PG&E HEARING EXHIBIT PGE-01

A.20-04-023

PG&E'S SECURITIZATION 2020

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

INTRODUCTION

WITNESS: DAVID THOMASON

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 1
INTRODUCTION

TABLE OF CONTENTS

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 1
INTRODUCTION

TABLE OF CONTENTS
(CONTINUED)

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 1
INTRODUCTION
WITNESS: DAVID THOMASON

A. Introduction

This Chapter introduces Pacific Gas and Electric Company's (PG&E or the Utility) proposal to finance $7.5 billion of 2017 wildfire claims costs through the issuance of recovery bonds following its emergence from Chapter 11 (the Securitization).[1] PG&E requests that the California Public Utilities Commission (CPUC or Commission) authorize the Securitization pursuant to Senate Bill (SB) 901. Specifically, 2017 wildfire costs and expenses that are "disallowed for recovery in rates" pursuant to Sections 451 and 451.2[2] can be recovered, including through the issuance of recovery bonds, in circumstances that apply here.

In a March 20, 2020 statement filed in PG&E's Chapter 11 case, Governor Gavin Newsom stated:

> The Debtors' financial plan also contemplates an application to the CPUC for a securitization of up to $7.5 billion in wildfire claims costs. The Governor believes that a rate neutral securitization pursuant to Senate Bill 901 (Dodd, Chapter 626, Statutes of 2018) that meets all legal requirements as determined by the CPUC would, in his judgment, be in the public interest, as it would strengthen the going-forward business and support the reorganized Utility's ability to provide safe, reliable, affordable and clean energy to its customers.[3]

---

[1] For this and the remaining chapters of testimony, capitalized terms not defined within the chapter have the meaning ascribed in the application or elsewhere in the testimony.

[2] All statutory references are to the Public Utilities Code unless otherwise noted.

[3] Governor Gavin Newsom's Statement in Support of Debtors' Motion Pursuant to 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 9019 for Entry of an Order (I) Approving Case Resolution Contingency Process and (II) Granting Related Relief, *In re PG&E Corporation*, Case No. 19-30088 (Bankr. N.D. Cal., Mar. 20, 2020), ECF No. 6402 (Governor's Statement), at 4 ¶ 5. A copy of the Governor's Statement was filed and served on Mar. 23, 2020 in Investigation (I.) 19-09-016 (the POR OII, which is the Commission proceeding to review PG&E's Plan) as Exhibit 3 to PG&E's Motion for Official Notice of Documents or, in the Alternative, to Accept Documents as Late-Filed Exhibits, filed March 23, 2020 (Official Notice Motion). On March 24, 2020, Administrative Law Judge Allen granted PG&E's motion and took official notice of the requested documents in that proceeding.

PG&E believes that, as shown by the application and supporting testimony, the proposed Securitization is consistent with the Governor's statement and meets all of the legal requirements for the Commission to determine that it is in the public interest. The proposed Securitization would strengthen PG&E's credit metrics and expedite its path back to an investment-grade issuer credit rating to the benefit of all stakeholders, including customers,[4] through reduced borrowing costs. The proposed Securitization also would enable PG&E to retire $6 billion of temporary utility debt that was issued on emergence to pay wildfire claims costs ($6 Billion Temporary Utility Debt) and to accelerate the final payment to wildfire victims as described in PG&E's Plan,[5] financing those costs on favorable terms over the life of the proposed recovery bonds (the Recovery Bonds).

Importantly, PG&E proposes to provide a separate credit to customers funded by shareholder assets (the Customer Credit). The shareholder assets will be placed in a trust (the Customer Credit Trust or Trust), dedicated exclusively to providing the Customer Credit. PG&E forecasts that the Customer Credit will equal the costs of the Securitization in each billing period such that the transaction is anticipated to be rate-neutral. In addition, as described below, PG&E proposes to share with customers 25 percent of any surplus of the shareholder assets in the Customer Credit Trust at the end of the life of the Trust (as defined in the Summary of Terms of Customer Credit Trust).[6] As described below, this is a significant additional benefit of the proposed Securitization.

---

4 As used herein and in the remaining chapters of testimony, references to "customer" include the term "consumer" as defined in Section 850(b)(3) and as used in Section 850.1(b). *See* Pub. Util. Code § 850(b)(3) ("'Consumer' means any individual, governmental body, trust, business entity, or nonprofit organization that consumes electricity that has been transmitted or distributed by means of electric transmission or distribution facilities, whether those electric transmission or distribution facilities are owned by the consumer, the electrical corporation, or any other party.").

5 PG&E's Plan or the Plan refers to the Debtors' and Shareholder Proponents' Joint 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. Based on the anticipated timing of the proposed Securitization, it would enable PG&E to accelerate the second of the two deferred payments to the Fire Victim Trust provided for in PG&E's Plan and related documents. *See* note 13 below.

6 The Summary of Terms of Customer Credit Trust is Exhibit 6.1 to Chapter 6: Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen).

This Chapter also provides an overview of PG&E's application, which asks the Commission to make the determinations necessary to authorize the Securitization pursuant to SB 901 by: (1) applying the Stress Test Methodology, as defined and adopted in Decision (D.) 19-06-027, and (2) finding that $7.5 billion in 2017 wildfire costs and expenses are Stress Test Costs that may be financed through the issuance of recovery bonds pursuant to Section 451.2(c) and Section 850.1(a).[7] PG&E will file a second and subsequent application asking the Commission to enter a financing order authorizing the Securitization. To streamline the process, PG&E will seek to consolidate the two proceedings and to have a single consolidated decision on both the financing order application and this application.[8]

As a preliminary matter, this Chapter also provides an overview of key events that have occurred since PG&E filed the application on April 30, 2020. As directed by the Assigned Commissioner's Scoping Memo and Ruling, issued July 28, 2020 (Scoping Memo),[9] PG&E is submitting updated testimony following its emergence from Chapter 11 on July 1, 2020, and this Chapter summarizes those updates. The chapters being updated are:

- Chapter 1, Introduction;
- Chapter 2, Background on Utility Securitizations;
- Chapter 3, Transaction Overview;
- Chapter 5, Stress Test Methodology;
- Chapter 6, Customer Credit Mechanism and Investment Returns;
- Chapter 7, Comparison of Traditional Financing and Securitization; and
- Chapter 9, Rate Proposal.

---

7 Pub. Util. Code § 451.2(c) (providing that an electrical corporation may apply for a financing order "for the amount of costs and expenses allocated to the ratepayer . . . as disallowed for recovery but exceeding the [Customer Harm Threshold]"); *id.* § 850.1(a)(1)(A) (providing that the Commission shall issue a financing order if costs are "allocated to the ratepayers pursuant to subdivision (c) of Section 451.2").

8 Although PG&E did not include the financing order request in the application, a form of financing order authorizing the proposed Securitization was attached as Exhibit 3.1 to Chapter 3, Transaction Overview (M. Becker), so that the Commission and other parties have additional time to review the anticipated findings and rulings necessary to authorize the Securitization. *See* Pub. Util. Code § 850.1(g) (requiring approval or disapproval of financing order application within 120 days of application).

9 Assigned Commissioner's Scoping Memo and Ruling, A.20-04-023 (July 28, 2020) (Scoping Memo), at 7-9.

As described below, the updates strengthen the basis to approve the Application and the Recovery Bonds. The Stress Test analysis has been confirmed by the rating agency actions, the benefits of accelerating the path back to investment-grade issuer credit rating have been quantified, the cost of the Recovery Bonds has decreased, and the expectation that the Customer Credit and Trust surplus sharing will equal or exceed the fixed recovery charge (FRC) has increased.

B. Significant Events Since PG&E Filed the Application on April 30, 2020

1. Issuance of Credit Ratings

On June 15, 2020, the three major credit rating agencies—Standard & Poor's, Inc. (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch)—assigned new credit ratings to PG&E:

- S&P assigned PG&E a BBB- issue rating to PG&E's senior secured debt, and a BB- issuer rating;
- Moody's assigned PG&E a Baa3 rating to PG&E's senior secured debt, and a Ba2 issuer rating; and
- Fitch Ratings assigned PG&E a BBB- issue rating to PG&E's senior secured debt, and a BB issuer rating.

The issuer credit ratings assigned to PG&E by S&P, Moody's, and Fitch are all below investment grade. As described below, Chapter 5 now addresses these new credit ratings and their relevance to the application, and the various rating actions and reports issued by the rating agencies are attached as exhibits to the updated testimony.

In addition, as directed by the Scoping Memo,[10] certain confidential exhibits have been attached to this chapter as follows:

- S&P Rating Evaluation Letter dated March 23, 2020 as Exhibit 1.2;
- Moody's Rating Assessment Letter dated March 18, 2020 as Exhibit 1.3;
- Fitch Rating Assessment Letter dated March 2020 as Exhibit 1.4;
- Rating Agency Presentation from PG&E to the rating agencies as Exhibit 1.5; and
- Rating Agency Presentation Model from PG&E to the rating agencies as Exhibit 1.6.

---

10 Scoping Memo at 8.

The structure of the financial transaction contained in Exhibits 1.2 through 1.4 and the financial forecasts and projections contained in Exhibits 1.2 through 1.6 are not current. The current structure and forecast and projections are set forth in the testimony as updated.

2. PG&E's Emergence from Chapter 11

On January 29, 2019, PG&E and PG&E Corporation commenced cases pursuant to Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court for the Northern District of California. Over the last several months, PG&E built consensus around a plan of reorganization that expeditiously and fairly compensates wildfire victims. On June 20, 2020, the Bankruptcy Court having jurisdiction over the Chapter 11 cases issued an Order confirming PG&E's Plan.[11] Prior to that, on June 1, 2020, the Commission had issued Decision (D.) 20-05-053, approving an earlier version of the Plan with conditions and modifications. On June 26, 2020, the Commission filed a statement in the Chapter 11 cases confirming that the final version of PG&E's Plan and the Bankruptcy Court's Confirmation Order are acceptable to the Commission and do not materially change the terms and conditions of D.20-05-053.[12] Thereafter, on July 1, 2020 (the Plan's Effective Date), PG&E and PG&E Corporation consummated their reorganization pursuant to the Plan and emerged from Chapter 11. PG&E has determined that there has not been an ownership change pursuant to Section 382 of the Internal Revenue Code as a result of consummating the Plan.

In accordance with the Plan, the Utility issued, refinanced, and reinstated $33.35 billion in debt. On June 16, 2020, the Utility issued $8.925 billion of first mortgage bonds in a registered offering, including short-term and long-term debt. On July 1, 2020, the Utility issued $11.85 billion of first mortgage bonds to refinance certain prepetition debt and reinstated $9.575 billion of prepetition debt on contractual terms. In

---

[11] Order Confirming Debtors' and Shareholder Proponents' Joint Chapter 11 Plan of Reorganization Dated June 19, 2020, *In re PG&E Corporation*, Case No. 19-30088 (Bankr. N.D. Cal., June 20, 2020), ECF No. 8053.

[12] California Public Utility Commission's Statement Regarding the Debtors' Plan of Reorganization and Confirmation Order, *In re PG&E Corporation*, Case No. 19-30088 (Bankr. N.D. Cal., June 26, 2020), ECF No. 8132, at ¶ 2.

addition, the Utility obtained a $3 billion secured term loan. Included within these debt issuances is the $6 Billion Temporary Utility Debt described above.

Also in accordance with the Plan, PG&E Corporation raised $9 billion of new equity and issued $4.75 billion of debt, the proceeds of which were used to make equity contributions to the Utility. PG&E Corporation made a further equity contribution to the Utility of 476,995,175 shares of common stock of PG&E Corporation, to be transferred to the Fire Victim Trust pursuant to the Plan and Confirmation Order. The Utility used these equity contributions to satisfy and discharge liabilities under the Plan upon emergence, including the payment and contribution of $24.15 billion of the $25.5 billion at Plan Value in settlement of Fire Claims.[13]

3. Updated Financial Forecast

As part of the testimony update, PG&E has updated its financial forecast following emergence from Chapter 11 and incorporated it into the testimony supporting the application, including Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), and Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen). Items reflected in the updated financial forecast include PG&E's lower-than-anticipated post-emergence cost of long-term debt, COVID-19-related impacts, and changes related to rate base. PG&E has also consulted with its advisors to update the all-in anticipated interest rate on the Recovery Bonds based on market events since April 30, 2020. The anticipated rate is 2.9 percent as compared to 3.0 percent at the end of April.

---

[13] In accordance with the Plan, PG&E will make deferred payments totaling $1.35 billion to the Fire Victim Trust in 2021 and 2022, or earlier if the Commission approves the proposed Securitization. *See* PG&E's Plan §§ 1.6 (describing future payments of "$650 million to be paid in cash on or before January 15, 2021 pursuant to the Tax Benefits Payment Agreement, and (ii) $700 million to be paid in cash on or before January 15, 2022 pursuant to the Tax Benefits Payment Agreement"); 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 securitization consummated).

C. Updates to PG&E's Testimony

In addition to updating this Chapter, PG&E is updating the following chapters of testimony in support of the application:

1. Chapter 2, Background on Utility Securitizations (S. Lunde); Chapter 3, Transaction Overview (M. Becker); Chapter 9, Rate Proposal (D. Pease)

Chapter 2 has been updated to describe securitization market events since April 30, 2020 which have generally improved and resulted in a lower anticipated interest rate on the Recovery Bonds. Chapter 3 has been updated to reflect the lower FRC cost because of the lower interest rate and the updated statutory customer benefit calculation set forth in the updated Chapter 7 described below. Exhibits 3.1 and 3.2 have likewise been updated. Chapter 9 has been updated to reflect the lower FRC cost.

2. Chapter 5, Stress Test Methodology (D. Thomason, J. Sauvage)

Chapter 5 has been updated to incorporate relevant events since the testimony was submitted on April 30, 2020, including the new credit ratings assigned to PG&E and PG&E Corporation in mid-June and early July 2020, which are attached as Exhibits 5.6, 5.7 and 5.8 to the testimony, and the updated financial forecast described above, which is attached as Exhibit 5.4. The credit ratings validate the analysis set forth in the original testimony, including that PG&E does not have an investment-grade issuer credit rating following emergence and S&P included two historical negative modifiers in PG&E's credit profile. As described in Chapter 5, the new credit ratings strengthen the showing of Stress Test Costs. Citigroup Global Markets has re-run the Stress Test calculations using the updated financial forecast, and the analysis continues to show that PG&E has at least $7.5 billion of 2017 wildfire claims costs that are eligible to be securitized. Following the release of credit ratings and PG&E's issuance of debt in connection with its emergence from Chapter 11, Chapter 5 also calculates the monetary benefits for PG&E's customers from improved credit metrics and acceleration of PG&E's path back to an investment-grade issuer credit rating. As discussed further in Chapter 5, there are significant benefits for customers from the Securitization, including significant cost savings associated with PG&E's long-term debt, as well as its short-term debt and collateral posting obligations.

3. Chapter 6, Customer Credit Trust and Investment Returns (D. Thomason, G. Allen)

Chapter 6 has been updated to incorporate the updated financial forecast into the Forecast Utilization of Shareholder Tax Benefits set forth in Table 6-2 and the Investment Returns analysis performed by Callan LLC. The updated, lower FRC and updated financial forecast, which has higher forecasted taxable income, increase and accelerate the Additional Shareholder Contributions into the Trust and reduce the size of the Customer Credit out of the Trust, and also increase the time funds in the Trust are invested. The overall impact increases the expected value of the Trust to $4.414 billion (from $2.685 billion) and reduces the risk to customers of a Customer Credit shortfall. Furthermore, PG&E has maintained the same sharing percentage in this proposal, which has doubled in value under the updated forecast, while also reducing the risk of available Shareholder Deductions, which provide additional confirmation of the customer benefits and rate-positive effects of the proposed Securitization. Chapter 6 also addresses the uncertainty regarding the final value of Shareholder Deductions resulting from the equity component of the $24.15 billion at Plan Value paid in settlement of Fire Claims at emergence. As explained in Chapter 6, PG&E will include additional portions of the federal portions of Shareholder Deductions for the initial contribution to the Go-Forward Wildfire Fund to provide sufficient available deductions such that assuming sufficient taxable income and assuming the tax rates in line 12 of Table 6-1, the deductions (or net operating losses (NOLs)) would generate $7.59 billion in Additional Shareholder Contributions.[14] This change only reduces the risk of insufficient deductions (or NOLs). It does not change any other factor that impacts whether the actual amount of

---

14 For accounting purposes and cost purposes, the agreed-upon settlement value of $25.5 billion remains the relevant amount for purposes of evaluating Fire Claims costs and allocation to the 2017 North Bay Wildfires regardless of the trading price of the stock contributed to the Fire Victim Trust at emergence, whether that was higher or lower than the agreed-upon value.

Additional Shareholder Deductions will be $7.59 billion. Chapter 6 further explains why the long-term capital market assumptions underlying the Investment Returns analysis performed by Callan do not need to be updated due to COVID-19.

4. Chapter 7, Comparison of Traditional Financing and Securitization (D. Thomason)

Chapter 7 has been updated to incorporate PG&E's lower anticipated long-term cost of debt of 4.17 percent and rate of return on rate base of 7.34 percent (down from 7.81 percent), as well as the lower interest rate on the Recovery Bonds. Although the lower post-emergence cost of debt has not yet been adopted by the Commission, PG&E recently submitted a Tier 2 advice letter to implement the lower cost of debt as required by the Commission in D.20-05-053.[15] The updated calculations demonstrate a present value difference of approximately $4.2 billion through issuance of securitized debt rather than using a traditional recovery method for the Catastrophic Wildfire Costs.

D. Eligibility to Finance $7.5 Billion of Stress Test Costs Through Issuance of Recovery Bonds

In accordance with the executed settlement agreements embodied in PG&E's Plan, PG&E will pay approximately $25.5 billion at Plan Value[16] in

---

15 *See* Advice Letter 4275-G/5887-E (July 22, 2020).

16 As used herein and in the remaining chapters of testimony, approximately $25.5 billion at Plan Value refers to PG&E's total obligation with respect to the settlement of "Fire Claims," as set forth in PG&E's Plan. *See* PG&E's Plan §§ 1.78, 1.86, and Exhibit A (defining "Fire Claims" as claims arising out of the 2015 Butte Fire, 2017 North Bay Wildfires, and 2018 Camp Fire) and §§ 1.6, 4.26 (describing approximately $13.5 billion in cash and equity at Fire Victim Equity Value as defined in the Plan to be contributed to Fire Victim Trust in settlement of claims of wildfire victims and others); §§ 1.172, 4.24 (describing $1 billion to be paid in settlement of certain public entity claims); and § 4.25(a) (describing $11 billion to be paid in settlement of subrogation claims). As set forth in PG&E's Plan and related documents, the Fire Victim Trust was funded with a combination of cash ($5.4 billion on emergence and additional payments totaling $1.35 billion in 2021 and 2022) and equity ($6.75 billion in common stock of reorganized PG&E Corporation (issued at Fire Victim Equity Value as defined in the Plan), which shall represent not less than 22.19 percent share ownership of the reorganized PG&E Corporation, as more fully described in the Plan and related documents). *Id.* §§ 1.6, 1.81; Parties' Joint Stipulation Regarding Normalized Estimated Net Income, *In re PG&E Corporation*, Case No. 19-30088 (Bankr. N.D. Cal., June 12, 2020), ECF No. 7914.

settlement of claims of wildfire victims, public entities, and subrogated insurers arising from the 2015 Butte Fire, 2017 North Bay Wildfires,[17] and 2018 Camp Fire. Upon emergence from Chapter 11, PG&E paid and contributed approximately $24.15 billion (of the $25.5 billion) at Plan Value in settlement of Fire Claims (as defined in PG&E's Plan).[18] Accordingly, the total amount of claims costs associated with Fire Claims, which includes the 2017 North Bay Wildfires, is now known and appropriate for consideration pursuant to SB 901.

Pursuant to D.18-06-029, PG&E filed Advice Letter 3991-G/5331-E, establishing the Wildfire Expense Memorandum Account (WEMA) in PG&E's gas and electric tariffs.[19] Part 5.a. of the WEMA Preliminary Statements allows PG&E to record a debit entry "equal to the [gas/electric] portion of PG&E's payments to satisfy wildfire claims" and other items. In accordance with PG&E's Plan, PG&E has paid and contributed approximately $24.15 billion (of the $25.5 billion) at Plan Value in settlement of Fire Claims, with approximately $2.2 billion funded by insurance proceeds under the applicable insurance policies. PG&E also is obligated to make cash payments to the Fire Victim Trust (as defined in PG&E's Plan) totaling $1.35 billion in 2021 and 2022, or sooner if the Securitization is approved.[20] PG&E will record appropriate entries into the WEMA, which will be not less than the $7.5 billion sought herein.

As explained in more detail in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), the Commission can and should proceed with this application to determine PG&E's Stress Test Costs without conducting a separate reasonableness review of the 2017 North Bay Wildfires costs at issue. For purposes of this application, PG&E stipulates that all costs arising from the 2017 North Bay Wildfires and other Fire Claims should be deemed "disallowed"

---

17 The 2017 North Bay Wildfires are identified in Exhibit A to PG&E's Plan.

18 As described in note 13 above, PG&E will make deferred payments totaling $1.35 billion to the Fire Victim Trust in 2021 and 2022, or earlier if the Commission approves the proposed Securitization.

19 PG&E subsequently filed Advice Letter 4016-G/5386-E to correct the effective date set forth in Advice Letter 3991-G/5331-E and certain typographical errors in Gas Preliminary Statement Part EE and Electric Preliminary Statement Part HL.

20 *See* PG&E's Plan § 1.6 (describing future payments of "$650 million to be paid in cash on or before January 15, 2021 pursuant to the Tax Benefits Payment Agreement, and (ii) $700 million to be paid in cash on or before January 15, 2022 pursuant to the Tax Benefits Payment Agreement"); *see also* note 13above.

and reviewed for cost recovery and eligibility for the Securitization solely pursuant to the Stress Test Methodology adopted by the Commission in D.19-06-027. And PG&E has irrevocably committed to waive its right to seek recovery of the Fire Claims costs even if the Commission does not authorize the Securitization pursuant to SB 901.[21] The Commission can therefore treat these costs as not just and reasonable, and as disallowed, and proceed to evaluate the recoverability of these disallowed costs under the Stress Test Methodology.

As PG&E explained in the POR OII, the proposed Securitization is not part of PG&E's Plan, but is the optimal path for financing wildfire claims costs in a cost-efficient and customer-protective manner. As set forth in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), securitization provides both quantitative and qualitative benefits, including opportunities to improve key financial metrics and the rating agencies' assessment of business risk and the regulatory environment. Pursuant to the analysis of Citigroup Global Markets Inc., the proposed Securitization would provide PG&E the opportunity to achieve metrics consistent with an investment-grade issuer credit rating under S&P's methodology within its five-year financial projections, potentially two years or more before it otherwise would absent the Securitization. The proposed Securitization will thus expedite PG&E's path back to an investment-grade issuer credit rating following emergence from Chapter 11, which will result in substantial savings for customers. As set forth in Chapter 5, the estimated nominal interest savings are $441 million (including estimated nominal long-term debt savings of $423 million and short-term debt savings of $18 million). In addition, Commission approval of the Securitization would send a positive signal to financial markets and rating agencies, potentially helping to improve PG&E's business risk profile and, more broadly, rating agency and investor views of California's regulatory environment.

---

21 *See* Debtors' Motion Pursuant to 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 9019 for Entry of an Order (I) Approving Case Resolution Contingency Process, and (II) Granting Related Relief, *In re PG&E Corporation*, Case No. 19-30088 (Bankr. N.D. Cal., Mar. 20, 2020), ECF No. 6398 ("Resolution Motion") (Official Notice Motion Ex. 1), at 18-19 ("If the CPUC does not grant approval of the Securitization, the Reorganized Utility will not seek to recover in rates any portion of the amounts paid in respect of Fire Claims under the Plan").

As set forth in Chapter 4, Allocation of Settlements to 2017 Wildfires (D. Fischel), roughly $11 billion of the approximately $25.5 billion at Plan Value that PG&E paid or contributed in settlement of Fire Claims is reasonably attributable to the 2017 North Bay Wildfires and therefore eligible for securitization pursuant to SB 901.[22] Between this application and the subsequent financing order application, PG&E asks the Commission to authorize issuance of the Recovery Bonds in an aggregate principal amount of $7.5 billion. Section 451.2(c) and Section 850.1(a) allow the Commission to issue a financing order to authorize the recovery through issuance of recovery bonds of “the amount of costs and expenses . . . disallowed for recovery but exceeding” the CHT, i.e., the amount of Stress Test Costs determined pursuant to the Stress Test Methodology. As described in detail in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), PG&E’s Stress Test Costs at emergence are at least $7.5 billion and thus PG&E may finance that amount through the proposed Securitization.

E. Rate-Neutral Design: Customer Credit Trust and Surplus Sharing

As described in detail in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), the proposed Securitization is designed to be rate-neutral. The costs of the Securitization would be recovered in customer rates through a dedicated charge, known as a FRC. 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).

---

[22] As described therein, the attribution analysis set forth in Chapter 4, Allocation of Settlements to 2017 Wildfires (D. Fischel), accounts for 7 percent of such claims costs being under Federal Energy Regulatory Commission (FERC) jurisdictional rates using an allocation formula based on labor ratios, and also roughly $808 million of insurance proceeds that PG&E anticipates receiving in connection with the 2017 North Bay Wildfires.

Assembly Bill (AB) 85, the new law intended to increase state revenue by, among other things, suspending corporate NOL deductions for 2020, 2021, and 2022,[23] does not impact the Customer Credit mechanism because, as set forth in Table 6-2, PG&E forecasts a state taxable loss for 2020 through 2022. The law does not impact the value of the Shareholder Tax Benefits set forth in Table 6-1 because the law preserves the value of NOLs suspended in 2020-2022 by extending the carryover period.[24]

PG&E proposes to structure the Customer Credit Trust to be similar to the nuclear decommissioning trusts that have operated successfully under the Commission's oversight for years. The Customer Credit Trust would be managed by a majority-independent committee and structured so that its assets would be dedicated exclusively to funding the Customer Credit and to minimize risks in the event of a subsequent PG&E bankruptcy.

Under reasonable and conservative assumptions, PG&E forecasts that the Customer Credit will equal the FRCs in each billing period, such that customers would not pay any net charges related to the Securitization. The funds in the Customer Credit Trust will be invested pursuant to investment policies approved by the Commission. As discussed in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), the expected value of the Customer Credit Trust is significantly in excess of the amounts needed to provide Customer Credits equal to the FRCs in each billing period. The expected value of the Customer Credit Trust, which is calculated net of amounts needed to equal the FRCs, is $4.414 billion.

PG&E proposes to share with customers 25 percent of any surplus that exists in the shareholder assets in the Customer Credit Trust at the end of the life of the Trust (as defined in the Summary Terms of Customer Credit Trust attached as Exhibit 6.1 to Chapter 6). The expected value to customers of the Customer Credit Trust is calculated using the expected value of positive and negative outcomes for the Customer Credit Trust set forth in Table 1-1.

---

23 Rev. & Tax. Code §17276.23(a).

24 *Id.* §17276.23(b).

TABLE 1-1
EXPECTED VALUES OF POSITIVE AND NEGATIVE OUTCOMES, SURPLUS/(DEFICIT), INCLUDING PRINCIPAL TAX GROSS-UP
(MILLIONS OF DOLLARS)

Line No.		Nominal Surplus (Deficit)	NPV(a) Surplus (Deficit)
1	Expected Value (EV)(b)	$4,414	$535
2	EV Positive Outcomes	$4,566	$555
3	EV Negative Outcomes	($152)	($20)

(a) Net present value was calculated using the proposed authorized return on rate base of 7.34 percent.

(b) Where the expected value is equal to the difference between the expected value of the positive and negative outcomes.

Using a 25 percent sharing arrangement, the customer expected value is $990 million, with a net present value of $118 million.[25] This represents a significant opportunity for customers because the Customer Credit Trust is likely to end up with a surplus. By agreeing to a sharing mechanism, PG&E proposes a sound financial investment for customers and aligns PG&E's and customers' incentives to maximize the value of the Customer Credit Trust.

As set forth in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), the structure of the Customer Credit cannot require a guarantee from PG&E. In the event that PG&E were to guarantee the Customer Credit mechanism, 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. This would preclude accelerating PG&E's path back to an investment-grade issuer credit rating. PG&E believes that the benefits to customers of expediting that path, retiring the $6 Billion Temporary Utility Debt, accelerating the final payment to wildfire victims, and sharing any surplus shareholder assets in the Customer Credit Trust more than justify the structure of the proposed Securitization.

25 This result is calculated by taking 25 percent of the expected value of the positive outcomes ($1,142 million is 25 percent of $4,566 million) minus the expected value of the negative outcomes ($152 million).

F. Statutory Requirements for Issuance of the Recovery Bonds

Section 850.1(a)(1)(A) provides that the Commission shall issue a financing order if it finds that issuance of the requested recovery bonds satisfies the following conditions:

- The costs to be reimbursed from the recovery bonds are recoverable from customers as Stress Test Costs pursuant to Section 451.2(c).
- Issuance of the recovery bonds, including all material terms and conditions: (1) is just and reasonable; (2) is consistent with the public interest; and (3) reduces, to the maximum extent possible, the rates on a present value basis that customers would pay as compared to use of traditional utility financing.[26]

As shown by the application and supporting testimony, the proposed Securitization satisfies these conditions. As explained in Chapter 4, Allocation of Settlements to 2017 Wildfires (D. Fischel), and Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), at least $7.5 billion of 2017 North Bay Wildfires claims costs are Stress Test Costs eligible for recovery through the issuance of recovery bonds under Section 451.2(c) and Section 850.1. Issuance of the Recovery Bonds is just and reasonable and consistent with the public interest because it will strengthen PG&E's financial metrics and expedite its path back to an investment-grade issuer credit rating, helping PG&E continue to make critical safety and reliability improvements in its electric system at the lowest cost to customers.

Further, PG&E has committed to provide a Customer Credit designed to equal the costs of the FRCs in each billing period such that customers would not pay any net charges related to the Recovery Bonds. And as set forth above, PG&E proposes to share with customers 25 percent of any surplus that exists in the Customer Credit Trust at the end of the life of the Trust, creating a significant upside opportunity for customers.

As described in Chapter 3, Transaction Overview (M. Becker), the material terms and conditions of the Recovery Bonds, including the FRCs, are reasonable and designed to ensure the lowest-cost, highest-rated bonds possible, targeting the utility securitization market described in Chapter 2,

---

26 *See* Pub. Util. Code § 850.1(a)(1)(A).

Background on Utility Securitization (S. Lunde). Finally, as described in Chapter 7, Comparison of Traditional Financing and Securitization (D. Thomason), issuance of the Recovery Bonds satisfies the requirement that it reduce customer rates on a present value basis as compared to traditional utility financing of $7.5 billion in wildfire claims costs and expenses.

Accordingly, PG&E respectfully requests that the Commission make the determinations necessary to issue a financing order to authorize the Securitization under SB 901.

G. Capital Structure

The Stress Test Methodology adopted in D.19-06-027 states that a utility should specify in a Stress Test application "whether the utility requests a waiver from the Commission of the authorized capital structure in connection with an allocation of Stress Test Costs."[27] In connection with the Securitization, PG&E proposes to remove from PG&E's ratemaking capital structure the securitized debt and, as necessary, any non-cash accounting charges related to future revenue credits associated with the Customer Credit Trust. As already described, the proposed Securitization will enable PG&E to retire the $6 Billion Temporary Utility Debt that PG&E issued at emergence to fund the payment of Fire Claims costs in accordance with the Plan. By facilitating the retirement of the $6 Billion Temporary Utility Debt, the Securitization will remove non-traditional utility debt and thereby help PG&E "regain a closer alignment between aggregate utility debt and the amount of recoverable utility debt," as directed by the Commission in D.20-05-053.[28] Specifically, the special purpose entity (SPE) that issues the securitized debt—not PG&E—will have the legal obligation to pay principal and interest on the debt and such repayment will be

---

27 D.19-06-027 at 17. The most recent Cost of Capital Decision, D.19-12-056, set PG&E's authorized ratemaking capital structure as consisting of 52 percent common equity, 47.5 percent long-term debt, and 0.5 percent preferred equity. PG&E currently has less than 52 percent equity on its financial books, primarily because PG&E issued debt to pay a portion of the liabilities associated with the 2017 and 2018 wildfires. In D.20-05-053, the Commission granted PG&E a temporary waiver of the capital structure requirements for a period of five years from the date of the Commission's decision, subject to certain conditions set forth therein. *See* D.20-05-053 at 92-93. Because the Recovery Bonds will be outstanding for longer than the five-year temporary waiver period, the adjustments requested herein remain appropriate.

28 D.20-05-053 at 92.

supported by a separate and dedicated revenue stream from customers. Thus, the securitized debt is not properly considered PG&E debt as part of its capital structure. However, for financial reporting purposes, the securitized debt will be recorded as a liability on PG&E's consolidated financial statements. In addition, PG&E may be required to record a liability for generally accepted accounting principles (GAAP) purposes related to future revenue credits associated with the Customer Credit Trust. Because these accounting entries do not properly reflect PG&E's debt and equity balances or the manner in which it finances rate base, PG&E believes it appropriate to exclude from PG&E's ratemaking capital structure the securitized debt and the impact of any non-cash GAAP charges associated with the Customer Credit Trust and requests that the Commission approve these adjustments in connection with the application.[29]

H. Overview of the Testimony

PG&E's testimony in support of this application is comprised of nine chapters, summarized as follows:

1. Chapter 1, Introduction (D. Thomason)

2. Chapter 2, Background on Utility Securitization (S. Lunde)

The proposed Recovery Bonds are part of a category of financial instruments generally described as asset-backed securities. This Chapter, sponsored by Steffen Lunde of Citigroup Global Markets Inc., provides general background on asset-backed securities, as well as a more detailed review of the market for utility securitizations. After providing an overview of the history of this market, it surveys the basic structuring principles of securitization financing, with a focus on the considerations relevant to utility securitizations. Chapter 2 also discusses the size of the asset-backed securities market and the pricing mechanics, marketing strategies, and typical fees and expenses associated with these transactions.

---

29 This exclusion would apply equally with respect to the ratemaking capital for purposes of the holding company conditions (*see* D.96-11-017 and D.19-12-056) as well as the Affiliate Transaction Rules (*see* D.06-12-029 (Rule IX.B.)), including in connection with any dividends. Alternatively, as contemplated in A.19-02-016 and D.20-05-053, the Commission could issue a waiver from compliance with the authorized capital structure for these same purposes and associated with the life of the Recovery Bonds. *See* D.20-05-053 at 91 ("The resolution of PG&E's application for securitization may also affect . . . the amount of time it may need for an ongoing capital structure waiver.").

3. Chapter 3, Transaction Overview (M. Becker)

This Chapter provides an overview of the proposed Securitization and explains the key considerations that determined the structure of this transaction. These considerations include the need to structure the transaction to obtain the highest possible rating from credit agencies, as well as tax and accounting issues.

In addition, Chapter 3 describes the characteristics, servicing, transaction costs, and use of net proceeds of the Recovery Bonds. It also lays out details about the proposed collection and remittance of the FRCs.

4. Chapter 4, Allocation of Settlements to 2017 Wildfires (D. Fischel)

This Chapter contains the testimony of expert Daniel R. Fischel, Chairman and President of Compass Lexecon. Analyzing publicly available information about the PG&E wildfire settlements, information submitted in connection with PG&E's Chapter 11 case, and other publicly available metrics, Mr. Fischel opines that approximately $11.2 billion of the approximately $25.5 billion at Plan Value that PG&E will pay or contribute in settlement of Fire Claims as set forth in PG&E's Plan is reasonably attributable to the 2017 North Bay Wildfires. Accordingly, $7.5 billion is eligible for securitization pursuant to SB 901.

5. Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage)

SB 901 introduced the concept of the Customer Harm Threshold (CHT), which measures the maximum costs a utility can incur without ultimately harming ratepayers. In D.19-06-027, the Commission adopted a Stress Test Methodology to implement this standard. After laying out this standard, this Chapter explains why the Commission can and should proceed to apply the Stress Test Methodology without conducting a separate reasonableness review of the 2017 North Bay Wildfire costs at issue.

This Chapter next lays out PG&E's path back to an investment-grade issuer credit rating, as required by the Stress Test Methodology, and explains how the proposed Securitization will support and expedite that path. It then applies the Methodology's three core components—Maximum Incremental Debt Capacity, Excess Cash, and Regulatory Adjustment—to PG&E's financial status following its exit from Chapter 11. The analysis shows that PG&E's Stress Test Costs exceed the $7.5 billion PG&E seeks to securitize. It concludes with a discussion of the associated tax benefits and a description of PG&E's voluntary ratepayer protection measures.

6. Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen)

This Chapter consists of two parts. The first, sponsored by David Thomason, explains the Customer Credit mechanism, which is designed to equal the FRCs and thus provide rate neutrality. PG&E will establish a Customer Credit Trust to distribute these payments, which will be funded by the following shareholder assets: (1) the Initial Shareholder Contribution of $1.8 billion; (2) Additional Shareholder Contributions of up to $7.59 billion; and (3) the Customer Credit Trust Returns. This part of the Chapter details the purpose and management of the Customer Credit Trust, as well as the structure of the Customer Credit and its operation. It concludes by surveying the benefits to customers that result from the proposed Securitization.

The second part, sponsored by Greg Allen, Chief Executive Officer and Chief Research Officer of the investment consulting firm Callan LLC, focuses on the expected value of the investment of funds in the Customer Credit Trust. Mr. Allen employs a Monte Carlo simulation model—variants of which have been used over the last three decades with a wide range of institutional investors—to conclude that it is reasonable to expect that, based on the distribution of potential outcomes, the Trust will generate a sufficient return on investment so that the Customer Credit Trust will fully reimburse customers for the FRCs over the course of the 30-year investment horizon, and will end with a positive balance.

7. Chapter 7, Comparison of Traditional Financing and Securitization (D. Thomason)

As required by statute, this Chapter develops and presents a comparison of the revenue required from customers to recover $7.5 billion of PG&E's costs and expenses related to catastrophic wildfires that ignited in 2017 (2017 Catastrophic Wildfire Costs) under traditional utility financing mechanisms versus the revenue required to recover such costs if financed with securitized debt. This Chapter's revenue requirement calculations demonstrate a present value difference of approximately $4.2 billion through issuance of securitized debt rather than using a traditional recovery method for the Catastrophic Wildfire Costs.

8. Chapter 8, Ratemaking Mechanisms (B. Smith)

This Chapter describes PG&E's proposed ratemaking for the costs associated with the Recovery Bonds described in Chapter 3, Transaction Overview (M. Becker), the FRC, the Customer Credit, the FRC Balancing Account, and the Recovery Bond Tracking Account. The proposed ratemaking mechanisms described in this Chapter are necessary to assure repayment of the Recovery Bonds and accurate accounting for the Recovery Bond-related transactions and the Customer Credit to be funded from the Customer Credit Trust.

9. Chapter 9, Rate Proposal (D. Pease)

This Chapter presents PG&E's rate proposal concerning the FRC and the Customer Credit. It presents the associated revenue allocation and rate design, and describes how the FRC and Customer Credit would show up on customer bills, as well as PG&E's expectations concerning their implementation. This Chapter also explains the non-bypassable nature of the FRC and identifies customers who would be exempt from the FRC and ineligible for the Customer Credit.

10. Exhibit 1.1: Statement Regarding Financial Projections

PG&E's application and supporting testimony, including but not limited to the tables, figures, profiles, calculations, simulations, attachments, exhibits and appendices, include financial projections from 2020 through 2050, and are based on forecasts of operating results during the 30-year period ending December 31, 2050, that are subject in their entirety to the Statement Regarding Financial Projections attached as Exhibit 1.1.

11. Exhibits 1.2 through 1.4: Rating Agency Letters

12. Exhibits 1.5 and 1.6: PG&E Rating Agency Presentation and Model

13. Appendix A: Statements of Qualifications

This appendix sets forth the qualifications of each of the witnesses sponsoring the testimony in support of this application.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.1

STATEMENT REGARDING FINANCIAL PROJECTIONS

Statement Regarding Financial Projections

Pacific Gas and Electric Company's (PG&E) application and supporting testimony, including but not limited to the tables, figures, profiles, calculations, simulations, attachments, exhibits and appendices, include financial projections from 2020 through 2050 (the "**Projection Period**"), and are based on forecasts of operating results during the 30-year period ending December 31, 2050. The materials also include credit metric calculations using these forecasts and reflect current best estimates by PG&E and its advisors of how credit rating agencies will apply their methodologies. Credit rating agencies have not reviewed or endorsed the calculations or the application of their methodologies contained in the testimony. Included below is a summary of key assumptions related to the projections and credit metric calculations (collectively, the "**Projections**").

PG&E, with the assistance of its advisors, has prepared these Projections to assist the California Public Utilities Commission (CPUC) in determining whether to authorize PG&E's proposed securitization.

Other than limited information related to rate base and capital expenditures and the financial projections provided to claimholders in connection with PG&E's Chapter 11 case, PG&E generally does not publish its long-term projections or its anticipated long-term financial position or results of operations.

The Projections have been prepared by the management of PG&E and its advisors, and were not prepared to comply with the guidelines for prospective financial statements published by the American Institute of Certified Public Accountants or the rules and regulations of the U.S. Securities and Exchange Commission (SEC), and by their nature are not financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

PG&E's independent accountants have neither examined nor compiled the accompanying Projections and accordingly do not express an opinion or any other form of assurance with respect to the Projections, assume no responsibility for the Projections and disclaim any association with the Projections.

The Projections do not reflect the impact of fresh start reporting in accordance with American Institute of Certified Public Accountants statement of position 90-7, financial reporting by entities in reorganization under the Bankruptcy Code. PG&E was not required to apply fresh start reporting following the Effective Date of its Plan of Reorganization.

The Projections contain forward-looking statements that are not historical facts, including statements about the beliefs, expectations, estimates, future plans and strategies of PG&E. For years 2020 to 2024, the Projections were derived using the management forecast as of May 18, 2020[1] and July 24, 2020, following PG&E and PG&E Corporation's emergence from Chapter 11, and include forward-looking beliefs, estimates, forecasts and assumptions related to, among other things, credit rating agency methodologies, the terms of the consummated Plan of Reorganization and related capital raises, the continuing availability of sufficient borrowing capacity or other financing to fund operations, the Utility's participation in the statewide wildfire fund created by Assembly Bill 1054, the outcome of regulatory cases and the effect on earnings of such cases, projections of wildfire-related expenditures, anticipated regulatory and legislative policy, anticipated capital expenditures of PG&E, anticipated costs of operations of PG&E, efficiency initiatives, and the timing and amount of dividend payments (Utility preferred stock, distributions to PG&E Corporation by the Utility, and/or PG&E Corporation common stock). For years 2025 through 2050, the Projections were derived by applying certain assumed escalation rates to the forecast for the year 2024 to, among other things, rate base and taxable income. Assumptions were also made regarding projected returns on investment, implementation of customer credits and fixed recovery charges, interest on bonds securitized by the fixed recovery charges, adoption of proposed ratemaking mechanisms and regulatory and legislative policy. The Projections further include estimates regarding tax rates for the Projection Period and deductibility of certain expenses, including wildfire-related expenses, the application of certain net operating losses, and other tax rules and regulations available as of the current date. These statements are based on current expectations and assumptions, which management believes are reasonable, and on information currently available to management, but are necessarily subject to various risks and uncertainties. In addition to the risk that these assumptions prove to be inaccurate, factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include factors disclosed in PG&E Corporation's and the Utility's joint annual report on Form 10-K for the year ended December 31, 2019, their joint quarterly reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020, and other reports filed with the SEC, which are available on PG&E Corporation's website at www.pgecorp.com and on the SEC website at www.sec.gov. Additional factors include, but are not limited to, those associated with the Plan of Reorganization of PG&E and PG&E Corporation that became effective on July 1, 2020. PG&E and PG&E Corporation undertake no obligation to publicly update or revise any forward-looking statements, whether due to new information, future events or otherwise, except to the extent required by law.

The Projections, while presented with numerical specificity, are necessarily based on a variety of estimates and assumptions which, though considered reasonable by PG&E, may not be realized and are inherently subject to significant business, economic, competitive, industry, regulatory, market and financial uncertainties and contingencies, many of which are beyond the control of PG&E. PG&E cautions that no representations can be made or are made as to the accuracy of the Projections or to PG&E' ability to achieve the projected results. Some assumptions inevitably will be incorrect. Moreover,

[1] The May 18, 2020 forecast includes years 2020 through 2025 and is included in PG&E's testimony per direction in the July 28, 2020 Assigned Commissioner's Scoping Memo and Ruling in A.20-04-023.

events and circumstances occurring subsequent to the date on which these Projections were prepared may be different from those assumed, or, alternatively, may have been unanticipated, and thus the occurrence of these events may affect financial results in a materially adverse or materially beneficial manner. PG&E does not intend and does not undertake any obligation to update or otherwise revise the Projections to reflect events or circumstances existing or arising after the date of these Projections, except to the extent needed to respond to discovery or rebuttal testimony provided by PG&E in this proceeding. Therefore, the Projections may not be relied upon as a guarantee or other assurance of the actual results that will occur.

These Projections were developed for the limited purpose of supporting PG&E's application and testimony in this proceeding and should not be used or relied upon for any other purpose, including the purchase or sale of securities of PG&E or PG&E Corporation.

Use of Non-Generally Accepted Accounting Principles Financial Measures
These Projections also contain financial information based on "Funds from Operations" and "Cash Flow from Operations Before Changes in Working Capital" in order to provide a measure that allows rating agencies to compare the ability of utilities to cover the costs of their borrowed capital. "Funds from Operations" is a non-Generally Accepted Accounting Principles (GAAP) financial measure and is calculated as earnings available for common shareholders before interest, taxes, depreciation and amortization, minus net interest expense, minus current tax expense, plus or minus all applicable S&P adjustments. "Cash Flow from Operations Before Changes in Working Capital" is a non-GAAP financial measure and is calculated as net income plus depreciation and amortization, plus or minus any applicable Moody's adjustments that reflect one-time events. Funds from Operations and Cash Flow from Operations Before Changes in Working Capital are not substitutes or alternatives for GAAP measures such as consolidated income available for common shareholders and may not be comparable to similarly titled measures used by other companies. These financial measures are included solely to assist the CPUC in determining whether to authorize PG&E's proposed securitization and should not be utilized or relied upon for any other purpose.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.2

S&P RATING EVALUATION LETTER

(CONFIDENTIAL IN ITS ENTIRETY)

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.3

MOODY'S RATING ASSESSMENT LETTER

(CONFIDENTIAL IN ITS ENTIRETY)

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.4

FITCH RATING ASSESSMENT LETTER

(CONFIDENTIAL IN ITS ENTIRETY)

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.5

PG&E RATING AGENCY PRESENTATION

(CONFIDENTIAL IN ITS ENTIRETY)

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

EXHIBIT 1.6

RATING AGENCY PRESENTATION MODEL

(CONFIDENTIAL IN ITS ENTIRETY)