non-traditional debt as quickly as possible, as a major component of its financial restructuring and effort to reclaim its issuer investment grade bond rating. With a firm commitment to pay off this non-traditional debt, the Stress Test Methodology should be designed recognizing that total amounts of debt at the beginning of the Stress Test measurement phase will be vastly different from the debt at the end of the Stress Test phase, because non-traditional debt should be largely eliminated over a relatively short period of time. After this time period, Stress Test credit measures should be considerably stronger because PG&E's total debt should be reduced down to only traditional utility debt, that will be used to support investments in utility rate base, and will produce both revenue, profit, and operating cash flow that will provide strong coverages of PG&E's debt.

The non-traditional debt in this proceeding is not included in rate base and does not produce cash flows. As such, the existence of the non-traditional utility debt will weaken PG&E's credit metrics, and increase the likelihood that its actual existing debt will exceed a maximum debt threshold as identified in the Stress Test, and provide PG&E an ability to pass certain costs on to customers, where those costs would otherwise not be appropriate for inclusion in rates.

Q IS PG&E'S DEBT FUNDING OF WILDFIRE DAMAGE CLAIMS, AND THE POTENTIAL MAXIMUM DEBT TO FUND WILDFIRE DAMAGE CLAIMS LIMITED TO THE DEBT DESCRIBED IN THIS PROCEEDING?

A No. PG&E proposes to issue $7.5 billion of securitization bonds to retire approximately $6 billion of temporary utility debt and pay other wildfire damage

IV.B. Stress Test Credit Metrics

Q DID PG&E OUTLINE HOW THE CPUC STRESS TEST METHODOLOGY WILL BE USED WITHIN ITS PLAN OF FINANCIAL RECOVERY?

A Yes. In its filing in Chapter 5, PG&E describes the Stress Test Methodology and its ability to recover costs and expenses arising from the catastrophic wildfire with an ignition date in 2017 with specific prohibitions on recovering costs that are not appropriate to recover in rates. In the Stress Test, PG&E recognized the Commission's consideration of PG&E's financial status, and maintaining its ability to determine a maximum amount of the debt the corporation can pay without harming ratepayers or materially impacting its ability to provide adequate and safe service.

PG&E estimates that under the maximum debt application of the Stress Test Methodology, PG&E needs to reduce its total debt by no less than $7.5 billion, which is the amount PG&E proposes to securitize.[12] PG&E reaches this conclusion based on its assessment of an MODC that is consistent with an investment grade issuer credit rating.[13]

In reaching these decisions, PG&E references certain cash flow coverages of debt—Funds From Operations (FFO) and Cash Flow from Operations (CFO), related to taxes and rate base revenue requirement (earnings before interest, taxes, depreciation, and amortization (EBITDA)). The relationship to total debt is outlined in PG&E's Figure 5-12. It is also important to note that in calculating these credit metrics, PG&E uses its on-balance sheet

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12 *Id*. at 5-34.
13 *Id*. at 5-35.