PG&E HEARING EXHIBIT PGE-13

A.20-04-023

PG&E'S SECURITIZATION 2020

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 3

TRANSACTION OVERVIEW – REBUTTAL

WITNESS: MARI BECKER

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A. PG&E Has a Vested Interest in Obtaining the Best Terms for the Recovery Bonds. [Issue 7]

Wild Tree Foundation (Wild Tree) asserts that, in a securitization transaction, a utility "does not have the incentive to strike the best deal in the marketplace in negotiations with underwriters and investors" and that "PG&E's principal financial objective in this transaction is to get the money from the bonds as quickly as possible."[1] Those claims are baseless. PG&E will pursue the best available terms for the Recovery Bonds directly and through its advisors and agents. This is required by statute[2] and is consistent with PG&E's practices and procedures. In addition, the proposed transaction is unique because PG&E will provide a Customer Credit designed to equal the FRCs paid by customers, which will be funded from shareholder assets in the Customer Credit Trust. PG&E proposes to share 25 percent of any surplus that exists in the Customer Credit Trust at the end of the life of the Trust, with PG&E retaining 75 percent of any such surplus. Because of this structure, it is in PG&E's interest to obtain the lowest cost Recovery Bonds possible, so that the FRCs and Customer Credit are as low as possible, and the surplus as large as possible. PG&E's incentives, which would be aligned with the ratepayers' interests on any securitization transaction, are even more aligned with the ratepayers' interests in this situation. Since serving its testimony, Wild Tree has acknowledged "PG&E would have at least some incentive to get the lowest interest rate possible for the securitized bonds" if it shares in any surplus.[3]

Although the Customer Credit mechanism and surplus sharing make this transaction unique, PG&E proposes to use an approval process consistent with past practice. The proposed transaction includes an issuance advice letter

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1 Wild Tree-Rothschild, p. 16, lines 4-8.

2 Pub. Util. Code § 850.1(a)(1)(A)(ii)(III).

3 Wild Tree's Response to Data Request PGE_WildTree002, Question 11, dated November 6, 2020.

process pursuant to which the Commission is able to review and approve the terms of the Recovery Bonds after pricing and before issuance. Moreover, if requested, PG&E will work with the Commission, including a financing team set up by the Commission, if any, throughout the structuring and pricing process to ensure timely final approval of the Recovery Bond transaction.

B. Pro-Rated Funding of Customer Credit Trust [Issue 7]

PG&E requires the flexibility to issue the bonds in multiple series to achieve the best execution and lowest pricing possible, and PG&E proposes to fund the Customer Credit Trust proportionately with each issuance. For example, if PG&E issues the first series of Recovery Bonds in the amount of $3.75 billion, which is half of the total $7.5 billion of Recovery Bonds, then PG&E would make an Initial Shareholder Contribution of $900 million, which is half of the $1.8 billion total Initial Shareholder Contribution.

PG&E anticipates that the full $7.5 billion of Recovery Bonds would be issued in one or more series in 2021, assuming a final decision in the second quarter of 2021. In this scenario, the Cap for Additional Shareholder Contributions would equal $7.59 billion, and 100 percent of calculated Additional Shareholder Contributions would be contributed to the Customer Credit Trust. However, in the unlikely event that the Recovery Bond issuance is delayed substantially, a similar pro-rata approach would be used for Additional Shareholder Contributions until the full $7.5 billion of Recovery Bonds are issued.

C. Fixed Recovery Tax Amounts [Issue 7]

In the unlikely event of a deficit in the Customer Credit Trust, PG&E requests that the Commission authorize recovery of fixed recovery tax amounts (FRTAs) pursuant to Section 850 to cover the tax payable by PG&E on the FRCs.[4] The amount of the tax gross-up and the corresponding FRTA would be based on the portion of the FRC that pays principal on the Recovery Bonds. The portion that pays interest would not be grossed up because the interest payments would be deducted on PG&E’s tax return. The FRTA shall be nonbypassable and payable by Customers to the same extent as the FRC, but it would not constitute recovery property that is sold to the Special Purchase

[4] *See* Pub. Util. Code § 850(b)(8) (defining fixed recovery tax amounts).

Entity.[5] The revenue from the FRTA would be retained by PG&E to defray the tax liability associated with the FRC.

D. Municipal Departing Load Customers [Issue 9]

The City and County of San Francisco (CCSF) contends that, to the extent any departing municipal customers continue to bear the burden of FRCs, they should also receive associated Customer Credits and Customer Credit Trust surplus on the same basis as other customers.[6] PG&E does not disagree. Mr. Pease's testimony states that "new municipal [departing load] 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."[7] The determination of the credit applicable to departing municipal load customers, however, will be up to the Commission.[8] PG&E cannot speak for the Commission, nor can it predict how the Commission would implement the credit. For example, the transfer of the credit might depend on whether the municipality pays the future FRC obligations of its residents in an up-front lump sum or by collecting and remitting the charges over time. In sum, while PG&E supports the principle that departing municipal load customers should continue to receive the credit, that issue would ultimately be determined by the Commission.

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5 *See* Pub. Util. Code §§ 850(11)(B) (defining recovery property); 850.1(b) (describing obligation to pay FRCs and FRTAs).

6 CCSF-Meal, p. 41, lines 1-4.

7 PG&E Prepared Testimony (Updated), Chapter 9, p. 9-2, lines 18-21. *See also* Financing Order, Ex. 3.1, at FOF 23.

8 *See* Pub. Util. Code § 851(b)(1) (requiring Commission approval for a voluntary or involuntary change in ownership of assets from an electric or gas corporation to ownership by a public entity).