PG&E HEARING EXHIBIT PGE-15-A

A.20-04-023

PG&E'S SECURITIZATION 2020

Errata: Pages 6-25, 6-27 of Chapter 6, Customer Credit Mechanism & Investment Returns – Rebuttal
(David Thomason; Greg Allen)

One of the most well-respected surveys of this nature is conducted annually by Horizon Actuarial Services LLC, which is attached hereto as Exhibit 6.2. Horizon has been conducting this survey on an annual basis since 2008 to help inform the development of their own long-term investment return assumptions to be used in their long-term actuarial financial modelling work. Horizon's survey employs a very similar methodology to the one used by TURN. In 2020 Horizon surveyed 39 different investment firms asking for their long-term capital market assumptions for various asset classes (this contrasts with only 18 firms surveyed by TURN – less than half). Because Horizon has been doing this for over a decade they have been able to refine their process and the constituents of the survey. They have made a careful effort to include firms in their survey that are known for making long-term capital market assumptions, and exclude firms whose assumptions represent shorter time horizons and are used for more near-term, tactical purposes. TURN's survey, by contrast, is dominated by shorter-term projections. For example, of the 18 firms now used by TURN, only two state that the time horizon for their projections is 30 years. These two are Callan, whose projected returns are used by PG&E, and BlackRock, whose equity returns (comprising 80% of the portfolio), are higher than Callan's.[27]

Horizon also delves into the methodology (and the implied time horizons) employed by the respondents in their survey. In their 2020 survey Horizon had a sufficient number of respondents that provided explicit long-term projections (18 in total) that they elected not to attempt to convert short-term projections into long-term projections. ~~and has developed a robust approach to translating all of the responses into long-term (20-year)~~

[27] TURN's Response to Data Request PGE_TURN002, Question 4, Table DR2-Q4-1, dated October 27, 2020.

~~projections. The adjustments that they make, for example, to translate a 10-year projection into a 20-year projection for Investment Firm A are tailored to their understanding of the process employed by Investment Firm A~~.

only nine firms for which TURN was able to develop explicit projections for all three of the asset classes employed in the PG&E analysis. By contrast, the Horizon study surveyed 39 firms, with 18 of those firms providing explicit long-term ~~and developed asset class~~ projections for all~~those~~ three asset classes.~~ for all of them.~~

Based on these observations regarding the execution of the TURN survey, I would suggest that the Horizon survey represents a more robust (and objective) approach that accomplishes exactly what TURN was trying to achieve in their testimony. To that end, Table 6-11 (data extracted from the Horizon survey) contrasts the long-term assumptions used in the PG&E Monte Carlo simulation model (the last column) relative to the distribution of long-term assumptions for the Horizon survey respondents. The bottom row of the table shows the long-term median return that would result from applying the asset class assumptions above in the table to the 80/20 mix assumed in the PG&E analysis. As the table illustrates, using the median long-term return assumptions for the respondents in this survey would result in a median projected return for the 80/20 portfolio that is 10 basis points above what was used in the analysis for PG&E. In other words, the accurate peer comparison analysis does not suggest that the PG&E assumed returns are too high, but just right or slightly low.