APPLICATION OF THE SB 901 CUSTOMER HARM THRESHOLD METHODOLGY TO PROPOSED SECURITIZATION

- SB 901 required the CPUC to establish a Customer Harm Threshold (CHT) to limit certain disallowances in the aggregate so that they **do not exceed the maximum amount that a utility can pay without harming ratepayers or materially impacting its ability to provide adequate and safe service**
    - SB 901 also authorizes the CPUC to issue a financing order that **permits recovery**, through the issuance of recovery bonds (also referred to as "securitization"), of wildfire-related costs found to be just and reasonable by the CPUC and, **only for the 2017 North Bay Wildfires, any amounts in excess of the CHT**.
    - SB 901 does not authorize securitization with respect to possible 2018 Camp fire costs
- In July 2019, the CPUC adopted a methodology to determine the CHT based on, among other things, the maximum additional debt that a utility can take on and maintain a minimum investment grade credit rating, available excess cash, and regulatory adjustments
- Pursuant to SB 901 and the CPUC's CHT methodology, PG&E is seeking CPUC authorization for a **post-emergence transaction to securitize $7.5 billion of 2017 wildfire claims costs**
- Because PG&E does not have an investment-grade credit rating currently, the CHT Methodology requires PG&E to "demonstrate a path back to investment grade" in its application:
    - PG&E has resolved its substantial wildfire liabilities, providing for a historic capital raise to fund PG&E's Plan, and enabling a significant reduction in its cost of debt through refinancing certain prepetition debt
    - Approval also would send a positive signal to financial markets and rating agencies, with the potential to help improve PG&E's business risk profile and, more broadly, rating agency and investor views of California regulation
    - Securitization also is anticipated to provide quantitative benefits to PG&E's credit metrics – as a result of the proposed transaction, PG&E would **retire $6.0 billion of temporary utility debt** and a**ccelerate a $700 million payment due to the Fire Victim Trust** post-Effective Date
- The CPUC requires utilities seeking to use the CHT to propose ratepayer protection measures to mitigate harm to ratepayers, if any
    - In addition to **foregoing cost recovery for 2017 wildfires** (e.g., Tubbs), PG&E proposes to devote shareholder tax benefits arising from, among others, payment of the 2017 wildfire claims costs through the Customer Credit
    - **Share with customers 25% of any surplus in the Customer Credit Trust** at the end of the life of the Trust, which represents a significant additional benefit for customers
- Overall, PG&E anticipates an **improvement in qualitative and quantitative financial metrics at exit that sets it on a path to be in line with industry peers and consistent with an investment-grade issuer credit rating over time**, although PG&E does not anticipate receiving such a rating immediately at exit