Docket A.20-04-023

CCSF CROSS EXAMINATION EXHIBIT

CCSF-12. PG&E Response to CCSF Seventh Set of Data Requests (dated December 2, 2020), Questions 3 and 8

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

PG&E Data Request No.:	CCSF_007-Q01-09		
PG&E File Name:	Securitization2020_DR_CCSF_007-Q01-09		
Request Date:	November 19, 2020	Requester DR No.:	007
Date Sent:	December 2, 2020	Requesting Party:	City and County of San Francisco
PG&E Witness:	Q1: Brad Cornell Q2-Q3: Brad Cornell & David Thomason Q4: David Thomason Q5: Brad Cornell Q6: Greg Allen Q7-Q9: 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

Regarding page 6-17 of PG&E's Rebuttal:

> "In fact, in a data response, TURN states that the probability of a surplus in the Customer Credit Trust is 76 percent using TURN's model of the schedule of Additional Shareholder Contributions and the investment returns in Greg Allen's Monte Carlo simulation model. Thus, even using the flawed base assumptions of Mr. Ellis with respect to future taxable income, the proposed Securitization is rate neutral by a substantial margin."

a. Please explain what PG&E meant by the phrase "by a substantial margin."

b. Using PG&E's definition of "rate neutrality," at what percentage would the probability of surplus resulting from these calculations make the transaction <u>not</u> to be "rate neutral"? 70%? 60%? 50%?

ANSWER 01

a. The phrase “substantial margin” is a qualitative term, and PG&E does not have a precise quantitative definition for when the expected customer benefits would first become positive “by a substantial margin.” PG&E believes that the net present value expected customer benefit of $334 million reflected in Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), Table 10-2, constitutes a substantial margin, as does the alternative $221 million present value calculation reflected therein.

b. The rate neutrality of the Securitization cannot be determined solely from the percentage probability of a surplus; rather, in order to determine if the present value of the expected net cash flows to/from customers is neutral or positive, it also requires knowledge of the *magnitude* of potential surpluses and deficits, as well as the size and timing of any other net cash flows to/from customers resulting from the Securitization. Accordingly, it is not possible to specify any particular percentage in response to this question.

QUESTION 02

On page 6-3 of PG&E's Rebuttal, PG&E states,

> "PG&E has already conferred a benefit on ratepayers through the proposed Securitization by agreeing to waive recovery of just and reasonable wildfire costs."

With regard to that testimony, please answer the following:

a. Explain PG&E's reasoning (suggested on page 10-2) behind the idea that the Commission should consider PG&E's waiver of its ability to collect certain wildfire cost claims as a benefit of the Securitization, when the application has not been approved yet. In other words, because PG&E has agreed to waive recovery of wildfire costs whether or not the Securitization is approved, how does PG&E justify characterizing the waiver as a benefit conferred upon ratepayers by the Securitization?

b. Does PG&E agree that the Commission could have denied PG&E’s claim for those costs had PG&E sought to recover them from ratepayers? If the answer is no, explain the basis for PG&E’s claim that the Commission would have had to allow PG&E to recover those costs from ratepayers?

ANSWER 02

a. As described in PG&E’s testimony, including Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), and Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), PG&E agreed to waive any right to recover certain just and reasonable wildfire claims costs, other than through this rate-neutral Securitization, as part of its agreement with the Governor’s Office. *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. Absent that agreement, PG&E could have sought recovery for just and reasonable costs incurred to resolve those claims or sought to securitize amounts as Stress Test Costs without rate neutrality. Thus, the agreement conferred a benefit upon ratepayers by removing the risk of PG&E recovering those costs without providing offsetting Customer Credits to ratepayers. That PG&E has already delivered that benefit, through its agreement with the Governor, is not license to ignore its existence.

b. PG&E objects to this request as ambiguous and calling for speculation. Whether and to what extent the Commission could and/or would have denied cost recovery would have depended upon the record that would have been developed in the Commission's proceeding, and the Commission's evaluation thereof. The outcome of any such application was uncertain. By agreeing to waive such claims, PG&E eliminated that potential cost to customers.

QUESTION 03

Did PG&E attribute a dollar amount to the "waiver of wildfire claims" as noted in the following sentence from page 6-18 of PG&E's Rebuttal?

> "In all cases, the benefits of surplus sharing, reduced interest costs, and the waiver of recovery of wildfire claims render the proposed Securitization not just rate-neutral, but rate positive by a significant margin."

a. If the answer to the above is yes, what is the dollar amount PG&E estimates it could have recovered from ratepayers had it not waived its ability to collect certain wildfire cost claims from ratepayers?

b. If the answer to the above is no, what is the dollar amount PG&E estimates it could have recovered from ratepayers had it not waived its ability to collect certain wildfire cost claims from ratepayers?

c. If there were a shortfall in the Customer Credit Trust at the end of the 30 year term, is it PG&E's contention that, the Securitization would be "rate-neutral" as long as anticipated interest cost savings attributable to the Securitization that are passed on to ratepayers are higher than the shortfall?

ANSWER 03

a. – b. PG&E has not attributed a dollar amount to the wildfire claims costs it believes it would have been able to recover absent waiver. The amount of recovery would have been determined by the Commission.

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

As explained in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), rate neutrality depends on the *expected value* of the Customer

Credit and the *expected value* of the interest cost savings. In the unlikely event that there is a shortfall in the Customer Credit, the Securitization would nevertheless be rate neutral if the expected value of the shortfall is smaller than the expected value of the interest cost savings. *See* Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell).

QUESTION 04

Regarding Table 10-3 of PG&E's Rebuttal, explain why PG&E chose 2029 as the year to model a scenario with no taxable income. Does PG&E agree that, were PG&E to have zero taxable income in 2026, the Customer Credit Trust balance would be insufficient to pay the Fixed Recovery Charge during at least one year?

ANSWER 04

PG&E objects to this request as calling for speculation and presenting an incomplete hypothetical. Subject to its objections, PG&E responds as follows:

PG&E presented an alternative scenario in which all taxable income is eliminated in 2029 to provide an illustrative example of the potential impact on the expected value of the Customer Credit Trust of a catastrophic event such as a major wildfire in the next few years, followed by several years of legal proceedings to resolve third-party claims (which would be paid through insurance and the Wildfire Fund), followed by a CPUC proceeding to determine prudence (which is assumed to begin after the claims are resolved), followed by a reimbursement to the Go-Forward Wildfire Fund up to the disallowance cap. A scenario in which there is a single wildfire payout before 2035 that is ultimately not recoverable and of such magnitude as to eliminate all taxable income for that year is a reasonable alternative scenario to evaluate the risks and benefits related to the proposed Securitization. For the avoidance of doubt, PG&E is not predicting that any of these events is likely to occur.

PG&E does not agree that, were PG&E to have zero taxable income in 2026, there would be insufficient funds in the Customer Credit Trust to provide a Customer Credit equal the Fixed Recovery Charges for at least one year.

QUESTION 05

Please provide all workpapers supporting Chapter 10: Rebuttal Regarding Customer Benefit.

ANSWER 05

PG&E has produced in response to Question 6 in TURN's fifteenth set of data requests, all responsive workpapers.

QUESTION 06

Please provide the following amounts for 2021 through 2050 under the three alternative scenarios used to construct Tables 10-3, 10-5, and 10-6 of PG&E's Rebuttal:

a. Forecast Taxable Income

b. Additional Shareholder Contributions

ANSWER 06

PG&E refers CCSF to 2020Securitization_DR_CCSF_007-Q06_PGE_SecuritizationWorkingModel and 2020Securitization_DR_CCSF_007-Q06_PGE_Shareholder_Contributions.xlsx. For purposes of Table 10-5, PG&E used the contributions in Figure 6 for the 20% less taxable income scenario set forth in the testimony of CCFS witness Margaret Meal. There is no taxable income forecast for Table 10-5. For Table 10-6, PG&E used the contributions in Figure 5 of the original testimony of TURN witness Mark Ellis. For the reasons described in footnote 18 of Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), PG&E used the amounts in Figure 5 of Mark Ellis' original testimony.

QUESTION 07

On page 10-19, footnote 19 of PG&E's Rebuttal, PG&E notes:

> "There are four trials out of Mr. Ellis' 2000 trials with interim shortfalls that would be repaid when funds from Additional Shareholder Contributions become available. For my calculations, I have adjusted those four trials to reflect repayment of the interim customer shortfalls in the subsequent year."

With regard to that testimony, please clarify whether it is PG&E's proposal to repay any shortfalls in the Customer Credit Trust (where Fixed Recovery Charge > Customer Credit Trust) in (a) the subsequent year(s) in which funds are available, (b) at the end of the 30-year term, or (c) at some other period of time? Please identify any testimony or data request response in this proceeding in which PG&E has made this proposal clear. Where and how would PG&E provide assurances to ratepayers of this element of its proposal (e.g., ordering paragraphs in a Commission decision, the Financing Order, etc.)?

ANSWER 07

As described in Chapter 6, Customer Credit Mechanism and Investment Returns – Rebuttal (D. Thomason; G. Allen), if assets in the Customer Credit Trust are insufficient to fund a Customer Credit equal to the FRCs for a period of time, the future Customer Credit Trust balance will be used to make up any previous shortfalls in Customer Credits in the subsequent year(s) in which funds are available. PG&E will conform the form of Financing Order consistent with Chapter 6.

QUESTION 08

On pages 6-14 to 6-15 of PG&E's Rebuttal, PG&E lists a number of extraordinary events that have affected PG&E's historical EBIT (e.g., 2000-2001 energy crisis, San Bruno gas explosion, 2017-18 wildfires).

a. Does PG&E's income forecast account for the possibility of any extraordinary events occurring in the future?

b. Is PG&E aware at this time of any possible claims against PG&E that PG&E would classify as an "extraordinary event"?

ANSWER 08

a. PG&E's long-term taxable income forecast incorporates PG&E's updated financial forecast through 2024 and estimated rate base growth of 7% from 2025 through 2030 and 5% thereafter. This forecast is reasonable based on PG&E's historical rate base growth, and likely conservative given the substantial capital investments PG&E will make in the coming years to replace aging assets and implement fire risk mitigation, including system hardening, and other projects to meet California's climate policy goals. The key period is from 2021 through 2035, when the cap of $7.59 billion in Additional Shareholder Contributions is expected to be reached. PG&E's taxable income forecast reflects the best available data to input into the Monte Carlo simulation model to evaluate the expected value of the Customer Credit Trust over the life of the Recovery Bonds. Although PG&E's actual taxable income may be higher or lower than the forecast, or may experience shocks in the future, such possible developments have not been incorporated into the model because they cannot be predicted with accuracy, and historical results do not provide a reasonable basis to alter the taxable income forecast because they reflect a number of extraordinary events that are not predictive of future events, as explained in more detail in Chapter 6, Customer Credit Mechanism and Investment Returns – Rebuttal (D. Thomason; G. Allen). *See* pp. 6-14 to 6-16. In its rebuttal testimony, PG&E presented alternative scenarios of the Monte Carlo simulation model that show sensitivities of the expected value of the Customer Credit Trust to changes in future taxable income, including scenarios in which all taxable income is eliminated in a single year (Chapter 6, Customer Credit Mechanism and Investment Returns – Rebuttal, p. 6-32; Chapter 10, Expert Rebuttal Regarding Customer Benefit, pp. 10-13 to 10-15); PG&E's taxable income is 20% below PG&E's forecast every year (pp. 10-16 to 10-17); and PG&E makes Additional Shareholder Contributions more slowly as posited by TURN (pp. 10-18 to 10-21). These alternative scenarios confirm that the proposed Securitization is beneficial to customers under a wide range of outcomes.

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

PG&E construes this question to ask whether PG&E is aware of claims based on extraordinary events that have already occurred. PG&E is not aware of any such claims.

QUESTION 09

In Table 2-2 of PG&E's Rebuttal, PG&E states “Upfront Transaction Costs & Expenses” are “Not included in the issuance amount; PG&E to pay costs and expenses directly.” On page 5-18, PG&E states that $150 million of the proceeds will be used “for transaction and financing costs” and another $150 million will be used for “insurance costs and accrued interest”. With regard to Table 2-2 and this testimony, please answer the following:

a. Identify all of the “Upfront Transaction Costs & Expenses” mentioned in Table 2 that PG&E will pay “directly”.

b. State the amount of the Upfront Transaction Costs & Expenses” mentioned in Table 2 that PG&E will pay “directly” by each cost and expense category identified in response to Question 9.a.

c. Identify all the “transaction and financing costs” mentioned on page 5-18.

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PG&E objects to as relying on an incorrect premise. Subject its objections, PG&E responds as follows:

CCSF appears to misunderstand the Chapter 2, Background on Utility Securitization (S. Lunde), and Chapter 5, Stress Test Methodology – Rebuttal (D. Thomason; J. Sauvage). The “Upfront Transaction Costs & Expenses” listed in Table 2-10 refer to the estimated $36 to $57 million in bond issuance costs described in Chapter 3, Transaction Overview (M. Becker). The $150 million of proceeds described on page 5-18 is inclusive of the $36 to $57 million in bond issuance costs, and the remaining proceeds from the $150 million will be used for accrued interest or any other transaction costs or costs of retiring debt incurred to pay costs of catastrophic wildfires. There is not “another” $150 million that will be used for insurance costs and accrued interest.

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