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

August 14, 2020

William L. Smith
Interim Chief Executive Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Michael A. Lewis
Interim President
Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: San Francisco's Continued Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Messrs. Smith and Lewis:

Now that Pacific Gas and Electric Company ("PG&E") and PG&E Corporation (collectively, with PG&E, the "Company"), have emerged from bankruptcy, the City and County of San Francisco (the "City") wishes to reaffirm its commitment to pursuing acquisition of PG&E's electric distribution and transmission assets needed to provide electric distribution service to customers in San Francisco (the "Proposed Transaction"). We remain convinced that the Proposed Transaction would be beneficial to the Company, its shareholders, and other stakeholders, including PG&E's customers, and wish to establish a process for discussing the Proposed Transaction with you.

We understand that the accelerated schedule and other reservations about the Proposed Transaction resulted in the Company declining to engage with the City last year. With the Company having completed that process, we believe this is an opportune time to engage in a dialogue regarding a Proposed Transaction. We have previously provided our views regarding the potential benefits of the Proposed Transaction, and sought to address PG&E's expressed reservations in our three letters to the Company delivered in September and November 2019. We welcome the opportunity to discuss these views and the work we have done around these issues in support of implementing the Proposed Transaction.

While we understand that the Company previously expressed reluctance to sell these assets, there are sound reasons now to reconsider that approach. A cooperatively negotiated transaction would provide the best path forward for the City to acquire PG&E's assets needed to provide distribution service throughout San Francisco and would financially benefit the Company and its stakeholders. The Proposed Transaction would provide good value for the Company's shareholders and its remaining ratepayers, as explained in prior letters. In addition to financial benefits, transferring to the City the responsibility for maintaining and improving the system in San Francisco would free PG&E to focus more attention and capital on the balance of its system.

City officials remain united in their support of the Proposed Transaction, for all the reasons identified in our prior letters, which are as true today as they were then. Earlier this year, both the San Francisco Board of Supervisors and the San Francisco Public Utilities Commission adopted resolutions conditionally approving the issuance of revenue bonds for this purpose.[1] The City's ability to finance an acquisition is not limited by current budget challenges because those bonds would be repaid from the revenue earned by providing electric service throughout San Francisco, not from City funds needed to provide other services. The City's analysis shows that it can provide safe, reliable, and cost-effective service to all customers in San Francisco. The current arrangement, where PG&E and the City share service obligations to customers within San Francisco, has become increasingly untenable, particularly for service to the customers of Hetch Hetchy Power, the City's municipal utility. Electric service to essential facilities like schools, homeless shelters, and affordable housing has been burdened with disputes that delay service and increase costs. The Proposed Transaction would allow PG&E and the City to move on from these disputes.

While the City has performed extensive analysis of PG&E's system based on information available to it, the City wishes to have the Company's engagement and access to additional information regarding the assets for the City to complete its analysis. We hope the Company will explore the Proposed Transaction with the City now that is has emerged from bankruptcy. We firmly believe that a mutually beneficial transaction can be achieved and would be approved by regulators.

Please reach out to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to the following contacts at Jefferies LLC, the City's buy-side financial advisor: Scott Beicke (212-336-7479), Americas Co-Head of Power, Utilities and Infrastructure, or Simon Wirecki (310-575-5251), Western Regional Head for Municipal Finance, with any questions. We look forward to hearing from you and would appreciate a response by **September 1**, 2020.

Very truly yours,

London N. Breed
Mayor

Dennis J. Herrera
City Attorney

cc: All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance
John R. Simon, PG&E Executive Vice President, Law, Strategy & Policy
Janet Loduca, PG&E Senior Vice President and General Counsel

This letter represents a general statement of the City's interest in the Proposed Transaction and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed

[1] See Board Resolution No. 30-20 and PUC Resolution No. 20-0011.

comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals and executed definitive transaction documentation for the Proposed Transaction, neither the City nor the Company shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this letter. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required California Environmental Quality Act compliance.

NID

NEVADA IRRIGATION DISTRICT

1036 W. Main Street, Grass Valley, CA 95945-5424
(530) 273-6185 ~ Fax: (530) 477-2646 ~ www.nidwater.com

RECEIVED
NOV 12 2019
UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

FILED
NOV 12 2019
UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

Case #
19-30088

November 6, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beal St., P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
PG&E Corporation
77 Beal St., P.O. Box 770000
San Francisco, CA 94177

Re: **Nevada Irrigation District's Notice of Intent for the Purchase and Sale of Electric Distribution Assets in Portions of Nevada, Placer and Yuba Counties**

Dear Messrs. Johnson and Vesey,

The Nevada Irrigation District is a diversified water resource district in the foothills of Northern California's Sierra Nevada Mountains. NID is a publically owned utility, governed by an elected Board of Directors representing five Divisions within its approximate 287,000-acre boundary. The District provides treated water to approximately 19,500 customers and raw water to approximately 5,500 customers in Nevada, Placer, and Yuba Counties. The Nevada Irrigation District operates recreation facilities at the District's storage reservoirs and utilizes its water supply resources to generate approximately 82.2MW of hydroelectric power for the benefit of its customer base. NID employs 219 regular, full-time employees and is headquartered at an 18-acre site located in Grass Valley, CA.

Founded under the Irrigation District Power Act of 1919, the Nevada Irrigation District is uniquely situated to engage in its latent powers and provide retail electric service to local communities under its jurisdiction provided by California Water Code section 22115 et seq.

Background

Since 1921, Nevada Irrigation District has been reliably supporting the communities of Placer, Nevada and Yuba Counties with a consistent and reliable supply of water through its diverse network of 475 of open ditch canals and 400 miles of treated water pipelines. Since the 1960s, NID has supported the California electrical grid in providing approximately 82.2 MW of hydroelectric and solar power through Power Purchase Agreements with PG&E.

NID began its assessment and review of PG&E's local distribution system after holding a Community Choice Aggregation (CCA) meeting with interested members of the community in August 2018. NID began to advance its analysis and feasibility of the potential acquisition of the distribution system and associated assets within its District boundary in September 2018.

In light of the recent events and news surrounding the Pacific Gas and Electric Company bankruptcy, rate increases, PG&E's discretionary Public Safety Power Shutoff (PSPS) events, and at the request of the local community, Nevada Irrigation District has decided to earnestly explore options for providing sustainable and resilient electric distribution service to the local community as identified in Exhibit A.

Based upon the initial analysis and subsequent review and approval from its Governing Board of Directors, the Nevada Irrigation District is pleased to submit this non-binding Notice of Intent (NOI).

This proposal to add a retail electric utility service to NID's existing business lines is directly in-line with and complementary to the District's existing water, hydroelectric, and recreation service deliveries. Specifically, Nevada Irrigation District believes it can offer electrical services which:

- Enhance services to and reducing future financial impacts for our customers
- Integrate existing District business line functions into the fabric of the communities they serve
- Develop and manage resources in a self-determining manner with local control
- Will provide the highest level of service at the lowest possible cost without impacting the quality of service (best value)

In addition to the benefits provided locally to nearly 85,000 electric customers in the Sierra Nevada foothills within the three counties. NID believes this offer is in line with PG&E's risk evaluation of the region. NID stands ready to assume the liability and risk of the local Retail System Assets of the territory described in Exhibit A. NID believes this offer to be a valuable component of PG&E's long-term risk assessment and a benefit to the Debtor and shareholders.

Assets to be Sold

The assets to be sold include all of PG&E's retail electric system assets used and useful in the provision of service, operation, and maintenance, of distributed electric service, including without limitation, all, real property, assets, fixtures, appurtenances, rolling stock, and equipment, located in, or of service to, the area depicted in Exhibit A.

NID has identified a number of substations to be included in the sale and believes that areas of physical separation of the system would be technically feasible. NID has evaluated the area based on publically available data and welcomes discussion with

PG&E regarding mutually agreeable separation parameters which meet reliability and safety standards for all customers.

Acquisition Price

The Proposed Acquisition Price for the Retail System to PG&E is three hundred million one hundred ninety-six thousand nine hundred dollars ($300,196,900) upon closing of the sale. NID has analyzed PG&E's assets and believes this valuation is an attractive valuation given the age of assets evaluated, correction of deferred maintenance necessary immediately upon sale, and for the reduction of liability and risk associated with assets located in the foothills of the Sierra Nevada Mountains.

Conditions Precedent

As a matter of course, in preparing a reasonable valuation of the assets as well as assessment through expert consultation and technical advisors, the Nevada Irrigation District has a number of Conditions Precedent, which must be satisfied prior to the closing of the sale. These Conditions include:

- LAFCo Approvals
- Necessary Voter Approvals
- CPUC Approval
- Bankruptcy Court Authorization
- Financing
- Environmental Review
- Non-Bypassable Charges

Due Diligence

The Nevada Irrigation District and its consultants have developed this Notice of Intent using publically available information. Access to the non-publically available information of the assets and records relating to those assets from PG&E is required for NID to perform adequate due diligence. NID has retained expert consultants who have assisted in the past 18 months in evaluating the assets to be acquired.

Non-Binding

This Notice of Intent represents the Nevada Irrigation District's interest in purchasing PG&E's retail system assets. This NOI shall be assignable and does not constitute an offer, agreement, or commitment to consummate any of the transactions contemplated herein.

Closing

The Nevada Irrigation District welcomes and appreciates your consideration of this non-binding Notice of Intent. NID is encouraged by the local community and other regional governance support it has received in advance of providing this proposal. We believe there are significant benefits for both the local community and PG&E shareholders.

The NID executive team, Board members, legal, and financial advisors are eagerly standing by and await your earnest review and consideration of this proposal. Working diligently together, we believe we can parallel with the anticipated bankruptcy timeline process in advance of the June 30, 2020 reorganization deadline.

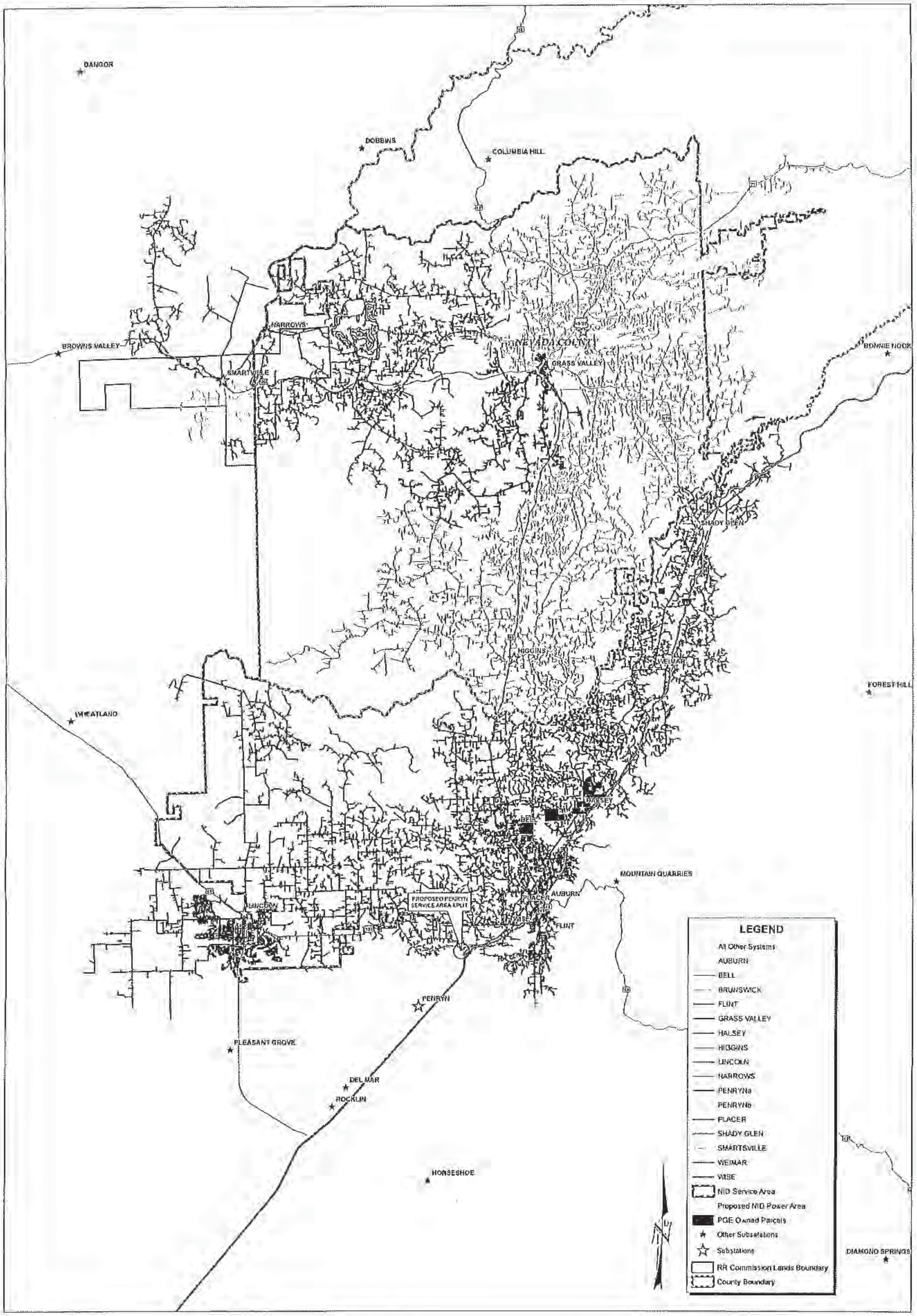
All correspondence associated with this proposal can be directed to me, Remleh Scherzinger, at Nevada Irrigation District General Manager, 1036 West Main St., Grass Valley, CA 95945, or at scherzinger@nidwater.com / 530-273-6185.

Respectfully,

Remleh Scherzinger, M.B.A., S.D.A., P.E.
General Manager, Nevada Irrigation District
Chief Executive Officer, Nevada Irrigation District Municipal Finance Authority

cc. Nevada Irrigation District Board of Directors
Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel
Honorable Judge Dennis Montali, U.S. District Justice
Honorable Judge William Alsup, U.S. District Justice
Honorable Judge Randall Newsome, JAMS Mediator and Arbitrator
Governor Gavin Newsom, State of California

Attachments:
Exhibit A: Logical Service Area



NID

NEVADA IRRIGATION DISTRICT
NEVADA COUNTY – PLACER COUNTY
GRASS VALLEY, CALIFORNIA

LOGICAL SERVICE AREA

Drawn By: D. HUNT Date: 11/5/2019 Scale: NO SCALE EXHIBIT 'A'

VALLEY
CLEAN ENERGY

October 18, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
Pacific Gas and Electric Company
77 Beale Street, P. O. Box 770000
San Francisco, CA 94177

Re: Valley Clean Energy's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets in Yolo County

Dear Messrs. Johnson and Vesey,

Valley Clean Energy is a joint powers authority formed by Yolo County and the Cities of Davis and Woodland that currently serves as a Community Choice Aggregator for its members' residents and businesses. The cities of Winters and West Sacramento are associate members of Valley Clean Energy. Therefore, all of the cities in Yolo County and Yolo County are now members of Valley Clean Energy. Valley Clean Energy began its current analysis and review of local distribution system ownership and control soon after PG&E's Chapter 11 bankruptcy cases were filed in January 2019. Valley Clean Energy's review focuses on the feasibility of potential acquisition of electric utility distribution assets serving Yolo County held by Pacific Gas and Electric Company ("PG&E" and collectively with PG&E Corporation, the "Debtors") in connection with Debtors' Chapter 11 bankruptcy cases. We write to inform you that Valley Clean Energy and its member agencies have concluded their initial analysis and based on that analysis, Valley Clean Energy has prepared this acquisition proposal.

Accordingly, we are pleased to submit this non-binding Indication of Interest ("IOI") to purchase substantially all of PG&E's electric distribution assets, and appurtenant facilities needed to provide retail electric delivery service to all electricity customers in the incorporated and unincorporated areas of Yolo County (such assets collectively, as further described below, the "Targeted Assets" and such transaction, the "Proposed Transaction").

Subject to the terms and conditions described herein, Valley Clean Energy is prepared to engage immediately with Debtors and stakeholders to facilitate the negotiation, documentation, execution, and bankruptcy court approval of our Proposed Transaction that we believe will be mutually beneficial for the Valley Clean Energy constituents, the Debtors, and bankruptcy creditors, customers, and other stakeholders.

1. Rationale for the Proposed Transaction

Valley Clean Energy is strongly positioned to acquire the Targeted Assets and provide enhanced value to the Debtors and their stakeholders. For many decades, Valley Clean Energy's member agencies have successfully delivered essential utility services including water, sewer, storm-water, and refuse collection to their residents. Beginning in June 2018, Valley Clean Energy CCA has successfully and reliably performed full power supply services for electric customers in Woodland, Davis, and the unincorporated areas of Yolo County.

Yolo County and the City of Davis have been contemplating investment and public acquisition in the local electric distribution systems for decades. These efforts have taken various forms. Investment in local electric distribution facilities has been and remains an important objective for Valley Clean Energy's member agencies to ensure reasonable and safe access to electric distribution facilities and services, and to secure service for new customers. Given Valley Clean Energy's and its member agencies' ability to access lower-cost funding sources and with no obligation to provide equity returns or to recover income taxes, Valley Clean Energy's constituents will be able to achieve their long-held goal of providing cost-effective electric distribution service to all customers in Yolo County, while simultaneously providing enhanced value to Debtors and their stakeholders through the Proposed Transaction.

Valley Clean Energy has closely followed the Debtors' bankruptcy cases and believes that, through the Proposed Transaction, it can assist PG&E in further enhancing realized value for stakeholders by providing a significant cash infusion to Debtors. Valley Clean Energy can, with the Debtors' cooperation, consummate the Proposed Transaction expeditiously to facilitate the Debtors' timely emergence from bankruptcy, consistent with the Debtors' articulated goals and timetable. Importantly, the Proposed

Transaction reflects a significant premium value contribution for the Targeted Assets that would be available to the Debtors and their stakeholders. Valley Clean Energy is also open to negotiations with competing bankruptcy plans of reorganization under the terms set forth in this IOI.

Valley Clean Energy also believes that the Proposed Transaction would provide meaningful benefits to Yolo County residents including: (i) stable and competitive electric rates; (ii) enhanced focus on local needs; (iii) increased ability to achieve the Valley Clean Energy's aggressive climate action goals; and (iv) additional beneficial long-term career and business opportunities for local residents and businesses. Additionally, Valley Clean Energy believes that other PG&E customers will benefit from PG&E's ability to provide a more focused effort on management of a smaller, more manageable service territory as it emerges from bankruptcy.

2. Targeted Assets

The Targeted Assets would include substantially all of PG&E's distribution assets, 230/115 kV transformers, and 115 kV transmission lines located within the incorporated and unincorporated areas of Yolo County and certain other ancillary assets needed to properly service customers in Yolo County, as described more particularly in Attachment A.

Given the geography of Yolo County within PG&E's overall service territory, Valley Clean Energy contemplates that a physical separation of the Targeted Assets can be accomplished in a straightforward manner. Valley Clean Energy and its engineering and technical advisors have evaluated various separation scenarios and welcomes further discussion with PG&E regarding the disposition of specific assets and the development of a mutually acceptable separation plan that maximizes reliability and efficiency for both Yolo County customers and PG&E's remaining customers.

3. Purchase Price

Valley Clean Energy is pleased to submit an indicative purchase price for the Targeted Assets of $300 million to be paid in cash upon the closing of the Proposed Transaction. Based on Valley Clean Energy's key assumptions described below, this indicative purchase price represents a substantial multiple of estimated year end 2019 rate base and 2019 earning for the Targeted Assets. Valley Clean Energy believes that this indicative purchase price represents an attractive premium valuation that reflects the unique circumstances of, and expedited timing resulting from, the Debtors' Chapter 11 bankruptcy case.

In addition, and in connection with the Proposed Transaction and taking into account the indicative purchase price for the Targeted Assets, Valley Clean Energy is interested in discussing an arrangement to implement and "buy down" any non-bypassable charge obligations that may be applicable to Valley Clean Energy's customers in exchange for a full release of those obligations, subject to the approval of the California Public Utilities Commission ("CPUC"). Resolution of such non-bypassable charges could also be accomplished through the acceptance of proposal(s) made by Sonoma Clean Energy on behalf of itself and other Community Choice Aggregation entities, including Valley Clean Energy, related to the buy-out and/or stabilization of PCIA charges. Valley Clean Energy believes that such an arrangement could significantly increase the sources of cash available to PG&E in connection with the Proposed Transaction.

4. Key Assumptions

Based on analysis of the Targeted Assets conducted by Valley Clean Energy's expert valuation, engineering, and technical advisors, Valley Clean Energy used several valuation methodologies to reasonably value the Targeted Assets. Valley Clean Energy's proposal and indicative purchase price are based upon, and subject to, a number of key assumptions including:

- Debt-Free Purchase: The Targeted Assets would be acquired free of any debt associated with the Debtors.
- Bankruptcy Matters and Timing:
    - The Proposed Transaction would be undertaken as an asset sale in connection with a confirmed plan of reorganization of the Debtors in the Chapter 11 bankruptcy cases. As an alternative, Valley Clean Energy would also consider a Bankruptcy Code Section 363 sale if the Debtors prefer.
    - Valley Clean Energy will not assume or otherwise be responsible for the liabilities of the Debtors arising prior to the closing of the Proposed Transaction, other than the Debtors' executory obligations under

executive contracts that Valley Clean Energy elects for the Debtors to assume and assign to Valley Clean Energy in connection with the bankruptcy cases and for which the Debtors would be responsible for any cure costs.

- Valley Clean Energy will obtain taxable bond financing acceptable to Valley Clean Energy for the Proposed Transaction, as described below.
- The Debtors' Plan of Reorganization will be confirmed by the bankruptcy court no later than June 30, 2020, and the Proposed Transaction will close as soon as all required regulatory approvals are obtained and the bond financing has closed or closes in conjunction with the close of the Proposed Transaction.

Valley Clean Energy's key assumptions, including its expert advisors' estimation of the physical condition and age of the Targeted Assets included in rate base, are based on publicly available information. As a result, these key assumptions and resulting indicative valuation are subject to refinement based on further comprehensive due diligence, including an analysis of non-public information that the Debtors would need to provide.

5. Financing

Financing for the Proposed Transaction is expected to include issuance of municipal power revenue bonds by Valley Clean Energy. Valley Clean Energy is confident in its ability to execute such financing based on the revenues from the Targeted Assets, as the municipal capital markets regularly absorb transactions of this size and Valley Clean Energy's member agencies and its various departments have successfully issued revenue bonds or similar types of financing for their other utility infrastructure needs.

6. Transaction Documentation

The Proposed Transaction will be conditioned on the negotiation of mutually agreeable definitive documentation between PG&E and Valley Clean Energy, including an asset purchase agreement that contains reasonable and customary terms for acquisitions of electric utility systems and a transition services agreement to ensure the continuous provision of safe and reliable electrical service to Yolo County residents. Valley Clean

Energy and PG&E would work together to identify an appropriate transition period and scope of transition services prior to closing of the Proposed Transaction and Valley Clean Energy would endeavor to condense the scope and length of transition services.

We also anticipate that the separation of the Targeted Assets may require certain ancillary agreements between Valley Clean Energy and PG&E, including, for example, coordination, shared facilities, and customary utility border agreements that the parties would need to negotiate and execute in connection with the closing of the Proposed Transaction.

7. Employees

Valley Clean Energy intends to recruit willing PG&E employees who currently operate and maintain the Targeted Assets. Valley Clean Energy believes it can offer stable careers with appealing wages and benefits that will be attractive to PG&E employees. We would seek your cooperation in the recruitment process to hire appropriate personnel to operate the system, while avoiding any disruption across the balance of the PG&E system. Yolo County and the cities have a long history of working productively with their unionized workforce and intend to honor the successor provisions of PG&E's collective bargaining agreements and to comply with the provisions of Public Utilities Code section 854.2 (AB 1054) related to the transition of covered employees in effect at the time of the close of the Proposed Transaction.

8. Transaction Conditions

Entering into definitive documentation for the Proposed Transaction is conditioned upon completion of the following matters to Valley Clean Energy's satisfaction: (i) Valley Clean Energy's comprehensive business and legal due diligence reviews, which will require the assistance of the Debtors; (ii) the parties' negotiation of definitive documentation and ancillary agreements; and (iii) the attainment of Valley Clean Energy's requisite internal approvals described below. In addition, the Proposed Transaction would be subject to customary and usual closing conditions, including, without limitation, receipt of a bankruptcy court order approving the Proposed Transaction that is acceptable to Valley Clean Energy and required regulatory approvals.

a) <u>Internal Approvals</u>

As referenced above, the proposal contained in the IOI has the support of the Valley Clean Energy's Board of Directors and the governing bodies of the County of Yolo and the cities within Yolo County whose territory is included in the acquisition. Entering into definitive documentation for the Proposed Transaction would require the approval of the Valley Clean Energy Board of Directors, which can be sought expeditiously once definitive agreements are finalized.

b) <u>Regulatory Approvals</u>

We anticipate that the Proposed Transaction will require the following regulatory approvals or clearances: (i) CPUC approval under Section 851 of the California Public Utilities Code, (ii) Federal Energy Regulatory Commission approval under Section 203 of the Federal Power Act, along with certain ancillary approvals and (iii) compliance with the California Environmental Quality Act ("CEQA"). We anticipate that these regulatory filings would be coordinated with the bankruptcy court's schedule to allow for filing as soon as practicable in connection with the Debtors' plan of reorganization and that all required regulatory approvals and clearances would be timely received upon prior to the receipt of all regulatory approvals required for the Debtors' Plan of reorganization.

9. Due Diligence

Valley Clean Energy and its team of advisors have created this proposal using information sourced from public filings, including FERC, Securities Exchange Commission, and other regulatory filings and investor presentations. Access to non-public information and cooperation from the Debtors is necessary for Valley Clean Energy to finalize valuation assumptions. If it would be helpful to PG&E to expedite the diligence conformation process, Valley Clean Energy is willing to provide a comprehensive list of the due diligence information that would be required for Valley Clean Energy to complete its due diligence process to move forward with the Proposed Transaction.

Valley Clean Energy has retained multiple expert advisors that have assisted Valley Clean Energy in conduction its initial due diligence and submitting this IOI, including:

- MRW & Associates, LLC: financial feasibility advisor
- NewGen Strategies and Solutions, LLC: asset appraisal advisor

10. Non-Binding

This IOI represents a general statement of Valley Clean Energy's interest in purchasing the Targeted Assets and does not create any legally binding obligation on Valley Clean Energy or any of its officials, representatives, agencies, members, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals, executed definite transaction documentation for the Proposed Transaction, and obtained a bankruptcy court order authorizing the Proposed Transaction, neither Valley Clean Energy nor the Debtors shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this IOI. Valley Clean Energy does not commit to any definite course of action as to the Proposed Transaction prior to completing any required CEQA compliance.

11. Next Steps

Valley Clean Energy appreciates your earnest consideration of this non-binding proposal. We welcome the opportunity to discuss this proposal, together with the significant benefits that it would provide, with appropriate representatives of the Debtors. After reviewing the proposed plan, we may follow up with the Debtors to provide additional analysis demonstrating how the Proposed Transaction would enhance and could be coordinated with a proposed bankruptcy plan.

We have a full team, including outside legal, financial, and engineering advisors and senior Valley Clean Energy representatives, engaged and standing ready to complete Valley Clean Energy's comprehensive due diligence and to work expeditiously towards definite documentation, with the assistance of PG&E, subject to the terms and conditions described above. As noted above, with the Debtors' prompt engagement, Valley Clean Energy believes that it can complete its outstanding work in a timeframe consistent with the Proposed Transaction being approved in parallel with PG&E's

anticipated reorganization plan confirmation process, and ahead of the June 30, 2020 legislative deadline.

Any inquiries with respect to this IOI can be directed to Mitch Sears, Valley Clean Energy General Manager, 604 2nd St, Davis, CA 95616, mitch.sears@valleycleanenergy.org, Tel: (530) 446-2750.

Very truly yours,

T W Stallard

Tom Stallard, Chair
Valley Clean Energy Board of Directors

cc. VCE Board of Directors
Mitch Sears, VCE General Manager
Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel
City Councils and Board of Supervisors of the VCE member agencies

Attachment: A. Targeted Assets

Attachment A: Targeted Assets

This Attachment A provides an overview / description of the assets Valley Clean Energy proposes to purchase from PG&E. The description provided herein is not intended to be the comprehensive list of assets to be purchased that would be included in a final purchase and sale agreement. Subject to due diligence and further discussions with PG&E, some assets described here may not be included, and other assets may need to be added to a binding pricing and a final purchase and sale agreement.

Broadly, Valley Clean Energy is proposing to purchase substantially all of PG&E's transmission and distribution assets that are necessary for Valley Clean Energy to provide safe and reliable retail electric distribution service to all electricity customers in Yolo County.

These assets are currently anticipated to include:

i. All PG&E distribution assets within Yolo County, including distribution-level substations, metering, customer-level interconnection, and related facilities, as needed for operational control.
ii. PG&E's 115 kV transmission assets within Yolo County, and PG&E's 230 kV to 115 kV transformers, as needed for operational control.

Valley Clean Energy's proposal also includes related assets, materials, records, spare parts, equipment, and other items, as required for safe and reliable service to customers and safe and reliable operation of the assets above, including:

a. Other systems and equipment such as meters, relays, SCADA, transformers, rolling stock, telecommunication and control center equipment, and spares; support systems, standards, AMR facilities, distribution system model data, system maps and diagrams, records, and all similar items required to operate the assets.
b. All PG&E's reliability, safety, operation, maintenance, and capital improvement records related to and or for the assets that are purchased.
c. PG&E's operating and maintenance facilities (for communications, SCADA, security, control, and emergency response), service yards, warehouse(s); customer service and call center, and other facilities; all as located in Yolo County, and as necessary for safe and reliable operation and maintenance of the assets described above.

d. PG&E's customer service, metering, and billing records, including program and service agreements, dispute notices, outstanding complaints, and similar customer-related information for Yolo County electric customers.
e. PG&E-owned land, easements, rights-of-way, lease agreements, and other land-related agreements (or appropriate new lease or other agreements between Yolo County and PG&E) necessary for safe and reliable operation and maintenance of the assets described above.
f. PG&E-owned streetlights and similar unmetered facilities in Yolo County.

VCE's proposal excludes all land and facilities related to PG&E's natural gas operations and services.

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

September 6, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: San Francisco's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Messrs. Johnson and Vesey,

As you know, the City and County of San Francisco (the "City") initiated intensive work beginning in January 2019 to determine the feasibility of a potential acquisition of electric utility assets serving San Francisco held by Pacific Gas and Electric Company ("PG&E" and collectively with PG&E Corporation, the "Debtors") in connection with the Debtors' Chapter 11 bankruptcy cases. We write to inform you that, after investing additional substantial resources since delivering our letter dated March 14, 2019 to PG&E Corporation (attached as Attachment A), the City and its advisors have concluded their initial analysis of a potential transaction. Based on that analysis, the City has prepared this acquisition proposal.

Accordingly, we are pleased to submit this non-binding indication of interest ("IOI") to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers in San Francisco (such assets collectively, as further described below, the "Targeted Assets" and such transaction, the "Proposed Transaction"). We submit this IOI with the support of the San Francisco Board of Supervisors (the "Board of Supervisors") and the San Francisco Public Utilities Commission (the "SFPUC").

Subject to the terms and conditions described herein, the City is prepared to engage immediately with the Debtors and its stakeholders to facilitate the negotiation, documentation, execution and bankruptcy court approval of an acquisition transaction that we believe will be mutually beneficial for the City's constituents, the Debtors and their creditors, customers and other stakeholders.

1. Rationale for the Proposed Transaction

The City is uniquely positioned to acquire the Targeted Assets and provide enhanced value to the Debtors and their stakeholders. For over a century, the City has owned and operated its Hetch Hetchy Power municipal retail electric utility, including its own electric generation, transmission and distribution facilities. Hetch Hetchy Power and CleanPowerSF (San Francisco's Community Choice Aggregation program) supply nearly 80% of San Francisco's electricity needs. The SFPUC, through Hetch Hetchy Power and CleanPowerSF, has a long track record of providing safe, reliable, affordable and sustainable electric service.

More recently, investment in distribution facilities has become an important initiative for the SFPUC to ensure reasonable access to electric distribution services for its customers, and to secure service for new Hetch Hetchy Power customers. Given the City's overlapping footprint with the Targeted Assets, the ability to integrate the Targeted Assets with the Hetch Hetchy Power infrastructure, the City's ability to access low-cost sources of financing and with no obligation to provide a return on equity capital or recover income taxes in its rate structure, the City believes that it will be able to achieve its long-held goal of providing cost-effective electric distribution service to all customers in San Francisco, while providing substantial value to the Debtors and their stakeholders.

The City has closely followed the Debtors' bankruptcy cases and believes that, through the Proposed Transaction, the City can assist PG&E in maximizing value for its stakeholders by providing a significant cash infusion to the Debtors. The City can, with the Debtors' cooperation, consummate the Proposed Transaction expeditiously to facilitate the Debtors' timely emergence from bankruptcy, consistent with the Debtors' articulated goals and timetable. Importantly, the Proposed Transaction reflects a premium valuation for the Targeted Assets due to the unique circumstances of the Debtors' chapter 11 bankruptcy cases, and would result in significant cash consideration that would be available to the Debtors and their stakeholders. The City has also analyzed the potential impacts of the Proposed Transaction on PG&E's remaining customers; we believe such impacts, if any, would be modest and can be mitigated in a way that is fair to all customers. The City will continue paying its fair share of systemwide costs.

The City also believes that the Proposed Transaction would provide meaningful benefits to the City and its residents, including: (i) stable and competitive rates for customers throughout San Francisco, (ii) enhanced focus on local needs, (iii) increased ability to achieve the City's aggressive climate action goals as well as other important local policy objectives and (iv) additional attractive long-term career and business opportunities for local residents and businesses.

2. Targeted Assets

The Targeted Assets would include substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines located within the City limits and certain other assets that are needed to properly service customers in San Francisco as described more particularly in Attachment B.

Given the unique geography of San Francisco within PG&E's overall service territory, the City contemplates that a physical separation of the Targeted Assets can be accomplished in a straightforward manner. The City and its engineering and technical advisors have evaluated various separation scenarios and the City welcomes a discussion with PG&E regarding the disposition of specific assets and the development of a mutually acceptable separation plan that maximizes reliability and efficiency for both San Francisco customers and PG&E's remaining customers.

3. Purchase Price

The City is pleased to submit an indicative purchase price for the Targeted Assets of $2.5 billion to be paid in cash upon the closing of the Proposed Transaction. Based on the City's key assumptions described below, this indicative purchase price represents a 2.5x multiple of estimated year end 2019 rate base and more than a 35x multiple of estimated 2019 earnings for the Targeted Assets. The City believes that this indicative purchase price represents a very attractive premium valuation compared to recent electric utility transactions that reflects the unique circumstances of, and expedited timing resulting from, the Debtors' Chapter 11 bankruptcy cases.

In addition, in connection with the Proposed Transaction and taking into account the indicative purchase price for the Targeted Assets, the City is interested in discussing an arrangement to implement a "buy down" of any non-bypassable charge obligations[1] that may be applicable to the City's customers in exchange for a full release of those obligations, subject to the approval of the California Public Utilities Commission ("CPUC"). The City believes that such an arrangement would significantly increase the sources of cash available to PG&E in connection with the Proposed Transaction.

4. Key Assumptions

Based on an in-depth asset-by-asset analysis of the Targeted Assets conducted by the City's expert valuation, engineering and technical advisors, the City used several valuation methodologies to assess the value of the Targeted Assets. The City's proposal and the indicative purchase price are based upon, and are subject to, a number of assumptions, including the following key assumptions:

- <u>Debt-Free Purchase</u>: The Targeted Assets would be acquired free of any debt associated with the Debtors.

- <u>Rate Structure</u>:
    - Rate base for the Targeted Assets totaling $1.00 billion as of December 31, 2019
    - Authorized capitalization structure that includes 47% long-term debt, or $470 million, as of December 31, 2019
    - Net income contribution totaling $53 million for 2019.

- <u>Bankruptcy Matters and Timing</u>:
    - The Proposed Transaction would be undertaken as an asset sale in connection with a confirmed plan of reorganization of the Debtors in their Chapter 11 bankruptcy cases. As an alternative, the City would also consider a Bankruptcy Code Section 363 sale if the Debtors prefer.
    - The City will not assume or otherwise be responsible for liabilities of the Debtors arising prior to the closing of the Proposed Transaction, other than the Debtors' executory obligations under executory contracts that the City elects for the Debtors to assume and assign to the City in connection with the bankruptcy cases and for which the Debtors would be responsible for any cure costs.
    - The Debtors' Plan of Reorganization will be confirmed by the bankruptcy court no later than June 30, 2020, and the Proposed Transaction will close as soon as all required regulatory approvals are obtained.

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[1] For example, charges such as the Power Charge Indifference Adjustment (PCIA), DWR Bond Charge, New System Generation Charge (NSGC), Competition Transition Charge (CTC) and new non-bypassable charges that may arise from state legislation, but only to the extent applicable to the City's customers under CPUC rules and regulations implementing those charges.

The City's key assumptions, including its expert advisors' estimations of the physical condition and age of the Targeted Assets included in rate base, are based on publicly available information. As a result, these key assumptions and the resulting indicative valuation are subject to refinement based on further comprehensive due diligence, including an analysis of non-public information that the Debtors would provide.

5. Financing

Financing for the Proposed Transaction is expected to include the issuance of municipal power revenue bonds by the SFPUC. The SFPUC's credit is well established by its issuance of power revenue bonds in 2015. The SFPUC's Power Enterprise, which includes Hetch Hetchy Power, currently maintains "AA" and "AA-" credit ratings from S&P Global Ratings and Fitch Ratings, respectively. In June 2018, San Francisco voters approved an amendment to the City's charter authorizing the Board of Supervisors to approve selling power revenue bonds for purposes that include financing the acquisition of electric transmission and distribution facilities such as contemplated in the Proposed Transaction. The City anticipates that the SFPUC's Power Enterprise would be expanded to include the Targeted Assets in connection with the Proposed Acquisition.

The City has worked closely with its buy-side financial advisor, Jefferies LLC ("Jefferies"), to evaluate financing structures. The City is confident in its ability to execute the financing based on the revenues from the Targeted Assets, as the municipal capital markets regularly absorb transactions of this size and the City and its various departments are frequent issuers.

6. Transaction Documentation

The Proposed Transaction will be conditioned on the negotiation of mutually agreeable definitive documentation between PG&E and the City, including an asset purchase agreement that contains reasonable and customary terms for acquisitions of electric utility systems and a transition services agreement to ensure the continuous provision of safe and reliable electrical service to San Francisco. The City and PG&E would work together to identify an appropriate transition period and scope of transition services prior to the closing of the Proposed Transaction and the City would endeavor to reduce the scope and length of transition services.

We also anticipate that separation of the Targeted Assets may require certain ancillary agreements between the City and PG&E, including, for example, coordination, shared facilities and customary utility border agreements that the parties would need to negotiate and execute in connection with the closing of the Proposed Transaction.

7. Employees

The City intends to recruit willing PG&E employees who currently operate and maintain the Targeted Assets. The City believes it can offer stable careers with appealing wages and benefits that will be attractive to PG&E employees. We would seek your cooperation in the recruitment process to ensure appropriate personnel to operate the system, while avoiding any disruption across the balance of the PG&E system. The City has a long history of working productively with its unionized workforce and intends to honor the successor provisions of PG&E's collective bargaining agreements.

8. Transaction Conditions

Entering into definitive documentation for the Proposed Transaction is conditioned upon the following matters, to the City's satisfaction: (i) the City's completion of comprehensive business and legal due diligence, which will require the assistance of the Debtors, (ii) the parties' negotiation of definitive documentation and ancillary agreements, and (iii) the receipt of the

City's requisite internal approvals described below. In addition, the Proposed Transaction would be subject to customary closing conditions, including, without limitation, receipt of a bankruptcy court order approving the Proposed Transaction that is acceptable to the City and required regulatory approvals.

a. Internal Approvals

As referenced above, the proposal contained in this IOI has the support of the Board of Supervisors and the SFPUC. Entering into definitive documentation for the Proposed Transaction would require the approval of the Board of Supervisors and the SFPUC, which can be sought expeditiously once the definitive agreements are finalized.

b. Regulatory Approvals

We anticipate that the Proposed Transaction will require the following regulatory approvals or clearances: (i) CPUC approval under Section 851 of the California Public Utilities Code, (ii) Federal Energy Regulatory Commission approval under Section 203 of the Federal Power Act, along with certain ancillary approvals, and (iii) compliance with the California Environmental Quality Act ("CEQA"). We anticipate that the regulatory filings would be coordinated with the bankruptcy court's schedule to allow for filing as soon as practicable in connection with the Debtors' plan of reorganization and that all required regulatory approvals and clearances would be received upon or prior to the receipt of all regulatory approvals required for the Debtors' plan of reorganization.

9. Due Diligence

The City and its team of advisors have created this proposal using information sourced from public filings, including FERC, Securities Exchange Commission and other regulatory filings and investor presentations. Access to non-public information and cooperation from the Debtors would be required for the City to expeditiously complete its comprehensive business and legal due diligence and finalize its valuation assumptions. If it would be helpful to PG&E to expedite the diligence confirmation process, the City is willing to provide a comprehensive list of the due diligence information that would be required for the City to complete its due diligence process to move forward with the Proposed Transaction.

The City has retained multiple expert advisors that have assisted the City in conducting its initial due diligence and submitting this IOI, including:

- Jefferies: buy-side financial advisor
- MRW & Associates, LLC: financial feasibility advisor
- NewGen Strategies and Solutions, LLC: asset appraisal advisor
- Advisian / Siemens Industry, Inc.: engineering advisor
- Flynn Resource Consultants Inc.: technical and regulatory advisor
- Morgan, Lewis & Bockius LLP: transaction legal counsel
- Orrick Herrington & Sutcliffe LLP: bond legal counsel

10. Non-Binding

This IOI represents a general statement of the City's interest in purchasing the Targeted Assets and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals, executed definitive transaction documentation for the Proposed Transaction and obtained a bankruptcy court order authorizing the Proposed Transaction, neither the City nor the Debtors shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this IOI. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required CEQA compliance.

11. Next Steps

The City appreciates your earnest consideration of this non-binding proposal. We welcome the opportunity to discuss this proposal, together with the significant benefits that it would provide, with appropriate representatives of the Debtors. As you know, we have a meeting scheduled with Mr. Johnson on September 26 to discuss various matters, including the City's interest in the Proposed Transaction. We understand that the Debtors will be filing a proposed plan of reorganization in short order. After reviewing the proposed plan, we may follow up with the Debtors to provide additional analysis demonstrating how the Proposed Transaction would enhance and could be coordinated with the proposed plan.

We have a full team, including outside legal, financial and engineering advisors and senior City representatives, engaged and standing ready to complete the City's comprehensive due diligence and work expeditiously towards definitive documentation, with the assistance of PG&E, subject to the terms and conditions described above. As noted above, with the Debtors' prompt engagement, the City believes that it can complete its outstanding work in a timeframe consistent with the Proposed Transaction being approved in parallel with PG&E's anticipated plan confirmation process, and ahead of the June 30, 2020 legislative deadline.

Any inquiries with respect to this IOI can be directed to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to the following contacts at Jefferies: Scott Beicke (212-336-7479), Americas Co-Head of Power, Utilities and Infrastructure, or Simon Wirecki (310-575-5251), Western Regional Head for Municipal Finance.

Very truly yours,

London N. Breed
Mayor

Dennis J. Herrera
City Attorney

cc. All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance

Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel

Attachments: A. Letter to PG&E Corporation dated March 14, 2019
B. Targeted Assets

Attachment A

Letter to PG&E Corporation dated March 14, 2019

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

March 14, 2019

VIA ELECTRONIC MAIL AND USPS

John R. Simon
Interim Chief Executive Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Jason P. Wells
Senior Vice-President and Chief Financial Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Dear Mr. Simon and Mr. Wells,

The City and County of San Francisco (the "City") has initiated work to evaluate the cost and feasibility of acquiring PG&E's electric distribution facilities that serve San Francisco. While you have probably heard public reports about this effort, we write you directly to underscore the seriousness of our purpose and facilitate lines of communication going forward.

The analysis the City is undertaking will enable us to make an initial determination whether such an acquisition is feasible, including whether it would benefit City taxpayers and electric customers, produce a fair price to PG&E for these assets, and advantage PG&E's employees and its ratepayers outside of San Francisco. We will work with the City's Board of Supervisors and Public Utilities Commission to evaluate these factors. If we determine the acquisition is feasible, we intend for the City to make a formal offer to PG&E within the coming months as part of the bankruptcy process.

Please contact us if you would like to discuss this matter.

Very truly yours,

London N. Breed, Mayor

Dennis J. Herrera, City Attorney

cc: Janet C. Loduca, Senior Vice-President and Interim General Counsel, PG&E Corporation
Members, Board of Supervisors
Members, Public Utilities Commission
Harlan Kelly, General Manager, Public Utilities Commission

Attachment B

Targeted Assets

Attachment B
Targeted Assets

This Attachment B provides an overview description of the assets the City proposes to purchase from PG&E. The description provided here is not intended to be the comprehensive list of assets to be purchased that would be included in a final purchase and sale agreement. Subject to due diligence and discussions with PG&E, some assets described here may not be included, and other assets may be added to a binding pricing and a final purchase and sale agreement.

Broadly, the City is proposing to purchase substantially all of PG&E's transmission and distribution assets that are necessary for the City to provide safe and reliable retail electric service to all electricity customers in San Francisco.

These assets are currently anticipated to include:

i. All of PG&E's <u>distribution assets</u> within San Francisco, including distribution-level substations, metering, customer-level interconnections, and related facilities, as needed for operational control.
ii. PG&E's 115 kV <u>transmission assets</u> within San Francisco, and PG&E's 230 kV to 115 kV transformers, as needed for operational control. (This excludes PG&E's 230 kV transmission lines, and 230 kV busses at a) the Embarcadero Substation, b) Martin Substation and c) Potrero Substation.).
iii. A portion of the Martin substation or interconnections to the Martin substation to enable the City to control all 115 kV and 12 kV power flows from Martin into San Francisco, and a lease agreement for a portion of the Martin substation in which City equipment is located, as needed for operational control.
iv. An option to purchase the open bay position planned at PG&E's proposed Egbert Switching Station, as needed for operational control.

The City's proposal also includes related assets, materials, records and other items, as required for safe and reliable service to customers and safe and reliable operation of the assets above, including:

a. Other systems and equipment such as meters, relays, SCADA, transformers, rolling stock, telecommunication and control center equipment, and spares; support systems, standards, AMR facilities, distribution system model data, system maps and diagrams, records, and all similar items required to operate the assets.

b. All of PG&E's reliability, safety, operating, maintenance and capital improvement records for the assets that are purchased.
c. PG&E's operating and maintenance facilities (for communications, SCADA, security, control and emergency response), service yards, warehouses; ; customer service and call center; and other facilities; all as located in San Francisco, and as necessary for safe and reliable operation and maintenance of the assets described above.
d. PG&E's customer service, metering and billing records, including program and service agreements, dispute notices, outstanding complaints, and similar customer-related information.
e. PG&E-owned land, easements, rights-of-way, lease agreements, and other land-related agreements (or appropriate new lease or other agreements between San Francisco and PG&E) necessary for safe and reliable operation and maintenance of the assets described above.
f. PG&E-owned streetlights and similar unmetered facilities in San Francisco.

The City's proposal excludes all PG&E land and facilities related to its "General Office" operations in San Francisco, i.e., those facilities related to PG&E's San Francisco headquarters, and excludes all land and facilities related to PG&E's natural gas operations and services.[1]

Asset Purchase Alternatives

While not incorporated into the City's indicative price proposal, the City is open to discussing alternative permutations of the asset grouping described above, such as (but not limited to):

- Purchase of all of the high-voltage transmission assets in San Francisco, including the high-voltage lines excluded above;
- Modifications of the interconnections at the Martin substation allowing for PG&E to maintain ownership of many of the assets at the Martin substation, to ensure reliability and/or accelerate transfer of customers from PG&E to the City;

[1] PG&E has gas and electric facilities (materials, service vehicles, construction equipment, etc.) co-located at 18th and Harrison Street and related blocks. This proposal assumes mutually-acceptable arrangements to allow the City to utilize this facility.

- Other alternatives that would add value, accelerate transfer, and/or ensure continued safe and reliable service for both PG&E's and the City's customers.

SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

FOR IMMEDIATE RELEASE

Media Contact: Peter Rietkerk, General Manager
Office: 209-249-4645
Cell: 209-679-8005
www.ssjid.com

September 3, 2019

SSJID Renews $116M Offer to Acquire PG&E Assets

MANTECA, Calif. -- The South San Joaquin Irrigation District (SSJID) has submitted an offer to buy electric assets from Pacific Gas & Electric (PG&E) in the utility company's ongoing federal bankruptcy proceeding.

The $116 million offer would provide additional cash to creditors and other claimants who expect to suffer losses in the PG&E bankruptcy. SSJID's offer is part of a new phase of the irrigation district's 15-year effort to provide locally owned retail electric service. SSJID's renewed offer is similar to what the district proposed and PG&E rejected in 2016. SSJID has recently validated that the offer still represents fair market value for PG&E's property.

After PG&E rejected SSJID's 2016 purchase offer, the irrigation district filed a court action to acquire PG&E's local electric grid through exercise of SSJID's eminent domain powers. PG&E and SSJID currently have two active court cases that are in limbo due to PG&E's bankruptcy. The court cases are just two examples of PG&E's ongoing opposition to SSJID's efforts.

"Our offer creates a path toward resolving ongoing litigation between SSJID and PG&E, provides capital to support PG&E and help it fund payment of creditors and wildfire claims in the bankruptcy, and advances SSJID's decades-long project," said Peter Rietkerk, SSJID's general manager. "We look forward to the opportunity to negotiate in good faith with PG&E and work with other claimants involved in the bankruptcy case."

Since 2004, SSJID has sought to provide safe and reliable retail electric service in a transparent, responsive and accountable manner, at a 15% cost savings over PG&E, to the approximately 40,000 electrical customers in and around the communities of Manteca, Ripon and Escalon. Recently, these communities renewed their support for SSJID's project in a joint letter to Gov. Gavin Newsom.

# # #

The South San Joaquin Irrigation District (SSJID) was established in 1909 and is headquartered in Manteca. SSJID provides agricultural irrigation water to about 56,000 acres surrounding Escalon, Ripon and Manteca, and wholesale drinking water to more than 193,000 residents in Manteca, Lathrop, Tracy and, in the future, Escalon. SSJID, along with Oakdale Irrigation

District, owns and operates the Tri-Dam Project, a series of storage reservoirs and generation facilities that produce zero-carbon hydropower in the Stanislaus River watershed. Learn more at www.ssjid.com.

Attachment G

PG&E's dismissal of San Francisco's offers, SSJID's offer, and VCE's offer

PG&E Corporation

William L. Smith
Interim CEO and President

77 Beale Street
32nd Floor
San Francisco, CA 94105

August 19, 2020

Mayor London Breed and Mr. Dennis Herrera
Office of Mayor London Breed
City Hall Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Mayor Breed and Mr. Herrera:

We have received your August 14, 2020, letter reiterating San Francisco's interest in purchasing PG&E's electric transmission and distribution facilities located in the City and County of San Francisco. While we appreciate San Francisco's continued interest, and its belief that PG&E might be more amenable to considering San Francisco's prior offer now that PG&E has emerged from bankruptcy, PG&E's position has not changed. Though our company has changed a lot in the past year (and we foresee significant additional changes in the future), our assets are still not for sale.

All of our operational, safety, and organizational efforts are singularly focused on being the provider of safe, reliable service our customers rightly expect and deserve. We are not taking lightly the privilege we have to serve our customers. And we are intent on executing a plan that will demonstrate a renewed focus on our customers and communities.

Far from wanting to sell our assets at this stage, PG&E has redoubled its commitment to improve its service to all of our communities in Northern and Central California and we believe that we are best positioned to do so. As you may appreciate, the bankruptcy process and wildfires of the last few years have caused PG&E to look inwardly and to acknowledge that it has not always lived up to its customers' expectations. In response, we are embracing the opportunity to enhance our focus on improving and providing the safe, reliable, affordable, and clean service our customers expect and deserve.

In particular, PG&E has thought carefully and consulted with others about the plans and changes it is implementing to re-earn the trust of our customers and communities. These changes are neither marginal nor incremental. Instead, they involve significant changes to our management, a nearly complete board refresh, PG&E's emergence from bankruptcy and recapitalization, the implementation of PG&E's wildfire mitigation plan and our system hardening and Public Safety Power Shutoff (PSPS) mitigation efforts. But we are not stopping there.

We are also renewing our focus on asset management, work management, service activation, and event-free operations. In addition, PG&E has invested heavily in infrastructure, control centers and personnel that help support the broad range of services we provide—and that our customers need. For example, in addition to making significant investments in enhancing our grid (including millions of dollars of improvements in San Francisco), PG&E has expanded the capabilities of its emergency operations and data and billing centers with a scale that cannot be matched by smaller, local service providers. Thus, rather than harboring a desire to get out of the business of serving our customers in San Francisco or elsewhere, PG&E is instead looking forward to demonstrating our renewed commitment across our entire service territory.

I would also like to note that the reasoning behind PG&E's prior response to San Francisco's offer remains. In addition to San Francisco's offer being substantially below the fair-market value of our assets, a sale would unfairly shift a large amount of costs to our remaining customers. Additionally, San Francisco's offer does not consider the significant separation and other costs the City and its citizens would be obligated to bear above and beyond the purchase price associated with an acquisition.

While we remain convinced that a sale of our assets is not in the best interests of all of our customers, including those in the City and County of San Francisco, we remain equally convinced that we can find areas of common interest where we can work cooperatively.

We look forward to continuing to work with you on our areas of common concern like affordable housing, homelessness, and keeping our customers safe during the pandemic.

We are interested in discussing these issues with you at our meeting on Wednesday.

Sincerely,

Bill

William L. Smith
Interim Chief Executive Officer and President
PG&E Corporation

cc: All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
John R. Simon, PG&E Executive Vice President, Law, Strategy and Policy

Pacific Gas and Electric Company

Janet Loduca
Senior Vice President and General Counsel

77 Beale Street, B30A
San Francisco, CA 94105

Mailing Address:
P.O. Box 7442
San Francisco, CA 94120

415.973.0174 (o)
Janet.Loduca@pge-corp.com

October 28, 2019

Via E-mail and U.S. Mail

Peter M. Rietkerk
General Manager
South San Joaquin Irrigation District
P.O. Box 747
Ripon, CA 95366-0747

Re: SSJID Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mr. Rietkerk:

We have received your letter of September 3, 2019, expressing SSJID's interest in purchasing certain PG&E electric facilities. We have taken the opportunity to review your letter and the analysis SSJID provided. As we understand it, SSJID proposes an acquisition of PG&E facilities that would include these key conditions:

> 1) PG&E and SSJID would settle SSJID's eminent domain litigation, currently on appeal after a judgement dismissing SSJID's condemnation action in 2017, by withdrawing their appeals;
>
> 2) PG&E would agree to a voluntary sale of its facilities and SSJID would pay PG&E $115,995,500. Of that amount, SSJID would pay $92,700,000 towards acquisition of PG&E's electric distribution facilities within SSJID's service territory and $23,295,500 for separation and impairment costs associated with the asset transfer; and
>
> 3) PG&E would file a motion at the California Public Utilities Commission seeking a determination of the non-bypassable charges owed by SSJID customers associated with generation resources resulting from the proposed acquisition.

After evaluating the entirety of SSJID's offer, PG&E cannot accept it. As an initial matter, our facilities are not for sale. Moreover, selling them to SSJID would not be consistent with our charter to operate or our mission to serve Northern and Central California communities.

In considering whether a sale of assets is appropriate in bankruptcy, PG&E owes a duty to the estate, its creditors and interest holders to ensure that it would obtain the highest or best value for the assets. The purpose of our Chapter 11 proceeding is not to sell off parts of our company, but rather to address the 2017 and 2018 wildfire claims in a fair and orderly process. Our assessment concludes that SSJID's financial proposal reflects an amount far below the fair market value of the underlying PG&E assets,[1] and it grossly underestimates the substantial separation and impairment costs associated with the proposed transaction.

Pacific Gas and Electric Company

Next, PG&E observes that SSJID's current financial offer has not changed in any meaningful way relative to the SSJID offer that PG&E rejected in 2016. It is unclear why SSJID believes that a renewal of its prior offer would be acceptable to PG&E now, particularly given the key legal developments since 2016, all of which have favored PG&E. As you may recall, in response to PG&E's rejection of SSJID's 2016 offer, SSJID initiated an eminent domain action on July 7, 2016. Fifteen months later, the judge overseeing that action issued a judgment in favor of PG&E, dismissing SSJID's eminent domain lawsuit and invalidating the prior San Joaquin LAFCo decision granting SSJID conditional approval for its electric service project. Those issues are now on appeal, and if PG&E prevails, SSJID will have a legal obligation to reimburse PG&E for the millions of dollars that PG&E incurred while defending against SSJID's decades-long efforts to acquire PG&E's facilities.

Besides its deficient financial appraisal, SSJID's proposed litigation settlement appears legally flawed: SSJID proposes that both PG&E and SSJID withdraw their appeals to settle SSJID's eminent domain litigation, with PG&E agreeing to a voluntary sale of its assets and also agreeing to forgo its right to be reimbursed by SSJID for its cost to defend against SSJID's prior actions. But because the Superior Court's October 2017 judgment against SSJID invalidated San Joaquin LAFCo's conditional approval of SSJID's authority to provide retail electric service, even if both parties withdrew their appeals and PG&E agreed to sell its assets voluntarily, SSJID would still lack legal authority to provide retail electric service. A settlement such as this, under the terms proposed by SSJID, offers PG&E no benefit, and overlooks SSJID's need to return to San Joaquin LAFCo to seek legal authority to provide electric service.

Finally, given that PG&E is neither interested in pursuing settlement in the manner proposed by SSJID nor in selling its facilities to SSJID, we see no reason to lift the automatic stay imposed under section 362 of the Bankruptcy Code. With that in mind, we have copied SSJID's bankruptcy counsel to make him aware of our position.

Sincerely,

Janet Loduca
Senior Vice President and General Counsel, PG&E Corporation

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[1] SSJID's "book value" appraisal of PG&E's assets is indicative of its ongoing misunderstanding of the proper method to assess the value of currently-operating utility assets, which must be appraised using the Replacement Cost New Less Depreciation methodology.

Pacific Gas and
Electric Company

Cc: (*via electronic mail only*)
ken.ziman@lazard.com
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Pacific Gas and Electric Company

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Senior Vice President and General Counsel

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415.973.0174 (o)
Janet.Loduca@pge-corp.com

October 28, 2019

Via E-mail and U.S. Mail

Tom Stallard
Chair, Board of Directors
Valley Clean Energy
604 2nd Street
Davis, CA 95616

Re: Valley Clean Energy Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mr. Stallard:

We have received your letter of October 18, 2019, expressing Valley Clean Energy's (VCE) interest in purchasing certain PG&E electric facilities. We have taken the opportunity to review your letter and consider your offer.

While we appreciate the effort VCE undertook to prepare its offer, we cannot accept it. Our Yolo County facilities are not for sale and VCE's proposed approach is not consistent with our charter to operate or our mission to serve Northern and Central California communities.

As we understand it, VCE proposes an acquisition that would include these key terms:

1) PG&E would sell all of its Yolo County electric facilities for $300 million, which would include no debt or liabilities associated with those facilities;
2) VCE would acquire substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines, street lights and PG&E-owned land and facilities within Yolo County, as described in VCE's letter and in Attachment A to its letter; and
3) VCE would negotiate payment of a lump sum "buy-down" payment associated with non-bypassable charge obligations owed by VCE's customers, subject to the approval of the California Public Utilities Commission.

Upon review, we cannot accept VCE's offer because:

- It is not in the best interest of our customers. Among other reasons, we disagree with the suggestion that PG&E's Yolo County customers would be better served by another entity. Our Yolo County customers—and our customers in the rest of our service territory—rely upon us every day to deliver safe, reliable, affordable and clean power.
- Our evaluation determined that a sale of our facilities in Yolo County could negatively affect PG&E's customers, both inside and outside of the county. The proposed sale would unnecessarily and unfairly pass on substantial costs to remaining PG&E customers throughout the state.

- VCE's offer reflects an amount substantially below the fair-market value of the underlying PG&E assets.[1] The purpose of our Chapter 11 proceeding is not to sell off parts of our company, but rather to address the 2017 and 2018 wildfire claims in a fair and orderly process. Even if we considered a sale of any PG&E assets to VCE (which is not the case), we have a legal duty to our many stakeholders to obtain the highest and best value for those assets.
- VCE's offer to "buy down" (instead of a "buy out") the future applicable non-bypassable charges would effectively result in VCE's customers avoiding charges they would owe, and instead passing some of those costs on, unfairly, to remaining PG&E customers throughout the state.
- Finally, VCE's offer glosses the substantial and complicated separation and impairment work and costs that VCE would have to bear as part of the proposed transaction.

Putting aside the proposed acquisition of PG&E facilities, we also observe that VCE, as a Joint Powers Authority that includes Yolo County as a member, does not have authority to serve electricity at retail in California other than through Community Choice Aggregation service. While the cities of Davis aud Woodland have such authority, Yolo County is neither eligible nor authorized to provide retail electric service at retail other than through its CCA program. *See* Cal. Gov. Code sections 23004; 25200-25210; 25720, 25721, 25730-25733.

Though we cannot accept your acquisition offer, we look forward to continuing to find ways we can work together going forward.

Please distribute our response to the VCE Board of Directors, the City Councils and Board of Supervisors of the VCE Member Agencies and anyone else you deem appropriate.

Sincerely,

Janet Loduca

PG&E Corporation Senior Vice President and General Counsel

---

[1] VCE's apparent "book value" appraisal is indicative of its misunderstanding of the proper method to assess the value of currently-operating utility assets, which must be appraised using the Replacement Cost New Less Depreciation methodology. Thus, rather than offering, as VCE's letter suggests, a "significant premium value" with respect to PG&E's Yolo County electric service assets, VCE's offer significantly underestimates the fair market value of those assets.

Pacific Gas and Electric Company

Cc: (*via electronic mail only*)

Mitch Sears, Interim General Manager, Valley Clean Energy
William Johnson, CEO and President, PG&E Corporation
Andrew Vesey, CEO and President, PG&E Company
Jason Wells, PG&E Corporation Chief Financial Officer

PG&E Corporation

William D. Johnson
Chief Executive Officer and President

77 Beale Street
32nd Floor
San Francisco, CA 94105

October 7, 2019

Via E-mail and U.S. Mail

Mayor London Breed and Mr. Dennis Herrera
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4681

Re: City and County of San Francisco Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mayor Breed and Mr. Herrera:

Thank you for your time and the constructive discussion on September 26 in the Mayor's offices.

As we noted at that time, we had received your letters of September 6 and September 19, 2019, expressing the City of San Francisco's interest in purchasing certain PG&E electric facilities. We reviewed your letters and considered your offer carefully and in detail. Although we appreciate the effort San Francisco undertook to prepare its offer, we must decline to accept it. As I indicated when we met, our San Francisco-based facilities are not for sale and to do so would not be consistent with our charter to operate or our mission to serve Northern and Central California communities.

As we understand it, San Francisco proposes an acquisition of PG&E facilities that would include these key terms:

1) PG&E would sell the identified facilities for $2.5 billion which would not include any debt or liabilities associated with those facilities;

2) San Francisco would acquire substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines within the City limits and certain other assets that San Francisco determines are needed (as described in Attachment B to your letter);

3) San Francisco would negotiate payment of a lump sum "buy-down" payment associated with non-bypassable charge obligations that would be owed by the City's customers, subject to the approval of the California Public Utilities

Our evaluation of your proposal determined that a sale of our facilities in San Francisco could negatively impact PG&E's customers, both inside and outside of the city.

Our reasoning is as follows:

- San Francisco's offer reflects an amount significantly below the fair-market value of the underlying PG&E assets.
- It would unnecessarily and unfairly pass a large amount of costs to remaining PG&E customers throughout the State.
- It is not in the best interest of our customers. We disagree with the suggestion that PG&E's San Francisco customers would be better served by another entity. Our San Francisco customers—and our customers in the rest of our service territory—rely upon us every day to deliver safe, reliable, affordable and clean power.
- Finally, the offer appears to significantly underestimate the substantial separation and impairment costs that the City would have to bear as part of the proposed transaction.

In addition, our financing strategy to emerge from bankruptcy does not envision selling off Company assets. We believe we can fairly resolve and fund all claims and other items through conventional financial markets. If we ever do consider such sales, we have a duty to obtain the highest and best value for these assets.

Although we cannot accept your offer, we want to clearly communicate that PG&E intends to continue working with the City to best serve the citizens and businesses of San Francisco. Our company has been headquartered here in San Francisco for nearly 115 years, and we remain deeply invested in the community and in the future of this great city. We share many of the Administration's goals for San Francisco and look forward to continuing to find ways we can work together.

Sincerely,

William D. Johnson
Chief Executive Officer and President

cc: (*via electronic mail only*)
All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance
Jason Wells, PG&E Corporation, Chief Financial Officer
Janet Loduca, PG&E Corporation, Senior Vice President and General Counsel

Attachment H

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 1

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

PG&E Data Request No.:	CCSF_002-Q01-05		
PG&E File Name:	Securitization2020_DR_CCSF_002-Q01-05		
Request Date:	September 15, 2020	Requester DR No.:	002
Date Sent:	September 29, 2020	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1: David Thomason Q2: Mari Becker Q3-Q5: David Thomason	Requester:	Suzy Hong

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

QUESTION 01

Please refer to Attachment A to San Francisco's Protest (dated June 4, 2020) of PG&E's Application 20-04-023. Please provide any analysis or evaluation performed by or on behalf of PG&E of the proposals to acquire certain PG&E assets included in Attachment A to San Francisco's Protest of PG&E's Application 20-04-023, including all workpapers and working models.

ANSWER 01

PG&E objects to this request as beyond the scope of this proceeding. PG&E further objects to this request on the ground that the non-binding "indications of interest" by various municipal entities to purchase core electric utility assets of PG&E included in

Attachment A are not relevant to evaluation of the Stress Test Methodology in this proceeding. PG&E further objects to this request as seeking information protected from disclosure by the attorney-client privilege and the attorney work-product doctrine. Subject to its objections, PG&E responds as follows:

In context of the Chapter 11 Cases, it was not reasonable for PG&E to pursue piecemeal asset sales as part of its reorganization, which had to be accomplished by June 30, 2020 for PG&E to be eligible to participate in the Go-Forward Wildfire Fund.

QUESTION 02

Please refer to PG&E's Testimony, 3-15, line 21 through 3-16, line 5. Can PG&E confirm that all loads that may be subject to the FRC will also receive the full associated benefit of Customer Credits and the CCT surplus sharing? If so, can PG&E also confirm that all loads that may be subject to the FRC will be treated equally by PG&E with respect to the calculation and receipt of the full associated benefit of Customer Credits and the CCT surplus sharing?

ANSWER 02

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

In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would determine the continued application of the Customer Credits and Customer Credit Trust surplus sharing.

QUESTION 03

Please confirm that the five-year financial projections provided in Exhibit 5.4 of PG&E's Testimony are the same projections that were provided to the rating agencies for the ratings reports included in PG&E's Testimony as Exhibits 5.6, 5.7 and 5.8.

ANSWER 03

Subject to its objections, PG&E responds as follows:

The financial projections provided in Exhibit 5.4 of Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, were prepared as part of PG&E's updated testimony in this proceeding. They are not the same as the financial projections previously provided to the rating agencies for the ratings reports included as Exhibits 5.6, 5.7, and 5.8.

Attachment I

PG&E Response to Public Advocates Office First Set of Data Requests (dated July 6, 2020), Question 17

participation in California's recently established wildfire insurance fund as well as the new, but untested, regulatory cost recovery framework outlined by AB1054." *Id.* This guidance from the rating agencies highlights the importance of an improved and more collaborative relationship between PG&E and the Commission.

QUESTION 16

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 24-26, PG&E states that the $1.8 billion "initial shareholder contribution" will be funded in "a credit accretive manner."

a. Define "credit accretive."

b. Explain how the responses provided in response to Question 7 meet this definition of "credit accretive."

ANSWER 16

a. Credit accretive means without increasing the Utility's or PG&E Corporation's leverage.

b. As set forth in the response to Question 7, the source of the Initial Shareholder Contribution will depend on PG&E's cash position and market conditions at the time of the Initial Shareholder Contribution. However, the most likely source will be a combination of internally generated cash and an issuance of equity securities. Since this would not act to increase the Utility's or PG&E Corporation's leverage, it is done on a credit accretive basis. PG&E reserves the right to supplement this response as information develops.

QUESTION 17

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 29-31, PG&E states, "For the avoidance of doubt, there will be no further financial commitments to true-up mechanisms provided by PG&E to the Customer Credit."

a. Please explain how PG&E's proposal will remain ratepayer-neutral in the event of a shortfall in the Customer Credit, given this lack of "further financial commitment."

b. Please enumerate and explain each and every "further financial commitments" (or "guarantees" as per PG&E's statement on p. 21 at line 3) that otherwise would be available to PG&E to cover potential shortfalls in the Customer Credit, absent this promise.

c. Does PG&E contend that the ratepayer neutrality provision of Section 3292 does not apply to PG&E's securitization application? If PG&E does contend as such, please explain why and include all supporting evidence for this interpretation of Section 3292.

d. Does PG&E contend that its securitization application is not required to be ratepayer-neutral? If PG&E does contend as such, please explain why and address the apparent inconsistency of this contention with the March 20, 2020 Governor's Office statement to the bankruptcy court that PG&E references at various points in its own testimony, including Ch. 5, page 19, at lines 22-27.

ANSWER 17

PG&E objects to this request as vague and ambiguous, particularly with respect to part b. Subject to its objections, PG&E responds as follows:

a., c.-d. PG&E has committed to a rate-neutral securitization. As PG&E stated in the Chapter 11 Cases: "The Securitization structure is anticipated to yield a full (nominal) offset each year to securitized charges." PG&E submits that this is the relevant standard for purposes of evaluating rate neutrality pursuant to the Plan of Reorganization OII Decision, D.20-05-053. PG&E's proposal meets, and in fact exceeds, its commitment. Specifically, PG&E proposes to provide shareholder contributions to fund the Customer Credits. These shareholder contributions, combined with Customer Credit Trust Returns, are expected to not only equal the Fixed Recovery Charges in each billing period, but to generate a substantial surplus, which PG&E proposes to share with customers at the end of the life of the Trust, or sooner if the Commission so directs. Because the proposed Securitization is not part of PG&E's Plan and would be approved and consummated months after PG&E's emergence from Chapter 11, Section 3292(b)(1)(D) does not apply directly. Nonetheless, PG&E submits that its proposal satisfies the standard in the statute because the expected outcome of the proposed Securitization is more beneficial to customers than rate neutrality. Neither PG&E's commitment nor the statute requires a guarantee, and, as set forth in the Application and supporting testimony, such a guarantee would preclude the ratepayer benefit the proposed Securitization seeks to achieve.

b. The referenced testimony does not discuss a promise. PG&E's testimony explains that the off-credit treatment of the securitization depends on PG&E not guaranteeing or committing to true up the Customer Credit or Customer Credit Trust. *See* Chapter 5, Stress Test Methodology, at pages 5-20 to 5-21.

QUESTION 18

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 31-32, PG&E asserts that securitization is on-credit for Moody's but off-credit for S&P.

a. Please confirm that this means that securitization will not result in any quantitative credit ratings benefit for PG&E, as relates to Moody's rating of PG&E. If not, explain why not.

b. Provide all supporting documentation from S&P supporting PG&E's contention on p. 21 at lines 2-6 that a financial guarantee of the Customer Credit mechanism would also render the securitization on-credit for S&P.

ANSWER 18

Subject to its objections, PG&E responds as follows:

Attachment J

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 4

QUESTION 04

On page 1-12, lines 20-28, of PG&E's Testimony, PG&E states:

> "PG&E would separately provide the Customer Credit, which would be funded from a Customer Credit Trust that in turn will be funded by shareholder assets including: (1) an initial contribution of $1.8 billion (the Initial Shareholder Contribution); (2) up to $7.59 billion in cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 (the Additional Shareholder Contributions); and (3) the Customer Credit Trust Returns (as described in Chapter 6)."

a. With respect to the Additional Shareholder Contributions of "up to $7.59 billion in cash flows":

   i. Could the cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 exceed $7.59 billion?

   ii. If the answer to Question 4.a.i. is yes, please describe the circumstances under which cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 could exceed $7.59 billion.

   iii. If the answer to Question 4.a.i. is yes, would the Additional Shareholder Contributions to the Customer Credit Trust also exceed $7.59 billion?

   iv. If the answer to Question 4.a.iii. is yes, please describe how Additional Shareholder Contributions in excess of $7.59 billion would be contributed to the Customer Credit Trust.

   v. If the answer to Question 4.a.iii. is no, please explain why Additional Shareholder Contributions in excess of $7.59 billion would not be contributed to the Customer Credit Trust.

   vi. Please describe the circumstances under which the Additional Shareholder Contributions could be less than $7.59 billion.

   vii. Is there any potential circumstance under which the Additional Shareholder Contributions could be less than $7.59 billion, but the Securitized Bonds are not paid in full? In other words, would the Additional Shareholder Contributions be less than $7.59 billion only if/when the Securitized Bonds are paid in full?

   viii. When will the exact amount of the Additional Shareholder Contributions be known by PG&E?

   ix. Will the exact amount of the Additional Shareholder Contributions be disclosed to the California Public Utilities Commission prior to the California Public Utilities Commission approving a Financing Order under Public Utilities Code Section 850.1 related to PG&E's proposed securitization in A.20-04-023?

x. If the exact amount of the Additional Shareholder Contributions is not known or disclosed to the California Public Utilities Commission prior to the California Public Utilities Commission approving a Financing Order under Public Utilities Section 850.1 related to PG&E's proposed securitization in A.20-04-023, will the California Public Utilities Commission retain any oversight of or authority to approve the amount of the Additional Shareholder Contributions once the Financing Order is issued?

xi. If the answer to 4.a.x. is yes, please explain how the California Public Utilities Commission will retain oversight of or authority to approve the amount of the Additional Shareholder Contributions once the Financing Order is issued.

xii. Has Table 6-1 of PG&E's Testimony been updated since February 18, 2020? If so, please provide the updated estimated total cash tax savings together with supporting calculations and assumptions.

xiii. Does PG&E propose to adjust its "up to 7.59 billion" commitment in the event that PG&E's marginal federal and/or state tax rates change? If so, please detail how and when such adjustments would occur and indicate where those adjustments are included in the Form of Financing Order for Proposed Securitization, included in PG&E's Testimony as Exhibit 3.1.

xiv. With reference to Table 6-1 of PG&E's Testimony and PG&E's calculation of estimated total cash tax savings, please identify the elements of PG&E's calculation of estimated total cash tax savings that may still be subject to change.

b. With respect to the Initial Shareholder Contribution of $1.8 billion:

i. Please describe in detail the source of the $1.8 billion Initial Shareholder Contribution. Please also identify any use or planned use of those funds from the date of PG&E's emergence from bankruptcy through the date of a final decision of the California Public Utilities Commission in this proceeding A.20-04-023.

ii. Absent PG&E's Application in A.20-04-023, would PG&E consider the $1.8 billion Initial Shareholder Contribution to be Excess Cash pursuant to the Stress Test Methodology adopted by the California Public Utilities Commission in Decision 19-06-027? Please explain why or why not.

ANSWER 04

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

a.i-v. Under PG&E's proposal, there are no circumstances where PG&E would contribute more than $7.59 billion of Additional Shareholder Contributions generated from the Shareholder Deductions shown in Table 6-1. Under PG&E's proposal, those Shareholder Deductions could generate more than $7.59 billion in tax benefits if, for example, the tax rate increases from the rate used in Table 6-1, which would generate faster Additional Shareholder Contributions but would not generate Additional Shareholder Contributions that exceed the Cap of $7.59 billion. The payment of wildfire-related settlement costs and contributions to the Go-Forward Wildfire Fund could generate more Shareholder Deductions over time than set forth in Table 6-1. As explained in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, under PG&E's proposed Securitization, the combination of the Initial Shareholder Contribution of $1.8 billion and up to $7.59 billion in Additional Shareholder Contributions is expected to result in a rate-neutral to rate-positive Securitization.

a.vi. The Additional Shareholder Contributions could be less than $7.59 billion if income tax rates decline, if there is a change in tax law that limits the use of Shareholder Deductions, if there is a change of ownership under section 382 of the Internal Revenue Code that limits the use of Shareholder Deductions, or if PG&E does not generate sufficient taxable income over the life of the bonds to utilize the Shareholder Deductions shown in Table 6-1 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020.

a.vii. No, there is no potential circumstance under which the Recovery Bonds are not paid in full.

a.viii. – xi. The formula for calculating Additional Shareholder Contributions is set forth in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, along with a forecast of when those will be made through 2035. If the Application is approved and PG&E consummates the Securitization, PG&E would establish and fund the Customer Credit Trust as set forth in the Application and supporting testimony and as authorized by the Financing Order, subject to the oversight of the Commission under the Financing Order. *See* Exhibit 3.1 of Chapter 3, Transaction Overview (M. Becker), served August 7, pages 3-Exh3.1-55 at ¶ 20 and 3-Exh3.1-81 at ¶ 36.

a.xii. Lines 1 through 13 of Table 6-1 contained in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, are unchanged from the corresponding lines in Table 6-1 served on April 30, 2020 and as stated in Chapter 6 reflect the estimate from February 18, 2020. Although they were not part of the estimate from February 18, 2020 and therefore PG&E understands are not part of the information requested in Question 4.a.xii, PG&E notes that Lines 16 through 23 of Table 6-1 contained in Chapter 6 served August 7, 2020 reflect updated information as compared to the corresponding lines in Table 6-1 served on April 30, 2020.

a.xiii. No.

a.xiv. None, subject to the discussion on pages 6-7 through 6-8 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen) served on August 7, 2020, and a change in the tax rate compared to the tax rates listed in Line 12 of Table 6-1. All else being equal, a higher tax rate would have the effect of accelerating the tax benefits and the Additional Shareholder Contributions to the Customer Credit Trust. The total cumulative Additional Shareholder Contributions would remain at the $7.59 billion Cap. In the unlikely event of a lower corporate tax rate, the opposite would occur. To the extent there is a shortfall, it may be made up by future Additional

Shareholder Contributions in a later year or future Customer Credit Trust Returns. In no event would PG&E provide for funding of the Customer Credit Trust beyond the $1.8 billion Initial Shareholder Contribution, Additional Shareholder Contributions of up to $7.59 billion, and Customer Credit Trust Returns.

b.i. As set forth in the Application and supporting testimony, the Initial Shareholder Contribution of $1.8 billion will be funded in a credit accretive manner, i.e., without increasing the Utility's or PG&E Corporation's leverage. The source of the Initial Shareholder Contribution will depend on PG&E's cash position and market conditions at the time of the Initial Shareholder Contribution. However, the most likely source will be a combination of internally generated cash and an issuance of equity securities. PG&E reserves the right to supplement this response as information develops.

b.ii. Absent PG&E's Application, there is no relevance to the Excess Cash inquiry under the referenced Stress Test Methodology. Nevertheless, PG&E responds to this request by stating that if there are no Recovery Bonds or Fixed Recovery Charges, there will not be a Customer Credit or Customer Credit Trust, and therefore no equity will be issued to fund the Initial Shareholder Contribution and any internally generated cash will be used to discharge other obligations.

QUESTION 05

On page 6-8, lines 18-21, of PG&E's Testimony, PG&E states

> "Additional deductions [resulting from the $4.8 billion Initial Wildfire Fund Contribution for federal taxes] in years 2021 through 2034 would be included as necessary to make up for any reduction in deductions in line 2 of Table 6-1 related to the stock contributed to the Fire Victim Trust."

a. Does the modeled scenario in Tables 6-1, 6-2, and 6-3 of PG&E's Testimony only include one year of federal deductions resulting from the $4.8 billion Initial Wildfire Fund Contribution?

b. If the answer to Question 5.a is yes, please explain why.

ANSWER 05

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

a.-b. Tables 6-1, 6-2, and 6-3 in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, include the first year (2020) of the amortized deduction for federal tax purposes of the initial contribution to the Go-Forward Wildfire Fund, consistent with the anticipated deductions that will be taken on PG&E's tax returns for 2020 for initial and ongoing contributions to the Go-Forward Wildfire Fund. PG&E refers CCSF to the discussion on pages 6-7 through 6-8 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen) served on August 7, 2020, regarding the potential use of the other amortized

Attachment K

PG&E Response to Public Advocates Office Second Set of Data Requests (dated September 14, 2020), Question 9

Debt pro-rata.xlsx; and 2020Securitization_DR_PubAdv_02-Q08d_PGE Output 7.0B Debt pro-rata.xlsx for the outputs of these model runs. These hypothetical, illustrative model runs do not reflect PG&E's proposal, and are not supported by PG&E.

e. Because the amount of the securitization and the amount of funding for the Customer Credit are dependent on each other, PG&E objects to the construct of this question. While there are various inputs that can be altered to get to a 95% probability of a surplus outcome, none of them reflects PG&E's proposal. In an attempt to answer this question, for illustrative purposes, PG&E has re-run the model to determine the increase in the Initial Shareholder Contribution that would be required in order for the model to yield a 95% chance of surplus outcome with $7.5 billion of Recovery Bonds. *See* 2020Securitization_DR_PubAdv_02-Q08e_PGE Output 95 prob initial cont.xlsx for the outputs of this model run. PG&E notes that it does not support this illustrative, hypothetical construct.

QUESTION 09

Referring to p. 6-12, lines 12-17, PG&E asserts,

> "If the applicable tax rate in the year of the formula calculation is greater or lesser than the amount that was used in Table 6-2 and to set the Cap in Table 6-1, the Additional Shareholder Contributions for any particular tax year will be larger or smaller than the projections and the Cap may not be reached at all, or it may be reached sooner or later than projected in Table 6-2."

Additionally, p. 6-23, lines 22-36, states,

> "My analysis assumes that the Additional Shareholder Contributions to the Customer Credit Trust are made as described in Table 6-2 above and that the FRCs will be in the amounts shown in Table 6-3. The cash flows for the Customer Credit Trust were the same across all 2,000 trials in the Monte Carlo simulation."

Provide documentation that explains specifically why the uncertainty in Additional Shareholder Contributions described above is not included in the Monte Carlo simulation. Provide documentation that demonstrates how potential underfunding of the Customer Credit Trust due to lower Additional Shareholder Contributions than forecasted in Table 6-2 will impact the Monte Carlo simulation output.

ANSWER 09

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. 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:

The utilization of shareholder tax benefits set forth in Table 6-2 incorporates PG&E's updated financial forecast and reflects the best available data to input into the Monte

Carlo simulation model. Although PG&E's actual taxable income may vary from the forecast, or the applicable tax rate may be greater or lesser than the amount used for purposes of Table 6-2, such possible developments cannot be predicted with accuracy. All else being equal, changes to the forecasted utilization of shareholder tax benefits would impact the cash flows for the Customer Credit Trust and therefore the model's output. All of the 2,000 simulations referenced in Mr. Allen's testimony used the same assumptions for the Additional Shareholder Contributions. PG&E notes that lower Additional Shareholder Contributions than those forecast to be made in Table 6-2 do not necessarily result in underfunding of the Customer Credit. The Trust funds may be sufficient notwithstanding the lower contributions, or may be offset by Customer Credit Trust Returns.

QUESTION 10

Referring to p. 6-24, lines 3-4, the testimony states, "I also included $500,000 per year in administrative expenses of the Customer Credit Trust, which was an estimated provided by PG&E." Provide the calculations and supporting documentation that get to an estimate of $500,000 per year.

ANSWER 10

The estimated $500,000 per year for administrative expenses is based on PG&E's experience with similar expenses incurred by PG&E for the administration of its qualified nuclear de-commissioning trusts (NDTs). That amount is an average of the administrative fees incurred by the NDTs in 2017 and 2018 for trustee and tax filing fees, auditing and consulting fees, and board member compensation.

QUESTION 11

Referring to Table 6-7 on p. 6-29, lines 17-19, the 85th, 90th, and 95th percentiles result in a deficit, however, footnote 19 states, "This calculation equally weights all of the outcomes from 95th percentile (best case) to 5th percentile (worst case) to come up with a weighted-average value or expected value for the Customer Credit Trust." Provide documentation PG&E's management relied upon that determined specifically that the 95th percentile, which shows a deficit, is a "best case" scenario.

ANSWER 11

The quoted language reflects a typographical error. The sentence should read: "This calculation equally weights all of the outcomes from 95th percentile (~~best~~<u>worst</u> case) to 5th percentile (~~worst~~ <u>bes</u>t case) to come up with a weighted-average value or expected value for the Customer Credit Trust."

Attachment L

PG&E Response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 11

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

PG&E has committed to a rate-neutral securitization and submits that its proposal meets, and in fact exceeds, its commitment. As PG&E stated in the Chapter 11 Cases: “The Securitization structure is anticipated to yield a full (nominal) offset each year to securitized charges.” PG&E submits that this is the relevant standard for purposes of evaluating rate neutrality pursuant to the Plan of Reorganization OII Decision, D.20-05-053. PG&E proposes to provide shareholder contributions to fund the Customer Credits. These Customer Credits are expected to equal the Fixed Recovery Charges (FRCs) in each billing period. Moreover, the Customer Credit Trust is expected to generate a substantial surplus, which PG&E proposes to share with customers at the end of the life of the Trust, or sooner if the Commission so directs. The 25% sharing of surplus is proposed as compensation for the potential risk of loss to customers. As set forth in Chapter 1, Introduction (D. Thomason), served August 7, 2020, the customer expected value of the surplus sharing is $990 million, with a present value of $118 million. The Customer Credit will commence at the same time and in the same amount as the FRC, and PG&E anticipates that the Customer Credit will equal the FRC in each billing period such that the Customer Net Bill Impact each year is zero, as reflected in Table 6-3.

QUESTION 11

For the 25 years from 1995-2019, please provide PG&E’s actual annual taxable income and marginal tax rates (federal and state), using the same methodology used to project PG&E’s taxable income as shown on Table 6-2 of PG&E’s Testimony.

ANSWER 11 REVISED 01

PG&E refers CCSF to Securitization 2020_DR_CCSF_001-Q11Atch01-Rev01.pdf.

QUESTION 12

Please provide PG&E’s previous responses to all data requests by other parties in this proceeding. On an ongoing basis, please provide PG&E’s responses to all data requests by other parties in this proceeding.

ANSWER 12

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

The non-confidential data responses that PG&E has provided to date in this proceeding are available on the PG&E Regulatory Cases – Discovery Access website. The link for users to log in or register is https://pgera.azurewebsites.net/account/login.

PG&E Corporation & Subsidiaries
Taxable Income/(Loss) before NOL carryover

Federal			California	
Year	Adjusted Taxable Income (Loss)	Tax Rate	Adjusted Taxable Income (Loss)	Tax Rate
1995	2,553,103,523	35%	2,160,219,907	9.30%
1996	1,607,722,316	35%	1,482,058,363	9.30%
1997	1,615,113,562	35%	1,117,752,427	8.84%
1998	1,553,844,752	35%	831,133,722	8.84%
1999	2,064,319,166	35%	1,154,896,503	8.84%
2000	(3,095,563,610)	35%	(1,878,493,901)	8.84%
2001	727,633,531	35%	252,976,249	8.84%
2002	2,217,461,068	35%	1,398,482,234	8.84%
2003	285,928,102	35%	745,979,522	8.84%
2004	460,944,733	35%	1,223,161,727	8.84%
2005	2,862,306,646	35%	2,521,374,037	8.84%
2006	2,305,567,492	35%	2,438,435,355	8.84%
2007	1,024,182,508	35%	1,123,027,834	8.84%
2008	(657,847,502)	35%	123,461,020	8.84%
2009	(338,311,604)	35%	968,563,126	8.84%
2010	(476,346,505)	35%	1,309,015,741	8.84%
2011	(1,733,434,831)	35%	318,818,059	8.84%
2012	(585,271,403)	35%	208,270,732	8.84%
2013	(1,278,437,127)	35%	(339,847,480)	8.84%
2014	(762,922,789)	35%	(412,879,626)	8.84%
2015	(740,273,752)	35%	84,490,014	8.84%
2016	(602,371,164)	35%	58,080,613	8.84%
2017	894,034,912	35%	763,201,102	8.84%
2018	296,273,414	21%	7,418,237	8.84%
2019	(1,904,345,320)	21%	**Not yet filed**	8.84%

Attachment M

PG&E Response to Energy Division First Set of Division Data Requests (dated September 2, 2020), Question 2

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

Attachment N

PG&E Response to CCSF Third Set of Data Requests (dated October 2, 2020), Question 8

actuals for the same values from 1995 through 2019, using the same method that PG&E used to calculate its projections in the "Taxable Income Forecast" tab.

i. Preliminary Adjusted Utility Income Before Taxes (Federal, Row 4)

ii. Consolidated Taxable Income Before Wildfire & POR Adjustments (Federal, Row 10)

iii. Consolidated Interest Expense, excl. [the current application for] Securitization (Federal, Row 18)

iv. Preliminary Adjusted Utility Income Before Taxes (State, Row 24)

v. Consolidated Taxable Income Before Wildfire & POR Adjustments (State, Row 31)

vi. Consolidated Interest Expense, excl. [the current application for] Securitization (State, Row 38)

ANSWER 07

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

i. and iv. There are no historical actuals for Preliminary Adjusted Utility Income Before Taxes. This calculation was an intermediate step within the model to develop the Consolidated Forecast Taxable Income shown in Table 6-2 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; Greg Allen), served August 7, 2020.

ii. and v. PG&E construes “Wildfire Adjustments” to refer to payments to victims of the 2017-2018 wildfires, and responds as follows:

Please refer to the answer to Question 11 in CCSF’s first set of data requests to PG&E. There are no payments to victims of the 2017-2018 wildfires through the tax year ending 2019. Additionally, the 2019 Consolidated Taxable Income reflects deductions of approximately $233 million for certain bankruptcy costs.

iii. and vi. PG&E refers CCSF to attachment 2020Securitization_DR_CCSF_003-Q07_Atch01.pdf.

QUESTION 08

Please refer to PG&E Corporation 2020 Second Quarter Earnings (dated July 30, 2020),[1] Slide 9 regarding Ratebase Growth Forecast, which shows PG&E's Weighted Average Ratebase forecast for 2020-2024, along with an actual value for 2019.

i. Please provide comparable actual values for the total Weighted Average Ratebase from 1995 to 2018, divided into the same four components as shown on Slide 9

1 As provided in response to Question 2 of San Francisco's First Set of Data Requests in A.20- 04-023.

(i.e., Transmission (TO), Gas Transmission and Storage (GT&S), General Rate Case (GRC), and Spend Above Authorized).

ii. Please also provide actual values for each of the four components for 2019.

iii. Has PG&E conducted any construction capacity studies to evaluate the amount of construction activity necessary to support PG&E's projected ratebase growth? If so, do such studies support PG&E's projected rate of growth in ratebase?

ANSWER 08

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

i. Please see attachment 2020Securitization_DR_CCSF_003-Q08_Atch01.pdf for 2000-2019 total Weighted Average Rate Base, from 2000 to 2019, divided into the three components: Transmission (TO); Gas Transmission and Storage (GT&S); and General Rate Case (GRC). PG&E does not track Spend Above Authorized separately, i.e., historical capital expenditures recorded into memorandum accounts, such as a catastrophic events memorandum account (CEMA), are not tracked separately. The total Weighted Average Rate Base amounts from 1995 to 1999 are not readily available.

ii. Please refer to the answer to Question 8.i.

iii. PG&E has not conducted any construction capacity studies to evaluate the amount of construction activity necessary to support PG&E’s projected rate base growth.

QUESTION 09

Please refer to page 6-9, fn. 5 of PG&E's Testimony, which states that the proposed methodology described on page 6-9, lines 14-20 is "only for the purpose of calculating the Additional Shareholder Contribution for any year, and does not impact PG&E's actual tax returns or the income or franchise taxes for establishing revenue requirements."

i. For purposes of determining annual Additional Shareholder Contributions, will PG&E's "taxable income" (see lines 3 and 12 of Table 6-2 of PG&E's Testimony) be based on (i) PG&E's actual taxes (e.g. using accelerated depreciation, where available), or (ii) PG&E's taxes for purposes of ratemaking, or (iii) some other amount? If PG&E's taxable income will be based on some other amount, please describe what that amount is and how it is calculated.

ii. Please quantify the impact of PG&E's securitization proposal, as set forth in Application 20-04-023, on PG&E's accumulated deferred tax balance annually for the term of the bonds. Please also provide an explanation of how ratepayers will be made whole as the benefit of the accumulated deferred tax balance is returned to ratepayers over time.

Weighted Average (WAVG) Ratebase 2000-2019

By Rate case

$ in Thousands

Ln #	Year	GRC	ET (TO)	GT&S	Total WAVG Ratebase
		a	*b*	*c*	*d=a+b+c*
1	2000	10,690,455	1,223,859	1,380,059	13,294,373
2	2001	10,199,564	1,287,996	1,377,621	12,865,181
3	2002	11,218,925	1,372,223	1,464,324	14,055,471
4	2003	11,397,280	1,588,561	1,485,055	14,470,896
5	2004	11,548,301	1,798,713	1,472,507	14,819,521
6	2005	11,676,685	1,987,931	1,460,689	15,125,305
7	2006	12,110,096	2,338,239	1,478,948	15,927,283
8	2007	12,731,746	2,602,974	1,496,969	16,831,689
9	2008	13,862,856	2,808,867	1,530,605	18,202,328
10	2009	15,329,689	3,121,233	1,559,502	20,010,424
11	2010	16,003,895	3,397,279	1,630,667	21,031,841
12	2011	17,477,183	3,708,117	1,765,601	22,950,901
13	2012	18,606,671	3,979,590	1,897,703	24,483,964
14	2013	19,959,631	4,370,271	2,317,809	26,647,710
15	2014	21,394,294	4,757,139	2,796,069	28,947,503
16	2015	22,354,530	5,291,190	2,722,745	30,368,465
17	2016	23,878,142	5,939,957	2,921,824	32,739,923
18	2017	25,075,058	6,547,449	3,464,281	35,086,788
19	2018	26,596,540	7,008,063	4,173,186	37,777,790
20	2019	28,547,103	7,836,752	4,888,424	41,272,280

Note:
WAVG ratebase includes separately funded projects (i.e. incremental projects not yet approved for recovery in rates)

Attachment O

PG&E investor presentation provided in response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 2

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

PG&E Data Request No.:	CCSF_001-Q01-12		
PG&E File Name:	Securitization2020_DR_CCSF_001-Q01-12Rev01		
Request Date:	August 31, 2020	Requester DR No.:	001
Date Sent:	September 15, 2020 (Original) October 5, 2020 (Revised)	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1: Various Q2-Q5: David Thomason Q6-Q7: Mari Becker Q8: David Thomason Q9: Greg Allen Q10-Q11: David Thomason Q12: Various	Requester:	Suzy Hong

Pacific Gas and Electric Company ("PG&E") submits the following revised response to the City and County of San Francisco's ("CCSF") Question 11 of Data Request 1, served on August 31, 2020. This revised answer attaches an updated PDF that corrects an error in PG&E's 2011 state Consolidated Taxable Income (Loss), and this response supersedes the prior Answer 11.

All of PG&E's prior objections to this set of data requests, set forth in PG&E's Data Response served September 15, 2020, are incorporated herein by reference.

QUESTION 01

Please provide all workpapers and any related calculations and functioning spreadsheets supporting Tables 6-1, 6-2, 6-3, and Figure 6-1 of PG&E's Testimony.

ANSWER 01

PG&E refers CCSF to the working model 2020Securitization_DR_Misc_Chapters 3_6_7_UPDATED08-07-2020_Securitization Application Update Model_Final.xlsx.

QUESTION 02

Does PG&E plan to make the five-year financial projections in Exhibit 5.4 of its Testimony public? If so, when does PG&E plan to make available the unredacted five-year financial projections in Exhibit 5.4? If not, please provide the reason or basis for why the five-year financial projections in Exhibit 5.4 warrant confidential treatment when substantially similar information has been made public in the past. (See, for example, I.19 09 16, PG&E's Second Omnibus Supplemental Data Response, Attachment 2 (PlanOfReorganizationOII-2019_DR_MISC_Atch02CPUC financial package 2.18.20_Updated_Redacted.xlsx), dated February 19.)

ANSWER 02

PG&E does not plan to make public the confidential Projected Financial Statements presented in Exhibit 5.4 to Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020. PG&E previously provided detailed financial projections publicly in connection with the review and approval of PG&E's Plan of Reorganization. PG&E has not traditionally provided detailed financial projections publicly in applications for long-term debt authorization. Nor do publicly-traded companies typically provide detailed financial projections because that is considered material non-public and commercially sensitive financial information. PG&E does not intend to provide PG&E-unconsolidated financial projections. PG&E Corporation provides high-level projections to the public and investors on a quarterly basis and the latest projections can be found here: http://s1.q4cdn.com/880135780/files/doc_financials/2020/q2/Q2'20-Earnings-Presentation_Final.pdf.

QUESTION 03

Please confirm that the five-year projections provided in Exhibit 5.4 of PG&E's Testimony, labeled as "Consolidated Utility" projections, are for PG&E's operations only (electric and gas services) (i.e., does not include PG&E Corp.), and include projections for PG&E's gas operations.

ANSWER 03

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

PG&E confirms that the confidential Projected Financial Statements presented in Exhibit 5.4, labeled "Condensed Utility," not "Consolidated Utility," include gas operations projections, but do not include financial projections for PG&E Corporation.

QUESTION 04

For the 5-year projections provided in Exhibit 5.4 of PG&E's Testimony, please provide, for each year of the forecast:

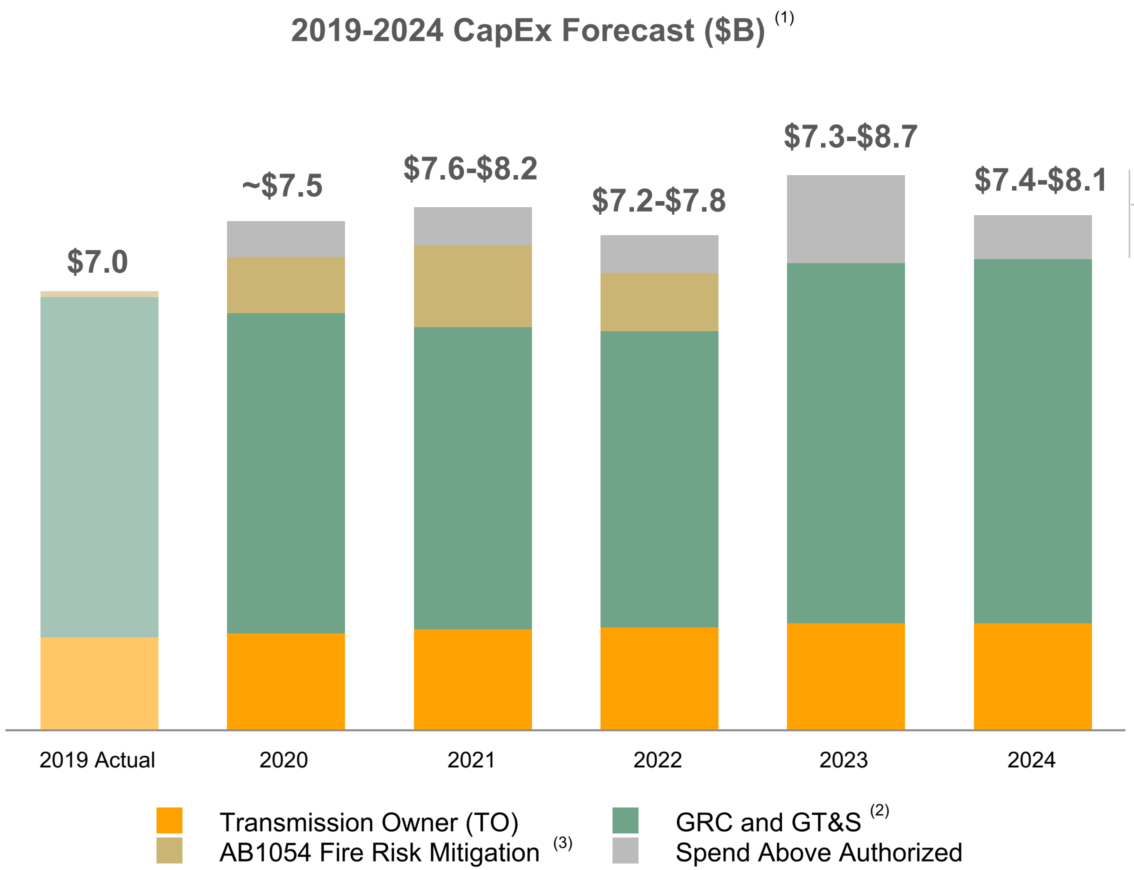
a. Bundled retail sales in MWh, revenues in dollars, and average rate in $/kWh.
b. Community Choice Aggregation retail sales in MWh, revenues in dollars, and average rate in $/kWh.
c. Direct Access retail sales in MWh, revenues in dollars, and average rate in $/kWh.
d. Other retail sales (if any) in MWh, revenues in dollars, and average rate in $/kWh.
e. Wholesale sales in MWh, revenues in dollars, and average rate in $/kWh.

PG&E Corporation

2020 SECOND QUARTER EARNINGS

July 30, 2020

Substantial Capital Investments



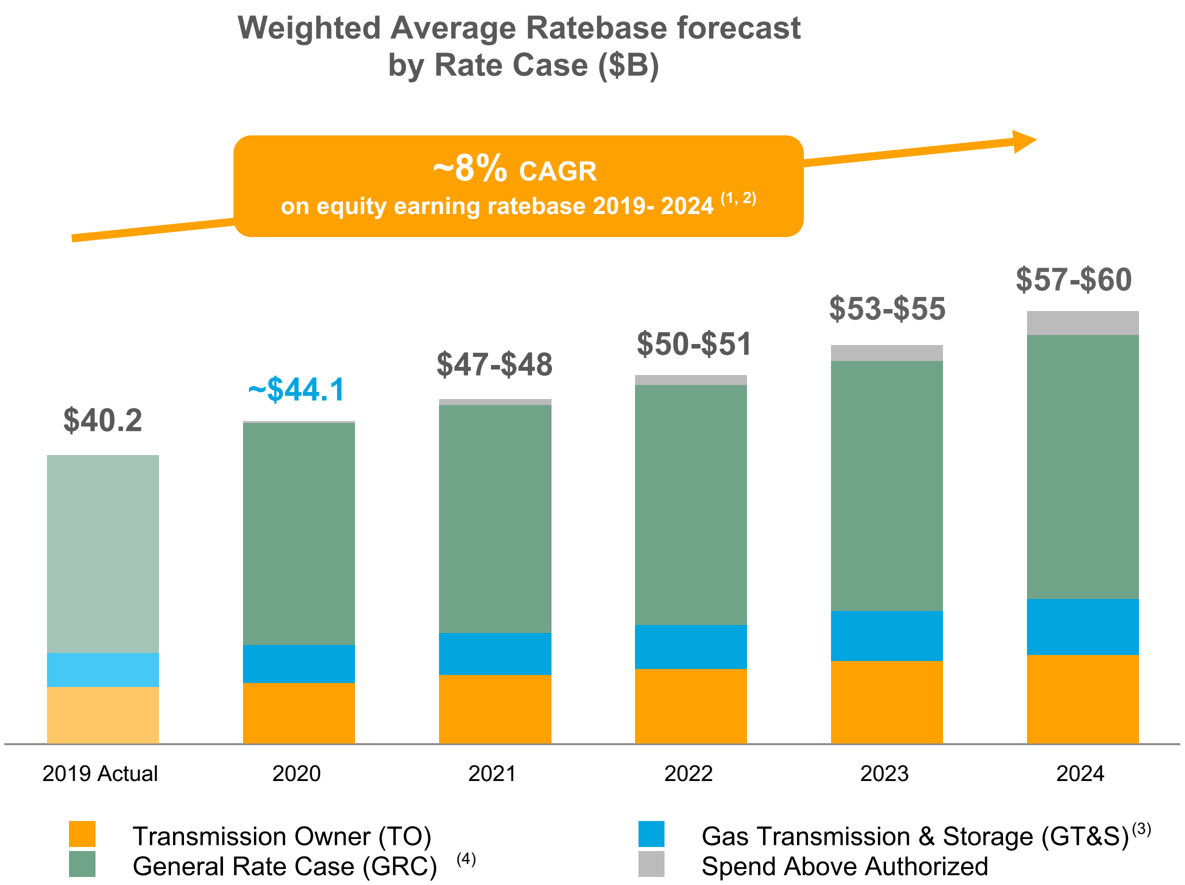
Subject to Ongoing and Future Recovery Requests

Spend driven by:
- Wildfire Mitigation Plan Memorandum Account (WMPMA)
- Catastrophic Event Memorandum Account (CEMA)

1. Low end of the range reflects authorized capital expenditures, including the full amount recoverable through a balancing account where applicable. High end of the range includes capital spend above authorized.
2. The 2023 GRC will include gas transmission and storage.
3. Capex forecast includes ~$3.2B of fire risk mitigation capital expenditures included in the Utility's approved wildfire mitigation plans on which PG&E Corporation and the Utility will not earn an equity return. The Utility has spent approximately $800 million cumulatively towards this total including $210 million and $414 million, during the three and six months ended June 30, 2020, respectively.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from the guidance presented and underlying assumptions.

Ratebase Growth Forecast



Potential Growth Opportunities

- Additional wildfire mitigation
- Transportation electrification
- Additional distributed generation-enabled microgrids
- Grid modernization

1. Ratebase reflects reductions for the following capital items: (a) $240M disallowance by the CPUC in the 2019 GT&S rate case; (b) $3.2B of fire risk mitigation excluded from earning a ROE, pursuant to AB 1054; and (c) $403M the Utility agreed not to seek recovery of as part of the Wildfire OII settlement.
2. Ratebase growth including non-equity earnings ratebase is ~9%.
3. $400M of 2011-2014 capital spend that received a successful audit in 2020 will be added to ratebase and earn a return beginning in 2021.
4. The 2023 GRC will include GT&S and will be a four year case cycle.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from the guidance presented and underlying assumptions.

Attachment P

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 2

Attachment A are not relevant to evaluation of the Stress Test Methodology in this proceeding. PG&E further objects to this request as seeking information protected from disclosure by the attorney-client privilege and the attorney work-product doctrine. Subject to its objections, PG&E responds as follows:

In context of the Chapter 11 Cases, it was not reasonable for PG&E to pursue piecemeal asset sales as part of its reorganization, which had to be accomplished by June 30, 2020 for PG&E to be eligible to participate in the Go-Forward Wildfire Fund.

QUESTION 02

Please refer to PG&E's Testimony, 3-15, line 21 through 3-16, line 5. Can PG&E confirm that all loads that may be subject to the FRC will also receive the full associated benefit of Customer Credits and the CCT surplus sharing? If so, can PG&E also confirm that all loads that may be subject to the FRC will be treated equally by PG&E with respect to the calculation and receipt of the full associated benefit of Customer Credits and the CCT surplus sharing?

ANSWER 02

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

In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would determine the continued application of the Customer Credits and Customer Credit Trust surplus sharing.

QUESTION 03

Please confirm that the five-year financial projections provided in Exhibit 5.4 of PG&E's Testimony are the same projections that were provided to the rating agencies for the ratings reports included in PG&E's Testimony as Exhibits 5.6, 5.7 and 5.8.

ANSWER 03

Subject to its objections, PG&E responds as follows:

The financial projections provided in Exhibit 5.4 of Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, were prepared as part of PG&E's updated testimony in this proceeding. They are not the same as the financial projections previously provided to the rating agencies for the ratings reports included as Exhibits 5.6, 5.7, and 5.8.

Attachment A

Margaret A. Meal Statement of Qualifications and Resume

ATTACHMENT A

STATEMENT OF QUALIFICATIONS FOR MARGARET A. MEAL

Margaret Meal is presently employed by the City and County of San Francisco Public Utilities Commission (SFPUC) as the Manager for Acquisition Analysis for the Power Enterprise. Since joining the SFPUC in February of 2010, Ms. Meal has been responsible for negotiating and structuring contracts for operating services and other arrangements. She is also responsible for policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and commercial opportunities. Her duties include monitoring and analyzing current and proposed state and federal energy policies and regulations, rate making, rate design and cost structures for electric utilities, and risk assessment of power supply alternatives on behalf of the SFPUC. In addition, she led the team that developed the business plan for the Power Enterprise in 2016 and the analytical team supporting Power Enterprise's recent efforts to acquire PG&E's electric delivery assets in San Francisco.

Ms. Meal has worked in the electric power industry for the entirety of her career (over thirty years), primarily as a consultant advising business interests, public agencies, investors, lenders, and regulatory agencies on financial and economic issues, including asset valuation, risk assessment, financing alternatives, utility cost of capital, and ratemaking. She has provided written and oral testimony to the California Public Utilities Commission, the Federal Energy Regulatory Commission, and various other state public utility commissions on numerous occasions.

Ms. Meal earned her B.S. in Civil Engineering from Stanford University and her M.S. in Energy and Resources from the University of California, Berkeley. Her resume is also included in this attachment.

Margaret (Meg) A. Meal

Ph 415-554-1518

MAMeal@sfwater.org

BUSINESS DECISION MAKING AND REGULATORY/LEGISLATIVE ADVOCACY

Expert in financial and business planning, legislative and regulatory interpretation and analysis, risk assessment, and development of risk mitigation strategies, with a focus on stakeholders in the electric power sector. Successful advocacy for legislative and regulatory modifications to support public policy initiatives and to improve commercial opportunities for both public and private-sector stakeholders. Provision of expert witness testimony in support of legislative and regulatory interpretation and proposed modifications, civil litigation and dispute resolution. Development of analytical tools for financial forecasting, comparison of characteristics across alternative operating and capital deployment strategies, estimates of stakeholder impacts, and scenario analyses. Proven ability to develop and execute results-oriented analysis and recommendations.

CORE COMPETENCIES

- Financial Modeling, Scenario Analysis
- Asset and Corporate Valuations
- Risk Assessment, Contract and Credit Analysis
- Infrastructure Planning for New Service Needs
- Legislative/Regulatory Analysis and Advocacy
- Utility Rate Making and Rate Design
- Expert Witness Testimony
- Training, supervision and mentoring

CAREER SUMMARY

SAN FRANCISCO PUBLIC UTILITIES COMMISSION San Francisco, CA 2010-2017, April 2018-present

The SFPUC is San Francisco's municipal power, water and sewer provider.

Manager, Business and Financial Analysis and Utility Specialist. Expertise, analysis and advocacy regarding legislative, regulatory and financial issues that affect the SFPUC's electricity operations and its clean power initiatives. Policy development and analysis, economic analysis and business planning, and analysis and assessment of power markets and commercial opportunities. Led team that developed the business plan for the Power Enterprise in 2016 (sfwater.org/modules/showdocument.aspx?documentid=14488) and analytical team supporting Power Enterprise's 2019 efforts to acquire PG&E's electric delivery assets in San Francisco.

CONSULTANT San Francisco, CA 1997-2010

Business, financial and regulatory consulting for participants in the electric power industry.

- Legislative and regulatory advocacy, review of existing and proposed statutes and regulations and analysis of likely impacts on stakeholders
- Litigation support, including development of discovery requests and analysis of responses, development of expert reports and expert testimony, and assistance with briefs and pleadings; preparation and delivery of oral and written testimony
- Economic and financial analysis, including financial structuring, risk assessment, analysis and negotiation of power purchase and other commercial agreements, due diligence, asset and corporate valuations
- Development of business plans, market and technology assessments, debt and equity offerings

MRW & ASSOCIATES, INC. Oakland, CA 1991-1997

MRW & Associates is a premier consulting firm internationally recognized for its expertise in electric power and fuel markets, power and gas market analysis, economic forecasting, regulatory advocacy and litigation support.

Senior Project Manager and Principal. Structured and negotiated debt and equity investments in renewable and conventional power facilities. Provided strategic advice to new and established market players regarding financial structuring, market potential, regulatory constraints and uncertainties, and competitive threats and opportunities. Led and supervised project teams, managed project budgets and supervised and trained junior staff.

ADDITIONAL PROFESSIONAL EXPERIENCE 1981-1991

1989-1991: Assistant Vice President for Trust Company of the West, a leading investment management firm with over $100 billion in assets under management. 1987-1989: Financial Analyst for Hansen, McOuat and Associates, a financial consulting firm representing small power producers and end users. 1986: Guest Scientist, International Energy Agency, Karlsruhe, West Germany. 1983-1985: Research Assistant, Energy Efficient Buildings Program, Lawrence Berkeley National Laboratory. 1981-1983: Energy Management Representative, Pacific Gas and Electric Company.

EDUCATION AND CREDENTIALS

- **BS, Stanford University**, Civil Engineering, with distinction
- **MS, University of California at Berkeley**, Energy and Resources
- Chartered Financial Analyst (CFA), retired

WRITTEN AND ORAL TESTIMONY

1. Before the California Public Utilities Commission in Investigation 19-09-016, on behalf of the City and County of San Francisco, regarding Pacific Gas and Electric Company's proposed Bankruptcy Plan of Reorganization and compliance with Assembly Bill 1054 requirements (reply testimony February 2020, https://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=595675, and oral cross-examination March 2020).

2. Before the Federal Energy Regulatory Commission in EL 15-3-000 *et al*, on behalf of the City and County of San Francisco, regarding comparative analysis of service territories and customer demographics, locations and characteristics of the City and County of San Francisco's municipal electric utility and Pacific Gas and Electric Company's investor-owned electric utility, and interpretation of legislative and regulatory language as applied San Francisco and its rights to wholesale distribution service. Declaration (October 2014, Exhibit SF-30 https://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=14136500), direct testimony (February 2016, Exhibits SF 29-41 https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14425636), rebuttal testimony (April 2016, Exhibits SF 144-151 https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14447463), oral cross-examination (May 2016, https://elibrary.ferc.gov/idmws/file_list.asp?document_id=14467938).

3. Before the California Public Utilities Commission in Rulemaking 07-05-025, on behalf of the Joint Parties, on a fair and reasonable methodology to determine the Power Charge Indifference Adjustment (PCIA) and the Competition Transition Charge (CTC), with John P. Dalessi and Mark E. Fulmer (direct testimony January 2011 and reply testimony February 2011).

4. Before the California Public Utilities Commission in Pacific Gas and Electric Company's General Rate Case Application 10-03-014, on behalf of the City and County of San Francisco, regarding PG&E's proposals for a Conservation Incentive Adjustment and to increase rates for low-income customers (October 2010, https://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=201690).

5. Before the Michigan Public Service Commission, on behalf of the Michigan Wholesale Power Association, in Consumers Energy's and Detroit Edison's Renewable Energy Plan proceedings, regarding financing constraints and debt equivalence costs and penalties for bidders offering long term power purchase agreements in the utilities' proposed design of their requests for proposals and bid evaluation for procurement of renewable resources (Consumers Energy testimony March 2009, Detroit Edison testimony April 2009).

6. Before the Public Utilities Commission of Colorado, on behalf of the Colorado Independent Energy Association, in Public Service Company of Colorado's 2007 Integrated Resource Plan proceeding, regarding the impact of

power purchase agreements on the credit profile of Public Service Company of Colorado and the use of proposed adders in bid evaluation (answer testimony April 2008; cross-answer testimony June 2008).

7. Before the California Public Utilities Commission in R.06-02-013, on behalf of Hercules Municipal Utility, regarding proposals for non-bypassable charges to be imposed on departing customers (April 2007).

8. Before the California Public Utilities Commission in R.06-02-013, on behalf of the Independent Energy Producers Association, regarding the impact of power purchase agreements on the credit profiles of the California investor-owned utilities (March 2007).

9. Before the Minnesota Public Utilities Commission, on behalf of Excelsior Energy, Inc., regarding the impact of a proposed power purchase agreement on the credit profile of Northern States Power Company (Minnesota) (October 2006).

10. Before the Public Utilities Commission of Colorado, on behalf of the Colorado Independent Energy Association, regarding the impact of power purchase agreements on the credit profile of Public Service Company of Colorado (August 2006).

11. Before the City and County of San Francisco Assessment Appeals Board, on behalf of the City and County of San Francisco, regarding the fair market value of the Potrero Power Plant (November 2005).

12. Before the California State Senate Energy, Utilities and Communications Committee, on behalf of The Utility Reform Network, to describe and quantify the impacts of various plans of reorganization on both PG&E's ratepayers and PG&E's shareholders (September 2003).

13. Before the California Public Utilities Commission in OII 02-04-026 (Ratemaking Implications of the PG&E Bankruptcy), on behalf of The Utility Reform Network, quantifying the cost of PG&E's proposed settlement agreement for ratepayers, and demonstrating that the excess cost generates windfall profits for PG&E's shareholders as compared to traditional cost-of-service ratemaking (August 2003).

14. Before the California Public Utilities Commission in OII 02-04-026 (Ratemaking Implications of the PG&E Bankruptcy), on behalf of The Utility Reform Network, regarding the savings potential of using a bond issuance supported by a dedicated rate component as part of a plan for Pacific Gas and Electric Company's emergence from bankruptcy (January 2003).

15. Before the New Hampshire Public Utilities Commission, New Hampshire Docket No. DR 96-150, Direct Testimony on Behalf of Cabletron Systems Regarding Interim Stranded Costs (September 1997).

16. Before the California Public Utilities Commission, CPUC Rulemaking 94-04-031 and Investigation 94-04-032, Prepared Testimony, with Paula A. Zagrecki, on Behalf of the Energy Finance Forum Regarding Uneconomic Assets and Obligations and Their Disposition in Electric Restructuring (December 1994).

[CONFERENCE AND OTHER PRESENTATIONS, SELECTED PUBLICATIONS OMITTED]

Attachment B

Excerpts from PG&E Progress, Module 5, Chapter 11 Plan Overview, Financing & Arrangements (dated May 2020)

EXHIBIT PGEMay20 Excerpts from PG&E Progress, Module 5, May 2020 (from pgecorp.com, as of 10/3/20)

Chapter 11 Plan Overview, Financing & Arrangements

May 2020

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Plan of Reorganization Summary

Key Elements of the Plan of Reorganization

Plan Has Stakeholder Support

RSA with Official Committee of Tort Claimants

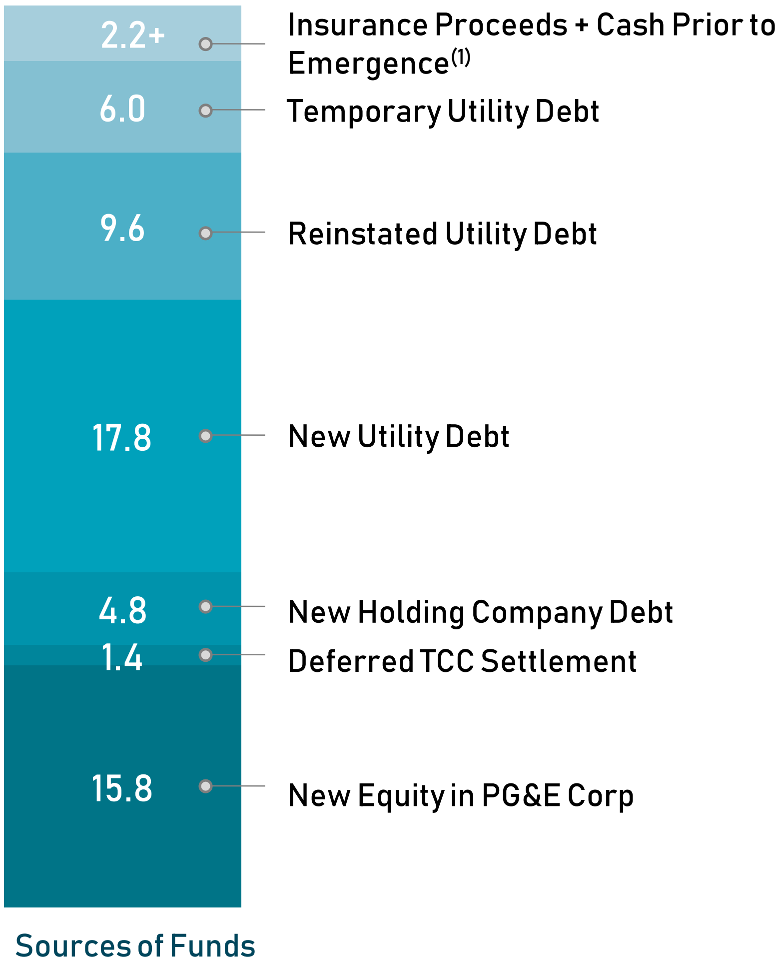
Attorneys representing fire victims who hold over 70% of the more than 70,000 claims that have been filed

Subrogation Claimants and Key County and Local Public Entities

Ad Hoc Noteholder Committee

Labor (IBEW)

~$59 Billion in Plan Funding Sources ($B)



Note: Assumes June 30 emergence.

(1) Insurance proceeds of ~$2.2B. Cash figure to be refined as Company proceeds toward emergence from Chapter 11.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

full presentation at http://s1.q4cdn.com/880135780/files/doc_downloads/2020/05/1/Module-5_Final2.pdf

Overview of Wildfire Settlements

$25.5 billion settlement at Plan Value

Subrogation Claimants

$11.0 billion[1]

Paid in cash

Fire Victims

$13.5 billion

- (A) $6.75 billion paid in equity at a 14.9x multiple to normalized estimated net income
- (B) $6.75 billion paid in cash; $5.4 billion of which is paid at emergence and $1.35 billion paid in accordance with the Plan

Municipal Entities

$1.0 billion[2]

Paid in cash

(1) Settlement includes an additional $55 million of professional fees.
(2) Settlement includes an additional $10 million of professional fees.

Pro Forma Capital Structure

($ in millions unless stated otherwise)

The below contemplates the pro forma capital structure at emergence under the Company's POR:

Noteholder RSA Debt = $21,425 million

$9.575 billion Utility Reinstated Senior Notes

$6.2 billion New Utility Long-Term Notes(1)

$1.75 billion New Utility Short-Term Notes(2)

$3.9 billion New Utility Funded Exchange Notes(3)

Pro Forma Capital Structure

Pacific Gas and Electric Company	Face Amount	Rate
4.75% due 2044	$675	4.75%
4.65% due 2028	300	4.65%
4.60% due 2043	375	4.60%
4.50% due 2041	250	4.50%
4.45% due 2042	400	4.45%
4.30% due 2045	600	4.30%
4.25% due 2023	500	4.25%
4.25% due 2046	450	4.25%
4.00% due 2046	600	4.00%
3.95% due 2047	850	3.95%
3.85% due 2023	300	3.85%
3.75% due 2024	450	3.75%
3.75% due 2042	350	3.75%
3.50% due 2025	600	3.50%
3.40% due 2024	350	3.40%
3.30% due 2027	400	3.30%
3.30% due 2027	1,150	3.30%
3.25% due 2023	375	3.25%
2.95% due 2026	600	2.95%
Reinstated Pre-Petition OpCo Debt / Weighted Average	**$9,575**	**3.88%**
4.55% due 2030	3,100	4.55%
4.95% due 2050	3,100	4.95%
3.45% due 2025	875	3.45%
3.75% due 2028	875	3.75%
3.15% due 2025	1,950	3.15%
4.50% due 2040	1,950	4.50%
Settled and Refinanced Pre-Petition OpCo Debt / Weighted Average	**$11,850**	**4.28%**
Total Reinstated /Settled or Refinanced Pre-Petition OpCo Debt	**$21,425**	**4.10%**
Incremental OpCo Debt Raised at Emergence	5,925	TBD
Temporary Utility Facility Raised at Emergence	6,000	TBD
Incremental OpCo Debt Raised at Emergence	**$11,925**	**TBD**
Pro Forma OpCo Debt @ Emergence	**$33,350**	**TBD**
Total Pacific Gas and Electric Corporation Debt @ Emergence	**$4,750**	**TBD**
Total Pro Forma Consolidated Debt @ Emergence	**$38,100**	**TBD**

Post-Emergence Working Capital Facilities

	Face Amount	Rate
OpCo RCF	$3,500	TBD
OpCo A/R Facility	1,000	TBD
HoldCo RCF	500	TBD
Total / Weighted Average	**$5,000**	**TBD**

$11.925 billion of Utility debt and $4.75 billion of HoldCo debt is contemplated to be issued upon emergence

(1) Pre-Petition $6.2 billion of Utility Long-Term Notes matured through November 2043 with a weighted average maturity of November 2036 and weighted average interest rate of 5.89%.
(2) Pre-Petition $1.75 billion of Utility Short-Term Notes matured through August 2022 with a weighted average maturity of June 2021 and weighted average interest rate of 3.35%.
(3) Pre-Petition $3.9 billion of Utility Funded Debt was comprised of a $2.888 billion RCF due April 2022 with an interest rate of L+128, a $250 million Unsecured Term Loan due February 2019 with an interest rate of L+60 and $762 million of Pollution Control Bonds with a weighted average maturity of August 2020 and interest rate of 2.40%.

Proposed Post-Emergence Securitization

With support from the Governor's Office, PG&E has proposed a post-emergence securitization for $7.5 billion of wildfire claims costs that is designed to be rate-neutral to customers.

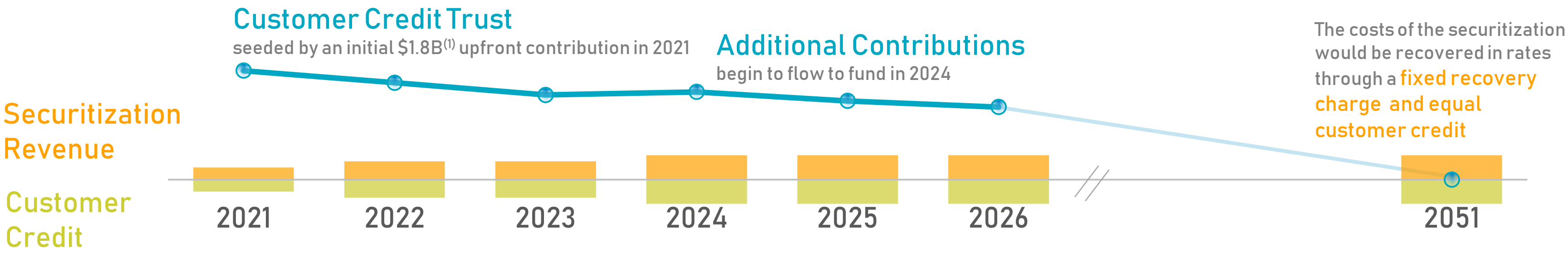
- Securitization will enable PG&E to accelerate and defray the final payment to wildfire victims in accordance with the Plan and retire the $6 billion temporary utility debt
- Securitization will accelerate improvement of PG&E's credit metrics, which will reduce the cost of financing over time for the benefit of all customers

Proposed Securitization Structure

- PG&E will recover the costs of the securitization via a fixed recovery charge (FRC) on customers' bills
- PG&E will create a Customer Credit Trust to provide Customer Credits designed to equal the FRC
- PG&E shareholders will fund the Customer Credit Trust from their tax benefit cash flows created by paying wildfire-related claims, investment returns and an initial contribution in 2021

Securitization is Expected to be Rate-Neutral to Customers

The annual customer impact is expected to be $0 and the total value of the Customer Credit Trust is forecasted to equal or exceed the full value of securitization charges to customers, and customers will receive 25% of any remaining surplus in the Customer Credit Trust



(1) The nominal amount of customer credits are recorded as a $9.4B regulatory liability and the securitization principal is recorded as a $7.5B regulatory asset, resulting in an upfront $1.9B GAAP charge (subject to certain accounting language being included in the final CPUC order supporting Regulatory Liability treatment for the initial contribution).

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

Customer Credit Trust

The following provides a summary of the Company's securitization application filed with the CPUC on April 30, 2020.

TRUST RETURNS

The Trust is expected to realize at least an arithmetic annual average return of 3.50% after-tax through 2050, contributing $2.08B to the Trust over the life of the securitization

ADDITIONAL CONTRIBUTIONS

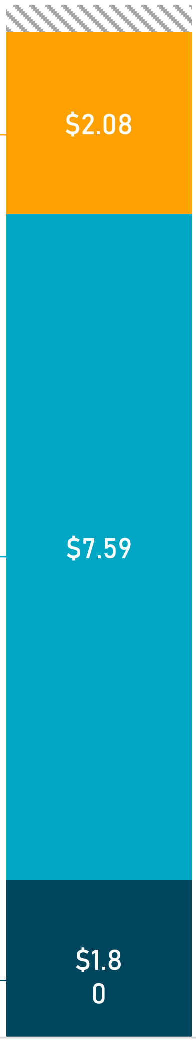
Additional contributions of up to $7.59B will be made to the Trust based on available Shareholder Tax Benefits resulting from certain wildfire-related payments and existing shareholder deductions

Tax Benefits ($M)	2020 Federal	2020 State
Wildfire Claims, less Insurance	($23,300)	($23,300)
Initial & Ongoing Wildfire Fund Contribution	($512)	($4,992)
Existing Shareholder Deductions	($423)	-
Total Shareholder Tax Deductions	($24,235)	($28,292)
(x) applicable tax rate	*21.00%*	*8.84%*
Forecast Cash Value = $7,590	**$5,089**	**$2,501**

Contributions will be calculated based on annual forecasted taxable income and contributed to the Trust once PG&E realizes the cash tax benefit, est. 2024-2036

INITIAL CONTRIBUTION

Trust will be seeded by an upfront shareholder contribution of $1.8B in 2021, when the securitization is approved, funding the Customer Credit through 2024



Customer Credit Trust ($B)

Trust Surplus

Any 2050 surplus will fund prior shortfalls then 25% will be provided to customers

Illustrative Customer Credit

Y1	~$190M
Y2	~$304M
Y3	~$304M
…etc.	~$395M

Customer Credit on customer bills equal the fixed rate charge(1)

(1) Amounts shown reflect debt service payments for illustrative purposes and assume Trust ends with a zero balance or surplus.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from expectations and underlying assumptions.

Attachment C

PG&E Response to A4NR First Set of Data Requests (Updated) (dated August 14, 2020), Question 9

ANSWER 8:

Subject to its objections, PG&E responds as follows:

PG&E does not presently intend to modify the requested adjustments to PG&E's ratemaking capital structure based on D.20-05-053, although PG&E will update discussion of the requested adjustments in Chapter 1 to incorporate the final decision.

QUESTION 9:

Please provide a copy of any bond indenture, loan agreement, or credit facility which serves as a document governing the terms and conditions of the $6 billion Temporary Utility Debt that is expected to be retired by the securitization.

ANSWER 9:

Subject to its objections, PG&E responds as follows:

The $6 billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility. PG&E refers A4NR to the indenture agreements attached as Exhibits 4.1 and 4.2 to the Form 8-K filed by PG&E on June 19, 2020, and the $3.0 billion secured term loan credit agreement attached as Exhibit 10.4 to the Form 8-K filed by PG&E on July 2, 2020. These Form-8K submissions are available at the following links:

http://d18rn0p25nwr6d.cloudfront.net/CIK-0001004980/2874635f-6939-4e4e-9ba5-fc33a3f9827f.pdf

http://d18rn0p25nwr6d.cloudfront.net/CIK-0001004980/af821654-65ab-4b30-9515-1b4713aea86a.pdf

QUESTION 10:

Please explain the basis for the following statement at page 1-8, lines 13 – 16, of PG&E's testimony: "In the event that PG&E were to guarantee the Customer Credit mechanism, S&P Global Ratings (S&P) would likely treat it as an enforceable contractual commitment and, therefore, the Securitization would be on-credit and the forecasted improvement in financial metrics would not occur."

ANSWER 10:

Subject to its objections, PG&E responds as follows:

S&P's ratings methodology defines a financial guarantee as a promise by one party to assume a liability of another party if that party fails to meet its obligations under the liability. If PG&E guarantees the Customer Credit, PG&E believes that S&P would treat that obligation as a guarantee for which PG&E would be liable and include a liability on

Attachment D

PG&E Response to CCSF Fourth Set of Data Requests (dated October 9, 2020), Question 1

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

PG&E Data Request No.:	CCSF_004-Q01-04		
PG&E File Name:	Securitization2020_DR_CCSF_004-Q01-04		
Request Date:	September 25, 2020	Requester DR No.:	004
Date Sent:	October 9, 2020	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1-Q2: Mari Becker Q3-Q4: David Thomason	Requester:	Suzy Hong

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

QUESTION 01

For the years 2020-2024, please provide the following assuming California Public Utilities Commission denial of PG&E's Application 20-40-023:

a. The annual principal and interest payments on the Temporary Utility Debt of $6 billion, both (i) pursuant to the current terms applicable to the Temporary Utility Debt; and (ii) as PG&E contemplates refinancing the Temporary Utility Debt.

ANSWER 01

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

The $6 Billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility. The weighted average cost of debt for the $6 Billion Temporary Utility Debt is 2.01%, exclusive of financing-related fees. For variable interest rates, PG&E used rates as of September 28, 2020 for the cost of debt calculation. If the proposed Securitization is not approved, PG&E anticipates refinancing the $6 Billion Temporary Utility Debt with long-term debt. The interest rates for the long-term debt to be issued by PG&E will be based on PG&E's credit profile and market conditions at the time the debt is issued. For purposes of the Utility Financial Projections in Exhibit 5.4, PG&E assumed future interest rates at the same level as its current weighted average long-term debt of 3.84%, exclusive of financing-related fees and the $6 Billion Temporary Utility Debt. As noted, this is an assumption and the actual interest rate will be determined at the time of the refinancing.

QUESTION 02

For the years 2020-2024, please provide the following assuming California Public Utilities Commission approval of PG&E's Application 20-04-023:

a. The annual principal and interest payments on any additional securitized debt PG&E plans to issue that is not included under Application 20-04-023.
   i. Please note the California Public Utilities Commission proceedings in which PG&E has described its intentions to issue additional securitized debt and the California Public Utilities Commission's Decision or Decisions authorizing the issuance of additional securitized debt.
   ii. Please also note the enabling legislation that authorizes the issuance of any additional securitized debt, and whether additional enabling legislation is required to authorize the issuance of any additional securitized debt.
b. The annual principal and interest payments on any first mortgage bonds PG&E has issued or plans to issue since the date of filing of PG&E's Application 20-04-023.
c. The annual principal and interest payments on the PG&E Corp. debt of $4.75 billion issued by PG&E Corp. as part of PG&E's exit from bankruptcy (as described in, for example,http://www.pgecorp.com/news/press_releases/Release_Archive2020/200621press_release.shtml).
d. The annual principal and interest payments on any other debt PG&E has issued or plans to issue since the date of filing of PG&E's Application 20-04-023 that is not included in a. through c., above.

ANSWER 02

PG&E objects to this request as vague, ambiguous, unduly burdensome, and not relevant. Subject to its objections, PG&E responds as follows:

a. PG&E plans to file an application or applications to securitize costs and expenses related to catastrophic wildfires, including $3.2 billion of fire risk mitigation capital expenditures identified in subdivision (e) of Section 8386.3 of the Public Utilities Code, under Sections 850, et seq. of the Public Utilities Code pursuant to AB 1054.

Attachment E

Moody's Report (dated August 19, 2020), and S&P's Report (dated September 16, 2020)

MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
19 August 2020

Rate this Research

RATINGS

PG&E Corporation

Corporate family rating	Ba2
Outlook	Stable

Pacific Gas & Electric Company

First mortgage bonds	Baa3
Preferred stock	B1
Outlook	Stable

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

PG&E Corporation

FAQ on what's next after emergence from bankruptcy

» **Ability to mitigate wildfire risk to be key determinant of credit quality.** PG&E Corporation's (Ba2 stable) ability to improve its credit quality will depend heavily on whether it can mitigate the risk of wildfires in its service territory. This will require substantial financing through the issuance of new debt. If the company is not able to recover future costs and investments related to wildfire mitigation in a timely manner, its financial performance will deteriorate. While climate models are subject to change as mitigating efforts alter projected trajectories, they currently suggest that California faces rising wildfire risk over the next three decades, regardless of greenhouse gas mitigation efforts.

» **Credit quality would deteriorate if equipment failures were to trigger another string of catastrophic wildfires in its service territory.** Although the wildfire fund established by California Assembly Bill 1054 (AB 1054) was set up to mitigate the financial impact a major wildfire can have on a utility, catastrophic wildfires over a multi-year period could potentially exhaust the fund. Moreover, the liability cap in place would lapse upon the fund's depletion, which would make AB 1054 less credit supportive for California utilities. However, a single catastrophic fire this year would unlikely have an immediate material financial impact on PG&E, given the current full availability of the wildfire fund and the time it takes to determine both the cause of a fire and the amount of damages that the utility must pay.

» **PG&E will have ample opportunity to strengthen key credit metrics if it does not incur wildfire-related liabilities.** Rate base growth through the significant infrastructure investments required will improve cash flow generation. At the same time, we expect PG&E to be able to use any residual cash flow remaining after capital investments to pay down holding company debt, given that the company is prohibited from distributing dividends to shareholders until at least 2023. PG&E's $2.75 billion term loan maturing in 2025 provides increased financial flexibility to reduce leverage by paying off this debt either partially or in full ahead of maturity.

» **Proposed securitization financing to be credit neutral**. We typically view a utility's use of securitization bonds as a credit positive financing tool. But PG&E is proposing to establish a customer credit trust that will be used to provide customers with bill credits to offset the securitization bond principal and interest charges annually. PG&E expects to fund the customer credit trust largely through cash flow generated from tax benefits created by paying past wildfire-related claims.

Ability to mitigate wildfire risk to be key determinant of credit quality

On 1 July 2020, PG&E Corporation and its principal utility subsidiary, Pacific Gas & Electric Company (PG&E, Baa3 first mortgage bonds stable) exited from bankruptcy. Upon plan confirmation and the fulfillment of AB 1054 requirements, PG&E will be able to participate in California's wildfire fund and benefit from other credit supportive provisions incorporated in the law.

PG&E's ability to improve its credit quality will depend heavily on whether it can mitigate the risk of wildfires in its service territory. The company plans to make significant investments in its infrastructure in the years ahead, particularly around wildfire mitigation. This will require substantial financing through the issuance of new debt. If PG&E is not able to recover future costs and investments related to wildfire mitigation in a timely manner, the company's financial performance will deteriorate.

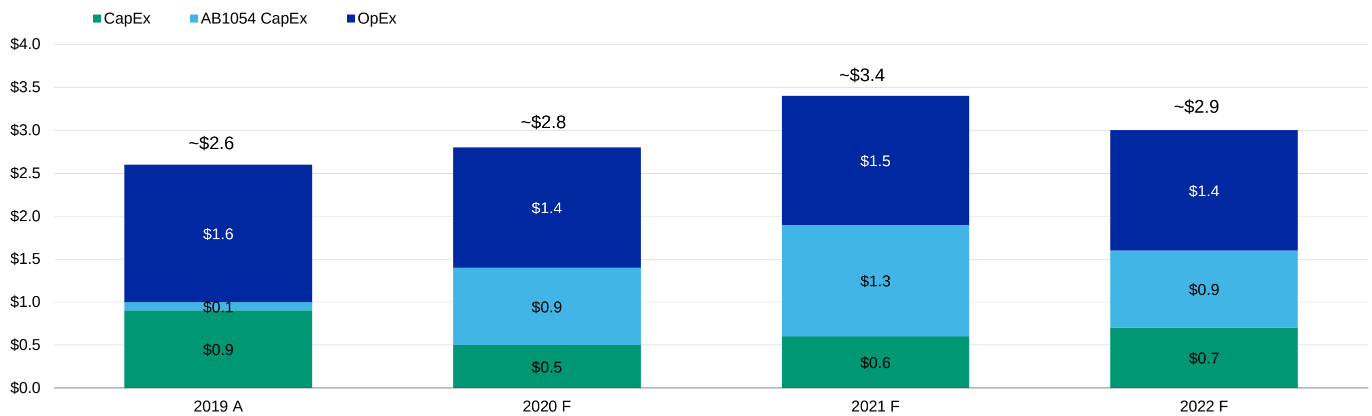
Can PG&E reduce the risk of wildfires in its service territory?

Only time will tell. PG&E continues to invest significantly on wildfire mitigation, including system hardening, enhanced inspections and vegetation management, and has a plan to regionalize its operations to increase its focus on local communities. The company is endeavoring to develop an effective wildfire mitigation program through the establishment of a fire hardened electric system that is rigorously inspected and maintained. With these efforts, PG&E is striving to emulate San Diego Gas & Electric Company (SDG&E, Baa1 positive), which has had a relatively long and successful track record of wildfire mitigation, albeit in a considerably smaller service territory with different topography.

PG&E continues to invest in monitoring equipment to improve situational awareness of its network to anticipate, prepare for and react to extreme weather conditions. As part of the company's approximately $6.2 billion in wildfire mitigation investments being made during 2020-2021, PG&E plans to install an additional 400 weather stations and 200 high-definition cameras by the end of the year and a total of 1,300 weather stations and 600 HD cameras by the end of 2021. SDG&E has used these and other technologies to substantially reduce wildfire risk in its service territory since it last contended with major wildfires in 2007.

Exhibit 1

PG&E's wildfire mitigation plan includes significant annual investments
($ in billions)



Source: PG&E Corporation

In June, PG&E filed a regional restructuring plan application with the California Public Utilities Commission (CPUC) to provide greater accountability at the local level. This regionalization model is aimed at improving safety and responsiveness to customers and local communities, such as by replacing faulty equipment more quickly and reducing outage response times, particularly when utilizing public safety power shutoffs.

Over the long term, climate change is likely to increase the risk of wildfires in California. Cal-Adapt, a state-funded climate data tool maintained by the University of California at Berkeley, models a 10.6% increase in the number of square miles at risk in PG&E's service territory over the next 30 years, compared to the previous 13 years. Exhibit 2 illustrates the outcomes of Cal-Adapt's model, which uses representative concentration pathways (RCPs) as adopted by the United Nations' Intergovernmental Panel on Climate Change. Cal-Adapt's model does not include the impact of high winds in certain parts of the state.

While climate models are subject to change as mitigating efforts alter projected trajectories, they continue to point to a statewide increase in wildfire risk over the next three decades. Physical climate risks, like rising temperatures and declining or variable precipitation, which can create hotter and drier conditions, are largely locked in globally until 2050 (see "ESG – Global: Climate scenarios vital to assess credit impact of carbon transition, physical risks"). Hence, We expect wildfire risks to intensify regardless of greenhouse gas mitigation efforts. Beyond 2050, carbon mitigation might be able to reduce the risk of climate hazards that contribute to wildfires.

Exhibit 2

Cal-Adapt projects an increase in square miles at risk of wildfires over the next 30 years

Cal-Adapt data using RCP 8.5 as base case	California (State of)	PG&E (utlity)
Issuer rating	Aa2	NA
Senior Secured	NA	Baa3
Outlook	Stable	Stable
Service area size in square miles	163,695	70,000
Annual mean square miles at risk per Cal-Adapt		
1950-2005	664	379
2006-19	767	416
2020-50	817	461
2050-99 (RCP 8.5)**	1,094	651
2050-99 (RCP 4.5)**	920	535
Risk over last 13 years compared to prior 55 years	15.6%	9.9%
Future risk in next 30 years compared to last 13 years	6.5%	10.6%
Long-term risk 2050-99 compared to 2006-19 with no GHG mitigation efforts	42.7%	56.4%
Long-term risk 2050-99 compared to 2006-19 with GHG mitigation efforts; GHG emissions peak in 2040 before declining thereafter	20.0%	28.5%
% of service territory at risk per Cal-Adapt		
1950-2005	0.41%	0.54%
2006-19	0.47%	0.59%
2020-50	0.50%	0.66%
2050-99 (RCP 8.5)**	0.67%	0.93%
2050-99 (RCP 4.5)**	0.56%	0.76%

We assume the service territory at risk equals the variable square miles projected to be burned over the constant total service area. Lack of clarity in Cal-Adapt public site.
** We assume RCP 8.5 (high emissions scenario) as Moody's global scenario up to 2050 due to "locked in" effects of climate change. After 2050, one can differentiate between RCP 8.5 (high emissions scenario) vs RCP 4.5 (a scenario with GHG emissions mitigation).
Note: Exhibit includes partial data from exhibit initially published in "Public Power Electric Utilities – California: Rising wildfire risks manageable for CA publicly owned electric utilities, except in extreme scenarios."

Source: Cal-Adapt

What factors could erode PG&E's credit quality?

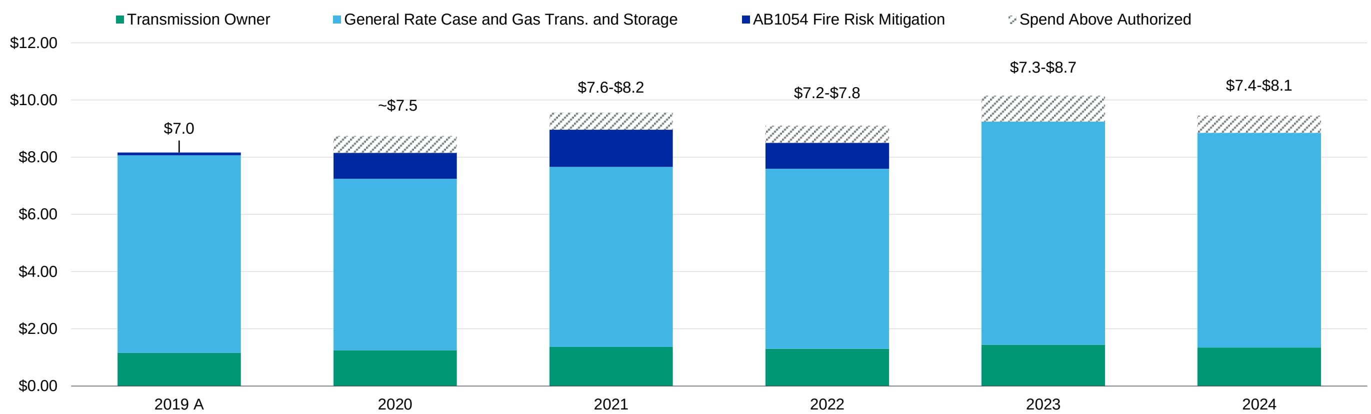
PG&E's credit quality would deteriorate if equipment problems were to trigger another string of catastrophic wildfires in its service territory, akin to what the utility experienced from 2015 through 2018. During 2017 and 2018, faulty PG&E equipment was linked to at least 17 major wildfires, causing more than $30 billion in damages. Although the wildfire fund established by AB 1054 was set up to mitigate the financial impact a major wildfire can have on a utility, catastrophic wildfires over a multiyear period could potentially exhaust the fund. Moreover, the liability cap in place would lapse upon the fund's depletion, which would make AB 1054 less credit supportive for California utilities (see "Regulated electric and gas utilities – US: California's wildfire fund is sufficiently capitalized to pay out claims").

AB 1054 remains untested. If there is an unexpected failure by state regulators to effectively implement the law's credit supportive mechanisms, such as a revised prudency standard, the credit quality of PG&E and California's other investor-owned utilities would deteriorate. In the event of a wildfire, the utility is presumed to have acted prudently unless intervenors create a serious doubt as to the reasonableness of the utility's conduct. Furthermore, the CPUC can also consider factors that are beyond the utility's control, such as weather conditions like humidity, temperature and wind. The revised prudency standard appears to be more consistent with that of the Federal Energy Regulatory Commission (FERC), which we view as more constructive.

Poor operational performance or less than timely recovery of costs and investments would also impair PG&E's credit quality. In addition to its wildfire mitigation investments, the utility will undertake substantial capital investment projects to construct, replace, and improve its electricity and natural gas facilities. The investments are being financed with a mix of about half equity and half debt. Over the 2020-2022 period included in its recent general rate case settlement, PG&E plans to invest an average of $4.6 billion a year in electric and natural gas distribution, as well as generation infrastructure. The settlement agreement, which is awaiting CPUC final approval, includes revenue requirement increases of $454 million in 2021 and $486 million in 2022 for PG&E's gas and electric distribution service. PG&E's electric transmission and natural gas transmission and storage investments are recovered through separate FERC regulatory proceedings. Besides the approved wildfire mitigation investments that the company will not earn an equity return on pursuant to AB 1054, recovery of additional capital investments above authorized levels will be addressed in future rate case proceedings. A delay or inability to earn a return on and of investments would weaken the company's financial profile during this period.

Exhibit 3

PG&E's increasing capital investment plans will require substantial new debt issuance
($ in billions)



Source: PG&E Corporation

Would a catastrophic wildfire in PG&E's service territory this year hurt its credit quality?

Yes, but a new wildfire would likely increase social and reputational risk more than financial risk. Because of PG&E's history of safety problems, the company already faces greater social risk than most of its regulated electric and gas utility peers. PG&E needs to regain the trust of California regulators, state policymakers and, most importantly, its customers. The company's involvement in another catastrophic wildfire would also signal that its wildfire mitigation efforts continue to severely lag those of its peers, which would be credit negative. However, a catastrophic fire this year would be less likely to have an immediate material financial impact on the company.

First, it can take many months to determine how a wildfire was ignited. For example, the California Department of Forestry and Fire Protection (Cal Fire), the agency that investigates fires in the state and determines the cause of ignition, announced on 16 July that it had determined – about eight months after the fact – that faulty electrical transmission lines owned and operated by PG&E had sparked the 2019 Kincade fire in Sonoma County (see "CAL FIRE's determination that PG&E equipment caused the 2019 Kincade fire has no material financial impact"). In the case of the 2017 Tubbs fire, one of the largest wildfires that year, it took Cal Fire about 16 months to conclude its investigation.

Second, it can take even longer for most claims to be filed in the wake of a major wildfire to calculate a reasonable estimate of the impact on an investor-owned utility's financial profile. Finally, and most important, AB 1054's credit supportive provisions, including its wildfire insurance fund, are intended to help mitigate the financial burden a wildfire event could have on credit quality. The wildfire insurance fund provides a utility with immediate access to a substantial liquidity resource to cover potential damages caused by a future catastrophic wildfire ignited by its equipment, when the damages exceed the greater of $1 billion or the utility's insurance coverage.

Finally, AB 1054 includes other important provisions including a liability cap calculated as 20% of the utility's equity portion of its transmission and distribution (T&D) rate base over any three-year period. The state's utilities should also benefit from a more favorable prudency standard and a more expedient subrogation claims settlement process. If the wildfire insurance fund's claims paying capability is ultimately exhausted, the disallowance cap will no longer be available, but the more favorable prudency standard will remain. We note that, although AB 1054 includes these credit supportive mechanisms, it has yet to be tested in its application in response to a wildfire event (see the "Regulated electric utilities – US: FAQ on the credit implications of California's new wildfire law").

What could improve PG&E's credit?

PG&E's credit quality will improve with each passing year as long as operational improvements and mitigation investments prevent the outbreak of catastrophic wildfires in its service territory. While there are many variables involved in the ignition and spread of wildfires, PG&E will likely have to get through at least three years without a catastrophic wild fire in order to adequately demonstrate that it has substantially reduced its exposure to wildfire risk. Improved pre-incident planning and coordination with local authorities to help contain the spread of fires before they exact a significant toll on customers and property would go a long way toward restoring confidence in the utility's mitigation efforts.

The company also has to address near-term governance risks. PG&E's senior management and financial policies are in a period of transition following the company's 1 July emergence from bankruptcy protection for the second time in two decades. Eleven of the 14 members on PG&E's board of directors were appointed in June. The company asserts that the new board members bring expertise in key areas, such as utility operations and management, safety and environment, risk management, customer engagement and corporate governance.

The revamped board has been tasked with the search for a new chief executive for both the parent company and the operating subsidiary following the 30 June retirement of PG&E Corporation CEO and president William D. "Bill" Johnson and the 30 July departure of PG&E CEO Andy Vesey (see "PG&E Corporation: Utility subsidiary's CEO departure adds to heightened governance risk"). While the opportunity to run such a large investor-owned utility would normally draw strong interest from a deep pool of experienced candidates, PG&E's checkered recent history and its myriad operational and regulatory issues may pose challenges for the search.

Can PG&E improve its financial profile over the next 12 to 18 months?

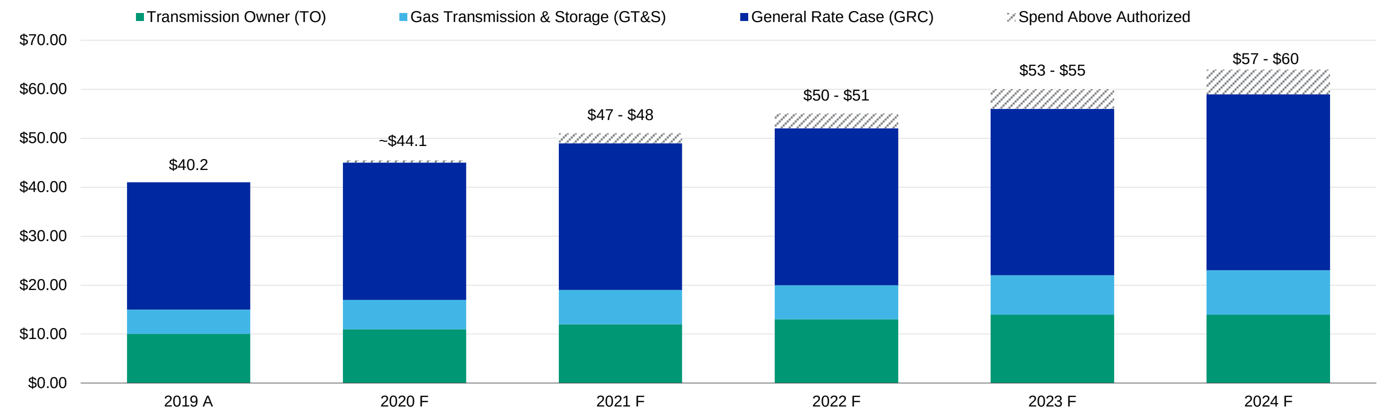
We think the company will have substantial opportunity to strengthen its key credit metrics if it does not incur material liabilities arising from a catastrophic wildfire. Rate base growth through significant infrastructure investments will improve cash flow generation. At the same time, we expect PG&E to be able to use any residual cash flow remaining after capital investments to pay down holding company debt, given that the company is prohibited from distributing dividends to shareholders until at least 2023. Strengthening the company's financial profile is an important credit consideration, but it is less of a priority than mitigating wildfire risk and improving stakeholder relationships.

As part of the plan of reorganization, the bankruptcy court approved a motion filed by PG&E to restrict shareholder dividends. PG&E is precluded from paying common dividends to equity holders until the company has recognized $6.2 billion in non-GAAP core earnings, or GAAP earnings adjusted for certain non-core items identified in a separate disclosure statement. As such, we do not expect the dividend restriction to be lifted until sometime in 2023. While the ability to pay shareholder dividends is a common practice of investment-grade utility holding companies, the dividend restriction will enable PG&E to retain cash and use residual funds available after capital investments to pay down debt, which is credit positive.

As part of the company's exit financing, PG&E Corporation entered into a $2.75 billion term loan maturing in 2025 as well as issuing $2 billion in notes, half of which mature in 2028 and 2030. The term loan offers the company increased financial flexibility to reduce leverage by paying off this debt either partially or in full ahead of maturity. Upon exit, we estimate parent debt to represent about

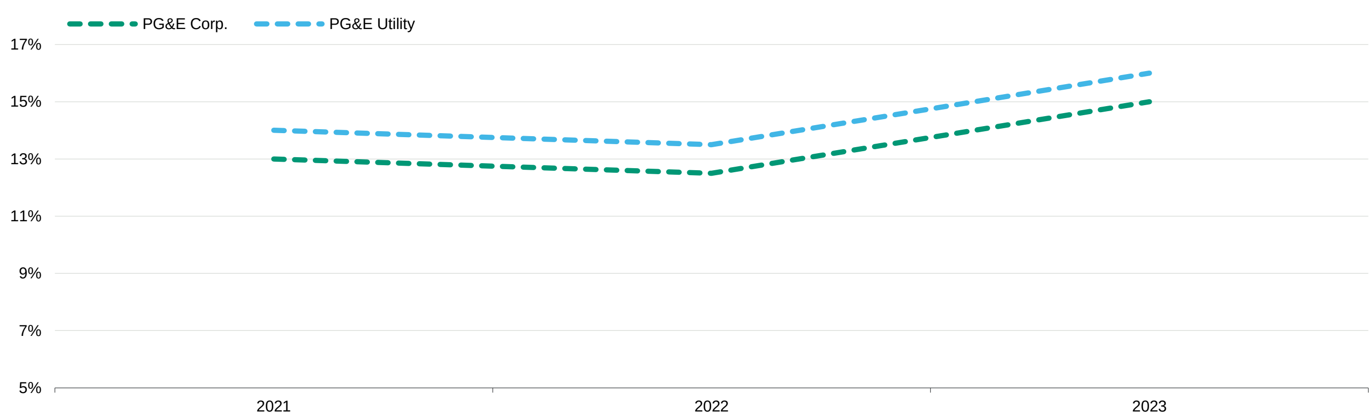
12% of consolidated debt. However, we expect parent debt to gradually decline over the next few years as the company has disclosed that it expects to pay down about $2.5 billion of holding company debt by 2023. Through increased cash flow generation and debt reduction, particularly at the parent level, we expect the companies' financial profiles to gradually strengthen, such that we project PG&E Corporation's ratio of cash flow from operations pre-working capital changes (CFO pre-W/C) to debt to increase from about 12% in 2021 to 15% in 2023. Similarly, we project the operating company's ratio of (CFO pre-W/C) to debt to increase from about 14% to 16% over the same period.

Exhibit 4
PG&E's weighted average rate base forecast should drive increased cash flow generation
($ in billions)



Source: PG&E Corporation

Exhibit 5
Moody's projected ratio of CFO pre-WC/debt for PG&E Corp. and PG&E during the 2021-2023 period



Source: Moody's Investors Service

What are the credit implications of PG&E's proposed $7.5 billion securitization financing?

PG&E is seeking CPUC approval to issue $7.5 billion in rate-neutral securitization bonds to be issued in the first half of 2021. If the CPUC approves the plan, the proceeds from the securitization bonds would be used to pay down $6 billion of temporary debt and the CPUC would not consider it as a permanent debt component within the utility's regulated capital structure.

We typically view securitization bonds as a credit positive financing tool (see "Regulated utilities – US; Utility cost recovery through securitization is credit positive"). However, unlike traditional utility securitization structures in which the customer is the ultimate payor of the principal and interest on the bonds, PG&E is proposing this securitization structure to be rate-neutral to customers. Although specific details on the structure have yet to be finalized or approved, PG&E is proposing to establish a customer credit trust that will be used to provide customers with bill credits to offset the securitization bond principal and interest charges annually. PG&E expects to fund the customer credit trust largely through cash flows generated from tax benefits created by paying past wildfire-related claims. The credit offset back to customers will reduce PG&E's revenues and cash flows while the securitization bonds would be considered as on-credit debt and reflected in our key credit metrics. Credit metrics will, however, benefit from the amortizing nature of the bonds.

Moody's related publications

Credit Opinion

» PG&E Corporation: Update to credit profile upon exit from bankruptcy, 16 June 2020

Issuer Comment

» PGE& Corporation: Utility subsidiary's CEO departure adds to heightened governance risk, 30 July 2020

» PG&E Corporation: CAL FIRE's determination that PG&E equipment caused the 2019 Kincade fire has no material financial impact, 17 July 2020

Sector Comments

» Regulated electric utilities – North America: Bill proposing fines for power shutoffs is credit negative for California utilities, 31 January 2020

» Regulated electric and gas utilities – US: California's wildfire fund is sufficiently capitalized to pay out claims, 20 November 2019

» Regulated electric utilities – California: Customer bill credits after power shutoffs signal weakening political support, 31 October 2019

» ESG - California: Public safety power shutoffs highlight links between environmental and social risks, 28 October 2019

» Regulated electric utilities – US: Proposed California wildfire risk legislation is credit positive but questions remain, 10 July 2019

» Electric utilities – US: Limiting utility liabilities looms large after release of SB 901 Commission draft report, 4 June 2019

» Regulated electric utilities – US: California wildfire strike force report is credit positive, but details are still pending, 15 April 2019

Sector In-Depth

» Public Power Electric Utilities – California: Rising wildfire risks manageable for CA publicly owned electric utilities, except in extreme scenarios, 27 May 2020

» Regulated electric utilities – US: FAQ on the credit implications of California's new wildfire law, 6 August 2019

» Electric and Gas Utilities - US: California utilities struggle with inverse condemnation exposure, 15 April 2019

» Electric Utilities - US: Potential remedies to reduce California fire risk face competing interests, 3 April 2019

REPORT NUMBER 1239753

MOODY'S
INVESTORS SERVICE

Research Update:

PG&E Corp. And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BB-' Ratings Affirmed

September 16, 2020

PRIMARY CREDIT ANALYST

Gabe Grosberg
New York
(1) 212-438-6043
gabe.grosberg
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
+ 1 (212) 438 7406
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Rating Action Overview

- Unprecedented wildfire activity throughout California at just the beginning of this wildfire season, in our view, could be indicative of a worsening environment that is more susceptible to frequent and more severe wildfires. This could increase the probability that a California investor-owned electric utility causes a catastrophic wildfire at a more regular occurrence than our prior base-case assumptions. These deteriorating conditions may also adversely affect the utility's ability to effectively manage regulatory risk.
- As such, we are revising our outlook on PG&E Corp. and subsidiary Pacific Gas & Electric Co. (Pac Gas) to negative from stable.
- We are affirming our ratings on PG&E and Pac Gas including our 'BB-' issuer credit ratings, the 'BB-' rating on PG&E's senior notes, and the 'BBB-' rating on Pac Gas' senior secured debt.
- The negative outlook reflects the accelerated rate of wildfire activity as demonstrated by the record-setting pace of California's wildfires, which is still in the early stages of the 2020 wildfire season. In our view, the lack of sufficient rainfall, the dry environment, and the ease that relatively routine wildfires can develop into catastrophic wildfires increases the likelihood that a California investor-owned electric utility could potentially be the cause of a catastrophic wildfire.

Rating Action Rationale

The negative outlook reflects the evidence of accelerated catastrophic wildfires. Although AB 1054 establishes a wildfire fund that reduces much of the credit risk exposure associated with California's interpretation of the legal doctrine of inverse condemnation--whereby a California utility can be financially responsible for a wildfire if its facilities were a contributing cause of a wildfire, regardless of its negligence—the fund does not automatically replenish. Every catastrophic wildfire caused by a California investor-owned electric utility reduces the relative size of the fund, weakening credit quality. The evidence of wildfire acceleration in just the beginning of this wildfire season could, in our view, increase the probability of a California investor-owned electric utility causing a catastrophic wildfire, depleting the wildfire fund sooner than expected.

The pace of wildfires at just the beginning of this season has been unprecedented and could eventually strain available resources. To date, California has experienced more than 7,700 wildfires that have burned more than 3 million acres, damaged more than 5,300 structures and has led to more than 20 fatalities. This contrasts to 2019 when California experienced for the entire wildfire season about 7,900 wildfires, less than 260,000 acres burned, less than 750 structures destroyed, and 3 fatalities. We believe the acceleration of adverse wildfire conditions is partially affected by the 2020 below-average rainfall, which we believe could potentially signal a longer and more devastating wildfire season. While California's state agencies including the California Department of Forestry and Fire Protection have performed remarkably given the extraordinary difficult conditions, these conditions have contributed to a very difficult regulatory and political environment.

Managing regulatory risk could become more challenging. Many of California's electric customers have already faced rolling blackouts in 2020 due to the extraordinary hot weather and we expect the pace of public safety power shut-offs to accelerate, reflecting California's utilities proactively reducing the risk of causing a catastrophic wildfire. Should the frequency of these blackouts and shut-offs increase, frustrated customers and politicians could negatively affect California's investor-owned electric utilities ability to consistently manage regulatory risk.

Financial measures remain in line with expectations. We assess the company's financial risk profile using our medial volatility table, consistent with its regulated utility business. We expect 2020 funds from operations (FFO) to debt at about 15%, consistent with the lower end of the range for its financial risk profile category. Given the company's robust capital spending program of about $8 billion annually, we expect that PG&E will continue to have negative discretionary cash flow.

Environmental, social, and governance (ESG) credit factors for this credit rating change.

- Natural conditions

Outlook

The negative outlooks on PG&E and Pac Gas reflect the increased probability for a downgrade incorporating the accelerated rate of adverse wildfire activity as demonstrated by the record-setting pace of California's wildfires, which is still in the early stages of the wildfire season. In our view, the lack of sufficient rainfall, the dry environment, and the apparent ease that relatively routine wildfires can develop into a catastrophic wildfire, increases the likelihood that a California investor-owned electric utility could potentially be the cause of a catastrophic wildfire.

Downside scenario

We could downgrade PG&E and Pac Gas over the next 6 to 12 months if risks increase, such as any of California's investor-owned electric utilities are found to be the cause of a catastrophic wildfire, thereby increasing the probability that the wildfire fund could deplete sooner than expected. We could also lower ratings if PG&E's consolidated FFO to debt weakens to below 13%.

Upside scenario

We could affirm the ratings and revise the outlook to stable over the next 6 to 12 months if PG&E's consolidated FFO to debt is consistently above 13%, California's investor-owned electric utilities are not found to be the cause of a catastrophic wildfire, and Pac Gas consistently demonstrates effective management of regulatory risk.

Company Description

PG&E Corp. is a San Francisco-based utility holding company. Its wholly owned utility subsidiary is Pac Gas, which operates in northern and central California. Pac Gas generates revenues through the sale and delivery of electricity and natural gas to 5.5 million electric and 4.5 million gas customers and has about 7,700 MW of generation capacity. The utility is regulated by the CPUC, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission.

Liquidity

We assess PGE's liquidity as adequate to cover its needs over the next 12 months. We expect the company's liquidity sources will exceed its uses by 1.1x, and that the company will meet our other criteria for such a designation. PG&E benefits from the preponderance of regulated utility operations that provide for stable cash flow generation. Moreover, we expect liquidity should benefit from the company's well-established and solid relationships with banks, and its likely ability to absorb high-impact, low-probability events without the need for refinancing, as evidenced by the company's ability to access the wildfire fund.

Principal Liquidity Sources

- Available cash of about $1 billion;
- Credit facility availability of $3.7 billion; and
- Cash FFO of about $2.5 billion.

Principal Liquidity Uses

- Debt maturities of about $1.5 billion over the next 12 months; and
- Maintenance capital spending of about $4 billion over the next 12 months.

Covenants

PG&E's revolver contains a debt to capital limit of 70% and Pac Gas' revolver has a debt to capital limit of 65%. We expect the companies to consistently be in compliance with these covenants and have at least 15% financial covenant headroom.

Issue Ratings - Subordination Risk Analysis

Capital structure

PG&E has about $38 billion of debt. About $5 billion consists of senior notes at PG&E and approximately $33 billion of senior secured debt at Pac Gas that are backed by first-mortgage bonds (FMB). The secured notes will all be collateralized, backed by FMBs, and will be rated in-line with Pac Gas' senior secured issue rating.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our recovery rating on Pac Gas's first-mortgage bonds and its secured revolving credit facility reflects the substantial value of the company's regulated utility assets that is sufficiently larger than the company's secured debt, limited priority claims, and other liabilities at the utility at this time. For our recovery analysis we treat the accounts-receivable securitization as a priority claim due to its senior claim to the value of the company's account receivables and the structural protections of this financing structure.
- Pac Gas' secured debt has a '1+' recovery rating, indicating our highest expectation for a full recovery, and resulting in an issue rating three notches above the issuer credit rating. The recovery rating reflects collateral coverage in excess of 150%, consistent with our criteria for recovery ratings on debt issued by regulated utilities that is secured by the key utility assets.
- We view the secured debt at PG&E as effectively unsecured because it is unguaranteed by Pac Gas and is essentially the junior-most debt liability in PG&E's consolidated capital structure, behind unsecured liabilities and preferred equity interests at Pac Gas. As such, we cap the recovery rating on this debt at '3', consistent with our approach to rating unsecured debt issued by companies with an issuer credit rating of 'BB-' or higher.
- The '3' recovery rating cap recognizes that 'BB' category entities are more likely to significantly increase debt before default and that recovery prospects for unsecured debt are most likely to be impaired by additional debt. Further, claims of PG&E's debt would be structurally junior to potential non-debt liabilities at Pac Gas, including future potential wildfire liabilities. Notwithstanding the cap, based on PG&E's current capital structure, the recovery rate on PG&E's debt could be higher than the 50%-70% indicated by our '3' recovery rating.
- A default scenario could stem from sudden liquidity pressure from an unpredictable weather, cost, or market event outside of the company's control, consistent with past utility defaults. Further it could reflect significant future litigation exposure at Pac Gas, consistent with PG&E's prior default.
- We expect Pac Gas to continue to operate and reorganize after default given the essential nature of its services. We also assume the value of the utility's assets will be preserved and we use the net value of its regulated fixed assets as a proxy for the company's enterprise value. The company's regulated asset value is currently roughly $66 billion.

Simulated default assumptions

- Simulated year of default: 2024
- Gross enterprise value--discrete asset valuation (DAV) approach: $66 billion
- Valuation split—PG&E/Pac Gas: 0%/100%

Simplified waterfall

- Net recovery value after administrative costs (5%): $62 billion
- Pac Gas value: $62 billion
- Priority claims at Pac Gas (A/R securitization): $1 billion
- Secured debt claims at Pac Gas (FMBs and bank debt): $37 billion
- Recovery estimate: 100%
- Residual value available to Pac Gas equity: $24 billion
- Pac Gas Preferred Stock claims: $250 million
- Residual value available to Parent creditors: $24 billion
- Debt claims at Parent (effectively unsecured): $5.3 billion
- --Recovery range: Capped at 50%-70%; rounded estimate: 65%

Notes: Debt amounts include six months of accrued interest that we assume will be owed at default. We assume the cash flow revolvers at Pac Gas ($3.5 billion) and PG&E ($500 million) at 85% utilized at default and that the $1 billion accounts receivable securitization is fully utilized. We assume any debt maturing before default is refinanced on similar terms before maturity.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Negative/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Fair

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Weak (-1 notch)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb-

- Group credit profile: bb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed/Outlook Action

	To	From
PG&E Corp.		
Pacific Gas & Electric Co.		
Issuer Credit Rating	BB-/Negative/NR	BB-/Stable/NR

Ratings Affirmed/Outlook Action (cont.)

Ratings Affirmed; Recovery Rating Unchanged

PG&E Corp.	
Senior Secured	BB-
Recovery Rating	3(65%)
Pacific Gas & Electric Co.	
Senior Secured	BBB-
Recovery Rating	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Attachment F

Asset purchase offer letters provided to PG&E by San Francisco, South San Joaquin Irrigation District, Valley Clean Energy, and Nevada Irrigation District

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

August 14, 2020

William L. Smith
Interim Chief Executive Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Michael A. Lewis
Interim President
Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: San Francisco's Continued Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Messrs. Smith and Lewis:

Now that Pacific Gas and Electric Company ("PG&E") and PG&E Corporation (collectively, with PG&E, the "Company"), have emerged from bankruptcy, the City and County of San Francisco (the "City") wishes to reaffirm its commitment to pursuing acquisition of PG&E's electric distribution and transmission assets needed to provide electric distribution service to customers in San Francisco (the "Proposed Transaction"). We remain convinced that the Proposed Transaction would be beneficial to the Company, its shareholders, and other stakeholders, including PG&E's customers, and wish to establish a process for discussing the Proposed Transaction with you.

We understand that the accelerated schedule and other reservations about the Proposed Transaction resulted in the Company declining to engage with the City last year. With the Company having completed that process, we believe this is an opportune time to engage in a dialogue regarding a Proposed Transaction. We have previously provided our views regarding the potential benefits of the Proposed Transaction, and sought to address PG&E's expressed reservations in our three letters to the Company delivered in September and November 2019. We welcome the opportunity to discuss these views and the work we have done around these issues in support of implementing the Proposed Transaction.

While we understand that the Company previously expressed reluctance to sell these assets, there are sound reasons now to reconsider that approach. A cooperatively negotiated transaction would provide the best path forward for the City to acquire PG&E's assets needed to provide distribution service throughout San Francisco and would financially benefit the Company and its stakeholders. The Proposed Transaction would provide good value for the Company's shareholders and its remaining ratepayers, as explained in prior letters. In addition to financial benefits, transferring to the City the responsibility for maintaining and improving the system in San Francisco would free PG&E to focus more attention and capital on the balance of its system.

City officials remain united in their support of the Proposed Transaction, for all the reasons identified in our prior letters, which are as true today as they were then. Earlier this year, both the San Francisco Board of Supervisors and the San Francisco Public Utilities Commission adopted resolutions conditionally approving the issuance of revenue bonds for this purpose.[1] The City's ability to finance an acquisition is not limited by current budget challenges because those bonds would be repaid from the revenue earned by providing electric service throughout San Francisco, not from City funds needed to provide other services. The City's analysis shows that it can provide safe, reliable, and cost-effective service to all customers in San Francisco. The current arrangement, where PG&E and the City share service obligations to customers within San Francisco, has become increasingly untenable, particularly for service to the customers of Hetch Hetchy Power, the City's municipal utility. Electric service to essential facilities like schools, homeless shelters, and affordable housing has been burdened with disputes that delay service and increase costs. The Proposed Transaction would allow PG&E and the City to move on from these disputes.

While the City has performed extensive analysis of PG&E's system based on information available to it, the City wishes to have the Company's engagement and access to additional information regarding the assets for the City to complete its analysis. We hope the Company will explore the Proposed Transaction with the City now that is has emerged from bankruptcy. We firmly believe that a mutually beneficial transaction can be achieved and would be approved by regulators.

Please reach out to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to the following contacts at Jefferies LLC, the City's buy-side financial advisor: Scott Beicke (212-336-7479), Americas Co-Head of Power, Utilities and Infrastructure, or Simon Wirecki (310-575-5251), Western Regional Head for Municipal Finance, with any questions. We look forward to hearing from you and would appreciate a response by **September 1**, 2020.

Very truly yours,

London N. Breed
Mayor

Dennis J. Herrera
City Attorney

cc: All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance
John R. Simon, PG&E Executive Vice President, Law, Strategy & Policy
Janet Loduca, PG&E Senior Vice President and General Counsel

This letter represents a general statement of the City's interest in the Proposed Transaction and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed

[1] See Board Resolution No. 30-20 and PUC Resolution No. 20-0011.

comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals and executed definitive transaction documentation for the Proposed Transaction, neither the City nor the Company shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this letter. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required California Environmental Quality Act compliance.

NEVADA IRRIGATION DISTRICT

NID

1036 W. Main Street, Grass Valley, CA 95945-5424
(530) 273-6185 ~ Fax: (530) 477-2646 ~ www.nidwater.com

RECEIVED
NOV 12 2019
UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

FILED
NOV 12 2019
UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

Case #
19-30088

November 6, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beal St., P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
PG&E Corporation
77 Beal St., P.O. Box 770000
San Francisco, CA 94177

Re: **Nevada Irrigation District's Notice of Intent for the Purchase and Sale of Electric Distribution Assets in Portions of Nevada, Placer and Yuba Counties**

Dear Messrs. Johnson and Vesey,

The Nevada Irrigation District is a diversified water resource district in the foothills of Northern California's Sierra Nevada Mountains. NID is a publically owned utility, governed by an elected Board of Directors representing five Divisions within its approximate 287,000-acre boundary. The District provides treated water to approximately 19,500 customers and raw water to approximately 5,500 customers in Nevada, Placer, and Yuba Counties. The Nevada Irrigation District operates recreation facilities at the District's storage reservoirs and utilizes its water supply resources to generate approximately 82.2MW of hydroelectric power for the benefit of its customer base. NID employs 219 regular, full-time employees and is headquartered at an 18-acre site located in Grass Valley, CA.

Founded under the Irrigation District Power Act of 1919, the Nevada Irrigation District is uniquely situated to engage in its latent powers and provide retail electric service to local communities under its jurisdiction provided by California Water Code section 22115 et seq.

Background

Since 1921, Nevada Irrigation District has been reliably supporting the communities of Placer, Nevada and Yuba Counties with a consistent and reliable supply of water through its diverse network of 475 of open ditch canals and 400 miles of treated water pipelines. Since the 1960s, NID has supported the California electrical grid in providing approximately 82.2 MW of hydroelectric and solar power through Power Purchase Agreements with PG&E.

NID began its assessment and review of PG&E's local distribution system after holding a Community Choice Aggregation (CCA) meeting with interested members of the community in August 2018. NID began to advance its analysis and feasibility of the potential acquisition of the distribution system and associated assets within its District boundary in September 2018.

In light of the recent events and news surrounding the Pacific Gas and Electric Company bankruptcy, rate increases, PG&E's discretionary Public Safety Power Shutoff (PSPS) events, and at the request of the local community, Nevada Irrigation District has decided to earnestly explore options for providing sustainable and resilient electric distribution service to the local community as identified in Exhibit A.

Based upon the initial analysis and subsequent review and approval from its Governing Board of Directors, the Nevada Irrigation District is pleased to submit this non-binding Notice of Intent (NOI).

This proposal to add a retail electric utility service to NID's existing business lines is directly in-line with and complementary to the District's existing water, hydroelectric, and recreation service deliveries. Specifically, Nevada Irrigation District believes it can offer electrical services which:

- Enhance services to and reducing future financial impacts for our customers
- Integrate existing District business line functions into the fabric of the communities they serve
- Develop and manage resources in a self-determining manner with local control
- Will provide the highest level of service at the lowest possible cost without impacting the quality of service (best value)

In addition to the benefits provided locally to nearly 85,000 electric customers in the Sierra Nevada foothills within the three counties. NID believes this offer is in line with PG&E's risk evaluation of the region. NID stands ready to assume the liability and risk of the local Retail System Assets of the territory described in Exhibit A. NID believes this offer to be a valuable component of PG&E's long-term risk assessment and a benefit to the Debtor and shareholders.

Assets to be Sold

The assets to be sold include all of PG&E's retail electric system assets used and useful in the provision of service, operation, and maintenance, of distributed electric service, including without limitation, all, real property, assets, fixtures, appurtenances, rolling stock, and equipment, located in, or of service to, the area depicted in Exhibit A.

NID has identified a number of substations to be included in the sale and believes that areas of physical separation of the system would be technically feasible. NID has evaluated the area based on publically available data and welcomes discussion with

PG&E regarding mutually agreeable separation parameters which meet reliability and safety standards for all customers.

Acquisition Price

The Proposed Acquisition Price for the Retail System to PG&E is three hundred million one hundred ninety-six thousand nine hundred dollars ($300,196,900) upon closing of the sale. NID has analyzed PG&E's assets and believes this valuation is an attractive valuation given the age of assets evaluated, correction of deferred maintenance necessary immediately upon sale, and for the reduction of liability and risk associated with assets located in the foothills of the Sierra Nevada Mountains.

Conditions Precedent

As a matter of course, in preparing a reasonable valuation of the assets as well as assessment through expert consultation and technical advisors, the Nevada Irrigation District has a number of Conditions Precedent, which must be satisfied prior to the closing of the sale. These Conditions include:

- LAFCo Approvals
- Necessary Voter Approvals
- CPUC Approval
- Bankruptcy Court Authorization
- Financing
- Environmental Review
- Non-Bypassable Charges

Due Diligence

The Nevada Irrigation District and its consultants have developed this Notice of Intent using publically available information. Access to the non-publically available information of the assets and records relating to those assets from PG&E is required for NID to perform adequate due diligence. NID has retained expert consultants who have assisted in the past 18 months in evaluating the assets to be acquired.

Non-Binding

This Notice of Intent represents the Nevada Irrigation District's interest in purchasing PG&E's retail system assets. This NOI shall be assignable and does not constitute an offer, agreement, or commitment to consummate any of the transactions contemplated herein.

Closing

The Nevada Irrigation District welcomes and appreciates your consideration of this non-binding Notice of Intent. NID is encouraged by the local community and other regional governance support it has received in advance of providing this proposal. We believe there are significant benefits for both the local community and PG&E shareholders.

The NID executive team, Board members, legal, and financial advisors are eagerly standing by and await your earnest review and consideration of this proposal. Working diligently together, we believe we can parallel with the anticipated bankruptcy timeline process in advance of the June 30, 2020 reorganization deadline.

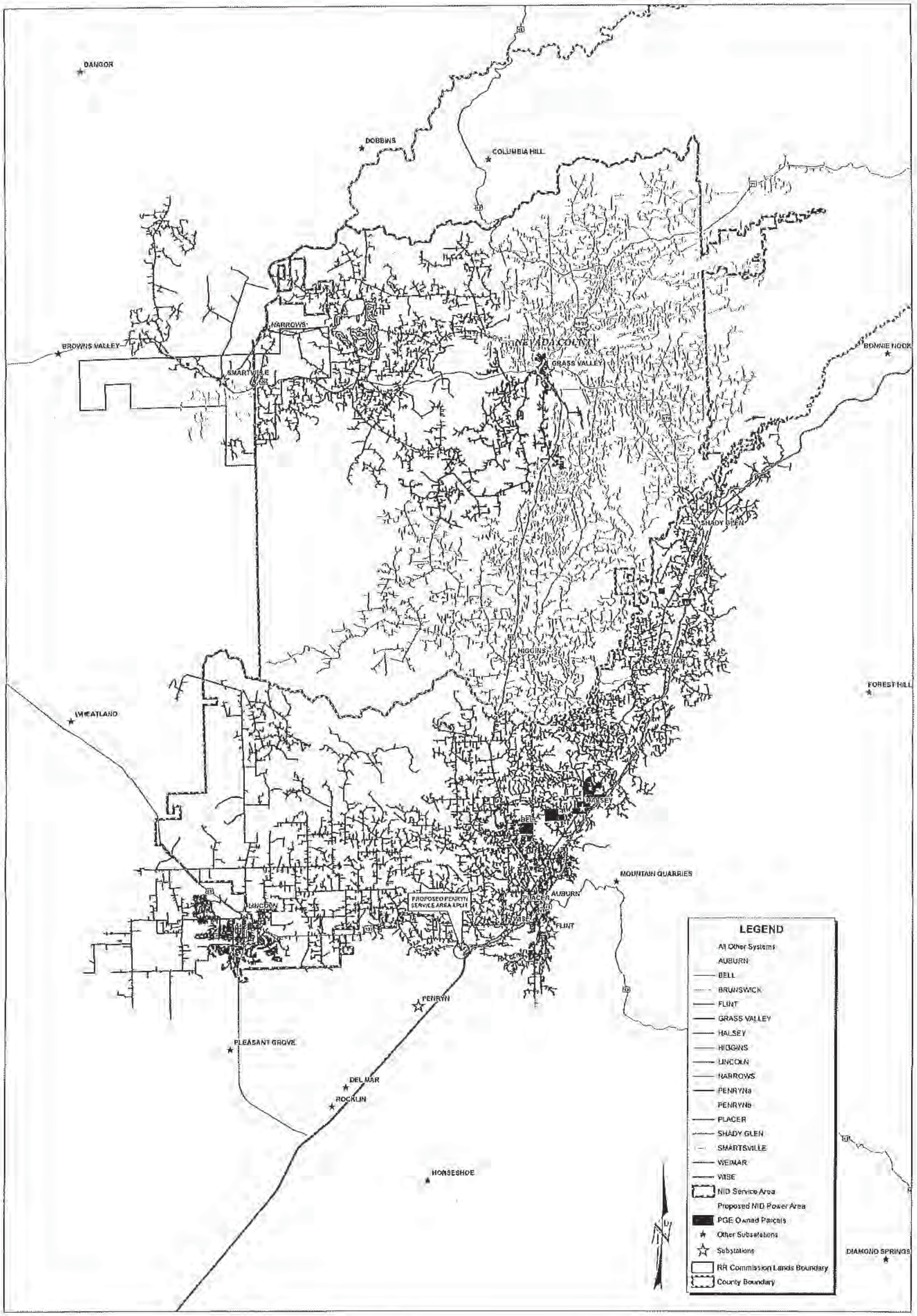
All correspondence associated with this proposal can be directed to me, Remleh Scherzinger, at Nevada Irrigation District General Manager, 1036 West Main St., Grass Valley, CA 95945, or at scherzinger@nidwater.com / 530-273-6185.

Respectfully,

Remleh Scherzinger, M.B.A., S.D.A., P.E.
General Manager, Nevada Irrigation District
Chief Executive Officer, Nevada Irrigation District Municipal Finance Authority

cc. Nevada Irrigation District Board of Directors
Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel
Honorable Judge Dennis Montali, U.S. District Justice
Honorable Judge William Alsup, U.S. District Justice
Honorable Judge Randall Newsome, JAMS Mediator and Arbitrator
Governor Gavin Newsom, State of California

Attachments:
Exhibit A: Logical Service Area



NID

NEVADA IRRIGATION DISTRICT
NEVADA COUNTY – PLACER COUNTY
GRASS VALLEY, CALIFORNIA

LOGICAL SERVICE AREA

Drawn By: D. HUNT Date: 11/5/2019 Scale: NO SCALE EXHIBIT 'A'

VALLEY
CLEAN ENERGY

October 18, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
Pacific Gas and Electric Company
77 Beale Street, P. O. Box 770000
San Francisco, CA 94177

Re: Valley Clean Energy's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets in Yolo County

Dear Messrs. Johnson and Vesey,

Valley Clean Energy is a joint powers authority formed by Yolo County and the Cities of Davis and Woodland that currently serves as a Community Choice Aggregator for its members' residents and businesses. The cities of Winters and West Sacramento are associate members of Valley Clean Energy. Therefore, all of the cities in Yolo County and Yolo County are now members of Valley Clean Energy. Valley Clean Energy began its current analysis and review of local distribution system ownership and control soon after PG&E's Chapter 11 bankruptcy cases were filed in January 2019. Valley Clean Energy's review focuses on the feasibility of potential acquisition of electric utility distribution assets serving Yolo County held by Pacific Gas and Electric Company ("PG&E" and collectively with PG&E Corporation, the "Debtors") in connection with Debtors' Chapter 11 bankruptcy cases. We write to inform you that Valley Clean Energy and its member agencies have concluded their initial analysis and based on that analysis, Valley Clean Energy has prepared this acquisition proposal.

Accordingly, we are pleased to submit this non-binding Indication of Interest ("IOI") to purchase substantially all of PG&E's electric distribution assets, and appurtenant facilities needed to provide retail electric delivery service to all electricity customers in the incorporated and unincorporated areas of Yolo County (such assets collectively, as further described below, the "Targeted Assets" and such transaction, the "Proposed Transaction").

Subject to the terms and conditions described herein, Valley Clean Energy is prepared to engage immediately with Debtors and stakeholders to facilitate the negotiation, documentation, execution, and bankruptcy court approval of our Proposed Transaction that we believe will be mutually beneficial for the Valley Clean Energy constituents, the Debtors, and bankruptcy creditors, customers, and other stakeholders.

1. Rationale for the Proposed Transaction

Valley Clean Energy is strongly positioned to acquire the Targeted Assets and provide enhanced value to the Debtors and their stakeholders. For many decades, Valley Clean Energy's member agencies have successfully delivered essential utility services including water, sewer, storm-water, and refuse collection to their residents. Beginning in June 2018, Valley Clean Energy CCA has successfully and reliably performed full power supply services for electric customers in Woodland, Davis, and the unincorporated areas of Yolo County.

Yolo County and the City of Davis have been contemplating investment and public acquisition in the local electric distribution systems for decades. These efforts have taken various forms. Investment in local electric distribution facilities has been and remains an important objective for Valley Clean Energy's member agencies to ensure reasonable and safe access to electric distribution facilities and services, and to secure service for new customers. Given Valley Clean Energy's and its member agencies' ability to access lower-cost funding sources and with no obligation to provide equity returns or to recover income taxes, Valley Clean Energy's constituents will be able to achieve their long-held goal of providing cost-effective electric distribution service to all customers in Yolo County, while simultaneously providing enhanced value to Debtors and their stakeholders through the Proposed Transaction.

Valley Clean Energy has closely followed the Debtors' bankruptcy cases and believes that, through the Proposed Transaction, it can assist PG&E in further enhancing realized value for stakeholders by providing a significant cash infusion to Debtors. Valley Clean Energy can, with the Debtors' cooperation, consummate the Proposed Transaction expeditiously to facilitate the Debtors' timely emergence from bankruptcy, consistent with the Debtors' articulated goals and timetable. Importantly, the Proposed

Transaction reflects a significant premium value contribution for the Targeted Assets that would be available to the Debtors and their stakeholders. Valley Clean Energy is also open to negotiations with competing bankruptcy plans of reorganization under the terms set forth in this IOI.

Valley Clean Energy also believes that the Proposed Transaction would provide meaningful benefits to Yolo County residents including: (i) stable and competitive electric rates; (ii) enhanced focus on local needs; (iii) increased ability to achieve the Valley Clean Energy's aggressive climate action goals; and (iv) additional beneficial long-term career and business opportunities for local residents and businesses. Additionally, Valley Clean Energy believes that other PG&E customers will benefit from PG&E's ability to provide a more focused effort on management of a smaller, more manageable service territory as it emerges from bankruptcy.

2. Targeted Assets

The Targeted Assets would include substantially all of PG&E's distribution assets, 230/115 kV transformers, and 115 kV transmission lines located within the incorporated and unincorporated areas of Yolo County and certain other ancillary assets needed to properly service customers in Yolo County, as described more particularly in Attachment A.

Given the geography of Yolo County within PG&E's overall service territory, Valley Clean Energy contemplates that a physical separation of the Targeted Assets can be accomplished in a straightforward manner. Valley Clean Energy and its engineering and technical advisors have evaluated various separation scenarios and welcomes further discussion with PG&E regarding the disposition of specific assets and the development of a mutually acceptable separation plan that maximizes reliability and efficiency for both Yolo County customers and PG&E's remaining customers.

3. Purchase Price

Valley Clean Energy is pleased to submit an indicative purchase price for the Targeted Assets of $300 million to be paid in cash upon the closing of the Proposed Transaction. Based on Valley Clean Energy's key assumptions described below, this indicative purchase price represents a substantial multiple of estimated year end 2019 rate base and 2019 earning for the Targeted Assets. Valley Clean Energy believes that this indicative purchase price represents an attractive premium valuation that reflects the unique circumstances of, and expedited timing resulting from, the Debtors' Chapter 11 bankruptcy case.

In addition, and in connection with the Proposed Transaction and taking into account the indicative purchase price for the Targeted Assets, Valley Clean Energy is interested in discussing an arrangement to implement and "buy down" any non-bypassable charge obligations that may be applicable to Valley Clean Energy's customers in exchange for a full release of those obligations, subject to the approval of the California Public Utilities Commission ("CPUC"). Resolution of such non-bypassable charges could also be accomplished through the acceptance of proposal(s) made by Sonoma Clean Energy on behalf of itself and other Community Choice Aggregation entities, including Valley Clean Energy, related to the buy-out and/or stabilization of PCIA charges. Valley Clean Energy believes that such an arrangement could significantly increase the sources of cash available to PG&E in connection with the Proposed Transaction.

4. Key Assumptions

Based on analysis of the Targeted Assets conducted by Valley Clean Energy's expert valuation, engineering, and technical advisors, Valley Clean Energy used several valuation methodologies to reasonably value the Targeted Assets. Valley Clean Energy's proposal and indicative purchase price are based upon, and subject to, a number of key assumptions including:

- Debt-Free Purchase: The Targeted Assets would be acquired free of any debt associated with the Debtors.
- Bankruptcy Matters and Timing:
    - The Proposed Transaction would be undertaken as an asset sale in connection with a confirmed plan of reorganization of the Debtors in the Chapter 11 bankruptcy cases. As an alternative, Valley Clean Energy would also consider a Bankruptcy Code Section 363 sale if the Debtors prefer.
    - Valley Clean Energy will not assume or otherwise be responsible for the liabilities of the Debtors arising prior to the closing of the Proposed Transaction, other than the Debtors' executory obligations under

executive contracts that Valley Clean Energy elects for the Debtors to assume and assign to Valley Clean Energy in connection with the bankruptcy cases and for which the Debtors would be responsible for any cure costs.

- Valley Clean Energy will obtain taxable bond financing acceptable to Valley Clean Energy for the Proposed Transaction, as described below.
- The Debtors' Plan of Reorganization will be confirmed by the bankruptcy court no later than June 30, 2020, and the Proposed Transaction will close as soon as all required regulatory approvals are obtained and the bond financing has closed or closes in conjunction with the close of the Proposed Transaction.

Valley Clean Energy's key assumptions, including its expert advisors' estimation of the physical condition and age of the Targeted Assets included in rate base, are based on publicly available information. As a result, these key assumptions and resulting indicative valuation are subject to refinement based on further comprehensive due diligence, including an analysis of non-public information that the Debtors would need to provide.

5. Financing

Financing for the Proposed Transaction is expected to include issuance of municipal power revenue bonds by Valley Clean Energy. Valley Clean Energy is confident in its ability to execute such financing based on the revenues from the Targeted Assets, as the municipal capital markets regularly absorb transactions of this size and Valley Clean Energy's member agencies and its various departments have successfully issued revenue bonds or similar types of financing for their other utility infrastructure needs.

6. Transaction Documentation

The Proposed Transaction will be conditioned on the negotiation of mutually agreeable definitive documentation between PG&E and Valley Clean Energy, including an asset purchase agreement that contains reasonable and customary terms for acquisitions of electric utility systems and a transition services agreement to ensure the continuous provision of safe and reliable electrical service to Yolo County residents. Valley Clean

Energy and PG&E would work together to identify an appropriate transition period and scope of transition services prior to closing of the Proposed Transaction and Valley Clean Energy would endeavor to condense the scope and length of transition services.

We also anticipate that the separation of the Targeted Assets may require certain ancillary agreements between Valley Clean Energy and PG&E, including, for example, coordination, shared facilities, and customary utility border agreements that the parties would need to negotiate and execute in connection with the closing of the Proposed Transaction.

7. Employees

Valley Clean Energy intends to recruit willing PG&E employees who currently operate and maintain the Targeted Assets. Valley Clean Energy believes it can offer stable careers with appealing wages and benefits that will be attractive to PG&E employees. We would seek your cooperation in the recruitment process to hire appropriate personnel to operate the system, while avoiding any disruption across the balance of the PG&E system. Yolo County and the cities have a long history of working productively with their unionized workforce and intend to honor the successor provisions of PG&E's collective bargaining agreements and to comply with the provisions of Public Utilities Code section 854.2 (AB 1054) related to the transition of covered employees in effect at the time of the close of the Proposed Transaction.

8. Transaction Conditions

Entering into definitive documentation for the Proposed Transaction is conditioned upon completion of the following matters to Valley Clean Energy's satisfaction: (i) Valley Clean Energy's comprehensive business and legal due diligence reviews, which will require the assistance of the Debtors; (ii) the parties' negotiation of definitive documentation and ancillary agreements; and (iii) the attainment of Valley Clean Energy's requisite internal approvals described below. In addition, the Proposed Transaction would be subject to customary and usual closing conditions, including, without limitation, receipt of a bankruptcy court order approving the Proposed Transaction that is acceptable to Valley Clean Energy and required regulatory approvals.

a) <u>Internal Approvals</u>

As referenced above, the proposal contained in the IOI has the support of the Valley Clean Energy's Board of Directors and the governing bodies of the County of Yolo and the cities within Yolo County whose territory is included in the acquisition. Entering into definitive documentation for the Proposed Transaction would require the approval of the Valley Clean Energy Board of Directors, which can be sought expeditiously once definitive agreements are finalized.

b) <u>Regulatory Approvals</u>

We anticipate that the Proposed Transaction will require the following regulatory approvals or clearances: (i) CPUC approval under Section 851 of the California Public Utilities Code, (ii) Federal Energy Regulatory Commission approval under Section 203 of the Federal Power Act, along with certain ancillary approvals and (iii) compliance with the California Environmental Quality Act ("CEQA"). We anticipate that these regulatory filings would be coordinated with the bankruptcy court's schedule to allow for filing as soon as practicable in connection with the Debtors' plan of reorganization and that all required regulatory approvals and clearances would be timely received upon prior to the receipt of all regulatory approvals required for the Debtors' Plan of reorganization.

9. Due Diligence

Valley Clean Energy and its team of advisors have created this proposal using information sourced from public filings, including FERC, Securities Exchange Commission, and other regulatory filings and investor presentations. Access to non-public information and cooperation from the Debtors is necessary for Valley Clean Energy to finalize valuation assumptions. If it would be helpful to PG&E to expedite the diligence conformation process, Valley Clean Energy is willing to provide a comprehensive list of the due diligence information that would be required for Valley Clean Energy to complete its due diligence process to move forward with the Proposed Transaction.

Valley Clean Energy has retained multiple expert advisors that have assisted Valley Clean Energy in conduction its initial due diligence and submitting this IOI, including:

- MRW & Associates, LLC: financial feasibility advisor
- NewGen Strategies and Solutions, LLC: asset appraisal advisor

10. Non-Binding

This IOI represents a general statement of Valley Clean Energy's interest in purchasing the Targeted Assets and does not create any legally binding obligation on Valley Clean Energy or any of its officials, representatives, agencies, members, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals, executed definite transaction documentation for the Proposed Transaction, and obtained a bankruptcy court order authorizing the Proposed Transaction, neither Valley Clean Energy nor the Debtors shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this IOI. Valley Clean Energy does not commit to any definite course of action as to the Proposed Transaction prior to completing any required CEQA compliance.

11. Next Steps

Valley Clean Energy appreciates your earnest consideration of this non-binding proposal. We welcome the opportunity to discuss this proposal, together with the significant benefits that it would provide, with appropriate representatives of the Debtors. After reviewing the proposed plan, we may follow up with the Debtors to provide additional analysis demonstrating how the Proposed Transaction would enhance and could be coordinated with a proposed bankruptcy plan.

We have a full team, including outside legal, financial, and engineering advisors and senior Valley Clean Energy representatives, engaged and standing ready to complete Valley Clean Energy's comprehensive due diligence and to work expeditiously towards definite documentation, with the assistance of PG&E, subject to the terms and conditions described above. As noted above, with the Debtors' prompt engagement, Valley Clean Energy believes that it can complete its outstanding work in a timeframe consistent with the Proposed Transaction being approved in parallel with PG&E's

anticipated reorganization plan confirmation process, and ahead of the June 30, 2020 legislative deadline.

Any inquiries with respect to this IOI can be directed to Mitch Sears, Valley Clean Energy General Manager, 604 2nd St, Davis, CA 95616, mitch.sears@valleycleanenergy.org, Tel: (530) 446-2750.

Very truly yours,

TM Stallard

Tom Stallard, Chair
Valley Clean Energy Board of Directors

cc. VCE Board of Directors
Mitch Sears, VCE General Manager
Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel
City Councils and Board of Supervisors of the VCE member agencies

Attachment: A. Targeted Assets

Attachment A: Targeted Assets

This Attachment A provides an overview / description of the assets Valley Clean Energy proposes to purchase from PG&E. The description provided herein is not intended to be the comprehensive list of assets to be purchased that would be included in a final purchase and sale agreement. Subject to due diligence and further discussions with PG&E, some assets described here may not be included, and other assets may need to be added to a binding pricing and a final purchase and sale agreement.

Broadly, Valley Clean Energy is proposing to purchase substantially all of PG&E's transmission and distribution assets that are necessary for Valley Clean Energy to provide safe and reliable retail electric distribution service to all electricity customers in Yolo County.

These assets are currently anticipated to include:

i. All PG&E distribution assets within Yolo County, including distribution-level substations, metering, customer-level interconnection, and related facilities, as needed for operational control.
ii. PG&E's 115 kV transmission assets within Yolo County, and PG&E's 230 kV to 115 kV transformers, as needed for operational control.

Valley Clean Energy's proposal also includes related assets, materials, records, spare parts, equipment, and other items, as required for safe and reliable service to customers and safe and reliable operation of the assets above, including:

a. Other systems and equipment such as meters, relays, SCADA, transformers, rolling stock, telecommunication and control center equipment, and spares; support systems, standards, AMR facilities, distribution system model data, system maps and diagrams, records, and all similar items required to operate the assets.
b. All PG&E's reliability, safety, operation, maintenance, and capital improvement records related to and or for the assets that are purchased.
c. PG&E's operating and maintenance facilities (for communications, SCADA, security, control, and emergency response), service yards, warehouse(s); customer service and call center, and other facilities; all as located in Yolo County, and as necessary for safe and reliable operation and maintenance of the assets described above.

d. PG&E's customer service, metering, and billing records, including program and service agreements, dispute notices, outstanding complaints, and similar customer-related information for Yolo County electric customers.
e. PG&E-owned land, easements, rights-of-way, lease agreements, and other land-related agreements (or appropriate new lease or other agreements between Yolo County and PG&E) necessary for safe and reliable operation and maintenance of the assets described above.
f. PG&E-owned streetlights and similar unmetered facilities in Yolo County.

VCE's proposal excludes all land and facilities related to PG&E's natural gas operations and services.

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

September 6, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Andrew Vesey
Chief Executive Officer and President
Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: San Francisco's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Messrs. Johnson and Vesey,

As you know, the City and County of San Francisco (the "City") initiated intensive work beginning in January 2019 to determine the feasibility of a potential acquisition of electric utility assets serving San Francisco held by Pacific Gas and Electric Company ("PG&E" and collectively with PG&E Corporation, the "Debtors") in connection with the Debtors' Chapter 11 bankruptcy cases. We write to inform you that, after investing additional substantial resources since delivering our letter dated March 14, 2019 to PG&E Corporation (attached as Attachment A), the City and its advisors have concluded their initial analysis of a potential transaction. Based on that analysis, the City has prepared this acquisition proposal.

Accordingly, we are pleased to submit this non-binding indication of interest ("IOI") to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers in San Francisco (such assets collectively, as further described below, the "Targeted Assets" and such transaction, the "Proposed Transaction"). We submit this IOI with the support of the San Francisco Board of Supervisors (the "Board of Supervisors") and the San Francisco Public Utilities Commission (the "SFPUC").

Subject to the terms and conditions described herein, the City is prepared to engage immediately with the Debtors and its stakeholders to facilitate the negotiation, documentation, execution and bankruptcy court approval of an acquisition transaction that we believe will be mutually beneficial for the City's constituents, the Debtors and their creditors, customers and other stakeholders.

1. Rationale for the Proposed Transaction

The City is uniquely positioned to acquire the Targeted Assets and provide enhanced value to the Debtors and their stakeholders. For over a century, the City has owned and operated its Hetch Hetchy Power municipal retail electric utility, including its own electric generation, transmission and distribution facilities. Hetch Hetchy Power and CleanPowerSF (San Francisco's Community Choice Aggregation program) supply nearly 80% of San Francisco's electricity needs. The SFPUC, through Hetch Hetchy Power and CleanPowerSF, has a long track record of providing safe, reliable, affordable and sustainable electric service.

More recently, investment in distribution facilities has become an important initiative for the SFPUC to ensure reasonable access to electric distribution services for its customers, and to secure service for new Hetch Hetchy Power customers. Given the City's overlapping footprint with the Targeted Assets, the ability to integrate the Targeted Assets with the Hetch Hetchy Power infrastructure, the City's ability to access low-cost sources of financing and with no obligation to provide a return on equity capital or recover income taxes in its rate structure, the City believes that it will be able to achieve its long-held goal of providing cost-effective electric distribution service to all customers in San Francisco, while providing substantial value to the Debtors and their stakeholders.

The City has closely followed the Debtors' bankruptcy cases and believes that, through the Proposed Transaction, the City can assist PG&E in maximizing value for its stakeholders by providing a significant cash infusion to the Debtors. The City can, with the Debtors' cooperation, consummate the Proposed Transaction expeditiously to facilitate the Debtors' timely emergence from bankruptcy, consistent with the Debtors' articulated goals and timetable. Importantly, the Proposed Transaction reflects a premium valuation for the Targeted Assets due to the unique circumstances of the Debtors' chapter 11 bankruptcy cases, and would result in significant cash consideration that would be available to the Debtors and their stakeholders. The City has also analyzed the potential impacts of the Proposed Transaction on PG&E's remaining customers; we believe such impacts, if any, would be modest and can be mitigated in a way that is fair to all customers. The City will continue paying its fair share of systemwide costs.

The City also believes that the Proposed Transaction would provide meaningful benefits to the City and its residents, including: (i) stable and competitive rates for customers throughout San Francisco, (ii) enhanced focus on local needs, (iii) increased ability to achieve the City's aggressive climate action goals as well as other important local policy objectives and (iv) additional attractive long-term career and business opportunities for local residents and businesses.

2. Targeted Assets

The Targeted Assets would include substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines located within the City limits and certain other assets that are needed to properly service customers in San Francisco as described more particularly in Attachment B.

Given the unique geography of San Francisco within PG&E's overall service territory, the City contemplates that a physical separation of the Targeted Assets can be accomplished in a straightforward manner. The City and its engineering and technical advisors have evaluated various separation scenarios and the City welcomes a discussion with PG&E regarding the disposition of specific assets and the development of a mutually acceptable separation plan that maximizes reliability and efficiency for both San Francisco customers and PG&E's remaining customers.

3. Purchase Price

The City is pleased to submit an indicative purchase price for the Targeted Assets of $2.5 billion to be paid in cash upon the closing of the Proposed Transaction. Based on the City's key assumptions described below, this indicative purchase price represents a 2.5x multiple of estimated year end 2019 rate base and more than a 35x multiple of estimated 2019 earnings for the Targeted Assets. The City believes that this indicative purchase price represents a very attractive premium valuation compared to recent electric utility transactions that reflects the unique circumstances of, and expedited timing resulting from, the Debtors' Chapter 11 bankruptcy cases.

In addition, in connection with the Proposed Transaction and taking into account the indicative purchase price for the Targeted Assets, the City is interested in discussing an arrangement to implement a "buy down" of any non-bypassable charge obligations[1] that may be applicable to the City's customers in exchange for a full release of those obligations, subject to the approval of the California Public Utilities Commission ("CPUC"). The City believes that such an arrangement would significantly increase the sources of cash available to PG&E in connection with the Proposed Transaction.

4. Key Assumptions

Based on an in-depth asset-by-asset analysis of the Targeted Assets conducted by the City's expert valuation, engineering and technical advisors, the City used several valuation methodologies to assess the value of the Targeted Assets. The City's proposal and the indicative purchase price are based upon, and are subject to, a number of assumptions, including the following key assumptions:

- <u>Debt-Free Purchase</u>: The Targeted Assets would be acquired free of any debt associated with the Debtors.

- <u>Rate Structure</u>:
    - Rate base for the Targeted Assets totaling $1.00 billion as of December 31, 2019
    - Authorized capitalization structure that includes 47% long-term debt, or $470 million, as of December 31, 2019
    - Net income contribution totaling $53 million for 2019.

- <u>Bankruptcy Matters and Timing</u>:
    - The Proposed Transaction would be undertaken as an asset sale in connection with a confirmed plan of reorganization of the Debtors in their Chapter 11 bankruptcy cases. As an alternative, the City would also consider a Bankruptcy Code Section 363 sale if the Debtors prefer.
    - The City will not assume or otherwise be responsible for liabilities of the Debtors arising prior to the closing of the Proposed Transaction, other than the Debtors' executory obligations under executory contracts that the City elects for the Debtors to assume and assign to the City in connection with the bankruptcy cases and for which the Debtors would be responsible for any cure costs.
    - The Debtors' Plan of Reorganization will be confirmed by the bankruptcy court no later than June 30, 2020, and the Proposed Transaction will close as soon as all required regulatory approvals are obtained.

[1] For example, charges such as the Power Charge Indifference Adjustment (PCIA), DWR Bond Charge, New System Generation Charge (NSGC), Competition Transition Charge (CTC) and new non-bypassable charges that may arise from state legislation, but only to the extent applicable to the City's customers under CPUC rules and regulations implementing those charges.

The City's key assumptions, including its expert advisors' estimations of the physical condition and age of the Targeted Assets included in rate base, are based on publicly available information. As a result, these key assumptions and the resulting indicative valuation are subject to refinement based on further comprehensive due diligence, including an analysis of non-public information that the Debtors would provide.

5. Financing

Financing for the Proposed Transaction is expected to include the issuance of municipal power revenue bonds by the SFPUC. The SFPUC's credit is well established by its issuance of power revenue bonds in 2015. The SFPUC's Power Enterprise, which includes Hetch Hetchy Power, currently maintains "AA" and "AA-" credit ratings from S&P Global Ratings and Fitch Ratings, respectively. In June 2018, San Francisco voters approved an amendment to the City's charter authorizing the Board of Supervisors to approve selling power revenue bonds for purposes that include financing the acquisition of electric transmission and distribution facilities such as contemplated in the Proposed Transaction. The City anticipates that the SFPUC's Power Enterprise would be expanded to include the Targeted Assets in connection with the Proposed Acquisition.

The City has worked closely with its buy-side financial advisor, Jefferies LLC ("Jefferies"), to evaluate financing structures. The City is confident in its ability to execute the financing based on the revenues from the Targeted Assets, as the municipal capital markets regularly absorb transactions of this size and the City and its various departments are frequent issuers.

6. Transaction Documentation

The Proposed Transaction will be conditioned on the negotiation of mutually agreeable definitive documentation between PG&E and the City, including an asset purchase agreement that contains reasonable and customary terms for acquisitions of electric utility systems and a transition services agreement to ensure the continuous provision of safe and reliable electrical service to San Francisco. The City and PG&E would work together to identify an appropriate transition period and scope of transition services prior to the closing of the Proposed Transaction and the City would endeavor to reduce the scope and length of transition services.

We also anticipate that separation of the Targeted Assets may require certain ancillary agreements between the City and PG&E, including, for example, coordination, shared facilities and customary utility border agreements that the parties would need to negotiate and execute in connection with the closing of the Proposed Transaction.

7. Employees

The City intends to recruit willing PG&E employees who currently operate and maintain the Targeted Assets. The City believes it can offer stable careers with appealing wages and benefits that will be attractive to PG&E employees. We would seek your cooperation in the recruitment process to ensure appropriate personnel to operate the system, while avoiding any disruption across the balance of the PG&E system. The City has a long history of working productively with its unionized workforce and intends to honor the successor provisions of PG&E's collective bargaining agreements.

8. Transaction Conditions

Entering into definitive documentation for the Proposed Transaction is conditioned upon the following matters, to the City's satisfaction: (i) the City's completion of comprehensive business and legal due diligence, which will require the assistance of the Debtors, (ii) the parties' negotiation of definitive documentation and ancillary agreements, and (iii) the receipt of the

City's requisite internal approvals described below. In addition, the Proposed Transaction would be subject to customary closing conditions, including, without limitation, receipt of a bankruptcy court order approving the Proposed Transaction that is acceptable to the City and required regulatory approvals.

a. Internal Approvals

As referenced above, the proposal contained in this IOI has the support of the Board of Supervisors and the SFPUC. Entering into definitive documentation for the Proposed Transaction would require the approval of the Board of Supervisors and the SFPUC, which can be sought expeditiously once the definitive agreements are finalized.

b. Regulatory Approvals

We anticipate that the Proposed Transaction will require the following regulatory approvals or clearances: (i) CPUC approval under Section 851 of the California Public Utilities Code, (ii) Federal Energy Regulatory Commission approval under Section 203 of the Federal Power Act, along with certain ancillary approvals, and (iii) compliance with the California Environmental Quality Act ("CEQA"). We anticipate that the regulatory filings would be coordinated with the bankruptcy court's schedule to allow for filing as soon as practicable in connection with the Debtors' plan of reorganization and that all required regulatory approvals and clearances would be received upon or prior to the receipt of all regulatory approvals required for the Debtors' plan of reorganization.

9. Due Diligence

The City and its team of advisors have created this proposal using information sourced from public filings, including FERC, Securities Exchange Commission and other regulatory filings and investor presentations. Access to non-public information and cooperation from the Debtors would be required for the City to expeditiously complete its comprehensive business and legal due diligence and finalize its valuation assumptions. If it would be helpful to PG&E to expedite the diligence confirmation process, the City is willing to provide a comprehensive list of the due diligence information that would be required for the City to complete its due diligence process to move forward with the Proposed Transaction.

The City has retained multiple expert advisors that have assisted the City in conducting its initial due diligence and submitting this IOI, including:

- Jefferies: buy-side financial advisor
- MRW & Associates, LLC: financial feasibility advisor
- NewGen Strategies and Solutions, LLC: asset appraisal advisor
- Advisian / Siemens Industry, Inc.: engineering advisor
- Flynn Resource Consultants Inc.: technical and regulatory advisor
- Morgan, Lewis & Bockius LLP: transaction legal counsel
- Orrick Herrington & Sutcliffe LLP: bond legal counsel

10. Non-Binding

This IOI represents a general statement of the City's interest in purchasing the Targeted Assets and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals, executed definitive transaction documentation for the Proposed Transaction and obtained a bankruptcy court order authorizing the Proposed Transaction, neither the City nor the Debtors shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this IOI. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required CEQA compliance.

11. Next Steps

The City appreciates your earnest consideration of this non-binding proposal. We welcome the opportunity to discuss this proposal, together with the significant benefits that it would provide, with appropriate representatives of the Debtors. As you know, we have a meeting scheduled with Mr. Johnson on September 26 to discuss various matters, including the City's interest in the Proposed Transaction. We understand that the Debtors will be filing a proposed plan of reorganization in short order. After reviewing the proposed plan, we may follow up with the Debtors to provide additional analysis demonstrating how the Proposed Transaction would enhance and could be coordinated with the proposed plan.

We have a full team, including outside legal, financial and engineering advisors and senior City representatives, engaged and standing ready to complete the City's comprehensive due diligence and work expeditiously towards definitive documentation, with the assistance of PG&E, subject to the terms and conditions described above. As noted above, with the Debtors' prompt engagement, the City believes that it can complete its outstanding work in a timeframe consistent with the Proposed Transaction being approved in parallel with PG&E's anticipated plan confirmation process, and ahead of the June 30, 2020 legislative deadline.

Any inquiries with respect to this IOI can be directed to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to the following contacts at Jefferies: Scott Beicke (212-336-7479), Americas Co-Head of Power, Utilities and Infrastructure, or Simon Wirecki (310-575-5251), Western Regional Head for Municipal Finance.

Very truly yours,

London N. Breed
Mayor

Dennis J. Herrera
City Attorney

cc. All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance

Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel

Attachments: A. Letter to PG&E Corporation dated March 14, 2019
B. Targeted Assets

Attachment A

Letter to PG&E Corporation dated March 14, 2019

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

March 14, 2019

VIA ELECTRONIC MAIL AND USPS

John R. Simon
Interim Chief Executive Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Jason P. Wells
Senior Vice-President and Chief Financial Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Dear Mr. Simon and Mr. Wells,

The City and County of San Francisco (the "City") has initiated work to evaluate the cost and feasibility of acquiring PG&E's electric distribution facilities that serve San Francisco. While you have probably heard public reports about this effort, we write you directly to underscore the seriousness of our purpose and facilitate lines of communication going forward.

The analysis the City is undertaking will enable us to make an initial determination whether such an acquisition is feasible, including whether it would benefit City taxpayers and electric customers, produce a fair price to PG&E for these assets, and advantage PG&E's employees and its ratepayers outside of San Francisco. We will work with the City's Board of Supervisors and Public Utilities Commission to evaluate these factors. If we determine the acquisition is feasible, we intend for the City to make a formal offer to PG&E within the coming months as part of the bankruptcy process.

Please contact us if you would like to discuss this matter.

Very truly yours,

London N. Breed, Mayor

Dennis J. Herrera, City Attorney

cc: Janet C. Loduca, Senior Vice-President and Interim General Counsel, PG&E Corporation
Members, Board of Supervisors
Members, Public Utilities Commission
Harlan Kelly, General Manager, Public Utilities Commission

Attachment B

Targeted Assets

Attachment B
Targeted Assets

This Attachment B provides an overview description of the assets the City proposes to purchase from PG&E. The description provided here is not intended to be the comprehensive list of assets to be purchased that would be included in a final purchase and sale agreement. Subject to due diligence and discussions with PG&E, some assets described here may not be included, and other assets may be added to a binding pricing and a final purchase and sale agreement.

Broadly, the City is proposing to purchase substantially all of PG&E's transmission and distribution assets that are necessary for the City to provide safe and reliable retail electric service to all electricity customers in San Francisco.

These assets are currently anticipated to include:

i. All of PG&E's <u>distribution assets</u> within San Francisco, including distribution-level substations, metering, customer-level interconnections, and related facilities, as needed for operational control.
ii. PG&E's 115 kV <u>transmission assets</u> within San Francisco, and PG&E's 230 kV to 115 kV transformers, as needed for operational control. (This excludes PG&E's 230 kV transmission lines, and 230 kV busses at a) the Embarcadero Substation, b) Martin Substation and c) Potrero Substation.).
iii. A portion of the Martin substation or interconnections to the Martin substation to enable the City to control all 115 kV and 12 kV power flows from Martin into San Francisco, and a lease agreement for a portion of the Martin substation in which City equipment is located, as needed for operational control.
iv. An option to purchase the open bay position planned at PG&E's proposed Egbert Switching Station, as needed for operational control.

The City's proposal also includes related assets, materials, records and other items, as required for safe and reliable service to customers and safe and reliable operation of the assets above, including:

a. Other systems and equipment such as meters, relays, SCADA, transformers, rolling stock, telecommunication and control center equipment, and spares; support systems, standards, AMR facilities, distribution system model data, system maps and diagrams, records, and all similar items required to operate the assets.

b. All of PG&E's reliability, safety, operating, maintenance and capital improvement records for the assets that are purchased.
c. PG&E's operating and maintenance facilities (for communications, SCADA, security, control and emergency response), service yards, warehouses; ; customer service and call center; and other facilities; all as located in San Francisco, and as necessary for safe and reliable operation and maintenance of the assets described above.
d. PG&E's customer service, metering and billing records, including program and service agreements, dispute notices, outstanding complaints, and similar customer-related information.
e. PG&E-owned land, easements, rights-of-way, lease agreements, and other land-related agreements (or appropriate new lease or other agreements between San Francisco and PG&E) necessary for safe and reliable operation and maintenance of the assets described above.
f. PG&E-owned streetlights and similar unmetered facilities in San Francisco.

The City's proposal excludes all PG&E land and facilities related to its "General Office" operations in San Francisco, i.e., those facilities related to PG&E's San Francisco headquarters, and excludes all land and facilities related to PG&E's natural gas operations and services.[1]

Asset Purchase Alternatives

While not incorporated into the City's indicative price proposal, the City is open to discussing alternative permutations of the asset grouping described above, such as (but not limited to):

- Purchase of all of the high-voltage transmission assets in San Francisco, including the high-voltage lines excluded above;
- Modifications of the interconnections at the Martin substation allowing for PG&E to maintain ownership of many of the assets at the Martin substation, to ensure reliability and/or accelerate transfer of customers from PG&E to the City;

[1] PG&E has gas and electric facilities (materials, service vehicles, construction equipment, etc.) co-located at 18th and Harrison Street and related blocks. This proposal assumes mutually-acceptable arrangements to allow the City to utilize this facility.

- Other alternatives that would add value, accelerate transfer, and/or ensure continued safe and reliable service for both PG&E's and the City's customers.

SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

FOR IMMEDIATE RELEASE
Media Contact: Peter Rietkerk, General Manager
Office: 209-249-4645
Cell: 209-679-8005
www.ssjid.com

September 3, 2019

SSJID Renews $116M Offer to Acquire PG&E Assets

MANTECA, Calif. -- The South San Joaquin Irrigation District (SSJID) has submitted an offer to buy electric assets from Pacific Gas & Electric (PG&E) in the utility company's ongoing federal bankruptcy proceeding.

The $116 million offer would provide additional cash to creditors and other claimants who expect to suffer losses in the PG&E bankruptcy. SSJID's offer is part of a new phase of the irrigation district's 15-year effort to provide locally owned retail electric service. SSJID's renewed offer is similar to what the district proposed and PG&E rejected in 2016. SSJID has recently validated that the offer still represents fair market value for PG&E's property.

After PG&E rejected SSJID's 2016 purchase offer, the irrigation district filed a court action to acquire PG&E's local electric grid through exercise of SSJID's eminent domain powers. PG&E and SSJID currently have two active court cases that are in limbo due to PG&E's bankruptcy. The court cases are just two examples of PG&E's ongoing opposition to SSJID's efforts.

"Our offer creates a path toward resolving ongoing litigation between SSJID and PG&E, provides capital to support PG&E and help it fund payment of creditors and wildfire claims in the bankruptcy, and advances SSJID's decades-long project," said Peter Rietkerk, SSJID's general manager. "We look forward to the opportunity to negotiate in good faith with PG&E and work with other claimants involved in the bankruptcy case."

Since 2004, SSJID has sought to provide safe and reliable retail electric service in a transparent, responsive and accountable manner, at a 15% cost savings over PG&E, to the approximately 40,000 electrical customers in and around the communities of Manteca, Ripon and Escalon. Recently, these communities renewed their support for SSJID's project in a joint letter to Gov. Gavin Newsom.

# # #

The South San Joaquin Irrigation District (SSJID) was established in 1909 and is headquartered in Manteca. SSJID provides agricultural irrigation water to about 56,000 acres surrounding Escalon, Ripon and Manteca, and wholesale drinking water to more than 193,000 residents in Manteca, Lathrop, Tracy and, in the future, Escalon. SSJID, along with Oakdale Irrigation

District, owns and operates the Tri-Dam Project, a series of storage reservoirs and generation facilities that produce zero-carbon hydropower in the Stanislaus River watershed. Learn more at www.ssjid.com.

Attachment G

PG&E's dismissal of San Francisco's offers, SSJID's offer, and VCE's offer

PG&E Corporation

William L. Smith
Interim CEO and President

77 Beale Street
32nd Floor
San Francisco, CA 94105

August 19, 2020

Mayor London Breed and Mr. Dennis Herrera
Office of Mayor London Breed
City Hall Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Mayor Breed and Mr. Herrera:

We have received your August 14, 2020, letter reiterating San Francisco's interest in purchasing PG&E's electric transmission and distribution facilities located in the City and County of San Francisco. While we appreciate San Francisco's continued interest, and its belief that PG&E might be more amenable to considering San Francisco's prior offer now that PG&E has emerged from bankruptcy, PG&E's position has not changed. Though our company has changed a lot in the past year (and we foresee significant additional changes in the future), our assets are still not for sale.

All of our operational, safety, and organizational efforts are singularly focused on being the provider of safe, reliable service our customers rightly expect and deserve. We are not taking lightly the privilege we have to serve our customers. And we are intent on executing a plan that will demonstrate a renewed focus on our customers and communities.

Far from wanting to sell our assets at this stage, PG&E has redoubled its commitment to improve its service to all of our communities in Northern and Central California and we believe that we are best positioned to do so. As you may appreciate, the bankruptcy process and wildfires of the last few years have caused PG&E to look inwardly and to acknowledge that it has not always lived up to its customers' expectations. In response, we are embracing the opportunity to enhance our focus on improving and providing the safe, reliable, affordable, and clean service our customers expect and deserve.

In particular, PG&E has thought carefully and consulted with others about the plans and changes it is implementing to re-earn the trust of our customers and communities. These changes are neither marginal nor incremental. Instead, they involve significant changes to our management, a nearly complete board refresh, PG&E's emergence from bankruptcy and recapitalization, the implementation of PG&E's wildfire mitigation plan and our system hardening and Public Safety Power Shutoff (PSPS) mitigation efforts. But we are not stopping there.

We are also renewing our focus on asset management, work management, service activation, and event-free operations. In addition, PG&E has invested heavily in infrastructure, control centers and personnel that help support the broad range of services we provide—and that our customers need. For example, in addition to making significant investments in enhancing our grid (including millions of dollars of improvements in San Francisco), PG&E has expanded the capabilities of its emergency operations and data and billing centers with a scale that cannot be matched by smaller, local service providers. Thus, rather than harboring a desire to get out of the business of serving our customers in San Francisco or elsewhere, PG&E is instead looking forward to demonstrating our renewed commitment across our entire service territory.

I would also like to note that the reasoning behind PG&E's prior response to San Francisco's offer remains. In addition to San Francisco's offer being substantially below the fair-market value of our assets, a sale would unfairly shift a large amount of costs to our remaining customers. Additionally, San Francisco's offer does not consider the significant separation and other costs the City and its citizens would be obligated to bear above and beyond the purchase price associated with an acquisition.

While we remain convinced that a sale of our assets is not in the best interests of all of our customers, including those in the City and County of San Francisco, we remain equally convinced that we can find areas of common interest where we can work cooperatively.

We look forward to continuing to work with you on our areas of common concern like affordable housing, homelessness, and keeping our customers safe during the pandemic.

We are interested in discussing these issues with you at our meeting on Wednesday.

Sincerely,

Bill

William L. Smith
Interim Chief Executive Officer and President
PG&E Corporation

cc: All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
John R. Simon, PG&E Executive Vice President, Law, Strategy and Policy

Pacific Gas and Electric Company

Janet Loduca
Senior Vice President and General Counsel

77 Beale Street, B30A
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Mailing Address:
P.O. Box 7442
San Francisco, CA 94120

415.973.0174 (o)
Janet.Loduca@pge-corp.com

October 28, 2019

Via E-mail and U.S. Mail

Peter M. Rietkerk
General Manager
South San Joaquin Irrigation District
P.O. Box 747
Ripon, CA 95366-0747

Re: SSJID Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mr. Rietkerk:

We have received your letter of September 3, 2019, expressing SSJID's interest in purchasing certain PG&E electric facilities. We have taken the opportunity to review your letter and the analysis SSJID provided. As we understand it, SSJID proposes an acquisition of PG&E facilities that would include these key conditions:

> 1) PG&E and SSJID would settle SSJID's eminent domain litigation, currently on appeal after a judgement dismissing SSJID's condemnation action in 2017, by withdrawing their appeals;
>
> 2) PG&E would agree to a voluntary sale of its facilities and SSJID would pay PG&E $115,995,500. Of that amount, SSJID would pay $92,700,000 towards acquisition of PG&E's electric distribution facilities within SSJID's service territory and $23,295,500 for separation and impairment costs associated with the asset transfer; and
>
> 3) PG&E would file a motion at the California Public Utilities Commission seeking a determination of the non-bypassable charges owed by SSJID customers associated with generation resources resulting from the proposed acquisition.

After evaluating the entirety of SSJID's offer, PG&E cannot accept it. As an initial matter, our facilities are not for sale. Moreover, selling them to SSJID would not be consistent with our charter to operate or our mission to serve Northern and Central California communities.

In considering whether a sale of assets is appropriate in bankruptcy, PG&E owes a duty to the estate, its creditors and interest holders to ensure that it would obtain the highest or best value for the assets. The purpose of our Chapter 11 proceeding is not to sell off parts of our company, but rather to address the 2017 and 2018 wildfire claims in a fair and orderly process. Our assessment concludes that SSJID's financial proposal reflects an amount far below the fair market value of the underlying PG&E assets,[1] and it grossly underestimates the substantial separation and impairment costs associated with the proposed transaction.

Pacific Gas and Electric Company

Next, PG&E observes that SSJID's current financial offer has not changed in any meaningful way relative to the SSJID offer that PG&E rejected in 2016. It is unclear why SSJID believes that a renewal of its prior offer would be acceptable to PG&E now, particularly given the key legal developments since 2016, all of which have favored PG&E. As you may recall, in response to PG&E's rejection of SSJID's 2016 offer, SSJID initiated an eminent domain action on July 7, 2016. Fifteen months later, the judge overseeing that action issued a judgment in favor of PG&E, dismissing SSJID's eminent domain lawsuit and invalidating the prior San Joaquin LAFCo decision granting SSJID conditional approval for its electric service project. Those issues are now on appeal, and if PG&E prevails, SSJID will have a legal obligation to reimburse PG&E for the millions of dollars that PG&E incurred while defending against SSJID's decades-long efforts to acquire PG&E's facilities.

Besides its deficient financial appraisal, SSJID's proposed litigation settlement appears legally flawed: SSJID proposes that both PG&E and SSJID withdraw their appeals to settle SSJID's eminent domain litigation, with PG&E agreeing to a voluntary sale of its assets and also agreeing to forgo its right to be reimbursed by SSJID for its cost to defend against SSJID's prior actions. But because the Superior Court's October 2017 judgment against SSJID invalidated San Joaquin LAFCo's conditional approval of SSJID's authority to provide retail electric service, even if both parties withdrew their appeals and PG&E agreed to sell its assets voluntarily, SSJID would still lack legal authority to provide retail electric service. A settlement such as this, under the terms proposed by SSJID, offers PG&E no benefit, and overlooks SSJID's need to return to San Joaquin LAFCo to seek legal authority to provide electric service.

Finally, given that PG&E is neither interested in pursuing settlement in the manner proposed by SSJID nor in selling its facilities to SSJID, we see no reason to lift the automatic stay imposed under section 362 of the Bankruptcy Code. With that in mind, we have copied SSJID's bankruptcy counsel to make him aware of our position.

Sincerely,

Janet Loduca
Senior Vice President and General Counsel, PG&E Corporation

---

[1] SSJID's "book value" appraisal of PG&E's assets is indicative of its ongoing misunderstanding of the proper method to assess the value of currently-operating utility assets, which must be appraised using the Replacement Cost New Less Depreciation methodology.

Pacific Gas and Electric Company

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Janet.Loduca@pge-corp.com

October 28, 2019

Via E-mail and U.S. Mail

Tom Stallard
Chair, Board of Directors
Valley Clean Energy
604 2nd Street
Davis, CA 95616

Re: Valley Clean Energy Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mr. Stallard:

We have received your letter of October 18, 2019, expressing Valley Clean Energy's (VCE) interest in purchasing certain PG&E electric facilities. We have taken the opportunity to review your letter and consider your offer.

While we appreciate the effort VCE undertook to prepare its offer, we cannot accept it. Our Yolo County facilities are not for sale and VCE's proposed approach is not consistent with our charter to operate or our mission to serve Northern and Central California communities.

As we understand it, VCE proposes an acquisition that would include these key terms:

1) PG&E would sell all of its Yolo County electric facilities for $300 million, which would include no debt or liabilities associated with those facilities;
2) VCE would acquire substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines, street lights and PG&E-owned land and facilities within Yolo County, as described in VCE's letter and in Attachment A to its letter; and
3) VCE would negotiate payment of a lump sum "buy-down" payment associated with non-bypassable charge obligations owed by VCE's customers, subject to the approval of the California Public Utilities Commission.

Upon review, we cannot accept VCE's offer because:

- It is not in the best interest of our customers. Among other reasons, we disagree with the suggestion that PG&E's Yolo County customers would be better served by another entity. Our Yolo County customers—and our customers in the rest of our service territory—rely upon us every day to deliver safe, reliable, affordable and clean power.
- Our evaluation determined that a sale of our facilities in Yolo County could negatively affect PG&E's customers, both inside and outside of the county. The proposed sale would unnecessarily and unfairly pass on substantial costs to remaining PG&E customers throughout the state.

- VCE's offer reflects an amount substantially below the fair-market value of the underlying PG&E assets.[1] The purpose of our Chapter 11 proceeding is not to sell off parts of our company, but rather to address the 2017 and 2018 wildfire claims in a fair and orderly process. Even if we considered a sale of any PG&E assets to VCE (which is not the case), we have a legal duty to our many stakeholders to obtain the highest and best value for those assets.
- VCE's offer to "buy down" (instead of a "buy out") the future applicable non-bypassable charges would effectively result in VCE's customers avoiding charges they would owe, and instead passing some of those costs on, unfairly, to remaining PG&E customers throughout the state.
- Finally, VCE's offer glosses the substantial and complicated separation and impairment work and costs that VCE would have to bear as part of the proposed transaction.

Putting aside the proposed acquisition of PG&E facilities, we also observe that VCE, as a Joint Powers Authority that includes Yolo County as a member, does not have authority to serve electricity at retail in California other than through Community Choice Aggregation service. While the cities of Davis aud Woodland have such authority, Yolo County is neither eligible nor authorized to provide retail electric service at retail other than through its CCA program. *See* Cal. Gov. Code sections 23004; 25200-25210; 25720, 25721, 25730-25733.

Though we cannot accept your acquisition offer, we look forward to continuing to find ways we can work together going forward.

Please distribute our response to the VCE Board of Directors, the City Councils and Board of Supervisors of the VCE Member Agencies and anyone else you deem appropriate.

Sincerely,

Janet Loduca

PG&E Corporation Senior Vice President and General Counsel

[1] VCE's apparent "book value" appraisal is indicative of its misunderstanding of the proper method to assess the value of currently-operating utility assets, which must be appraised using the Replacement Cost New Less Depreciation methodology. Thus, rather than offering, as VCE's letter suggests, a "significant premium value" with respect to PG&E's Yolo County electric service assets, VCE's offer significantly underestimates the fair market value of those assets.

Pacific Gas and Electric Company

Cc: *(via electronic mail only)*
Mitch Sears, Interim General Manager, Valley Clean Energy
William Johnson, CEO and President, PG&E Corporation
Andrew Vesey, CEO and President, PG&E Company
Jason Wells, PG&E Corporation Chief Financial Officer

PG&E Corporation

William D. Johnson
Chief Executive Officer and President

77 Beale Street
32nd Floor
San Francisco, CA 94105

October 7, 2019

Via E-mail and U.S. Mail

Mayor London Breed and Mr. Dennis Herrera
1 Dr. Carlton B. Good Place
San Francisco, CA 94102-4681

Re: City and County of San Francisco Offer to Acquire Certain PG&E Retail Electric Facilities

Dear Mayor Breed and Mr. Herrera:

Thank you for your time and the constructive discussion on September 26 in the Mayor's offices.

As we noted at that time, we had received your letters of September 6 and September 19, 2019, expressing the City of San Francisco's interest in purchasing certain PG&E electric facilities. We reviewed your letters and considered your offer carefully and in detail. Although we appreciate the effort San Francisco undertook to prepare its offer, we must decline to accept it. As I indicated when we met, our San Francisco-based facilities are not for sale and to do so would not be consistent with our charter to operate or our mission to serve Northern and Central California communities.

As we understand it, San Francisco proposes an acquisition of PG&E facilities that would include these key terms:

1) PG&E would sell the identified facilities for $2.5 billion which would not include any debt or liabilities associated with those facilities;

2) San Francisco would acquire substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines within the City limits and certain other assets that San Francisco determines are needed (as described in Attachment B to your letter);

3) San Francisco would negotiate payment of a lump sum "buy-down" payment associated with non-bypassable charge obligations that would be owed by the City's customers, subject to the approval of the California Public Utilities

PG&E Corporation

Our evaluation of your proposal determined that a sale of our facilities in San Francisco could negatively impact PG&E's customers, both inside and outside of the city.

Our reasoning is as follows:

- San Francisco's offer reflects an amount significantly below the fair-market value of the underlying PG&E assets.
- It would unnecessarily and unfairly pass a large amount of costs to remaining PG&E customers throughout the State.
- It is not in the best interest of our customers. We disagree with the suggestion that PG&E's San Francisco customers would be better served by another entity. Our San Francisco customers—and our customers in the rest of our service territory—rely upon us every day to deliver safe, reliable, affordable and clean power.
- Finally, the offer appears to significantly underestimate the substantial separation and impairment costs that the City would have to bear as part of the proposed transaction.

In addition, our financing strategy to emerge from bankruptcy does not envision selling off Company assets. We believe we can fairly resolve and fund all claims and other items through conventional financial markets. If we ever do consider such sales, we have a duty to obtain the highest and best value for these assets.

Although we cannot accept your offer, we want to clearly communicate that PG&E intends to continue working with the City to best serve the citizens and businesses of San Francisco. Our company has been headquartered here in San Francisco for nearly 115 years, and we remain deeply invested in the community and in the future of this great city. We share many of the Administration's goals for San Francisco and look forward to continuing to find ways we can work together.

Sincerely,

William D. Johnson
Chief Executive Officer and President

cc: (*via electronic mail only*)
All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance
Jason Wells, PG&E Corporation, Chief Financial Officer
Janet Loduca, PG&E Corporation, Senior Vice President and General Counsel

Attachment H

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 1

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

PG&E Data Request No.:	CCSF_002-Q01-05		
PG&E File Name:	Securitization2020_DR_CCSF_002-Q01-05		
Request Date:	September 15, 2020	Requester DR No.:	002
Date Sent:	September 29, 2020	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1: David Thomason Q2: Mari Becker Q3-Q5: David Thomason	Requester:	Suzy Hong

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below**.**

QUESTION 01

Please refer to Attachment A to San Francisco's Protest (dated June 4, 2020) of PG&E's Application 20-04-023. Please provide any analysis or evaluation performed by or on behalf of PG&E of the proposals to acquire certain PG&E assets included in Attachment A to San Francisco's Protest of PG&E's Application 20-04-023, including all workpapers and working models.

ANSWER 01

PG&E objects to this request as beyond the scope of this proceeding. PG&E further objects to this request on the ground that the non-binding "indications of interest" by various municipal entities to purchase core electric utility assets of PG&E included in

Attachment A are not relevant to evaluation of the Stress Test Methodology in this proceeding. PG&E further objects to this request as seeking information protected from disclosure by the attorney-client privilege and the attorney work-product doctrine. Subject to its objections, PG&E responds as follows:

In context of the Chapter 11 Cases, it was not reasonable for PG&E to pursue piecemeal asset sales as part of its reorganization, which had to be accomplished by June 30, 2020 for PG&E to be eligible to participate in the Go-Forward Wildfire Fund.

QUESTION 02

Please refer to PG&E's Testimony, 3-15, line 21 through 3-16, line 5. Can PG&E confirm that all loads that may be subject to the FRC will also receive the full associated benefit of Customer Credits and the CCT surplus sharing? If so, can PG&E also confirm that all loads that may be subject to the FRC will be treated equally by PG&E with respect to the calculation and receipt of the full associated benefit of Customer Credits and the CCT surplus sharing?

ANSWER 02

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

In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would determine the continued application of the Customer Credits and Customer Credit Trust surplus sharing.

QUESTION 03

Please confirm that the five-year financial projections provided in Exhibit 5.4 of PG&E's Testimony are the same projections that were provided to the rating agencies for the ratings reports included in PG&E's Testimony as Exhibits 5.6, 5.7 and 5.8.

ANSWER 03

Subject to its objections, PG&E responds as follows:

The financial projections provided in Exhibit 5.4 of Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, were prepared as part of PG&E's updated testimony in this proceeding. They are not the same as the financial projections previously provided to the rating agencies for the ratings reports included as Exhibits 5.6, 5.7, and 5.8.

Attachment I

PG&E Response to Public Advocates Office First Set of Data Requests (dated July 6, 2020), Question 17

participation in California's recently established wildfire insurance fund as well as the new, but untested, regulatory cost recovery framework outlined by AB1054." *Id.* This guidance from the rating agencies highlights the importance of an improved and more collaborative relationship between PG&E and the Commission.

QUESTION 16

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 24-26, PG&E states that the $1.8 billion "initial shareholder contribution" will be funded in "a credit accretive manner."

a. Define "credit accretive."

b. Explain how the responses provided in response to Question 7 meet this definition of "credit accretive."

ANSWER 16

a. Credit accretive means without increasing the Utility's or PG&E Corporation's leverage.

b. As set forth in the response to Question 7, the source of the Initial Shareholder Contribution will depend on PG&E's cash position and market conditions at the time of the Initial Shareholder Contribution. However, the most likely source will be a combination of internally generated cash and an issuance of equity securities. Since this would not act to increase the Utility's or PG&E Corporation's leverage, it is done on a credit accretive basis. PG&E reserves the right to supplement this response as information develops.

QUESTION 17

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 29-31, PG&E states, "For the avoidance of doubt, there will be no further financial commitments to true-up mechanisms provided by PG&E to the Customer Credit."

a. Please explain how PG&E's proposal will remain ratepayer-neutral in the event of a shortfall in the Customer Credit, given this lack of "further financial commitment."

b. Please enumerate and explain each and every "further financial commitments" (or "guarantees" as per PG&E's statement on p. 21 at line 3) that otherwise would be available to PG&E to cover potential shortfalls in the Customer Credit, absent this promise.

c. Does PG&E contend that the ratepayer neutrality provision of Section 3292 does not apply to PG&E's securitization application? If PG&E does contend as such, please explain why and include all supporting evidence for this interpretation of Section 3292.

d. Does PG&E contend that its securitization application is not required to be ratepayer-neutral? If PG&E does contend as such, please explain why and address the apparent inconsistency of this contention with the March 20, 2020 Governor's Office statement to the bankruptcy court that PG&E references at various points in its own testimony, including Ch. 5, page 19, at lines 22-27.

ANSWER 17

PG&E objects to this request as vague and ambiguous, particularly with respect to part b. Subject to its objections, PG&E responds as follows:

a., c.-d. PG&E has committed to a rate-neutral securitization. As PG&E stated in the Chapter 11 Cases: "The Securitization structure is anticipated to yield a full (nominal) offset each year to securitized charges." PG&E submits that this is the relevant standard for purposes of evaluating rate neutrality pursuant to the Plan of Reorganization OII Decision, D.20-05-053. PG&E's proposal meets, and in fact exceeds, its commitment. Specifically, PG&E proposes to provide shareholder contributions to fund the Customer Credits. These shareholder contributions, combined with Customer Credit Trust Returns, are expected to not only equal the Fixed Recovery Charges in each billing period, but to generate a substantial surplus, which PG&E proposes to share with customers at the end of the life of the Trust, or sooner if the Commission so directs. Because the proposed Securitization is not part of PG&E's Plan and would be approved and consummated months after PG&E's emergence from Chapter 11, Section 3292(b)(1)(D) does not apply directly. Nonetheless, PG&E submits that its proposal satisfies the standard in the statute because the expected outcome of the proposed Securitization is more beneficial to customers than rate neutrality. Neither PG&E's commitment nor the statute requires a guarantee, and, as set forth in the Application and supporting testimony, such a guarantee would preclude the ratepayer benefit the proposed Securitization seeks to achieve.

b. The referenced testimony does not discuss a promise. PG&E's testimony explains that the off-credit treatment of the securitization depends on PG&E not guaranteeing or committing to true up the Customer Credit or Customer Credit Trust. *See* Chapter 5, Stress Test Methodology, at pages 5-20 to 5-21.

QUESTION 18

Referring to PG&E's Prepared Testimony, Ch. 5 at p. 20, lines 31-32, PG&E asserts that securitization is on-credit for Moody's but off-credit for S&P.

a. Please confirm that this means that securitization will not result in any quantitative credit ratings benefit for PG&E, as relates to Moody's rating of PG&E. If not, explain why not.

b. Provide all supporting documentation from S&P supporting PG&E's contention on p. 21 at lines 2-6 that a financial guarantee of the Customer Credit mechanism would also render the securitization on-credit for S&P.

ANSWER 18

Subject to its objections, PG&E responds as follows:

Attachment J

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 4

QUESTION 04

On page 1-12, lines 20-28, of PG&E's Testimony, PG&E states:

> "PG&E would separately provide the Customer Credit, which would be funded from a Customer Credit Trust that in turn will be funded by shareholder assets including: (1) an initial contribution of $1.8 billion (the Initial Shareholder Contribution); (2) up to $7.59 billion in cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 (the Additional Shareholder Contributions); and (3) the Customer Credit Trust Returns (as described in Chapter 6)."

a. With respect to the Additional Shareholder Contributions of "up to $7.59 billion in cash flows":

   i. Could the cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 exceed $7.59 billion?

   ii. If the answer to Question 4.a.i. is yes, please describe the circumstances under which cash flows from certain shareholder tax benefits that include the tax deductions arising from PG&E's payment of wildfire-related settlement costs and contributions to California's Go-Forward Wildfire Fund beginning in 2020 could exceed $7.59 billion.

   iii. If the answer to Question 4.a.i. is yes, would the Additional Shareholder Contributions to the Customer Credit Trust also exceed $7.59 billion?

   iv. If the answer to Question 4.a.iii. is yes, please describe how Additional Shareholder Contributions in excess of $7.59 billion would be contributed to the Customer Credit Trust.

   v. If the answer to Question 4.a.iii. is no, please explain why Additional Shareholder Contributions in excess of $7.59 billion would not be contributed to the Customer Credit Trust.

   vi. Please describe the circumstances under which the Additional Shareholder Contributions could be less than $7.59 billion.

   vii. Is there any potential circumstance under which the Additional Shareholder Contributions could be less than $7.59 billion, but the Securitized Bonds are not paid in full? In other words, would the Additional Shareholder Contributions be less than $7.59 billion only if/when the Securitized Bonds are paid in full?

   viii. When will the exact amount of the Additional Shareholder Contributions be known by PG&E?

   ix. Will the exact amount of the Additional Shareholder Contributions be disclosed to the California Public Utilities Commission prior to the California Public Utilities Commission approving a Financing Order under Public Utilities Code Section 850.1 related to PG&E's proposed securitization in A.20-04-023?

x. If the exact amount of the Additional Shareholder Contributions is not known or disclosed to the California Public Utilities Commission prior to the California Public Utilities Commission approving a Financing Order under Public Utilities Section 850.1 related to PG&E's proposed securitization in A.20-04-023, will the California Public Utilities Commission retain any oversight of or authority to approve the amount of the Additional Shareholder Contributions once the Financing Order is issued?

xi. If the answer to 4.a.x. is yes, please explain how the California Public Utilities Commission will retain oversight of or authority to approve the amount of the Additional Shareholder Contributions once the Financing Order is issued.

xii. Has Table 6-1 of PG&E's Testimony been updated since February 18, 2020? If so, please provide the updated estimated total cash tax savings together with supporting calculations and assumptions.

xiii. Does PG&E propose to adjust its "up to 7.59 billion" commitment in the event that PG&E's marginal federal and/or state tax rates change? If so, please detail how and when such adjustments would occur and indicate where those adjustments are included in the Form of Financing Order for Proposed Securitization, included in PG&E's Testimony as Exhibit 3.1.

xiv. With reference to Table 6-1 of PG&E's Testimony and PG&E's calculation of estimated total cash tax savings, please identify the elements of PG&E's calculation of estimated total cash tax savings that may still be subject to change.

b. With respect to the Initial Shareholder Contribution of $1.8 billion:

i. Please describe in detail the source of the $1.8 billion Initial Shareholder Contribution. Please also identify any use or planned use of those funds from the date of PG&E's emergence from bankruptcy through the date of a final decision of the California Public Utilities Commission in this proceeding A.20-04-023.

ii. Absent PG&E's Application in A.20-04-023, would PG&E consider the $1.8 billion Initial Shareholder Contribution to be Excess Cash pursuant to the Stress Test Methodology adopted by the California Public Utilities Commission in Decision 19-06-027? Please explain why or why not.

ANSWER 04

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

a.i-v. Under PG&E's proposal, there are no circumstances where PG&E would contribute more than $7.59 billion of Additional Shareholder Contributions generated from the Shareholder Deductions shown in Table 6-1. Under PG&E's proposal, those Shareholder Deductions could generate more than $7.59 billion in tax benefits if, for example, the tax rate increases from the rate used in Table 6-1, which would generate faster Additional Shareholder Contributions but would not generate Additional Shareholder Contributions that exceed the Cap of $7.59 billion. The payment of wildfire-related settlement costs and contributions to the Go-Forward Wildfire Fund could generate more Shareholder Deductions over time than set forth in Table 6-1. As explained in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, under PG&E's proposed Securitization, the combination of the Initial Shareholder Contribution of $1.8 billion and up to $7.59 billion in Additional Shareholder Contributions is expected to result in a rate-neutral to rate-positive Securitization.

a.vi. The Additional Shareholder Contributions could be less than $7.59 billion if income tax rates decline, if there is a change in tax law that limits the use of Shareholder Deductions, if there is a change of ownership under section 382 of the Internal Revenue Code that limits the use of Shareholder Deductions, or if PG&E does not generate sufficient taxable income over the life of the bonds to utilize the Shareholder Deductions shown in Table 6-1 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020.

a.vii. No, there is no potential circumstance under which the Recovery Bonds are not paid in full.

a.viii. – xi. The formula for calculating Additional Shareholder Contributions is set forth in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, along with a forecast of when those will be made through 2035. If the Application is approved and PG&E consummates the Securitization, PG&E would establish and fund the Customer Credit Trust as set forth in the Application and supporting testimony and as authorized by the Financing Order, subject to the oversight of the Commission under the Financing Order. *See* Exhibit 3.1 of Chapter 3, Transaction Overview (M. Becker), served August 7, pages 3-Exh3.1-55 at ¶ 20 and 3-Exh3.1-81 at ¶ 36.

a.xii. Lines 1 through 13 of Table 6-1 contained in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, are unchanged from the corresponding lines in Table 6-1 served on April 30, 2020 and as stated in Chapter 6 reflect the estimate from February 18, 2020. Although they were not part of the estimate from February 18, 2020 and therefore PG&E understands are not part of the information requested in Question 4.a.xii, PG&E notes that Lines 16 through 23 of Table 6-1 contained in Chapter 6 served August 7, 2020 reflect updated information as compared to the corresponding lines in Table 6-1 served on April 30, 2020.

a.xiii. No.

a.xiv. None, subject to the discussion on pages 6-7 through 6-8 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen) served on August 7, 2020, and a change in the tax rate compared to the tax rates listed in Line 12 of Table 6-1. All else being equal, a higher tax rate would have the effect of accelerating the tax benefits and the Additional Shareholder Contributions to the Customer Credit Trust. The total cumulative Additional Shareholder Contributions would remain at the $7.59 billion Cap. In the unlikely event of a lower corporate tax rate, the opposite would occur. To the extent there is a shortfall, it may be made up by future Additional

Shareholder Contributions in a later year or future Customer Credit Trust Returns. In no event would PG&E provide for funding of the Customer Credit Trust beyond the $1.8 billion Initial Shareholder Contribution, Additional Shareholder Contributions of up to $7.59 billion, and Customer Credit Trust Returns.

b.i. As set forth in the Application and supporting testimony, the Initial Shareholder Contribution of $1.8 billion will be funded in a credit accretive manner, i.e., without increasing the Utility's or PG&E Corporation's leverage. The source of the Initial Shareholder Contribution will depend on PG&E's cash position and market conditions at the time of the Initial Shareholder Contribution. However, the most likely source will be a combination of internally generated cash and an issuance of equity securities. PG&E reserves the right to supplement this response as information develops.

b.ii. Absent PG&E's Application, there is no relevance to the Excess Cash inquiry under the referenced Stress Test Methodology. Nevertheless, PG&E responds to this request by stating that if there are no Recovery Bonds or Fixed Recovery Charges, there will not be a Customer Credit or Customer Credit Trust, and therefore no equity will be issued to fund the Initial Shareholder Contribution and any internally generated cash will be used to discharge other obligations.

QUESTION 05

On page 6-8, lines 18-21, of PG&E's Testimony, PG&E states

> "Additional deductions [resulting from the $4.8 billion Initial Wildfire Fund Contribution for federal taxes] in years 2021 through 2034 would be included as necessary to make up for any reduction in deductions in line 2 of Table 6-1 related to the stock contributed to the Fire Victim Trust."

a. Does the modeled scenario in Tables 6-1, 6-2, and 6-3 of PG&E's Testimony only include one year of federal deductions resulting from the $4.8 billion Initial Wildfire Fund Contribution?

b. If the answer to Question 5.a is yes, please explain why.

ANSWER 05

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

a.-b. Tables 6-1, 6-2, and 6-3 in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, include the first year (2020) of the amortized deduction for federal tax purposes of the initial contribution to the Go-Forward Wildfire Fund, consistent with the anticipated deductions that will be taken on PG&E's tax returns for 2020 for initial and ongoing contributions to the Go-Forward Wildfire Fund. PG&E refers CCSF to the discussion on pages 6-7 through 6-8 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen) served on August 7, 2020, regarding the potential use of the other amortized

Attachment K

PG&E Response to Public Advocates Office Second Set of Data Requests (dated September 14, 2020), Question 9

Debt pro-rata.xlsx; and 2020Securitization_DR_PubAdv_02-Q08d_PGE Output 7.0B Debt pro-rata.xlsx for the outputs of these model runs. These hypothetical, illustrative model runs do not reflect PG&E's proposal, and are not supported by PG&E.

e. Because the amount of the securitization and the amount of funding for the Customer Credit are dependent on each other, PG&E objects to the construct of this question. While there are various inputs that can be altered to get to a 95% probability of a surplus outcome, none of them reflects PG&E's proposal. In an attempt to answer this question, for illustrative purposes, PG&E has re-run the model to determine the increase in the Initial Shareholder Contribution that would be required in order for the model to yield a 95% chance of surplus outcome with $7.5 billion of Recovery Bonds. *See* 2020Securitization_DR_PubAdv_02-Q08e_PGE Output 95 prob initial cont.xlsx for the outputs of this model run. PG&E notes that it does not support this illustrative, hypothetical construct.

QUESTION 09

Referring to p. 6-12, lines 12-17, PG&E asserts,

> "If the applicable tax rate in the year of the formula calculation is greater or lesser than the amount that was used in Table 6-2 and to set the Cap in Table 6-1, the Additional Shareholder Contributions for any particular tax year will be larger or smaller than the projections and the Cap may not be reached at all, or it may be reached sooner or later than projected in Table 6-2."

Additionally, p. 6-23, lines 22-36, states,

> "My analysis assumes that the Additional Shareholder Contributions to the Customer Credit Trust are made as described in Table 6-2 above and that the FRCs will be in the amounts shown in Table 6-3. The cash flows for the Customer Credit Trust were the same across all 2,000 trials in the Monte Carlo simulation."

Provide documentation that explains specifically why the uncertainty in Additional Shareholder Contributions described above is not included in the Monte Carlo simulation. Provide documentation that demonstrates how potential underfunding of the Customer Credit Trust due to lower Additional Shareholder Contributions than forecasted in Table 6-2 will impact the Monte Carlo simulation output.

ANSWER 09

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. 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:

The utilization of shareholder tax benefits set forth in Table 6-2 incorporates PG&E's updated financial forecast and reflects the best available data to input into the Monte

Carlo simulation model. Although PG&E's actual taxable income may vary from the forecast, or the applicable tax rate may be greater or lesser than the amount used for purposes of Table 6-2, such possible developments cannot be predicted with accuracy. All else being equal, changes to the forecasted utilization of shareholder tax benefits would impact the cash flows for the Customer Credit Trust and therefore the model's output. All of the 2,000 simulations referenced in Mr. Allen's testimony used the same assumptions for the Additional Shareholder Contributions. PG&E notes that lower Additional Shareholder Contributions than those forecast to be made in Table 6-2 do not necessarily result in underfunding of the Customer Credit. The Trust funds may be sufficient notwithstanding the lower contributions, or may be offset by Customer Credit Trust Returns.

QUESTION 10

Referring to p. 6-24, lines 3-4, the testimony states, "I also included $500,000 per year in administrative expenses of the Customer Credit Trust, which was an estimated provided by PG&E." Provide the calculations and supporting documentation that get to an estimate of $500,000 per year.

ANSWER 10

The estimated $500,000 per year for administrative expenses is based on PG&E's experience with similar expenses incurred by PG&E for the administration of its qualified nuclear de-commissioning trusts (NDTs). That amount is an average of the administrative fees incurred by the NDTs in 2017 and 2018 for trustee and tax filing fees, auditing and consulting fees, and board member compensation.

QUESTION 11

Referring to Table 6-7 on p. 6-29, lines 17-19, the 85th, 90th, and 95th percentiles result in a deficit, however, footnote 19 states, "This calculation equally weights all of the outcomes from 95th percentile (best case) to 5th percentile (worst case) to come up with a weighted-average value or expected value for the Customer Credit Trust." Provide documentation PG&E's management relied upon that determined specifically that the 95th percentile, which shows a deficit, is a "best case" scenario.

ANSWER 11

The quoted language reflects a typographical error. The sentence should read: "This calculation equally weights all of the outcomes from 95th percentile (~~best~~worst case) to 5th percentile (~~worst~~ best case) to come up with a weighted-average value or expected value for the Customer Credit Trust."

Attachment L

PG&E Response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 11

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

PG&E has committed to a rate-neutral securitization and submits that its proposal meets, and in fact exceeds, its commitment. As PG&E stated in the Chapter 11 Cases: "The Securitization structure is anticipated to yield a full (nominal) offset each year to securitized charges." PG&E submits that this is the relevant standard for purposes of evaluating rate neutrality pursuant to the Plan of Reorganization OII Decision, D.20-05-053. PG&E proposes to provide shareholder contributions to fund the Customer Credits. These Customer Credits are expected to equal the Fixed Recovery Charges (FRCs) in each billing period. Moreover, the Customer Credit Trust is expected to generate a substantial surplus, which PG&E proposes to share with customers at the end of the life of the Trust, or sooner if the Commission so directs. The 25% sharing of surplus is proposed as compensation for the potential risk of loss to customers. As set forth in Chapter 1, Introduction (D. Thomason), served August 7, 2020, the customer expected value of the surplus sharing is $990 million, with a present value of $118 million. The Customer Credit will commence at the same time and in the same amount as the FRC, and PG&E anticipates that the Customer Credit will equal the FRC in each billing period such that the Customer Net Bill Impact each year is zero, as reflected in Table 6-3.

QUESTION 11

For the 25 years from 1995-2019, please provide PG&E's actual annual taxable income and marginal tax rates (federal and state), using the same methodology used to project PG&E's taxable income as shown on Table 6-2 of PG&E's Testimony.

ANSWER 11 REVISED 01

PG&E refers CCSF to Securitization 2020_DR_CCSF_001-Q11Atch01-Rev01.pdf.

QUESTION 12

Please provide PG&E's previous responses to all data requests by other parties in this proceeding. On an ongoing basis, please provide PG&E's responses to all data requests by other parties in this proceeding.

ANSWER 12

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

The non-confidential data responses that PG&E has provided to date in this proceeding are available on the PG&E Regulatory Cases – Discovery Access website. The link for users to log in or register is https://pgera.azurewebsites.net/account/login.

PG&E Corporation & Subsidiaries
Taxable Income/(Loss) before NOL carryover

Federal			California	
Year	Adjusted Taxable Income (Loss)	Tax Rate	Adjusted Taxable Income (Loss)	Tax Rate
1995	2,553,103,523	35%	2,160,219,907	9.30%
1996	1,607,722,316	35%	1,482,058,363	9.30%
1997	1,615,113,562	35%	1,117,752,427	8.84%
1998	1,553,844,752	35%	831,133,722	8.84%
1999	2,064,319,166	35%	1,154,896,503	8.84%
2000	(3,095,563,610)	35%	(1,878,493,901)	8.84%
2001	727,633,531	35%	252,976,249	8.84%
2002	2,217,461,068	35%	1,398,482,234	8.84%
2003	285,928,102	35%	745,979,522	8.84%
2004	460,944,733	35%	1,223,161,727	8.84%
2005	2,862,306,646	35%	2,521,374,037	8.84%
2006	2,305,567,492	35%	2,438,435,355	8.84%
2007	1,024,182,508	35%	1,123,027,834	8.84%
2008	(657,847,502)	35%	123,461,020	8.84%
2009	(338,311,604)	35%	968,563,126	8.84%
2010	(476,346,505)	35%	1,309,015,741	8.84%
2011	(1,733,434,831)	35%	318,818,059	8.84%
2012	(585,271,403)	35%	208,270,732	8.84%
2013	(1,278,437,127)	35%	(339,847,480)	8.84%
2014	(762,922,789)	35%	(412,879,626)	8.84%
2015	(740,273,752)	35%	84,490,014	8.84%
2016	(602,371,164)	35%	58,080,613	8.84%
2017	894,034,912	35%	763,201,102	8.84%
2018	296,273,414	21%	7,418,237	8.84%
2019	(1,904,345,320)	21%	**Not yet filed**	8.84%

Attachment M

PG&E Response to Energy Division First Set of Division Data Requests (dated September 2, 2020), Question 2

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

Attachment N

PG&E Response to CCSF Third Set of Data Requests (dated October 2, 2020), Question 8

actuals for the same values from 1995 through 2019, using the same method that PG&E used to calculate its projections in the "Taxable Income Forecast" tab.

i. Preliminary Adjusted Utility Income Before Taxes (Federal, Row 4)

ii. Consolidated Taxable Income Before Wildfire & POR Adjustments (Federal, Row 10)

iii. Consolidated Interest Expense, excl. [the current application for] Securitization (Federal, Row 18)

iv. Preliminary Adjusted Utility Income Before Taxes (State, Row 24)

v. Consolidated Taxable Income Before Wildfire & POR Adjustments (State, Row 31)

vi. Consolidated Interest Expense, excl. [the current application for] Securitization (State, Row 38)

ANSWER 07

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

i. and iv. There are no historical actuals for Preliminary Adjusted Utility Income Before Taxes. This calculation was an intermediate step within the model to develop the Consolidated Forecast Taxable Income shown in Table 6-2 of Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; Greg Allen), served August 7, 2020.

ii. and v. PG&E construes "Wildfire Adjustments" to refer to payments to victims of the 2017-2018 wildfires, and responds as follows:

Please refer to the answer to Question 11 in CCSF's first set of data requests to PG&E. There are no payments to victims of the 2017-2018 wildfires through the tax year ending 2019. Additionally, the 2019 Consolidated Taxable Income reflects deductions of approximately $233 million for certain bankruptcy costs.

iii. and vi. PG&E refers CCSF to attachment 2020Securitization_DR_CCSF_003-Q07_Atch01.pdf.

QUESTION 08

Please refer to PG&E Corporation 2020 Second Quarter Earnings (dated July 30, 2020),[1] Slide 9 regarding Ratebase Growth Forecast, which shows PG&E's Weighted Average Ratebase forecast for 2020-2024, along with an actual value for 2019.

i. Please provide comparable actual values for the total Weighted Average Ratebase from 1995 to 2018, divided into the same four components as shown on Slide 9

[1] As provided in response to Question 2 of San Francisco's First Set of Data Requests in A.20- 04-023.

(i.e., Transmission (TO), Gas Transmission and Storage (GT&S), General Rate Case (GRC), and Spend Above Authorized).

ii. Please also provide actual values for each of the four components for 2019.

iii. Has PG&E conducted any construction capacity studies to evaluate the amount of construction activity necessary to support PG&E's projected ratebase growth? If so, do such studies support PG&E's projected rate of growth in ratebase?

ANSWER 08

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

i. Please see attachment 2020Securitization_DR_CCSF_003-Q08_Atch01.pdf for 2000-2019 total Weighted Average Rate Base, from 2000 to 2019, divided into the three components: Transmission (TO); Gas Transmission and Storage (GT&S); and General Rate Case (GRC). PG&E does not track Spend Above Authorized separately, i.e., historical capital expenditures recorded into memorandum accounts, such as a catastrophic events memorandum account (CEMA), are not tracked separately. The total Weighted Average Rate Base amounts from 1995 to 1999 are not readily available.

ii. Please refer to the answer to Question 8.i.

iii. PG&E has not conducted any construction capacity studies to evaluate the amount of construction activity necessary to support PG&E’s projected rate base growth.

QUESTION 09

Please refer to page 6-9, fn. 5 of PG&E's Testimony, which states that the proposed methodology described on page 6-9, lines 14-20 is "only for the purpose of calculating the Additional Shareholder Contribution for any year, and does not impact PG&E's actual tax returns or the income or franchise taxes for establishing revenue requirements."

i. For purposes of determining annual Additional Shareholder Contributions, will PG&E's "taxable income" (see lines 3 and 12 of Table 6-2 of PG&E's Testimony) be based on (i) PG&E's actual taxes (e.g. using accelerated depreciation, where available), or (ii) PG&E's taxes for purposes of ratemaking, or (iii) some other amount? If PG&E's taxable income will be based on some other amount, please describe what that amount is and how it is calculated.

ii. Please quantify the impact of PG&E's securitization proposal, as set forth in Application 20-04-023, on PG&E's accumulated deferred tax balance annually for the term of the bonds. Please also provide an explanation of how ratepayers will be made whole as the benefit of the accumulated deferred tax balance is returned to ratepayers over time.

Weighted Average (WAVG) Ratebase 2000-2019

By Rate case

$ in Thousands

Ln #	Year	GRC	ET (TO)	GT&S	Total WAVG Ratebase
		a	*b*	*c*	*d=a+b+c*
1	2000	10,690,455	1,223,859	1,380,059	13,294,373
2	2001	10,199,564	1,287,996	1,377,621	12,865,181
3	2002	11,218,925	1,372,223	1,464,324	14,055,471
4	2003	11,397,280	1,588,561	1,485,055	14,470,896
5	2004	11,548,301	1,798,713	1,472,507	14,819,521
6	2005	11,676,685	1,987,931	1,460,689	15,125,305
7	2006	12,110,096	2,338,239	1,478,948	15,927,283
8	2007	12,731,746	2,602,974	1,496,969	16,831,689
9	2008	13,862,856	2,808,867	1,530,605	18,202,328
10	2009	15,329,689	3,121,233	1,559,502	20,010,424
11	2010	16,003,895	3,397,279	1,630,667	21,031,841
12	2011	17,477,183	3,708,117	1,765,601	22,950,901
13	2012	18,606,671	3,979,590	1,897,703	24,483,964
14	2013	19,959,631	4,370,271	2,317,809	26,647,710
15	2014	21,394,294	4,757,139	2,796,069	28,947,503
16	2015	22,354,530	5,291,190	2,722,745	30,368,465
17	2016	23,878,142	5,939,957	2,921,824	32,739,923
18	2017	25,075,058	6,547,449	3,464,281	35,086,788
19	2018	26,596,540	7,008,063	4,173,186	37,777,790
20	2019	28,547,103	7,836,752	4,888,424	41,272,280

Note:

WAVG ratebase includes separately funded projects (i.e. incremental projects not yet approved for recovery in rates)

Attachment O

PG&E investor presentation provided in response to CCSF First Set of Data Requests (Revised) (dated October 5, 2020), Question 2

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

PG&E Data Request No.:	CCSF_001-Q01-12		
PG&E File Name:	Securitization2020_DR_CCSF_001-Q01-12Rev01		
Request Date:	August 31, 2020	Requester DR No.:	001
Date Sent:	September 15, 2020 (Original) October 5, 2020 (Revised)	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1: Various Q2-Q5: David Thomason Q6-Q7: Mari Becker Q8: David Thomason Q9: Greg Allen Q10-Q11: David Thomason Q12: Various	Requester:	Suzy Hong

Pacific Gas and Electric Company ("PG&E") submits the following revised response to the City and County of San Francisco's ("CCSF") Question 11 of Data Request 1, served on August 31, 2020. This revised answer attaches an updated PDF that corrects an error in PG&E's 2011 state Consolidated Taxable Income (Loss), and this response supersedes the prior Answer 11.

All of PG&E's prior objections to this set of data requests, set forth in PG&E's Data Response served September 15, 2020, are incorporated herein by reference.

QUESTION 01

Please provide all workpapers and any related calculations and functioning spreadsheets supporting Tables 6-1, 6-2, 6-3, and Figure 6-1 of PG&E's Testimony.

ANSWER 01

PG&E refers CCSF to the working model 2020Securitization_DR_Misc_Chapters 3_6_7_UPDATED08-07-2020_Securitization Application Update Model_Final.xlsx.

QUESTION 02

Does PG&E plan to make the five-year financial projections in Exhibit 5.4 of its Testimony public? If so, when does PG&E plan to make available the unredacted five-year financial projections in Exhibit 5.4? If not, please provide the reason or basis for why the five-year financial projections in Exhibit 5.4 warrant confidential treatment when substantially similar information has been made public in the past. (See, for example, I.19 09 16, PG&E's Second Omnibus Supplemental Data Response, Attachment 2 (PlanOfReorganizationOII-2019_DR_MISC_Atch02CPUC financial package 2.18.20_Updated_Redacted.xlsx), dated February 19.)

ANSWER 02

PG&E does not plan to make public the confidential Projected Financial Statements presented in Exhibit 5.4 to Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020. PG&E previously provided detailed financial projections publicly in connection with the review and approval of PG&E's Plan of Reorganization. PG&E has not traditionally provided detailed financial projections publicly in applications for long-term debt authorization. Nor do publicly-traded companies typically provide detailed financial projections because that is considered material non-public and commercially sensitive financial information. PG&E does not intend to provide PG&E-unconsolidated financial projections. PG&E Corporation provides high-level projections to the public and investors on a quarterly basis and the latest projections can be found here:
http://s1.q4cdn.com/880135780/files/doc_financials/2020/q2/Q2'20-Earnings-Presentation_Final.pdf.

QUESTION 03

Please confirm that the five-year projections provided in Exhibit 5.4 of PG&E's Testimony, labeled as "Consolidated Utility" projections, are for PG&E's operations only (electric and gas services) (i.e., does not include PG&E Corp.), and include projections for PG&E's gas operations.

ANSWER 03

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

PG&E confirms that the confidential Projected Financial Statements presented in Exhibit 5.4, labeled "Condensed Utility," not "Consolidated Utility," include gas operations projections, but do not include financial projections for PG&E Corporation.

QUESTION 04

For the 5-year projections provided in Exhibit 5.4 of PG&E's Testimony, please provide, for each year of the forecast:

a. Bundled retail sales in MWh, revenues in dollars, and average rate in $/kWh.
b. Community Choice Aggregation retail sales in MWh, revenues in dollars, and average rate in $/kWh.
c. Direct Access retail sales in MWh, revenues in dollars, and average rate in $/kWh.
d. Other retail sales (if any) in MWh, revenues in dollars, and average rate in $/kWh.
e. Wholesale sales in MWh, revenues in dollars, and average rate in $/kWh.

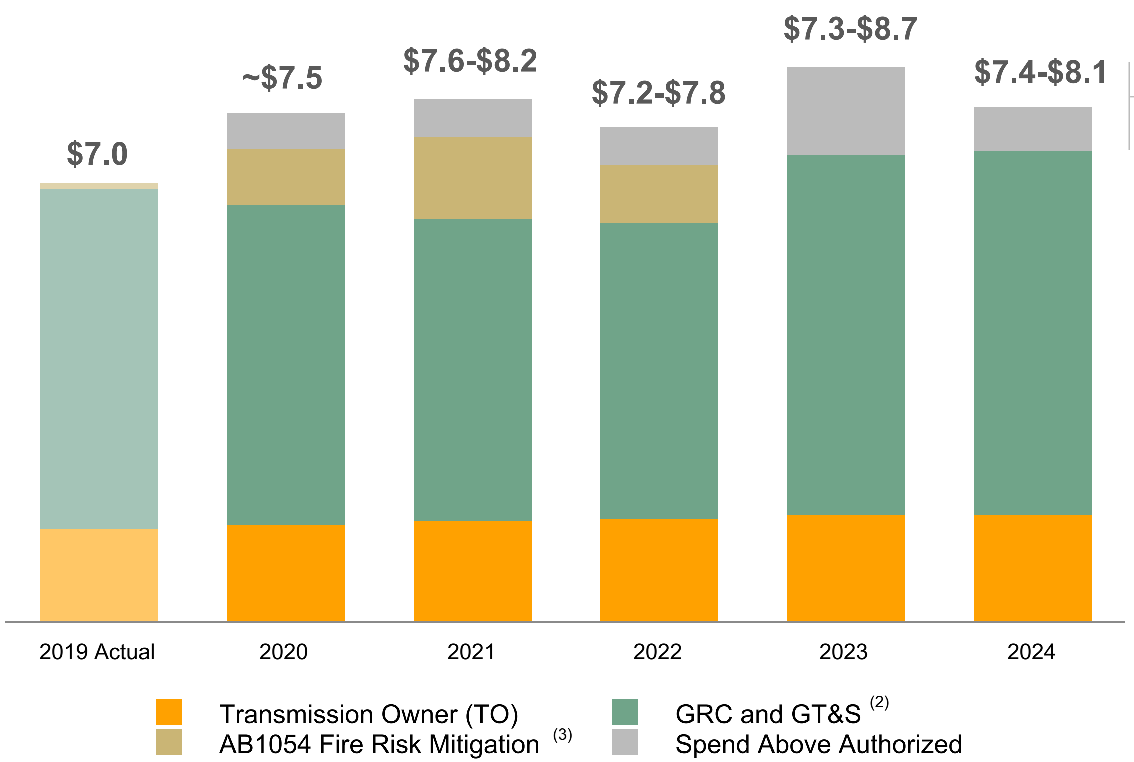
PG&E Corporation

2020 SECOND QUARTER EARNINGS

July 30, 2020

Substantial Capital Investments

2019-2024 CapEx Forecast ($B) [1]



Subject to Ongoing and Future Recovery Requests

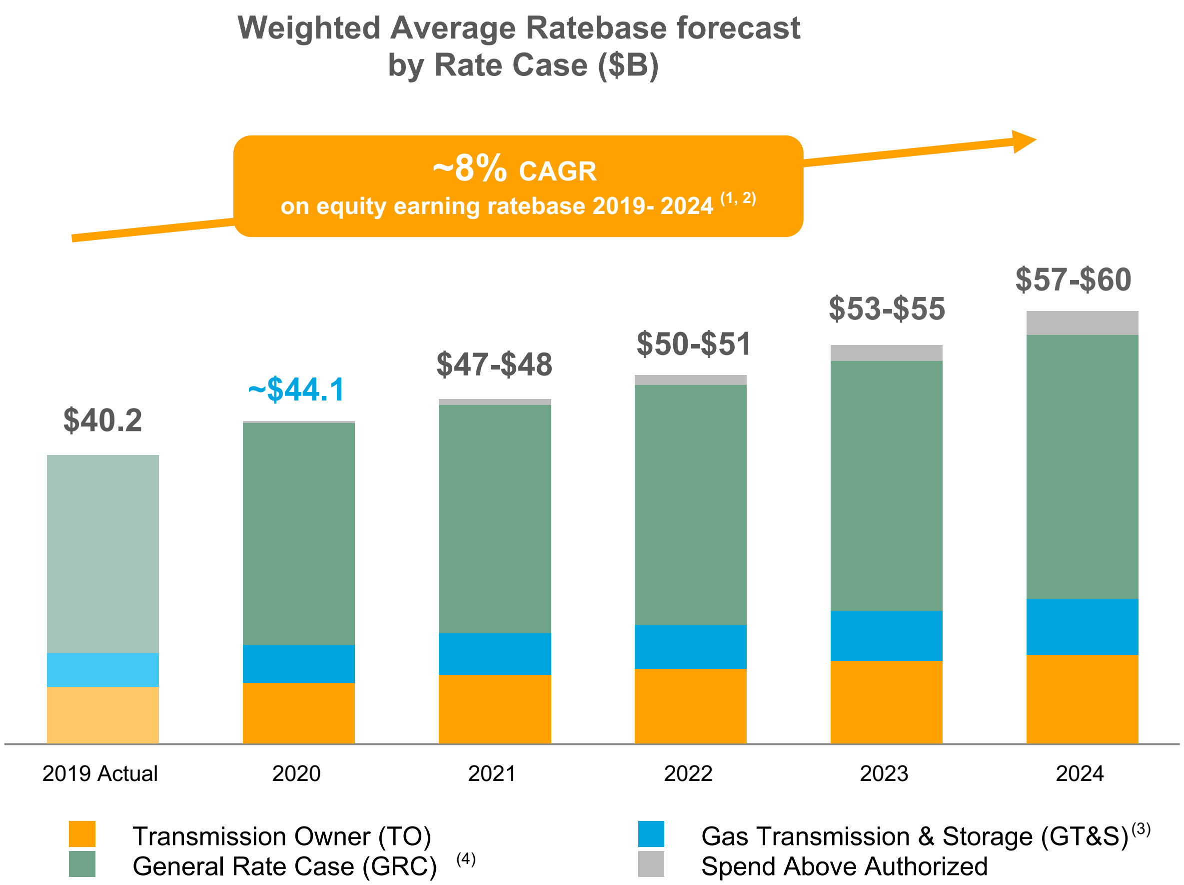
Spend driven by:

- Wildfire Mitigation Plan Memorandum Account (WMPMA)
- Catastrophic Event Memorandum Account (CEMA)

1. Low end of the range reflects authorized capital expenditures, including the full amount recoverable through a balancing account where applicable. High end of the range includes capital spend above authorized.
2. The 2023 GRC will include gas transmission and storage.
3. Capex forecast includes ~$3.2B of fire risk mitigation capital expenditures included in the Utility's approved wildfire mitigation plans on which PG&E Corporation and the Utility will not earn an equity return. The Utility has spent approximately $800 million cumulatively towards this total including $210 million and $414 million, during the three and six months ended June 30, 2020, respectively.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from the guidance presented and underlying assumptions.

Ratebase Growth Forecast



Potential Growth Opportunities

- Additional wildfire mitigation
- Transportation electrification
- Additional distributed generation-enabled microgrids
- Grid modernization

1. Ratebase reflects reductions for the following capital items: (a) $240M disallowance by the CPUC in the 2019 GT&S rate case; (b) $3.2B of fire risk mitigation excluded from earning a ROE, pursuant to AB 1054; and (c) $403M the Utility agreed not to seek recovery of as part of the Wildfire OII settlement.
2. Ratebase growth including non-equity earnings ratebase is ~9%.
3. $400M of 2011-2014 capital spend that received a successful audit in 2020 will be added to ratebase and earn a return beginning in 2021.
4. The 2023 GRC will include GT&S and will be a four year case cycle.

See the Forward-Looking Statements for factors that could cause actual results to differ materially from the guidance presented and underlying assumptions.

Attachment P

PG&E Response to CCSF Second Set of Data Requests (dated September 29, 2020), Question 2

Attachment A are not relevant to evaluation of the Stress Test Methodology in this proceeding. PG&E further objects to this request as seeking information protected from disclosure by the attorney-client privilege and the attorney work-product doctrine. Subject to its objections, PG&E responds as follows:

In context of the Chapter 11 Cases, it was not reasonable for PG&E to pursue piecemeal asset sales as part of its reorganization, which had to be accomplished by June 30, 2020 for PG&E to be eligible to participate in the Go-Forward Wildfire Fund.

QUESTION 02

Please refer to PG&E's Testimony, 3-15, line 21 through 3-16, line 5. Can PG&E confirm that all loads that may be subject to the FRC will also receive the full associated benefit of Customer Credits and the CCT surplus sharing? If so, can PG&E also confirm that all loads that may be subject to the FRC will be treated equally by PG&E with respect to the calculation and receipt of the full associated benefit of Customer Credits and the CCT surplus sharing?

ANSWER 02

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

In the event of a future municipalization or an acquisition of PG&E's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would determine the continued application of the Customer Credits and Customer Credit Trust surplus sharing.

QUESTION 03

Please confirm that the five-year financial projections provided in Exhibit 5.4 of PG&E's Testimony are the same projections that were provided to the rating agencies for the ratings reports included in PG&E's Testimony as Exhibits 5.6, 5.7 and 5.8.

ANSWER 03

Subject to its objections, PG&E responds as follows:

The financial projections provided in Exhibit 5.4 of Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, were prepared as part of PG&E's updated testimony in this proceeding. They are not the same as the financial projections previously provided to the rating agencies for the ratings reports included as Exhibits 5.6, 5.7, and 5.8.