Pacific Gas and Electric Company Securitization

A. 20-04-023

TURN HEARING EXHIBIT

TURN-42

Cal Advocates' Response to TURN Data Requests 01 and 02

(Pursuant to stipulation between TURN and Cal Advocates for admission of these data request responses in lieu of cross examination of Cal Advocates' witnesses)

Public Advocates Office
California Public Utilities Commission

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PUBLIC ADVOCATES OFFICE RESPONSE TO DATA REQUEST 01

Date: November 30, 2020

Origination Date: November 25, 2020

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TURN Data Request No.: TURN-Cal Advocates-01

Public Advocates Office Witness: Various

GENERAL OBJECTIONS

1. Cal Advocates 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. Cal Advocates 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 Cal Advocates' rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. Cal Advocates 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. Cal Advocates objects generally to each request to the extent it seeks information, documents, formulas, models and tables that originated from, were identified by, or are in the sole possession of PG&E and are thus available from PG&E directly making these requests overly burdensome.

4. Cal Advocates incorporates each of these General Objections into each of its responses below. Each of Cal Advocates' responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

Q 1: Cal Advocates' Testimony p. 12 states: "PG&E's Monte Carlo modeling nonetheless estimates a 16% chance of a shortfall in the Customer Credit Trust, inclusive of the incremental principal tax gross-up. PG&E's modeling also reveals a more-than-10% chance that the shortfall will exceed $800 million and a more-than-5% chance that the shortfall will exceed $1.9 billion. Given the magnitude of these shortfalls and the probability of their occurrence, PG&E's Customer Credit Trust proposal may not be ratepayer neutral *even if none of the previously described risks manifests*." (Emphasis in original.)

a. Does Cal Advocates agree that, even if none of the risks previously described in its testimony were to manifest, the roughly 16% risk of shortfall modeled by PG&E is not consistent with the requirement of ratepayer neutrality?
b. If the answer to part a is "no," please explain why the 16% risk of shortfall in the Customer Credit Trust is consistent with ratepayer neutrality.

<u>Cal Advocate's Response to Q1:</u>

Notwithstanding its objections, Cal Advocates responds as follows:

a-b. As stated in Cal Advocates testimony, p. 6 lines 8-11, "PG&E's proposed design of the securitization charges and Customer Credit offsets is not ratepayer neutral. Rather, this proposal is intended to satisfy the standard because the expected outcome on a probability basis may ultimately be more beneficial to ratepayers."

Q 2: Referring to Cal Advocates' Testimony p. 10, Table 1:

a. Under Cal Advocates' recommended scenario:
   i. Does Cal Advocates agree that under its recommend scenario ($6 billion securitization with an initial shareholder contribution of $1.44 billion and additional shareholder contributions of $6.07 billion), PG&E shareholders would be obligated to contribute a nominal total of $7.51 billion to the Customer Credit Trust? If not, please explain why this is not the case.
   ii. Does Cal Advocates agree that the amount PG&E shareholders would contribute under its recommended scenario is less than the nominal $9.39 billion shareholders would contribute to the Customer Credit Trust under PG&E's original proposal? If not, please explain why this is not the case.
b. Does Cal Advocates agree that, based on the results presented in Table 1, the probability of shortfall for Cal Advocates' recommended securitization alternative is roughly equal to or higher than the probability of shortfall in PG&E's original proposal? If not please explain why this is not the case.
c. Does Cal Advocates agree that, as modeled in Table 1, the probability of shortfall for Cal Advocates' Scenario #1 with a securitization amount of $6.0 billion, $1.80 billion initial shareholder contribution, and additional shareholder contributions of up to $7.59 billion is roughly 7%?

Cal Advocate's Response to Q2:

Notwithstanding its objections, Cal Advocates responds as follows:

a. i. PG&E shareholders would be obligated to contribute an Initial Shareholder Contribution of $1.44 billion and up to $6.07 billion in Additional Shareholder Contributions associated with Net Operating Losses. As stated in PG&E's prepared testimony, the total amount of Additional Shareholder Contributions represents a cap. PG&E would be obligated to contribute based on its Formula outlined in its prepared testimony, p. 6-12.

   ii. Under Cal Advocates recommended scenario, PG&E's contributions are reduced proportionally by the amount that the total securitization value is reduced. Cal Advocates recommendation for a reduced $6 billion Securitization proportionally reduces the contributions.

b. Yes, Cal Advocates agrees that the probability of surplus is approximately 84% in its recommendation and in PG&E's proposal.

c. Cal Advocates agrees that in Table 1, Scenario #1, with a reduced $6 billion Securitization, the probability of a shortfall is approximately 7%.

Q 3: Cal Advocate's Testimony p. 13 states Cal Advocate's "approach will accelerate PG&E's path to achieve an investment grade credit rating by improving its financial metric (Funds From Operation/Debt) than without the securitization, while minimizing ratepayer exposure to higher longer-term financial risk."

a. If, according to Table 1 on p. 10 of Cal Advocates' testimony, the risk of shortfall under Cal Advocates' recommended scenario is the same or higher than the risk of shortfall under PG&E's original proposal, please explain and describe each and every way that ratepayer risk is minimized by Cal Advocates' recommendation.
b. For purposes of this question, "Scenario #1" is defined as the scenario in Table 1 on p. 10 of Cal Advocates' testimony, in which the securitization amount is $6.0 billion, the initial shareholder contribution is $1.8 billion and the additional shareholder contributions are $6.07 billion. Does Cal Advocates believe that, compared to the no securitization scenario, PG&E's path to investment grade credit ratings would be accelerated by Scenario #1 (all else being equal)? If not, please explain each and every reason why not.

<u>Cal Advocate's Response to Q3:</u>

Notwithstanding its objections, Cal Advocates responds as follows:

a. In the event Additional Shareholder Contributions do not manifest or PG&E cannot apply its NOLs as forecasted, a reduced securitization of $6 billion will result in lower ratepayers costs than with funding a larger $7.5 billion Securitization due to the lower Annual Fixed Recovery Charge (FRC).
b. Yes.

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PUBLIC ADVOCATES OFFICE RESPONSE TO DATA REQUEST 02

Date: December 4, 2020

Origination Date: December 2, 2020

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TURN Data Request No.: TURN-Cal Advocates-02

Public Advocates Office Witness: Various

GENERAL OBJECTIONS

1. Cal Advocates 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. Cal Advocates 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 Cal Advocates' rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. Cal Advocates 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. Cal Advocates objects generally to each request to the extent it seeks information, documents, formulas, models and tables that originated from, were identified by, or are in the sole possession of PG&E and are thus available from PG&E directly making these requests overly burdensome.

4. Cal Advocates incorporates each of these General Objections into each of its responses below. Each of Cal Advocates' responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

Q 1: Did Cal Advocates perform their own modeling of the potential for a shortfall in the Customer Credit Trust or rely on model runs performed by PG&E?

<u>Cal Advocate's Response to Q1:</u>

Notwithstanding its objections, Cal Advocates responds as follows:

Cal Advocates reviewed model runs provided by PG&E.

Q 2: How did Cal Advocates validate the accuracy of modeling results PG&E included in its prepared testimony and provided to Cal Advocates in response to data requests? What type of review did Cal Advocates perform of PG&E's Monte Carlo model?

Cal Advocate's Response to Q2:

Notwithstanding its objections, Cal Advocates responds as follows:

Cal Advocates issued data requests and analyzed the inputs and assumptions in Callan's model.

Q 3: Did Cal Advocates review the taxable income forecast incorporated into PG&E's Monte Carlo model? If yes, does Cal Advocates take any position with respect to the reasonableness of this forecast?

a. Does Cal Advocates take any position with respect to the reasonableness of PG&E's forecasted ratebase additions over the life of the proposed Customer Credit Trust?

<u>Cal Advocate's Response to Q3:</u>

Notwithstanding its objections, Cal Advocates responds as follows:

Yes, Cal Advocates reviewed the taxable income forecast incorporated in PG&E's model and outlined in Table 6-2 on p. 6-11 of PG&E's prepared testimony. Cal Advocates recommendation for a reduced securitization acknowledges the uncertainties in this forecast.

a. Cal Advocates notes the potential that "rate base growth deviates from PG&E's forecasts" as a risk associated with PG&E's ability to meet its taxable income forecasts (Public Advocates Office Report, p. 8 line 1).

Q 4: Did Cal Advocates review the investment return forecasts incorporated into PG&E's Monte Carlo model? If yes, does Cal Advocates take any position with respect to the reasonableness of this forecast?

<u>Cal Advocate's Response to Q4:</u>

Yes, Cal Advocates reviewed the investment return forecasts incorporated into PG&E's Monte Carlo model. As with PG&E's forecast of Additional Shareholder Contributions, there is uncertainty in the timing of Customer Credit Trust Returns. Cal Advocates refers to its Report, p. 9 lines 1-7.

Q 5: Did Cal Advocates review PG&E's income tax gross-up mechanism for Customer Credit shortfalls (PG&E direct testimony, pages 6-28, footnote 18; Testimony of Mark Ellis on behalf of TURN, page 17)? If yes, does Cal Advocates take any position with respect to the reasonableness of this mechanism?

Cal Advocate's Response to Q5:

Yes, Cal Advocates conducted discovery and analysis on PG&E's income-tax gross-up. Please refer to the Public Advocates Office Report, p. 7 lines 15-19 and footnote 31 for its analysis.

Q 6: Did Cal Advocates review PG&E's criteria and methodology for assessing ratepayer neutrality? If yes, does Cal Advocates take any position with respect to the reasonableness of PG&E's criteria and/or methodology?

<u>Cal Advocate's Response to Q6:</u>

Cal Advocates refers TURN to its Report, p. 5-6 and p. 12, for its discussion on the criteria of ratepayer neutrality, and to its response to data request TURN-Cal Advocates-01, Q. 1.

Q 7: Did Cal Advocates review PG&E's retention of the Recovery Bonds' interest tax deduction for shareholder benefit? If yes, does Cal Advocates take any position with respect to the reasonableness of this specific allocation of "downside risk and upside potential between PG&E shareholders and ratepayers" (Scoping Memo, Section 2.3.e).

Cal Advocate's Response to Q7:

No.