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PREPARED TESTIMONY OF
JENNIFER DOWDELL

PUBLIC VERSION

ADDRESSING POLICY AND RATEPAYER-NEUTRALITY ISSUES RELATING TO THE PROPOSAL BY PACIFIC GAS AND ELECTRIC COMPANY TO SECURITIZE $7.5 BILLION OF WILDFIRE LIABILITIES

Submitted on Behalf of

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1. Introduction and Summary

This testimony addresses issues of ratepayer benefits and fairness related to PG&E's proposal to refinance $6 billion in 2017 Wildfire Victim's Trust liabilities through the issuance of $7.5 billion of securitized bonds (recovery bonds) with a 30-year term.[1] PG&E's plan would securitize cash flows from a monthly dedicated rate component on ratepayer's energy bills. This dedicated rate component would raise rates. PG&E proposes to maintain ratepayer neutrality by providing offsetting monthly credits through the Customer Credit Trust (CCT). The CCT is an investment vehicle that would be funded by a combination of an initial cash deposit, PG&E's future cash from tax benefits and investment income earned by the CCT over time. At the end of the 30-year securitization term, 25% of the surplus funds (if any) remaining in the CCT would be returned to ratepayers.[2]

PG&E is clear that its proposed Securitization Plan offers no guarantee that ratepayers will be repaid. Ratepayer credits are expressly limited to the monies available in the CCT. PG&E's commitment to fund the CCT is limited to its Initial Contribution of $1.8 billion, plus the amount of its current estimate of tax benefits. PG&E states that the expected value of the CCT is sufficient to repay ratepayers and provide them a significant surplus. However, should the CCT be insufficient to repay the fixed rate surcharge in part or in whole, ratepayers will be required to backstop 100% of any shortfall.

In addition to repayment of the bond costs and an investment return from the CCT, PG&E claims ratepayers will benefit from the securitization because PG&E will attain investment-grade issuer credit ratings two years faster, all other things being equal.[3] PG&E asserts that accelerating its improvement to investment grade credit ratings by two years would save a total of $423 million on its 2023 and 2024 long-term debt issuances over the life of the bonds, and that these savings would accrue to ratepayers.[4] It also asserts that

[1] PG&E's Updated Testimony p. 1-2.
[2] *Id.*
[3] PG&E Updated Testimony, p. 5-34.
[4] PG&E Updated Testimony, p. 5-33.

short-term collateral postings would be reduced by $9 million per year.[5] In sum, PG&E states: "the proposed Securitization is a cost-efficient, rate-neutral, and customer-protective mechanism for financing PG&E's 2017 wildfire claims costs that, if approved, will support PG&E's path to an investment-grade issuer credit rating and investment-grade unsecured debt ratings, and will benefit PG&E and its customers [ratepayers]."[6]

TURN disagrees that ratepayers would benefit from PG&E's proposal. PG&E's plan would not provide fair and equivalent compensation to ratepayers for their fixed recovery charge surcharge payments. As such it is not neutral to ratepayers. Instead, as discussed in this testimony, when the risk surrounding CCT repayment is taken into account, any rational investor would view the CCT as much less valuable than the FRC payments that ratepayers would be forced to make. In addition, as discussed in the accompanying testimony of Mark Ellis, TURN's analysis using PG&E's own model demonstrates that, when more reasonable base case assumptions are used for the timing of contributions to the CCT and the future level of investment returns, there is a significant likelihood that the CCT will run out of cash during the debt term of the securitization.

Furthermore, as explained below, TURN finds that the ratepayer savings PG&E estimates would result from an accelerated path to investment grade issuer credit ratings are overstated and, in fact, low relative to the time, effort and fees[7] associated with this complex financing. Indeed, it is dubious that *any* such ratepayer savings would be achieved, since the credit ratings agencies have not stated that securitization would accelerate achievement of investment grade credit ratings,[8] all else being equal. In short, PGE's plan is unlikely to provide significant benefits and is not worth imposing unnecessary financial risks on ratepayers.

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[5] PG&E Updated Testimony, p. 5-34.
[6] PG&E Updated Testimony, p. 5-19.
[7] ". . .Such as servicing fees, trustee fees and expenses legal fees auditor expenses, administration fees, rating agency fees, independent manager fees, SEC reporting expenses, and other operational expense incurred by or on behalf of the SPE . . .." PG&E Updated Testimony, p. 2-12.
[8] PG&E Updated Testimony Exhibit 5.6, S&P Ratings Action and Report; Exhibit 5.7, Moody's Rating Action and Reports; and Exhibit 5.8 Fitch Rating Action.

In addition, PG&E's plan would inappropriately force ratepayers to become involuntary investors in a risky scheme whose repayment and returns depend on PG&E's future profits. Certainly, the assertion by Wildfire Claimants of a nearly 30% loss in settlement value even before PG&E made its equity contribution to the Wildfire Victim's Trust should add a note of caution to the Commission's consideration of this securitization proposal.[9] Changes in equity value are directly related to market assessments of the level and riskiness of future earnings from which the CCT would be funded. Finally, PG&E's plan forces regulators and ratepayers into conflict with their natural interests regarding the future approval of PG&E's assumed levels of rate base, rates and profits.

For these reasons which TURN will detail in the testimony below and in TURN-02, Testimony of Mark Ellis, TURN urges the Commission to find that PG&E's Securitization Plan does not support ratepayer neutrality and to reject PG&E's application.

2. PG&E's Securitization Plan Requires Ratepayers to Undertake a Risky, Long-Term Financial Investment that Third-Party Investors would not Accept on Comparable Terms.

Under its proposal, PG&E would effectively sell ratepayers the CCT in exchange for the legally guaranteed requirement to make 30 years of surcharge payments, called the fixed recovery charge (FRC). It is hoped, but not guaranteed, that the CCT would generate a monthly income that offsets ratepayers' FRC payments in each billing period, and return 25% of any remaining residual value to ratepayers at the end of the 30-year investment term. PG&E claims the cash generated by the CCT is an investment that will offset the FRC for the next 30 years and will keep ratepayers whole. But, if the funds in the CCT prove insufficient, ratepayers will receive no residual value, but instead would be required to backstop any shortfall, as compared to the FRC payments.

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[9] PG&E Bankruptcy Case No. 19-30088, Doc 307, Declaration of Eric Lowrey, CIRA, Exhibit B, asserting that, as of early April 2020, the Fire Victim Equity to be contributed to the Victim Trust was currently estimated to be worth approximately $4.85 billion, materially less than $6.75 billion, and it could decline further.

The FRC, which once authorized cannot be rescinded, would compel ratepayers to provide 30 years of surcharge payments *regardless of whether they are paid back* from the CCT. This ratepayer commitment would encumber the bills of literally a generation[10] of California utility customers. The magnitude and length of the obligation to be imposed on ratepayers makes it imperative that the Commission fully assess the risks and value of PG&E's proposal relative to what ratepayers are being asked to pay for it.

Absent the securitization, PG&E will borrow long-term debt to finance its disallowed wildfire liabilities based on its own credit ratings, which are below investment grade. The stated purpose of PG&E's Securitization Plan is to obtain lower-cost, more favorable financing than would otherwise be available to PG&E given its credit ratings.[11] Instead of PG&E paying bondholders directly, captive ratepayers would provide credit enhancement (in the form of guaranteed FRC payments), thus achieving lower interest rates. Since ratepayers provide 100% of the debt payments, the riskiness of PG&E's credit (its promise to pay) is removed entirely from the bondholder's credit considerations.

As a result, PG&E's proposal would effectively transfer all non-payment risk from bondholders, who would obtain a legally guaranteed stream of payments, to ratepayers, who would receive only the hoped-for repayment from the proceeds of the CCT. The end result is that *only* ratepayers are exposed to the risk of non-payment.

The risks that the CCT will not make all required payments to reimburse ratepayers are significant. There is risk, commensurate with that of an equity investment, surrounding the level of PG&E's future profits, on which PG&E's ability to contribute the assumed levels of tax benefits to the CCT depends. In addition, PG&E "believes" but does not guarantee ratepayers that the CCT is bankruptcy remote.[12] PG&E "expects" the CCT will not be

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[10] Cambridge Dictionary defines a generation as "a period of about 25-30 years in which most human babies become adults and have their own children." https://dictionary.cambridge.org/dictionary/english/generation

[11] PG&E Updated Testimony p. 1-2.

[12] "PG&E *believes* that the proposed transaction will protect the funds needed to pay the Customer Credit from claims of PG&E's creditors…as long as it does not conduct business, it should not be eligible to file for bankruptcy." (PG&E Updated Testimony, p. 6-17, emphasis added).

eligible to file for bankruptcy.[13] "Believes" and "expects" are not the same as an assurance.[14] Furthermore, as TURN will address in TURN-02, future investment returns (on which the CCT credits to customers and residual depend) are uncertain and over the 30-year period could include losses as well as gains. In nominal terms, PG&E would make total shareholder contributions to the CCT of $9.39 billion[15] as compared with the total FRC of $11.46 billion extracted from ratepayers over 30 years.[16] This means that PG&E is counting on roughly $2 billion in net investment returns for ratepayers nominally to receive full credits for their FRC payments -- a risky proposition.

PG&E's own modeling results demonstrate that the CCT is hardly a "sure thing." PG&E admits that the CCT had a negative terminal balance in roughly 16% of simulations.[17] PG&E sought input from advisor banks regarding the feasibility or cost of monetizing NOLs by way of a sale or other structured transfer of the value of such tax benefits to an investor or investors."[18] However, "PG&E did not market such a transaction to investors."[19] A PG&E analysis shows [begin CONF] [redacted] [end CONF][20] The fact that the CCT entails significant risk is clearly demonstrated

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[13] "The Customer Credit Trust, thus will not function as a 'business trust' with the authority to carry out general business activities. PG&E *expects* that, as a consequence, the Customer Credit Trust will not be eligible to file for bankruptcy protection." (PG&E Updated Testimony, p. 6-3, emphasis added).
[14] The relative uncertainty captured by "believes' and "expects" is particularly stark when compared against the iron-clad language regarding bankruptcy that PG&E provides in Exhibit 3.1, Form of Financing Order for Proposed Securitization.
[15] Calculation: $1.8 billion in Initial Contributions + $7.59 billion in tax benefits = $9.39 billion total shareholder CCT contributions.
[16] PG&E Update Testimony, p. 6-15, Table 6-3, line 12 sum from 2021-2050 of Annual Customer Credit RRQ = $11.461 billion.
[17] PG&E Update Testimony, p. 6-21 states: " Across the full range of 2,000 simulations generated by the model, the Customer Credit Trust had a positive terminal balance in roughly 84 percent of the outcomes." This implies that the CCT had a zero or negative terminal balance in 16% of outcome since 100%-84%=16%
[18] Response to TURN_DR_01 UPDATED, Q02 part a (Attachment B to this Testimony).
[19] Response to TURN_DR_01 UPDATED, Q02 part c.,d. (Attachment B to this Testimony).
[20] Response to TURN DR 01, Q2_Atch04CONF.pdf, p. 8. (Confidential Attachment to this Testimony). Analysis provided by PG&E's consultants (based on a prior forecast) [Begin CONF [redacted] [End CONF] as compared to the $7.5 billion to be received from ratepayers under the proposal here.

by the fact that bondholders require the FRC cash flows as opposed to securitizing the cash stream pledged to fund the CCT directly.

2.1 PG&E's Past Operating Performance Makes Utilization of Future Tax Benefits Uncertain.

PG&E's repayment obligation to ratepayers is limited to the funding available through the CCT.[21] In turn, the CCT is capped at an initial shareholder cash contribution of $1.8 billion, future tax benefits not to exceed $7.59 billion,[22] and investment returns on those amounts. After the initial contribution, PG&E intends to directly contribute no more than the shareholder tax benefits, and it may contribute less, depending on whether it has sufficient profits to fully utilize this current bank of tax benefits.

If PG&E experiences significant losses due to operational issues that are not recoverable in rates, this event may significantly alter the timing of shareholder contributions because of insufficient taxable income against which to apply the tax benefits. In addition, PG&E acknowledges that, if effective tax rates are different than forecasted, "the Additional Shareholder Contributions for any particular tax year will be larger or smaller than the projections and the Cap [$7.59 billion] may not be reached at all…"[23]

As the Commission well knows, PG&E has a history of operational problems that have caused its earnings to suffer. Most notably, in 2015, the Commission levied fines and other penalties of $1.6 billion[24] associated with the San Bruno explosion and, earlier this year, imposed penalties totaling $2.137 million for the role PG&E's facilities played in igniting wildfires in 2017 and 2018.[25] In addition, other significant fines and penalties against PG&E include $35.5 million for PG&E gas distribution system incidents resulting from record-keeping failures[26] and $110 million for problems with PG&E's "locate and

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[21] PG&E Updated Testimony, p. 1-14.
[22] PG&E Updated Testimony, pp. 6-6-6.7.
[23] PG&E Updated Testimony, p. 6-12.
[24] D.15-04-024 at 1.
[25] D.20-05-019, p. 2. Of the total penalty amount, the Commission suspended a $200 million fine payable to the General Fund because of PG&E's financial challenges.
[26] D.16-08-020 at 2.

mark" program for identifying the location of underground gas and electric facilities.[27] Given PG&E's recent record of operational failures in both its electric and gas divisions, significant reductions to PG&E's forecasted future earnings are not inconceivable.

Indeed, taxable income could be affected by various factors, including disallowances, penalties, size of approved rate base, or level of authorized ROE. Even reasonably expected deviations from a forecast, such as lower than forecast rate base or a lower authorized return on rate base, can push out the timing of CCT contributions, increasing uncertainty. For example, a small change such as reducing PG&E's taxable income in Table 6-2[28] by a one-year 10% reduction in rate base in 2022 due to 10% lower than authorized rate base would reduce taxable income in each future year, and push out the timing of the final contribution from 2035 to 2036. This assumes that *all other rate base requests are granted as forecasted going forward*, which seems unlikely. TURN's point in this example is that much of the CCT's feasibility depends on the Commission approving, and PG&E achieving, substantial and sustained rate base growth for the next 30 years. "Financial projections from 2025 through 2050 are based on the underlying assumption that annual rate base growth, and hence earning and taxable earnings, is 7% through 2030, and 5% form 2031 through 2050," an aggressive assumption,[29] whose implications for customer rates are troubling. The accompanying testimony of Mark Ellis tests other sensitivities that could adversely impact the funding and cash value of the CCT.

2.2 The Customer Credit Trust is Not An Asset Third Party Investors Would Accept in Exchange for Cash and Its Value Is Unknown

PG&E offers ratepayers the CCT as a means to repay the FRC without the company having to guarantee ratepayer repayment directly.[30] But the CCT is an asset whose value is unknown because PG&E never even attempted to market the CCT structure to third-party

[27] D.20-02-036, p. 2.
[28] PG&E Updated Testimony, p. 6-11.
[29] PG&E Response to Energy Division DR No. 01, Q02 (Attachment C to this Testimony).
[30] "In the event that PG&E would 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 metric would not occur." (PG&E Updated Testimony, p. 1-14).

investors.[31] When asked by TURN, PG&E could not provide any estimate as to how much capital a CCT-like structure based on net operating loss (NOL) tax benefits could raise in a market transaction that did not depend on captive ratepayers. PG&E stated that it did not have "a best estimate of the range of implicit interest rates or the amount of financing available" from a transaction like the CCT.[32]

PG&E did acknowledge that a transaction like the CCT between third-party investors would be "more expensive, less efficient, and less credit positive than alternative available financings and the proposed securitization."[33] Certainly "alternate available financings" would include debt capital that PG&E finances directly on the strength of its own credit rating, which is BB-, a speculative investment.[34] A speculative-grade debt is an obligation judged by credit rating agencies to be "subject to substantial credit risk" at best and one "with little prospect of recovery of principal or interest"[35] at worst. So, while the precise value of the CCT is unclear, it can be inferred that a reasonable investor would view the CCT's risk of non-payment as substantial, and the likelihood of full repayment a speculative proposition.

2.3 A Practical Risk Analogy

Imagine you had a nephew, Bill, who had prior bankruptcies and some felony convictions, but who was otherwise well-intentioned and in the process of getting his life back on track. Bill tells you he has landed a new job. Although a bus will take him there, Bill would be better able to arrive on time (and he asserts more likely to be successful), if he had a car to drive. Unfortunately, Bill has poor credit. He also doesn't have the savings to buy a car with

[31] PG&E Response to TURN Data Request 1, Question 1 and Question 2.c,d (Attachment B to this Testimony)(PG&E did not market a transaction that was based on monetizing the value of its expected NOLs).
[32] *Id.*
[33] *Id.*
[34] Investment grade credit ratings are BBB-/Baa3 up to AAA/Aaa1 under S&P and Moody's respective rating scales; any debt rated below BBB-/Baa3 is called speculative grade credit.
[35] Moody's Investor Service, Rating Symbols and Definitions, Moody's Global Long-Term Rating Scale, p. 6. https://www.moodys.com/sites/products/AboutMoodysRatingsAttachments/MoodysRatingSymbolsandDefinitions.pdf

cash outright. Your nephew will have to pay a higher interest rate on the car loan than he would like unless you agree to buy the car for him.

You don't have the cash to buy the car, but you do have excellent credit; so, your car loan will be at a much lower interest rate than what the bank would offer your nephew. Bill promises that if you buy the car on his behalf, he will pay you back every penny and probably a little more if everything works out as he expects.

Although, Bill's other financial obligations take up most of his monthly after-tax salary, he has some savings; and every year he gets a lump sum refund on his taxes. Your nephew proposes to open an investment account with his savings, and to deposit the tax refund checks into the account when he receives them each year. The idea is that you will buy the car for him, each month you will pay the car loan to the bank, and he will reimburse you using a combination of the principal and earnings from the investment account. If Bill doesn't receive any tax refund checks because he loses his job, or the money from the investment account isn't what he'd hoped, Bill admits that he is not going to pay you back. And you can't make him.

Under these circumstances, buying the car for Bill would not be a sound financial investment. Nor would PG&E's proposal be a sound investment for ratepayers. While in this analogy, your charitable impulses for your nephew might lead you to accept the deal, here, PG&E's proposed transaction should be viewed strictly on financial, not charitable, terms. Ratepayers should not be forced to accept such an unsound financial deal.

3. PGE's Securitization Plan Would Force Ratepayers to Accept a Significantly Less Valuable Investment than the Fixed Recovery Charge Payments They Are Required to Make

PG&E asserts that its Securitization Plan would be neutral and even beneficial to ratepayers because PG&E projects full repayment of the FRC in each period. However, PG&E fails to account for the difference in risk between the FRC and the CCT ratepayers receive in return. Taking into account the risks to ratepayers and adjusting the estimates of benefits, PG&E's Securitization Plan is not beneficial or even neutral to ratepayers. As shown below, TURN's analysis of the value given for the value received, shows that ratepayers' compulsory investment in the CCT results in a net present value *loss* for ratepayers ranging from roughly $900 million to more than $4 billion over the 30-year term of PG&E's securitization as compared with the value of ratepayers' FRC.

3.1 Comparison of the Payments Under the FRC and the CCT Requires Accounting for Risk

Both the securitized bonds (which quantify the value of the FRC at $7.5 billion) and the CCT contain some repayment risks. PG&E's analysis fails to recognize, however, that the payments from the CCT have a much higher risk of non-payment than the FRC dollars contributed by ratepayers.[36]

Since recovery of the FRC revenue requirement is guaranteed through a dedicated rate component, the risk of non-payment is likely to be very low. In fact, as PG&E explains: "Utility securitizations typically receive AAA(sf) credit ratings from the major rating agencies."[37] This AAA credit rating is judged by rating agencies as a "promise to pay" of the highest possible quality, on par with the United States Treasury bill which is used to approximate a risk-free investment. In contrast, and as discussed Section 2 above, payments from the CCT are not similarly risk-free.

The different risks of these cash flows must be taken into account to properly assess whether ratepayers benefit or are disadvantaged by PG&E's proposal. Under standard Discounted Cash Flow (DCF) analysis, cash flows with different payment risks are properly compared by taking the present value of each cash flow stream, discounted at a rate of return commensurate with the risk of non-payment. The appropriate discount rate should reflect what a reasonable investor would require in return given the investment's risk and its length (the period for which an investor's money is invested). TURN applies a DCF analysis here as

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[36] In fact, TURN notes PG&E's proposed contractual language states explicitly: PG&E shall transfer the Recovery Property via a true sale and absolute transfer to an SPE that, notwithstanding any PG&E obligation to pay the Customer Credit, is legally separate and bankruptcy remote from PG&E. For the avoidance of doubt, any failure by PG&E to pay the Customer Credit or any failure by PG&E to provide the Initial Shareholder Contribution or Additional Shareholder Contribution to the Customer Credit Trust shall not affect or impair the SPE's ownership of the Recovery Property. This ensures that if PG&E ever becomes bankrupt, the Recovery Property will not be included in PG&E's bankruptcy estate. Rather, the revenues from the Recovery Property will continue to be available to pay the debt service on the Recovery Bonds. (PG&E Updated Testimony 3-Exh3.1-20, Form of Financing Order, G Bond Transaction)

[37] PG&E Updated Testimony p. 2-9, footnote 5. PG&E's testimony noted that the 2015 Entergy New Orleans securitization in Louisiana was a recent exception to this as it was rated Aa1 by Moody's.

a means of making a value comparison between the FRC provided by ratepayers and the CCT that ratepayers receive.

By definition, the value of the FRC when discounted at 2.9% (or whatever the interest rate turns out to be) equals $7.5 billion because that is what investors will pay for it. To compare them properly, the CCT cash flows must be similarly discounted at a rate that a reasonable investor would accept as a fair return.

For the purposes of comparing the risk of the cash flows ratepayers would receive, TURN considered a range of discount rates for the CCT investment from 6% to 10.25% as discussed below. TURN concludes that the most appropriate discount rate is 10.25%, consistent with PG&E's authorized return on equity. The CCT is most equivalent to an equity investment because: 1) the source of CCT funding is shareholder funds, 2) distributions by PG&E to the fund are dependent on profits, 3) the CCT has a lower priority than all PG&E debt, and 4) like common equity, the value of the CCT may be lost in its entirety with no repayment recourse to PG&E whatsoever.

As noted, TURN considered other alternatives for the discount rate. For example, if the CCT were a bond rated by credit rating agencies and traded by investors (which it is not), the discount rate for its cash flows could be observed based on its credit rating and the price investors were willing to pay for it. A subordinated PG&E debt obligation (which is essentially PG&E's corporate promise to pay) might carry PG&E's issuer-level debt rating of BB-.[38] However, unlike PG&E's bonds, the CCT does not promise that PG&E will repay ratepayers from all available corporate funds. Thus, reasonable investors would judge the CCT as riskier than a PG&E bond, at least one notch lower than PG&E's issuer level rating. This equates to no higher than a B+ credit rating, which would require an interest rate of around 6% based on indicative yields to maturity from the recent 10-year S&P U.S. High Yield Corporate Bond B Index.[39] While this is the lowest discount rate that would be

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[38] PG&E Updated Testimony, p. 5-15

[39] S&P Dow Jones Indices, 10-Yr. S&P U.S. High Yield Corporate Bond BB Index, Sept 23, 2020, https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-high-yield-corporate-bond-b-index/#overview

appropriate if the CCT were viewed as a bond investment, ultimately it would be incorrect to view the CCT in this way due to its source of funding, risk of payment, and risk of principal loss as explained above.

Another alternative discount rate is PG&E's cost of rate base, 7.34% , which PG&E's testimony uses to determine the NPV of the expected CCT termination value.[40] However, since the weighted cost of rate base is a blend of debt and equity, this rate would not appropriately reflect the risk of the CCT whose only sources of funding are shareholder tax benefits and market investment returns from a primarily equity portfolio.[41] Consequently, for the reasons stated above, TURN believes it is most reasonable to discount the CCT at PG&E's ROE, 10.25%.[42]

TURN does not consider the CCT initial shareholder contribution to change the fundamental nature of the CCT's repayment risk.[43] The $1.8 billion contribution would not be immediately returned to ratepayers, so it would not reduce their exposure to loss. Rather, the initial shareholder contribution would be invested in the capital markets like the rest of the CCT, and as such would be just as risky and as subject to loss.

3.2. PG&E's CCT Proposal Results in a Negative Value for Ratepayers

TURN's analysis discounts the value of the Annual Customer Credit RRQ (shown in PG&E Updated Testimony p. 6-15, Table 6-3, line 12) at 10.25% for each year from 2021-2050 and calculates the present value of those cash flows. This is the value that ratepayers receive from the CCT. TURN compares this to the value contributed by ratepayers over the 30 years discounted at the presumed interest rate of the recovery bonds. The difference reflects the relative gain or loss in value to ratepayers from PG&E's Securitization Plan.[44]

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[40] PG&E Updated Testimony p. 6-21. PG&E states: "In Net Present Value (NPV) terms (using PG&E's proposed authorized return on rate base of 7.34 percent as the discount rate), the expected value at termination was roughly $535 million."
[41] PG&E Updated Testimony p. 6-25.
[42] D.19-12-056, p. 2.
[43] While the size of the initial contribution affects probability of a specific risk—that of the trust running out of money before the end of the term due to its reliance on investment income, the initial contribution does not affect the risk that funding is dependent on tax benefits in the first place.
[44] TURN notes that the primary focus of this testimony is to compare, in investment terms, the relative value given by ratepayers through the FRC to that received from the CCT. In TURN-02, Mr. Ellis

Applying the range of discount rates discussed in Section 3.1 above to the CCT cash flows, TURN concludes that, under any of the alternative discount rates, the CCT investment offered to ratepayers is considerably less valuable than the $7.5 billion in cash PG&E's shareholders would be receiving in return. The results of TURN's analysis are summarized in the table below.

Summary of Risk Adjusted CCT Cash Flow Comparison ($ Billion)[45]

In $B unless otherwise noted	**NPV @ L-T Debt Rate**	**NPV@ Cost of Rate Base**	**NPV@ ROE Cost**
CCT Discount Rate	6.0%	7.43%	10.25%
CCT Cash Flow Value	$5.137	$4.449	$3.367
Less value of FRC	$7.500	$7.500	$7.500
Plus Value of 25% CCT Residual	$0.163	$0.110	$.048
Net CCT Ratepayer Benefit (Loss)	**($2.200)**	**($2.941)**	**($4.085)**

As shown in the table, using the most appropriate discount rate for the CCT, 10.25%, the value of the CCT to ratepayers is ***$4.1 billion less*** than the $7.5 billion value that ratepayers would be forced to give up under the FRC. Even under discount rates that do not adequately reflect the risk of non-payment, ratepayers would receive between roughly $2.2 billion and $3 billion less than the value of their contributions over the 30 years. Under any plausible discount rates, no reasonable investor would trade the FRC payments for PG&E's CCT. Consequently, the Commission should not compel ratepayers to do so either.

Finally, the above analysis assumes that PG&E's CCT projections of shareholder contributions and investment earnings are correct and the CCT cash flows match the FRC. TURN-02, Testimony of Mark Ellis tests the reasonableness of these assumptions. Based on Mr. Ellis' analysis, the value of the CCT contributions and market returns to ratepayers is even less than indicated here.

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performs analysis that examines the assumptions used by PG&E regarding the shareholder contributions to the CCT and the relative value of those contributions to ratepayers.

[45] WP_TURN-01.

4. PG&E Over-Estimates the Positive Effect the Securitization Would Have on Its Credit Ratings.

PG&E's testimony emphasizes the importance its proposed securitization would have in achieving issuer-level investment grade (IG) credit ratings. PG&E asserts that achieving IG credit ratings at the issuer level would also lift the credit ratings of its utility level *secured* debt from BBB- (the lowest IG rating) to BBB+, all else being equal. PG&E contends that under securitization this improvement in credit ratings would occur two years earlier than without securitization.[46] As a result, PG&E estimates $441 million of nominal debt savings to ratepayers from reductions in the cost of both new long-term and short-term debt.[47]

However, documentation from credit rating agencies, S&P and Moody's, does <u>not</u> indicate that the securitization would, in fact, accelerate PG&E's achievement of IG ratings. Even if securitization were to accelerate achievement of IG ratings:

- PG&E's assumption of a two-year acceleration is an optimistic scenario. A more realistic assumption of an, at best, one-year acceleration would cut PG&E's calculations in half.
- PG&E has likely overestimated the long-term interest savings due to its use of credit quality yield spreads over a short-term uncertain market period.
- The assumption that, under the no-securitization scenario, PG&E would issue long-term debt with an 18-year average life is unrealistic, given that PG&E would be expecting a significant increase in credit ratings in the near future.

Finally, PG&E downplays the significance of demonstrated operational and governance improvements as a means to accelerate improvement in its credit rating. A credit rating upgrade from BBB- to BBB+ would result in the same improvement in financing cost and benefits to ratepayers regardless of how it is achieved. As will be detailed below, each and every credit rating agency cites PG&E's poor operating performance as a direct contributor to its speculative credit rating. TURN submits that PG&E should concentrate on

[46] PG&E Updated Testimony p. 5-34
[47] PG&E Updated Testimony p. 5-34

organizational improvements rather than a proposal that is neither fair nor neutral to ratepayers as the best means to return to investment grade status.

4.1 Credit Agency Analysis Does Not State that Securitization Would Accelerate Achievement of Investment Grade Credit Ratings

[Begin CONF] [redacted] [End CONF][48] PG&E states that it assumes that S&P's methodology would treat the securitization as off-credit (not counted as debt on the balance sheet) for credit rating purposes, while Moody's methodology considers the securitization as if it is part of PG&E's corporate debt and an obligation of the company.[49] PG&E's presumption is that, since the recovery bonds would not be PG&E debt obligations under S&P's credit rating methodology, they would not be counted in calculating credit metrics at least with respect to ratings by S&P. PG&E asserts that relative improvement in credit metrics due to less debt could support higher ratings.[50]

All three rating agencies, however, assigned BBB-, the lowest possible investment-grade rating for the Utility's (Pacific Gas & Electric) first mortgage bonds due to the fact that they are backed-up by PG&E's operating plant and assets. Moody's explains, "the Baa3 rating on PG&E's first mortgage bonds and other secured debt reflects the strong security provided by the first lien on substantially all of the utilities real assets."[51] The assigned *issuer* level ratings are rated lower, in category BB by S&P, Moody's and Fitch. None of the rating agencies state that securitization would be a basis for issuer-level credit upgrades.[52] [Begin CONF] [redacted]

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[48] PG&E Updated Testimony, Chapter 1, Confidential Exhibits 1.2, 1.3, and 1.4.
[49] PG&E Updated Testimony, p. 5-27.
[50] *Id.*
[51] PG&E Updated Testimony, p. 5-Exh5.7-2
[52] PG&E Testimony Exhibit 5.6 S&P Ratings Action and Report; Exhibit 5.7 Moody's Rating Action and Reports; and Exhibit 5.8 Fitch Rating Action.

[redacted] [End CONF]

Rather than identifying any benefit from securitization, both S&P and Moody's elaborate on concerns regarding management weakness and governance which persist with or without securitization. S&P states:

> "We assess the management and governance as weak. This reflects the company's history of, at times, a confrontational and contentious relationship with regulatory authorities in addition to the legal infractions that have occurred over the past two decades. In our view, this is beyond an isolated episode and outside industry norms and leads to an adverse impact on the company's reputation representing significant risk to the company. While the company is actively looking to hire a permanent chief executive officer (CEO) and replaced the vast majority of its board of directors, we believe that it could take many years for the company to improve its culture and to consistently demonstrate improved oversight that is necessary to account for the company's unique enterprise risks. The assessment of management and governance as weak also lowers the issuer credit ratings by one notch."[53]

Moody's expresses similar reservations unrelated to PG&E's specific financial metrics.

> We acknowledge that PCG's credit metrics generally reflect a financial profile that is typically commensurate with a low investment-grade rated utility holding company. However, financial metrics alone are not representative of PCG's overall credit risk profile because of the elevated political risk and legal challenges that continue to persist. These include the company being on probation because of the 2010 San Bruno pipeline explosion, that will continue after the bankruptcy exit, highlighting the company's history of safety and governance issues."[54]

Based on the foregoing, it is highly questionable that approval of PG&E securitization proposal would result in an accelerated path to IG issuer credit ratings, all else being equal. PG&E claims nonetheless that "the Securitization will support PG&E's return to an investment-grade issuer credit rating because it will bolster rating agencies' views of PG&E's business risk and strengthen PG&E's financial metrics.[55] PG&E itself admits that

[53] PG&E Updated Testimony, p. 5-Exh5.6-3
[54] PG&E Updated Testimony, p. 5-Exh5.7-2
[55] PG&E Updated Testimony p. 5-52.

approval of its Securitization Plan is an opportunity, not a guarantee of accelerated achievement of investment grade credit ratings.[56] What PG&E appears to be saying essentially is: "well, securitization certainly couldn't hurt."

But, as TURN's testimony shows, securitization poses unfair and unnecessary risks for ratepayers. Further, securitization does not address the primary causes of PG&E's below investment grade credit ratings. Instead of focusing on management, governance, and company-specific weaknesses, PG&E focuses on inflating its credit metrics as if enough free funds from operations can offset the investment risk from an on-going history of operational risk. PG&E's Securitization Plan exposes ratepayers to unnecessary risks for what amounts to wishful thinking that ratings will improve without PG&E first credibly addressing its internal operational and governance issues explicitly cited as concerns by the credit rating agencies.

4.2 PG&E's Calculation Overstates Likely Debt Savings from Accelerated Investment Grade Ratings

PG&E asserts that achieving IG credit ratings at the issuer-level will lift all the credit ratings of its utility-level secured debt from BBB-, the lowest IG rating to BBB+, all else being equal. PG&E estimates that under securitization this improvement in credit ratings will occur two years earlier than if the securitization is not approved.[57] PG&E claims that this improvement equates to a roughly 60 basis point[58] reduction in its cost of long-term debt and that this reduction will flow through to ratepayers.

Based on PG&E's estimate of $3.92 billion of long-term debt capital required to support rate base growth in 2023 and 2024, PG&E arrives at a debt savings of $23 million annually or $423 million nominally (i.e., not adjusted for NPV) over the assumed average 18-year life of the bonds.[59] Additionally, PG&E estimates that it incurs collateral posting

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[56] PG&E Response to TURN_DR 07 Q01 (Attachment D to this Testimony). "The material improvement in PG&E's projected credit metrics throughout the forecast period in the With Securitization scenario as compared to the Without Securitization scenario supports the conclusion that securitization will accelerate *the opportunity* for PG&E to achieve an investment-grade issuer credit rating." (Emphasis added.)
[57] PG&E Updated Testimony p. 5-34.
[58] PG&E Updated Testimony p. 5-32.
[59] PG&E Updated Testimony p. 5-33.

obligations of approximately $9 million per year because it does not have an IG issuer credit rating.[60] Thus, achieving IG issuer level ratings 2 years earlier would result in $18 million of short term debt savings. Including both long-term and short-term debt cost savings, PG&E estimates total credit-related savings of $441 million in nominal dollars[61], which equates to a present value of $210 million[62] in 2021. PG&E further states that "its customers would continue to reap additional benefits associated with any future long-term debt issuances after 2024 to the extent that PG&E's issuer credit ratings remain higher than they otherwise would have absent securitization."[63]

As discussed above, TURN does not agree that PG&E's securitization would accelerate PG&E's future path to issuer-level IG ratings. However, even in the unlikely event that securitization were to do so, PG&E's calculation of $441 million in nominal savings overstates the likely benefits of securitization. As shown below, with appropriate adjustments, TURN estimates the likely nominal benefit to be no more than $63 million or an NPV of $48 million in 2021.

4.2.1 PG&E's Assumption of a Two-Year Acceleration is an Unrealistically Optimistic Scenario.

PG&E asserts for purposes of estimating savings that it will likely achieve IG ratings two years earlier under a securitization scenario. However, in a data request response, PG&E acknowledges that this "opportunity" may only occur one year earlier.[64] Given the rating agencies' assessments and PG&E's acknowledgment that the acceleration may only be one year, it is reasonable to treat one year as a more reasonable estimate, if any acceleration is to occur at all.

Applying a one-year acceleration in IG ratings and retaining all of PG&E's assumptions regarding debt savings results in halving the expected savings. For short-term

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[60] PG&E Updated Testimony p. 5-34.
[61] PG&E Updated Testimony p. 5-34.
[62] WP_TURN-01. TURN's calculation includes short and long-term debt discounted at 7.34% consistent with the value PG&E has used elsewhere in this proceeding.
[63] PG&E Updated Testimony pp. 5-33 to 5-34.
[64] PG&E Response to TURN_DR 7-1 (Attachment D to this Testimony). "PG&E would expect this *opportunity* to occur at least one to two years earlier with the proposed Securitization." Emphasis added.

debt, PG&E realizes one year of savings on collateral postings or $9 million. For long-term debt, PG&E realizes $11.74 million savings per year on $1.96 billion of debt financed rate base over an average 18-year life.[65] This would result in long-term debt savings of $211 million. The total nominal debt savings from securitization would be $220[66] million over 18 years rather than the $441 million claimed by PG&E.

4.2.2 PG&E has Likely Overestimated the Credit Spread Savings

As discussed above, in order to calculate the savings related to securitization, PG&E assumes an average 60 bps credit spread from BBB- to BBB+ using data from January 2019 through July 2020.[67] PG&E bases its estimate of the average credit spread over a short period of roughly eighteen months ended July 2020, which includes the height of market uncertainty surrounding the Covid-19 pandemic. However, TURN believes a more representative average estimate of spreads would result from examination of a longer data series. For example, in I.19-09-016, PG&E presents credit spread data over ten years when discussing credit spreads.[68]

Further, PG&E argues that, if its unsecured debt rating improves by two notches (Moody's) or three notches (S&P), so will its secured debt rating *by two notches*. PG&E states, "[T]herefore, as PG&E regains investment-grade issuer credit ratings of Baa3 (Moody's) and BBB-(S&P) – an increase of two notches from its current Ba2 rating from Moody's and an increase of three notches from its current BB- rating from S&P – its rating on its secured first mortgage bonds would also improve by two notches."[69] PG&E assumes that this "will result in a savings to customers of approximately 60 bps across all PG&E's

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[65] Calculation: PG&E gives the figure of $7.83 billion of long-term debt issuance over the four-year period 2021-2024 or $1.96 billion annually. Multiplying $1.96 billion x 60 bps results in $11.74 million per year.
[66] $211 million long-term debt savings + $9 million short-term debt savings =$220 million total debt savings.
[67] In PG&E's Updated Testimony, p. 5-31, Figure 5-6, PG&E's analysis shows the credit spreads from 1/1/19 to 7/20/20.
[68] I.19-09-016 (PG&E Bankruptcy OII) PG&E Vol. 1, p. 3-13, Figure 3-6 (Attachment F to this Testimony).
[69] PG&E Updated Testimony p. 5-32

debt based upon average market conditions."[70] However, there is no indication that PG&E will achieve an equal step-up across all of its debt or even that PG&E's specific improvement in credit ratings will result in the average historical spread improvement in PG&E's debt cost. For example, if PG&E achieved issuer level IG ratings, its secured debt may only be upgraded one notch to BBB, the middle of the category, not the top. The average differential between BBB- and BBB debt cited by PG&E is 44 bps,[71] and the current differential is only 29 bps.[72]

For these reasons, the potential savings to ratepayers (if any) from PG&E's acceleration of its IG rating are more likely 40 bps rather than 60 bps. Using a 40-bps current credit spread, adjusting for a one-year acceleration in IG credit ratings reduces PG&E's estimated savings to $141 million nominally, rather than $220 million.

4.2.3 PG&E Estimated Savings Unrealistically Assumes "Normal Course" Issuance Strategy

PG&E's estimates of credit-related savings assume an average bond life of 18 years. As PG&E explains, "in the normal course to fund rate base, PG&E typically issues a mix of 10-year and 30-year bonds and assumes a weighted average life of 18 years for new debt issuances."[73] On this basis, PG&E expects that, absent securitization, in 2023 and 2024 it will issue debt to fund rate base with its typical average life. This assumption is not credible.

The time difference between when PG&E expects to achieve IG issuer ratings under the securitization and no-securitization scenarios is short—no more than two years.[74] If PG&E expected its credit rating would be improving within 2 years,[75] all things being equal, it would be less likely to follow its "normal course" strategy of selling a combination of 10-

[70] PG&E Updated Testimony p. 5-32.
[71] PG&E Updated Testimony, p. 5-31, Figure 5-6, Summary Stats.
[72] PG&E Updated Testimony, p. 5-31, Figure 5-6, Summary Stats.
[73] PG&E Updated Testimony p. 5-33.
[74] PG&E's estimate of savings assumes IG ratings are achieved in 2023 under securitization since it assumes that the savings are on issuances in 2023 and 2024 and there is a two-year gap in rating improvement across scenarios.
[75] Response to TURN_DR 07 Q1 (Attachment D to this Testimony).

year and 30-year bonds with an average 18-year life.[76] Instead, PG&E would be more likely to weight its near-term rate base financing mix toward shorter term debt, rather than a longer average life. For example, in anticipation of this securitization, PG&E financed $3 billion of its $6 billion of Temporary Utility Debt with two-year first mortgage bonds and two term loan facilities of roughly one year to eighteen months,[77] a much shorter average life than its "normal course."

For example, it is more reasonable to assume that, if PG&E believed that it was going to experience a near-term credit upgrade, it would issue more 10-year bonds with an average life of roughly 8 years,[78] than 30-year bonds. Assuming an 8-year average life, one year of acceleration on the path to IG issuer ratings, and 40 bps of credit spread benefit, the total long-term debt savings for ratepayers from securitization would be only $63 million[79] nominally over the 30-year term, with a present value of roughly $48 million in 2021.

5. The Primary Beneficiaries of PG&E's Securitization Plan are Not Ratepayers But PG&E's Shareholders

The real beneficiaries of PG&E's Securitization Plan are PG&E's shareholders who are currently obligated to repay $6 billion of Temporary Utility Debt for which they are unable to receive rate recovery.[80] As part of its bankruptcy proceeding, PG&E committed that it would repay the $6 billion through NOLs and other shareholder tax benefits if the

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[76] PG&E Updated Testimony p. 5-33.
[77] Response to TURN DR 011 Q02 part a. and part b (Attachment E to this Testimony).
[78] Assuming coupon of 4% 10-year bond paying semi-annual interest, results in 8.33-year duration: https://dqydj.com/bond-duration-calculator/

[79] PG&E gives $11.74 million at 60 bps x (40/60) = $7.83 million per year at 40 bps spread from BBB- to BBB+. $7.83 million per year savings x 8-year average bond life = $62.6 million.
[80] On p. 82, D.20-05-053 states: "PG&E's current position on the issue of the 2017/2018 wildfire claims is that it will not seek cost recovery for wildfire claims except in connection with the proposed securitization (and not in the alternative if the Commission rejects it), and the Commission intends to hold PG&E to its promise. PG&E may not seek cost recovery for wildfire claims except in connection with the proposed nominally offset securitization described in the documents attached to PG&E's March 24, 2020 motion for official notice…"

securitization was not approved.[81] If the securitization is approved, PG&E will pay ratepayers with these tax benefits and shareholders will receive $7.5 billion of new capital. As discussed in detail above, the timing for realization of these tax benefits is uncertain and entails risk. So, PG&E's Plan effectively assigns what would otherwise be shareholder risks to ratepayers.

While ratepayers would be worse off under PG&E's proposal, shareholders would come out ahead. As TURN explains in the foregoing sections of this testimony, the value of what ratepayers would receive via the CCT is more than $4 billion less than what they are required to give up. And, as shown in Section 4 above, the offsetting benefits to ratepayers from interest rate savings, if any, are unlikely to exceed the nominal total of $63 million. By contrast, as will be shown below, shareholders would enjoy a windfall of more than $1.1 billion in nominal interest savings, $1.5 billion of extra cash financing, and a $3.1 billion benefit from accelerating the realization of tax benefits.[82]

5.1 PG&E's Proposal Would Provide An Interest Savings Windfall for Shareholders

The securitization would refinance $6 billion of disallowed shareholder wildfire liabilities at a lower cost than would otherwise be possible. These cost savings would benefit shareholders. Absent securitization, shareholders would be forced to borrow on the strength of PG&E's own credit profile and ratings. For the purpose of its non-securitization scenario forecasts, "PG&E assumed future interest rates at the same level as its current weighted average long-term debt of 3.84%."[83] PG&E recently submitted advice letter 4275-G/5887-E in July 2020 which updated its cost of debt to 4.17%.[84] For purposes of estimating shareholder cost savings from PG&E's Securitization Plan, TURN uses a reasonable interest

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[81] "This includes PG&E's commitment to use cash flows generated by future application of shareholder deductions and substantial net operating losses (NOLs) resulting from payment of wildfire claims costs under the Plan to fund the Customer Credit and, if this Securitization is not approved or consummated, to amortize the $6 billion in Temporary Utility Debt used to pay wildfire claims at exit." (PG&E Updated Testimony pp. 5-23- 5.24.

[82] This does not even consider the ROE benefits to shareholders from the room for additional leverage in PG&E's capital structure created by the use of off-balance sheet financing that may not count against debt in the regulatory capital structure.

[83] TURN_DR011 Q2 part d (Attachment E to this Testimony).

[84] PG&E Updated Testimony, p. 6-21, footnote 11.

rate of 4%,[85] midway between these two points, to estimate debt costs absent securitization, as compared to the securitization cost of 2.9%. This differential savings is 110 bps or 1.1% per year. Applied to the entire $6 billion of Temporary Utility Debt, and assuming a 17-year average bond life for the securitization,[86] the total shareholder interest savings would be $1.1 billion.[87] Compared to the at most $63 million benefit from interest rate savings that ratepayers might receive, shareholders would receive disproportionate benefits.

5.2 Shareholders' Initial CCT Contribution is Mostly Borrowed From Ratepayers

Under PG&E's Securitization Plan, more bonds would be securitized than what is necessary to pay off the $6 billion of Temporary Utility Debt. Out of the $7.5 billion cash that PG&E would receive, $6 billion would go to the refinancing, and $675 million would allow PG&E to accelerate its 2022 deferred payment to the Wildfire Victims' Trust. The remaining $825 million would be additional cash available for corporate purposes.

All else being equal, the extra $825 million cash partially offsets the $1.8 billion Initial Shareholder Contribution to the CCT.[88] PG&E suggests that ratepayers should take comfort in the fact that the Initial Shareholder Contribution "is sufficient to fund the first five years of customer credits without any investment returns."[89] This claim ignores the possibility that investment returns may be negative, which would erode the value of the initial contribution. It also fails to acknowledge that in part, PG&E is re-paying ratepayers with their own money.

5.3 PG&E's Shareholders Gain Significant Benefits from Accelerating the Realization of Tax Benefits And Shifting the Risks Related to Those Tax Benefits to Ratepayers

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[85] Calculation: (3.84% + 4.17%)/2 = 4.01% or roughly 4.0%.

[86] PG&E states: "The weighted average life of the debt is assumed to be 17 years with an average interest rate of 2.9%." PG&E Updated Testimony, p. 3-21.

[87] Calculation: $6 billion x 1.1% interest rate savings x 17 years=$1.122 billion over the life of the securitization.

[88] By TURN's calculation PG&E's 7.5 billion securitization results in $825 million more shareholder cash since $6 billion will repay temporary debt repayment and $675 million will accelerate the 2022 second half of PG&E $1.35 billion deferred Wildfire Victim's Trust payment. $7.5 billion -$6 billion - $0.675 billion= $825 MM extra shareholder cash

[89] PG&E Updated Testimony, p. 6-14.

PG&E's shareholders have $7.59 billion in NOL tax benefits they expect to turn into cash at some point in the future. The net effect of PG&E's Securitization Plan would be to monetize the cash value of shareholder's NOLs as quickly as possible.[90] PG&E would argue that it would receive $7.5 billion in cash financing capital for which it would give up about the same amount, $7.59 billion cash tax benefits. But under the securitization PG&E's shareholders get their cash now, all at once from bondholders, and with zero risk.

Under the status quo absent securitization, shareholders are required to wait to receive the tax benefits as applied -- until 2035 under PG&E's forecasts[91] to get the entire $7.59 billion, nearly 15 years. As equity investors, shareholders -- not ratepayers -- appropriately bear the timing risk that earnings will not be large enough to utilize the tax benefits as forecast. Likewise, shareholders, not ratepayers, appropriately bear the regulatory risk that the tax laws could change.

However, under PG&E's proposal, shareholders would receive the benefit of the NOLs *up front* and shift the above-described risks to ratepayers. To quantify this shareholder benefit, TURN compares the value of receiving $7.5 billion now under the securitization versus realizing $7.59 billion over time as the tax benefits are applied.

Since the tax benefits would normally accrue to shareholders based on PG&E's earnings as a regulated utility, the risk surrounding the realization of that cash is reflected in the return a reasonable investor would require from PCG stock. This is PG&E's authorized ROE of 10.25%.[92] Discounting PG&E's contributions to the CCT at 10.25% yields an NPV of roughly $4.4 billion.[93] So, for PG&E's shareholders, the NPV of receiving the cash *now* is

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[90] And it also allows PG&E to receive more for its shareholder NOLs than PG&E would be likely to receive from voluntary third-party investors.

[91] PG&E Updated Testimony, p. 6-11, Table 6-2 shows the last shareholder contribution to the CCT in 2035. TURN assumes that PG&E's taxable income forecast is unchanged between the securitization and non-securitization case. However, TURN notes that due to expected interest savings from securitization, PG&E likely will have less taxable income without it, and shareholder would have to wait even longer than 2035 to realize all of the expected tax benefits.

[92] PG&E's authorized ROE is 10.25%

[93] WP TURN-01.

at minimum \$3.1 billion[94] better for shareholders than waiting for the tax benefits to be realized.

6. PG&E's Plan Would Force Regulators and Ratepayers into Unnecessary Conflicts of Interest Regarding PG&E's Future Rates.

PG&E's securitization proposal could force regulators and ratepayers into the uncomfortable position of choosing between higher future rates and ratepayers not receiving their full customer credit. PG&E's plan enriches shareholders by exposing ratepayers to a long-term risky investment from which they are unlikely to benefit and whose duration extends over literally a generation. As PG&E concedes, the CCT is dependent upon PG&E's ability to grow its rate base at between 7% and 5% over the next 30 years.[95] As shown in TURN-02, this equates to a doubling of rates that will be charged to customers. Deviations from the forecast that lower income and tax benefit realization increase the already not insubstantial likelihood that ratepayers will not be fully repaid. And yet the rate increases concomitant with PG&E's forecast of taxable income would threaten the energy security of many California families. This would be a regulatory conflict of interest in which either alternative would be bad for ratepayers.

If PG&E's Securitization Plan is approved, the Commission may find itself hamstrung in this way for the next 30 years—caught between the desire to appropriately manage rate affordability and facilitate repayment of the FRC. Avoiding this entirely unnecessary conflict of interest is yet another reason to reject PG&E's proposal.

7. Recommendations

For the reasons given in this testimony and in TURN-02, TURN strongly urges the Commission to reject PG&E's Securitization Plan. Ratepayers would be involuntary investors

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[94] PG&E's shareholders would receive \$7.5 billion from the recovery bonds less the \$4.4 NPV of the tax benefits discounted at shareholders' after-tax ROE, giving a minimum difference of \$3.1 billion in the shareholders' favor. This estimate is conservative. Mr. Ellis in TURN-02 performs a more detailed analysis that applies more reasonable assumptions to PG&E's Monte Carlo model and makes other adjustments to yield a more realistic differential.

[95] PG&E Response to Energy Division DR No. 01, Q02 (Attachment C to this Testimony).

in a long-term risky scheme that presents much more downside risk than upside for ratepayers – one that would provide ratepayers $4 billion less value that what they are forced to relinquish, with little to no offsetting material benefits. Although PG&E claims that ratepayers will be made whole by the CCT, even PG&E's modeling indicates the risk of terminal shortfall is 16%.[96]

In addition, the risk that the CCT will experience a shortfall during the 30-year term and recover is a very real possibility whose likelihood is probably higher. PG&E appears to contemplate this scenario, stating: "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 first be used to make up any previous shortfalls in Customer Credits."[97] If the projected value of the CCT is less than the annual FRC charges, PG&E proposes that it would file an advice letter to reduce the customer credit appropriately, presumably until the CCT recovered and ratepayers could be made whole on their credits.[98] However, PG&E does not model or quantify this risk to ratepayers.

The Commission should find neither of these risks acceptable, given that PG&E has acknowledged that securitization is unnecessary.[99]

However, if the Commission is nevertheless inclined to approve PG&E's application, the Commission must take steps to mitigate the undue risks that PG&E's proposal would impose on ratepayers. Consistent with the ratepayer neutrality requirement, the Commission should ensure that the value ratepayers would receive via the CCT is equivalent to what they would be required to pay under the FRC. The accompanying testimony of Mark Ellis makes several recommendations that would improve PG&E's proposal to allow this standard to be met, focused on reducing the significant risk that the CCT would experience a shortfall and end prematurely in a zero or negative terminal balance.

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[96] "Across the full range of 2000 simulations generated by the model, the Customer Credit Trust had a positive terminal balance in roughly 84 percent of outcomes." (PG&E Updated Testimony, p. 6-21). Thus, 16% of outcomes had a zero or negative terminal balance.
[97] PG&E Updated Testimony, p. 6-2.
[98] PG&E Updated Testimony, p. 6-17.
[99] "While the plan is not dependent on the approval of the post emergence securitization, the approval of such securitization will improve the Utility's credit metric…" (I.19-09-016 (PG&E Bankruptcy OII) PG&E Testimony, Vol. 01, p. 2-15, Attachment F to this Testimony).

This testimony makes an additional recommendation – again only in the event the Commission wishes to approve PG&E's application – to address another risk posed by PG&E's proposal, the risk that the CCT would experience periodic, occasional shortfalls but ultimately recover value and continue to pay credits after the shortfall.

Risks of interim shortfalls and recoveries in the CCT raise the issue of whether and how ratepayers would be made whole if the Trust can only make a partial payment in a given period, including the appropriate interest rate to compensate ratepayers for the lost time value of money. When such shortfalls occur, ratepayers will not know if they will ever be repaid, and if so, when. If the Commission approves PG&E's proposal, the Commission should take steps to avoid a situation in which PG&E is unable to provide the offsetting credits for a period of time, leaving ratepayers to wonder if and when the offsetting credits will appear on their bills. Transparency would also require that PG&E be required to provide notice to customers of its inability to pay the credits and to provide information regarding if and when the credits will be provided. Rather than subjecting ratepayers to this uncertainty, the Commission should act now to mitigate the risk that PG&E will fail to pay the offsetting credits.

As a partial mitigation for this risk, TURN recommends that a provision be added to the Exhibit 6.1 Term Sheet for the Customer Credit Trust requiring that, if in any quarter PG&E has not paid the full three months of credit to customers, PG&E would forfeit its claim to any CCT residual value. This provision would incentivize PG&E to keep customer credits current in the event that the CCT experienced a temporary loss of value from which it expected to recover. Like a second position mortgage holder on a residential property, who would cover the unpaid mortgage for a number of months in order to prevent a borrower default on the first mortgage, it would be in PG&E's interest to cover small shortfalls. PG&E would not be *obligated* to keep ratepayers whole (and as such this would not represent any kind of guarantee or obligation), but it would have a significant incentive to do so in order to retain its share of the terminal CCT value.

This concludes my testimony.

<u>**Attachment A**</u>

Jennifer Dowdell Statement of Qualifications

JENNIFER DOWDELL STATEMENT OF QUALIFICATIONS

I have been a Financial Expert for The Utility Reform Network (TURN) since March 2019. For over 30 years, I have worked in regulated and independent energy, financial services, and accounting for large companies such as Exelon, Duff & Phelps, Sanwa, Calpine, PG&E, and Gilead Sciences.

I have held staff and leadership positions requiring technical expertise in a range of corporate functions. These include: engineering, investment research, credit analysis, regulatory relations, investor relations, and accounting operations. In addition, I have performed financial analysis and developed financial forecasts as a private consultant for clients in a variety of industries. Of particular relevance to this proceeding are my prior roles as an equity and fixed income securities analyst for Duff & Phelps Investment Research, and as Director of Investor Relations for PG&E Corporation.

My education includes a Bachelor of Science degree in Mechanical Engineering from Purdue University, an MBA in Economics and Finance from The University of Chicago, Booth Graduate School of Business, and a Graduate Certificate in Accountancy from Golden Gate University. I am a Chartered Financial Analyst (CFA) Charterholder, and have held both Series 7 (Broker-Dealer) Financial Industry Regulatory Authority (FINRA), and Series 66 (Investment Advisor) North American Securities Administrators Association (NASAA) licenses. I am a California Certified Public Accountant (CPA), and member of the California Society of CPAs (CalCPA).

Attachment B

PG&E Response to TURN Data Request 01, Questions 1 and 2

(Original and Updated Response)

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

PG&E Data Request No.:	TURN_001-Q01-06		
PG&E File Name:	Securitization2020_DR_TURN_001-Q01-06		
Request Date:	June 12, 2020	Requester DR No.:	001
Date Sent:	July 1, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1-Q4: David Thomason Q5: Greg Allen (Callan LLC)	Requester:	Thomas Long

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

Referring to the Customer Credit Trust structure proposed in PG&E's Testimony, Chapter 6:

a. Did PG&E solicit (formally or informally) or assess interest by investors in employing the cash flows from a trust structure funded by shareholder contributions or future shareholder cashflow pledges (rather than a securitization of a fixed customer-funded rate component) as a means to obtain debt financing following PG&E's emergence from bankruptcy?

b. If so, please: (i) describe the investor response to this financing structure; and (ii) provide all documents reflecting PG&E's assessment of such an approach and any documents received in response to any such solicitation of interest.

c. If the answer to a above is anything other than an unqualified yes, please explain why PG&E did not solicit interest from investors in this financing structure.

d. Did PG&E solicit feedback or opinions from other market participants or consultants regarding the feasibility or cost of obtaining investor funding using the cash flows from a trust structure funded by shareholder contributions or pledges of future shareholder cashflows following PG&E's emergence from bankruptcy?

e. If so, please: i) describe the assessment of market participants or investors of the feasibility or cost of this financing structure; and ii) provide all documents reflecting any such assessments.

f. If the answer to d above is anything other than an unqualified yes, please explain why PG&E did not solicit opinions regarding the feasibility or cost from market participants or consultants.

ANSWER 01

PG&E objects to this request as vague, ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. Subject to its objections, PG&E responds as follows:

a. No, PG&E did not solicit or assess interest from investors in employing the cash flows from a trust structure funded by shareholder contributions or future shareholder cash flow pledges as a means to obtain debt financing following PG&E's emergence from bankruptcy.

b. Not applicable.

c. PG&E did not seek to use the trust as a financeable asset to obtain debt financing. The purpose of the trust structure is to provide certainty and stability with respect to the Customer Credit. Further, the financeable asset underlying the trust is the NOLs[1] addressed in response to Question 2 below.

[1] Unless otherwise indicated, capitalized terms herein have the meanings given to them in PG&E's Application.

d. PG&E did not solicit feedback or opinions from other market participants or consultants regarding the feasibility or cost of obtaining investor funding using the cash flows from a trust structure funded by shareholder contributions or pledges of future shareholder cash flows following PG&E's emergence from bankruptcy. PG&E notes that the equity backstop commitments previously contemplated the potential for a trust to be established to return tax benefits (i.e., cash flows generated by application of NOLs) to the backstop parties under certain circumstances, for no additional consideration. PG&E does not understand that to be responsive to this request.

e. Not applicable.

f. See response to part c. above.

QUESTION 02

In PG&E's Testimony, pp. 6-4 and 6-5, PG&E States:

> "PG&E will fund the Customer Credit Trust with the Initial Shareholder Contribution of $1.8 billion in 2021. In later years, as PG&E generates taxable income, PG&E will use cash that becomes available by reason of Shareholder Tax Benefits to make Additional Shareholder Contributions."

Regarding these NOLs which PG&E contemplates using to support its Customer Credit Trust:

a. Did PG&E seek input from investors or other market participants regarding the feasibility or cost of monetizing its NOLs by way of a sale or other structured transfer of the value of PG&E's tax benefits to an investor or investors? If so, please provide all documents received from investors or other market participants on this subject. If not, why not?

b. Did PG&E or its advisors conduct a valuation of the NOLs pledged to the trust (discounted to the time of trust formation). If so, please provide that analysis, as well as any underlying models, assumptions, and other relevant details.

c. What is PG&E's best estimate of the range of implicit interest rates associated with any transactions of the type described in part a above?

d. What is PG&E's best estimate of the amount of financing available under any transactions of the type described in part a above?

ANSWER 02

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

a. Yes, PG&E sought input from advisor banks regarding the feasibility or cost of monetizing NOLs by way of a sale or other structured transfer of the value of such tax benefits to an investor or investors. *See* 2020Securitization_DR_TURN_01-Q02_Atch01CONF; 2020Securitization_DR_TURN_01-Q02_Atch02CONF; 2020Securitization_DR_TURN_01-Q02_Atch03CONF; 2020Securitization_DR_TURN_01-Q02_Atch04CONF; and 2020Securitization_DR_TURN_01-Q02_Atch05CONF. PG&E notes that the financial forecasts contained in these documents are no longer current.

b. No, PG&E's proposal does not require or rely upon any valuation of the NOLs discounted to the time of trust formation.

c., d. Because market data and precedents for such a transaction are limited and PG&E did not market such a transaction to investors, PG&E does not have a best estimate of the range of implicit interest rates or amount of financing available under transactions of the type described in part a. above. Based on PG&E's review of information related to such potential transactions (*e.g.*, documents provided in response to part a.), the interest rate and amount of financing available were more expensive, less efficient, and less credit positive than alternative available financings and the proposed Securitization.

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

<table>
<tr><td>PG&E Data Request No.:</td><td colspan="3">TURN_001-Q01-06</td></tr>
<tr><td>PG&E File Name:</td><td colspan="3">Securitization2020_DR_TURN_001-Q01-06UPDATED</td></tr>
<tr><td>Request Date:</td><td>June 12, 2020</td><td>Requester DR No.:</td><td>001</td></tr>
<tr><td>Date Sent (Original):</td><td>July 1, 2020</td><td rowspan="2">Requesting Party:</td><td rowspan="2">The Utility Reform Network</td></tr>
<tr><td>Date Sent (Updated):</td><td>August 7, 2020</td></tr>
<tr><td>PG&E Witness:</td><td>Q1-Q4: David Thomason
Q5: Greg Allen (Callan LLC)</td><td>Requester:</td><td>Thomas Long</td></tr>
</table>

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e. If so, please: i) describe the assessment of market participants or investors of the feasibility or cost of this financing structure; and ii) provide all documents reflecting any such assessments.

f. If the answer to d above is anything other than an unqualified yes, please explain why PG&E did not solicit opinions regarding the feasibility or cost from market participants or consultants.

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a. No, PG&E did not solicit or assess interest from investors in employing the cash flows from a trust structure funded by shareholder contributions or future shareholder cash flow pledges as a means to obtain debt financing following PG&E's emergence from bankruptcy.

b. Not applicable.

c. PG&E did not seek to use the trust as a financeable asset to obtain debt financing. The purpose of the trust structure is to provide certainty and stability with respect to the Customer Credit. Further, the financeable asset underlying the trust is the NOLs[1] addressed in response to Question 2 below.

[1] Unless otherwise indicated, capitalized terms herein have the meanings given to them in PG&E's Application.

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e. Not applicable.

f. See response to part c. above.

QUESTION 02

In PG&E's Testimony, pp. 6-4 and 6-5, PG&E States:

> "PG&E will fund the Customer Credit Trust with the Initial Shareholder Contribution of $1.8 billion in 2021. In later years, as PG&E generates taxable income, PG&E will use cash that becomes available by reason of Shareholder Tax Benefits to make Additional Shareholder Contributions."

Regarding these NOLs which PG&E contemplates using to support its Customer Credit Trust:

a. Did PG&E seek input from investors or other market participants regarding the feasibility or cost of monetizing its NOLs by way of a sale or other structured transfer of the value of PG&E's tax benefits to an investor or investors? If so, please provide all documents received from investors or other market participants on this subject. If not, why not?

b. Did PG&E or its advisors conduct a valuation of the NOLs pledged to the trust (discounted to the time of trust formation). If so, please provide that analysis, as well as any underlying models, assumptions, and other relevant details.

c. What is PG&E's best estimate of the range of implicit interest rates associated with any transactions of the type described in part a above?

d. What is PG&E's best estimate of the amount of financing available under any transactions of the type described in part a above?

ANSWER 02

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

a. Yes, PG&E sought input from advisor banks regarding the feasibility or cost of monetizing NOLs by way of a sale or other structured transfer of the value of such tax benefits to an investor or investors. *See* 2020Securitization_DR_TURN_01-Q02_Atch01CONF; 2020Securitization_DR_TURN_01-Q02_Atch02CONF; 2020Securitization_DR_TURN_01-Q02_Atch03CONF; 2020Securitization_DR_TURN_01-Q02_Atch04CONF; and 2020Securitization_DR_TURN_01-Q02_Atch05CONF. PG&E notes that the financial forecasts contained in these documents are no longer current.

b. No, PG&E's proposal does not require or rely upon any valuation of the NOLs discounted to the time of trust formation.

c., d. Because market data and precedents for such a transaction are limited and PG&E did not market such a transaction to investors, PG&E does not have a best estimate of the range of implicit interest rates or amount of financing available under transactions of the type described in part a. above. Based on PG&E's review of information related to such potential transactions (*e.g.*, documents provided in response to part a.), the interest rate and amount of financing available were more expensive, less efficient, and less credit positive than alternative available financings and the proposed Securitization.

<u>Attachment C</u>

PG&E Response to Energy Division Data Request 01, Question 2

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

PG&E Data Request No.:	ED_001-Q01-04		
PG&E File Name:	Securitization2020_DR_ED_001-Q01-04		
Request Date:	August 19, 2020	Requester DR No.:	001
Date Sent:	September 2, 2020	Requesting Party:	Energy Division
PG&E Witness:	Q1: David Thomason Q2: David Thomason Q3: Joseph Sauvage Q4: David Thomason	Requester:	Michael Conklin

QUESTION 02

Provide any and all assumptions related to PG&E's financial projections from 2025 through 2050 (e.g., ratebase, rate growth, ROE, capitalization, assumed loss events, among others).

ANSWER 02

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

Financial projections from 2025 through 2050 are based on the underlying assumption that annual rate base growth, and hence earnings and taxable earnings, is 7% through 2030, and 5% from 2031 through 2050. The 7% growth rate is initially applied to 2024 taxable income before interest to estimate 2025 taxable income before interest, and so on and so forth. Holding company earnings are assumed to remain flat at their 2024 level from 2025 through 2050. Other assumptions not otherwise described in the testimony or tables set forth in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, include:

a) The initial and ongoing contributions to the Go-Forward Wildfire Fund are amortized from 2020 through 2034 for federal tax purposes, and the ongoing contributions to the Go-Forward Wildfire Fund are deducted in the year of payment for state tax purposes.

b) Annual earnings on the Customer Credit Trust are assumed to be deducted in the year after they are earned in order to avoid a circular reference in the calculations.

c) Construction Work in Progress (CWIP) is assumed to grow 1% annually from 2024 through 2050.

d) PG&E's common equity ratio is constant at 52%, its adopted return on equity (ROE) remains constant at 10.25%, its long-term cost of debt remains constant at 4.17%, and its short-term borrowing cost is constant at 2.83%.

e) The interest rate on PG&E Corporation's debt is constant at 5.56%.

f) Utility short-term debt is constant at $2 billion.

g) PG&E Corporation's debt is paid down to $350 million in 2030 and then remains constant through 2050.

<u>**Attachment D**</u>

PG&E Response to TURN Data Request 7, Question 1

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

PG&E Data Request No.:	TURN_007-Q01-02		
PG&E File Name:	Securitization2020_DR_TURN_007-Q01-02		
Request Date:	August 13, 2020	Requester DR No.:	007
Date Sent:	August 27, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1: Joseph Sauvage Q2: Joseph Sauvage; Mari Becker	Requester:	Thomas Long

QUESTION 01

Referring to PG&E's Testimony, pp. 5-28 to 5-29, PG&E states that securitization would provide PG&E the opportunity to achieve an investment-grade issuer credit rating under S&P's methodology by as early as 2023…absent securitization PG&E would not be expected to achieve an FFO/Debt ratio consistent with investment-grade metrics during the 2020-2024 forecast period."

a. Without securitization, in what year does PG&E expect to achieve the same FFO it would achieve "by as early as 2023" under securitization, all else being equal? Please provide for the supporting analysis for PG&E's answer.

b. How many years earlier does PG&E expect to have "the opportunity to achieve an investment-grade issuer credit rating under securitization, compared to without securitization? Please provide the supporting analysis for PG&E's answer.

ANSWER 01

As set forth in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, PG&E's Financial Forecast With Securitization shows an FFO/debt credit metric consistent with an investment-grade issuer credit rating by 2023, while the Financial Forecast Without Securitization does not show such a credit metric within the forecast period, i.e., through 2024. Accordingly, PG&E would expect this opportunity to occur at least one to two years earlier with the proposed Securitization. PG&E notes that in calculating the estimated customer benefits of accelerating the path to an investment-grade issuer credit rating, two years was used as a reasonable assumption. *See* Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), at pages 5-30 to 5-34. The material improvement in PG&E's projected credit metrics throughout the forecast period in the With Securitization scenario as compared to the Without Securitization scenario supports the conclusion that securitization will accelerate the opportunity for PG&E to achieve an investment-grade issuer credit rating. PG&E refers TURN to Exhibit 5.5, Projected Financial Metrics: 2020-2024 (J. Sauvage), attached to the updated Chapter 5 testimony served August 7, 2020.

Attachment E

PG&E Response to TURN Data Request 11, Question 2

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

PG&E Data Request No.:	TURN_011-Q01-02		
PG&E File Name:	Securitization2020_DR_TURN_011-Q01-02		
Request Date:	September 22, 2020	Requester DR No.:	011
Date Sent:	October 6, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1: Joe Sauvage; Mari Becker Q2: Mari Becker	Requester:	Matthew Freedman

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 02

In PG&E's Updated Testimony, p. 1-2, PG&E states: "the proposed Securitization would also enable PG&E to retire $6 billion of temporary utility debt."

a. What is the average cost of debt for the $6 billion of Temporary Utility Debt?

b. Please list the maturities and interest rates of all debt issues making up the $6 billion outstanding total.

c. Of the total $6 billion of Temporary Utility Debt, what amount of this total is revolving credit?

d. If PG&E's proposal for securitization is not approved, what is PG&E's best estimate of the annual interest cost and average interest rate associated with continuing to finance the $6 Temporary Utility Debt with short-term financing in each year 2021-2026.

ANSWER 02

Subject to its objections, PG&E responds as follows:

a. The weighted average cost of debt for the $6 Billion Temporary Utility Debt is 2.01%, exclusive of financing-related fees. For variable interest rates, PG&E used rates as of September 28, 2020 for the cost of debt calculation.

b. The $6 billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility.

c. None.

d. If the proposed Securitization is not approved, PG&E anticipates refinancing the $6 Billion Temporary Utility Debt with long-term debt. The interest rates for the long-term debt to be issued by PG&E will be based on PG&E's credit profile and market conditions at the time the debt is issued. For purposes of the Utility Financial Projections in Exhibit 5.4, PG&E assumed future interest rates at the same level as its current weighted average long-term debt of 3.84%, exclusive of financing-related fees and the $6 billion Temporary Utility Debt. As noted, this is an assumption and the actual interest rate will be determined at the time of the refinancing.

<u>Attachment F</u>

Excerpts from Volume 1 of PG&E Testimony in Bankruptcy OII

(I.19-09-016)

Investigation: 19-09-016
(U 39 M)
Date: January 31, 2020
Witness(es): Various

PACIFIC GAS AND ELECTRIC COMPANY

PLAN OF REORGANIZATION OII 2019

PREPARED TESTIMONY

VOLUME 1

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(CONTINUED)

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(CONTINUED)

and I.18-07-008, the Commission either has approved or is currently considering settlement agreements entered into by PG&E and various parties. Commission approval of any settlements not yet approved would be satisfactory for purposes of this provision of PG&E's Plan. PG&E's ability to raise capital for its emergence from Chapter 11, and for its post-exit needs, assumes the Commission approves the Wildfire OII settlement currently under consideration in I.19-06-015. Other material adverse events may also impair PG&E's ability to raise capital for its emergence.

D. Plan Funding and Sources and Uses

The funding for PG&E's Plan will consist of new and reinstated debt and equity for both the Utility and PG&E Corporation as well as other sources of funding anticipated to total approximately $57.65 billion to enable PG&E to emerge from its Chapter 11 cases. See PG&E's Plan §§ 1.63, 1.151, 5.2, 6.15, 6.16. As already noted, PG&E remains in ongoing discussions with stakeholders and may supplement and/or amend any of the following as necessary.

Under PG&E's Plan, $6 billion of Temporary Utility debt will be used to pay wildfire claims at exit and therefore will be the financial responsibility of shareholders, not customers. PG&E will also pursue a securitization that is rate-neutral, on average, for $7 billion of wildfire claims costs in a separate application. The proceeds from the securitization will be used to retire $6 billion in Temporary Utility debt and to accelerate the remaining deferred payment to the Fire Victim Trust. PG&E will use the proceeds from the realization of the shareholder certain tax benefits, including Net Operating Losses (NOLs), and other credits to provide rate reductions so customers, on average, will not pay the associated cost of the securitization charges.

While the plan is not dependent on the approval of the post emergence securitization, the approval of such securitization will improve the Utility's credit metrics, which will reduce the cost of financing over time for the benefit of all customers, and will provide for the acceleration of the deferred payment to the Fire Victim Trust for the benefit of individual wildfire victims and the other beneficiaries of that trust.

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
ABILITY TO RAISE CAPITAL POST-EMERGENCE
(SCOPING MEMO ISSUES 4.3, 4.6, 4.7)

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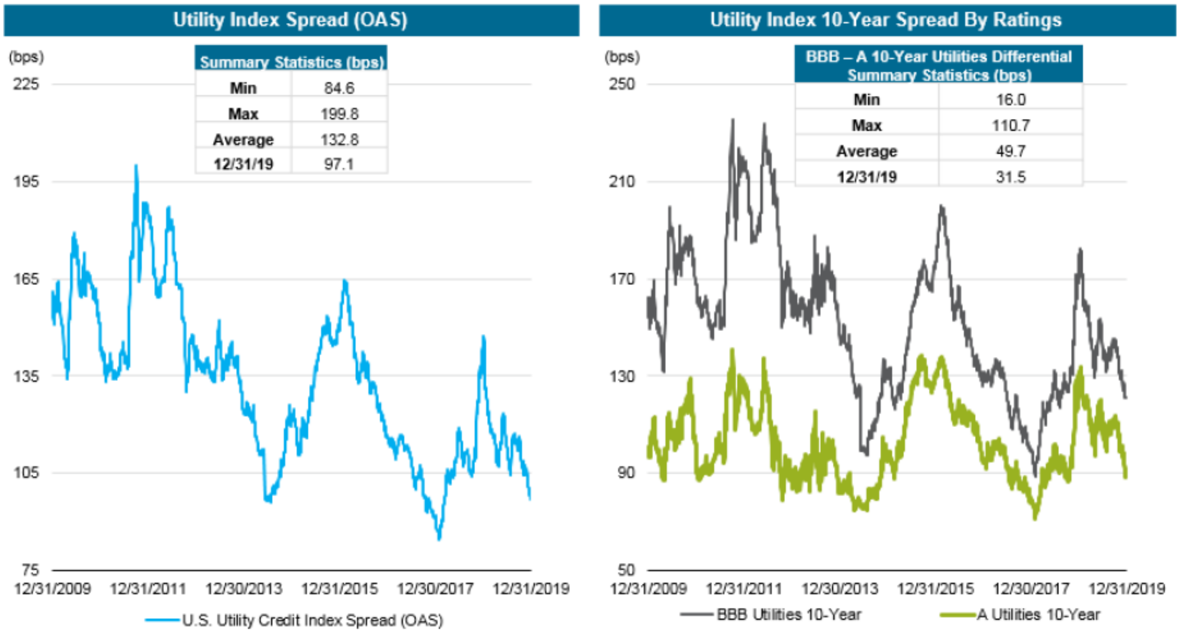
FIGURE 3-6



Source: Bloomberg Barclays U.S. Credit Utility Index.
Left chart: OAS in basis points (bps) from 12/31/09 – 12/31/19.
Right Chart: Fitted Par Spread to Treasury (bps) from 12/31/09 – 12/31/19.

Historically, on average, utility unsecured operating company debt has had a higher premium (or credit spread) compared to secured operating company debt. This reflects investors' perception that secured utility debt has a very low probability of capital loss. In periods of distress, the risk premium differential between unsecured and secured utility debt has been over 75 bps. Currently, secured utility operating company debt has an approximately 20 bp lower risk premium than unsecured operating company debt.

Accordingly, utilities commonly issue first mortgage bonds instead of unsecured bonds to lower their cost of debt capital.

<u>Attachment A</u>

Jennifer Dowdell Statement of Qualifications

JENNIFER DOWDELL STATEMENT OF QUALIFICATIONS

I have been a Financial Expert for The Utility Reform Network (TURN) since March 2019. For over 30 years, I have worked in regulated and independent energy, financial services, and accounting for large companies such as Exelon, Duff & Phelps, Sanwa, Calpine, PG&E, and Gilead Sciences.

I have held staff and leadership positions requiring technical expertise in a range of corporate functions. These include: engineering, investment research, credit analysis, regulatory relations, investor relations, and accounting operations. In addition, I have performed financial analysis and developed financial forecasts as a private consultant for clients in a variety of industries. Of particular relevance to this proceeding are my prior roles as an equity and fixed income securities analyst for Duff & Phelps Investment Research, and as Director of Investor Relations for PG&E Corporation.

My education includes a Bachelor of Science degree in Mechanical Engineering from Purdue University, an MBA in Economics and Finance from The University of Chicago, Booth Graduate School of Business, and a Graduate Certificate in Accountancy from Golden Gate University. I am a Chartered Financial Analyst (CFA) Charterholder, and have held both Series 7 (Broker-Dealer) Financial Industry Regulatory Authority (FINRA), and Series 66 (Investment Advisor) North American Securities Administrators Association (NASAA) licenses. I am a California Certified Public Accountant (CPA), and member of the California Society of CPAs (CalCPA).

<u>Attachment B</u>

PG&E Response to TURN Data Request 01, Questions 1 and 2

(Original and Updated Response)

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

PG&E Data Request No.:	TURN_001-Q01-06		
PG&E File Name:	Securitization2020_DR_TURN_001-Q01-06		
Request Date:	June 12, 2020	Requester DR No.:	001
Date Sent:	July 1, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1-Q4: David Thomason Q5: Greg Allen (Callan LLC)	Requester:	Thomas Long

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b. If so, please: (i) describe the investor response to this financing structure; and (ii) provide all documents reflecting PG&E's assessment of such an approach and any documents received in response to any such solicitation of interest.

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e. Not applicable.

f. See response to part c. above.

QUESTION 02

In PG&E's Testimony, pp. 6-4 and 6-5, PG&E States:

> "PG&E will fund the Customer Credit Trust with the Initial Shareholder Contribution of $1.8 billion in 2021. In later years, as PG&E generates taxable income, PG&E will use cash that becomes available by reason of Shareholder Tax Benefits to make Additional Shareholder Contributions."

Regarding these NOLs which PG&E contemplates using to support its Customer Credit Trust:

a. Did PG&E seek input from investors or other market participants regarding the feasibility or cost of monetizing its NOLs by way of a sale or other structured transfer of the value of PG&E's tax benefits to an investor or investors? If so, please provide all documents received from investors or other market participants on this subject. If not, why not?

b. Did PG&E or its advisors conduct a valuation of the NOLs pledged to the trust (discounted to the time of trust formation). If so, please provide that analysis, as well as any underlying models, assumptions, and other relevant details.

c. What is PG&E's best estimate of the range of implicit interest rates associated with any transactions of the type described in part a above?

d. What is PG&E's best estimate of the amount of financing available under any transactions of the type described in part a above?

ANSWER 02

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

a. Yes, PG&E sought input from advisor banks regarding the feasibility or cost of monetizing NOLs by way of a sale or other structured transfer of the value of such tax benefits to an investor or investors. *See* 2020Securitization_DR_TURN_01-Q02_Atch01CONF; 2020Securitization_DR_TURN_01-Q02_Atch02CONF; 2020Securitization_DR_TURN_01-Q02_Atch03CONF; 2020Securitization_DR_TURN_01-Q02_Atch04CONF; and 2020Securitization_DR_TURN_01-Q02_Atch05CONF. PG&E notes that the financial forecasts contained in these documents are no longer current.

b. No, PG&E's proposal does not require or rely upon any valuation of the NOLs discounted to the time of trust formation.

c., d. Because market data and precedents for such a transaction are limited and PG&E did not market such a transaction to investors, PG&E does not have a best estimate of the range of implicit interest rates or amount of financing available under transactions of the type described in part a. above. Based on PG&E's review of information related to such potential transactions (*e.g.*, documents provided in response to part a.), the interest rate and amount of financing available were more expensive, less efficient, and less credit positive than alternative available financings and the proposed Securitization.

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

PG&E Data Request No.:	TURN_001-Q01-06		
PG&E File Name:	Securitization2020_DR_TURN_001-Q01-06UPDATED		
Request Date:	June 12, 2020	Requester DR No.:	001
Date Sent (Original):	July 1, 2020	Requesting Party:	The Utility Reform Network
Date Sent (Updated):	August 7, 2020		
PG&E Witness:	Q1-Q4: David Thomason Q5: Greg Allen (Callan LLC)	Requester:	Thomas Long

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

Referring to the Customer Credit Trust structure proposed in PG&E's Testimony, Chapter 6:

a. Did PG&E solicit (formally or informally) or assess interest by investors in employing the cash flows from a trust structure funded by shareholder contributions or future shareholder cashflow pledges (rather than a securitization of a fixed customer-funded rate component) as a means to obtain debt financing following PG&E's emergence from bankruptcy?

b. If so, please: (i) describe the investor response to this financing structure; and (ii) provide all documents reflecting PG&E's assessment of such an approach and any documents received in response to any such solicitation of interest.

c. If the answer to a above is anything other than an unqualified yes, please explain why PG&E did not solicit interest from investors in this financing structure.

d. Did PG&E solicit feedback or opinions from other market participants or consultants regarding the feasibility or cost of obtaining investor funding using the cash flows from a trust structure funded by shareholder contributions or pledges of future shareholder cashflows following PG&E's emergence from bankruptcy?

e. If so, please: i) describe the assessment of market participants or investors of the feasibility or cost of this financing structure; and ii) provide all documents reflecting any such assessments.

f. If the answer to d above is anything other than an unqualified yes, please explain why PG&E did not solicit opinions regarding the feasibility or cost from market participants or consultants.

ANSWER 01

PG&E objects to this request as vague, ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. Subject to its objections, PG&E responds as follows:

a. No, PG&E did not solicit or assess interest from investors in employing the cash flows from a trust structure funded by shareholder contributions or future shareholder cash flow pledges as a means to obtain debt financing following PG&E's emergence from bankruptcy.

b. Not applicable.

c. PG&E did not seek to use the trust as a financeable asset to obtain debt financing. The purpose of the trust structure is to provide certainty and stability with respect to the Customer Credit. Further, the financeable asset underlying the trust is the NOLs[1] addressed in response to Question 2 below.

[1] Unless otherwise indicated, capitalized terms herein have the meanings given to them in PG&E's Application.

d. PG&E did not solicit feedback or opinions from other market participants or consultants regarding the feasibility or cost of obtaining investor funding using the cash flows from a trust structure funded by shareholder contributions or pledges of future shareholder cash flows following PG&E's emergence from bankruptcy. PG&E notes that the equity backstop commitments previously contemplated the potential for a trust to be established to return tax benefits (i.e., cash flows generated by application of NOLs) to the backstop parties under certain circumstances, for no additional consideration. PG&E does not understand that to be responsive to this request.

e. Not applicable.

f. See response to part c. above.

QUESTION 02

In PG&E's Testimony, pp. 6-4 and 6-5, PG&E States:

> "PG&E will fund the Customer Credit Trust with the Initial Shareholder Contribution of $1.8 billion in 2021. In later years, as PG&E generates taxable income, PG&E will use cash that becomes available by reason of Shareholder Tax Benefits to make Additional Shareholder Contributions."

Regarding these NOLs which PG&E contemplates using to support its Customer Credit Trust:

a. Did PG&E seek input from investors or other market participants regarding the feasibility or cost of monetizing its NOLs by way of a sale or other structured transfer of the value of PG&E's tax benefits to an investor or investors? If so, please provide all documents received from investors or other market participants on this subject. If not, why not?

b. Did PG&E or its advisors conduct a valuation of the NOLs pledged to the trust (discounted to the time of trust formation). If so, please provide that analysis, as well as any underlying models, assumptions, and other relevant details.

c. What is PG&E's best estimate of the range of implicit interest rates associated with any transactions of the type described in part a above?

d. What is PG&E's best estimate of the amount of financing available under any transactions of the type described in part a above?

ANSWER 02

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as overbroad and unduly burdensome. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

a. Yes, PG&E sought input from advisor banks regarding the feasibility or cost of monetizing NOLs by way of a sale or other structured transfer of the value of such tax benefits to an investor or investors. *See* 2020Securitization_DR_TURN_01-Q02_Atch01CONF; 2020Securitization_DR_TURN_01-Q02_Atch02CONF; 2020Securitization_DR_TURN_01-Q02_Atch03CONF; 2020Securitization_DR_TURN_01-Q02_Atch04CONF; and 2020Securitization_DR_TURN_01-Q02_Atch05CONF. PG&E notes that the financial forecasts contained in these documents are no longer current.

b. No, PG&E's proposal does not require or rely upon any valuation of the NOLs discounted to the time of trust formation.

c., d. Because market data and precedents for such a transaction are limited and PG&E did not market such a transaction to investors, PG&E does not have a best estimate of the range of implicit interest rates or amount of financing available under transactions of the type described in part a. above. Based on PG&E's review of information related to such potential transactions (*e.g.*, documents provided in response to part a.), the interest rate and amount of financing available were more expensive, less efficient, and less credit positive than alternative available financings and the proposed Securitization.

[CONFIDENTIAL Atch_04]

<u>Attachment C</u>

PG&E Response to Energy Division Data Request 01, Question 2

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

PG&E Data Request No.:	ED_001-Q01-04		
PG&E File Name:	Securitization2020_DR_ED_001-Q01-04		
Request Date:	August 19, 2020	Requester DR No.:	001
Date Sent:	September 2, 2020	Requesting Party:	Energy Division
PG&E Witness:	Q1: David Thomason Q2: David Thomason Q3: Joseph Sauvage Q4: David Thomason	Requester:	Michael Conklin

QUESTION 02

Provide any and all assumptions related to PG&E's financial projections from 2025 through 2050 (e.g., ratebase, rate growth, ROE, capitalization, assumed loss events, among others).

ANSWER 02

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

Financial projections from 2025 through 2050 are based on the underlying assumption that annual rate base growth, and hence earnings and taxable earnings, is 7% through 2030, and 5% from 2031 through 2050. The 7% growth rate is initially applied to 2024 taxable income before interest to estimate 2025 taxable income before interest, and so on and so forth. Holding company earnings are assumed to remain flat at their 2024 level from 2025 through 2050. Other assumptions not otherwise described in the testimony or tables set forth in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), served August 7, 2020, include:

a) The initial and ongoing contributions to the Go-Forward Wildfire Fund are amortized from 2020 through 2034 for federal tax purposes, and the ongoing contributions to the Go-Forward Wildfire Fund are deducted in the year of payment for state tax purposes.

b) Annual earnings on the Customer Credit Trust are assumed to be deducted in the year after they are earned in order to avoid a circular reference in the calculations.

c) Construction Work in Progress (CWIP) is assumed to grow 1% annually from 2024 through 2050.

d) PG&E's common equity ratio is constant at 52%, its adopted return on equity (ROE) remains constant at 10.25%, its long-term cost of debt remains constant at 4.17%, and its short-term borrowing cost is constant at 2.83%.

e) The interest rate on PG&E Corporation's debt is constant at 5.56%.

f) Utility short-term debt is constant at $2 billion.

g) PG&E Corporation's debt is paid down to $350 million in 2030 and then remains constant through 2050.

<u>Attachment D</u>

PG&E Response to TURN Data Request 7, Question 1

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

PG&E Data Request No.:	TURN_007-Q01-02		
PG&E File Name:	Securitization2020_DR_TURN_007-Q01-02		
Request Date:	August 13, 2020	Requester DR No.:	007
Date Sent:	August 27, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1: Joseph Sauvage Q2: Joseph Sauvage; Mari Becker	Requester:	Thomas Long

QUESTION 01

Referring to PG&E's Testimony, pp. 5-28 to 5-29, PG&E states that securitization would provide PG&E the opportunity to achieve an investment-grade issuer credit rating under S&P's methodology by as early as 2023…absent securitization PG&E would not be expected to achieve an FFO/Debt ratio consistent with investment-grade metrics during the 2020-2024 forecast period."

a. Without securitization, in what year does PG&E expect to achieve the same FFO it would achieve "by as early as 2023" under securitization, all else being equal? Please provide for the supporting analysis for PG&E's answer.

b. How many years earlier does PG&E expect to have "the opportunity to achieve an investment-grade issuer credit rating under securitization, compared to without securitization? Please provide the supporting analysis for PG&E's answer.

ANSWER 01

As set forth in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, PG&E's Financial Forecast With Securitization shows an FFO/debt credit metric consistent with an investment-grade issuer credit rating by 2023, while the Financial Forecast Without Securitization does not show such a credit metric within the forecast period, i.e., through 2024. Accordingly, PG&E would expect this opportunity to occur at least one to two years earlier with the proposed Securitization. PG&E notes that in calculating the estimated customer benefits of accelerating the path to an investment-grade issuer credit rating, two years was used as a reasonable assumption. *See* Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), at pages 5-30 to 5-34. The material improvement in PG&E's projected credit metrics throughout the forecast period in the With Securitization scenario as compared to the Without Securitization scenario supports the conclusion that securitization will accelerate the opportunity for PG&E to achieve an investment-grade issuer credit rating. PG&E refers TURN to Exhibit 5.5, Projected Financial Metrics: 2020-2024 (J. Sauvage), attached to the updated Chapter 5 testimony served August 7, 2020.

<u>Attachment E</u>

PG&E Response to TURN Data Request 11, Question 2

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

PG&E Data Request No.:	TURN_011-Q01-02		
PG&E File Name:	Securitization2020_DR_TURN_011-Q01-02		
Request Date:	September 22, 2020	Requester DR No.:	011
Date Sent:	October 6, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1: Joe Sauvage; Mari Becker Q2: Mari Becker	Requester:	Matthew Freedman

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 02

In PG&E's Updated Testimony, p. 1-2, PG&E states: "the proposed Securitization would also enable PG&E to retire $6 billion of temporary utility debt."

a. What is the average cost of debt for the $6 billion of Temporary Utility Debt?

b. Please list the maturities and interest rates of all debt issues making up the $6 billion outstanding total.

c. Of the total $6 billion of Temporary Utility Debt, what amount of this total is revolving credit?

d. If PG&E's proposal for securitization is not approved, what is PG&E's best estimate of the annual interest cost and average interest rate associated with continuing to finance the $6 Temporary Utility Debt with short-term financing in each year 2021-2026.

ANSWER 02

Subject to its objections, PG&E responds as follows:

a. The weighted average cost of debt for the $6 Billion Temporary Utility Debt is 2.01%, exclusive of financing-related fees. For variable interest rates, PG&E used rates as of September 28, 2020 for the cost of debt calculation.

b. The $6 billion Temporary Utility Debt is comprised of $500 million 2-year floating rate first mortgage bonds due June 16, 2022; $2.5 billion 2-year 1.75% first mortgage bonds due June 16, 2022; $1.5 billion 364-day term loan facility; and $1.5 billion 18-month term loan facility.

c. None.

d. If the proposed Securitization is not approved, PG&E anticipates refinancing the $6 Billion Temporary Utility Debt with long-term debt. The interest rates for the long-term debt to be issued by PG&E will be based on PG&E's credit profile and market conditions at the time the debt is issued. For purposes of the Utility Financial Projections in Exhibit 5.4, PG&E assumed future interest rates at the same level as its current weighted average long-term debt of 3.84%, exclusive of financing-related fees and the $6 billion Temporary Utility Debt. As noted, this is an assumption and the actual interest rate will be determined at the time of the refinancing.

<u>Attachment F</u>

Excerpts from Volume 1 of PG&E Testimony in Bankruptcy OII

(I.19-09-016)

Investigation: 19-09-016
(U 39 M)
Date: January 31, 2020
Witness(es): Various

PACIFIC GAS AND ELECTRIC COMPANY

PLAN OF REORGANIZATION OII 2019

PREPARED TESTIMONY

VOLUME 1

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and I.18-07-008, the Commission either has approved or is currently considering settlement agreements entered into by PG&E and various parties. Commission approval of any settlements not yet approved would be satisfactory for purposes of this provision of PG&E's Plan. PG&E's ability to raise capital for its emergence from Chapter 11, and for its post-exit needs, assumes the Commission approves the Wildfire OII settlement currently under consideration in I.19-06-015. Other material adverse events may also impair PG&E's ability to raise capital for its emergence.

D. Plan Funding and Sources and Uses

The funding for PG&E's Plan will consist of new and reinstated debt and equity for both the Utility and PG&E Corporation as well as other sources of funding anticipated to total approximately $57.65 billion to enable PG&E to emerge from its Chapter 11 cases. See PG&E's Plan §§ 1.63, 1.151, 5.2, 6.15, 6.16. As already noted, PG&E remains in ongoing discussions with stakeholders and may supplement and/or amend any of the following as necessary.

Under PG&E's Plan, $6 billion of Temporary Utility debt will be used to pay wildfire claims at exit and therefore will be the financial responsibility of shareholders, not customers. PG&E will also pursue a securitization that is rate-neutral, on average, for $7 billion of wildfire claims costs in a separate application. The proceeds from the securitization will be used to retire $6 billion in Temporary Utility debt and to accelerate the remaining deferred payment to the Fire Victim Trust. PG&E will use the proceeds from the realization of the shareholder certain tax benefits, including Net Operating Losses (NOLs), and other credits to provide rate reductions so customers, on average, will not pay the associated cost of the securitization charges.

While the plan is not dependent on the approval of the post emergence securitization, the approval of such securitization will improve the Utility's credit metrics, which will reduce the cost of financing over time for the benefit of all customers, and will provide for the acceleration of the deferred payment to the Fire Victim Trust for the benefit of individual wildfire victims and the other beneficiaries of that trust.

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
ABILITY TO RAISE CAPITAL POST-EMERGENCE
(SCOPING MEMO ISSUES 4.3, 4.6, 4.7)

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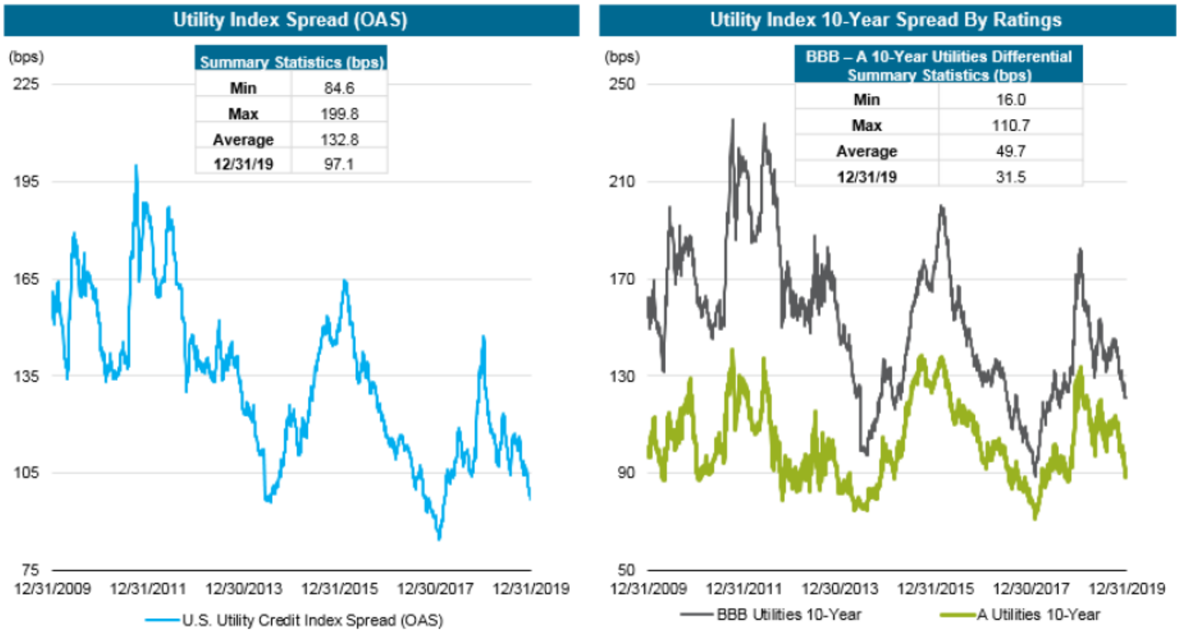
FIGURE 3-6



Source: Bloomberg Barclays U.S. Credit Utility Index.
Left chart: OAS in basis points (bps) from 12/31/09 – 12/31/19.
Right Chart: Fitted Par Spread to Treasury (bps) from 12/31/09 – 12/31/19.

Historically, on average, utility unsecured operating company debt has had a higher premium (or credit spread) compared to secured operating company debt. This reflects investors' perception that secured utility debt has a very low probability of capital loss. In periods of distress, the risk premium differential between unsecured and secured utility debt has been over 75 bps. Currently, secured utility operating company debt has an approximately 20 bp lower risk premium than unsecured operating company debt.

Accordingly, utilities commonly issue first mortgage bonds instead of unsecured bonds to lower their cost of debt capital.