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10 **UNITED STATES DISTRICT COURT**
11 **NORTHERN DISTRICT OF CALIFORNIA**
12 **SAN FRANCISCO DIVISION**

13 In re:
14 PG&E CORPORATION
15 -and-
16 PACIFIC GAS AND ELECTRIC
COMPANY,
17 Debtors.
18

Case No. 19-cv-05257-JD

Bankruptcy Case No.: 19-30088-DM

**OBJECTION BY CERTAIN FIRE VICTIMS
TO DEBTORS' MOTION PURSUANT TO 11
U.S.C. 105(a) AND 502(c) TO ESTABLISH
AMOUNT OF FIRE VICTIM CLAIMS FOR
ALL PURPOSES OF THE CHAPTER 11
CASE; JOINDER IN RESPONSE OF TCC**

Date: May 21, 2020
Time: 10:00 a.m.
Ctrm: 11
Judge: Hon. James Donato

21
22 **I**

23 **INTRODUCTION**

24 The Debtors, PG&E Corporation and Pacific Gas & Electric (“Debtors” or “PG&E”) have
25 moved this Court for an order establishing by estimation the total amount of all fire victims’ claims
26 for all purposes in the Debtors’ Chapter 11 bankruptcy cases. In essence, the Debtors propose
27 funding a trust for fire victims with \$6.75 billion in cash and PG&E stock allegedly valued at \$6.75
28

1 billion and the assignment of certain rights and causes of action. The Debtors define “fire victim”
 2 as any tort claimant affected by any PG&E-caused wildfires in 2015, 2016 (Ghost Ship), 2017 and
 3 2018 anywhere in Northern California, including not only individuals who lost loved-ones, or real
 4 and personal property, but also business entities and public entities.

5 For two major reasons, this group of individual fire victims opposes that motion and joins in
 6 the Response of the Official Committee of Tort Claimants (“TCC”) filed herein at ECR No. 295
 7 (Apr. 2, 2020). First, Debtors’ current Plan¹ classifies claims of creditors with substantially similar
 8 legal claims against the Debtors, i.e., claims of fire victims in their own right and claims of their
 9 insurers for losses paid due to fires, in different classes with profoundly different treatment, and
 10 therefore cannot be confirmed under 11 U.S.C. §§ 1129(a)(1) and 1122. Whereas fire victims and
 11 their insurers each have legal claims for damages, the Plan pays the insurers in cash whereas the
 12 fire victims trust, unlike all other creditors, must accept the highly speculative risk of holding
 13 PG&E stock as half of their consideration, instead of cash.

14 Second, this unequal treatment is exacerbated by the massive changes in circumstances,
 15 including the current economic downturn caused by COVID-19 and the recent criminal plea
 16 entered by the Debtors for involuntary manslaughter in connection with the Camp Fire, raise
 17 serious questions about the value of the PG&E stock proposed for fire victims in the Plan.
 18 Therefore, any estimation of the capped amount of fire victims’ claims must take into account that
 19 the supposedly absolute value of \$13.5 billion (to be paid half in cash and half in stock) is at least
 20 partly illusory and not worth that amount anymore.

21 II

22 ARGUMENT

23 A. All Similarly-Situated Creditors Must be Treated Equally

24 Under the provisions of 11 U.S.C. §§ 1129(a)(1), (a)(7), and 1122, all similar claims of
 25 creditors must be treated equally or the plan cannot be confirmed. Here, the fire victims (both
 26 those individuals and entities that suffered damages from the 2015, 2017 and 2018 wildfires, as
 27 _____

28 ¹ *Debtors’ Amended Plan of Reorganization*, Bankr. Dkt. No. 6320 (Mar. 16, 2020).

1 well as the public entities and subrogation insurance entities) are all similarly situated in that their
2 losses were caused by fires attributable to the Debtors' equipment or operations. However, only
3 the individual fire victims, who lost loved-ones, homes, personal property, businesses, and other
4 damages, are at risk of receiving less than they were guaranteed under the proposed settlement
5 agreement with the Debtors. These fire victims are required to accept half of the \$13.5 billion in
6 cash and half in stock in the new company exiting bankruptcy. On the other hand, the subrogation
7 insurance companies are receiving an all-cash payment amounting to \$11 billion. The current
8 public entity settlements likewise are all cash. Only the individual fire victims are treated
9 differently and unfairly. Thus, this motion to finally fix the amount of the fire victims' claim
10 should not be granted unless and until this gross disparity is remedied and the fire victims are
11 guaranteed that they will actually receive the full value of the proposed estimated \$13.5 billion as
12 the Debtors promised.

13 **B. Changed Circumstances Dictate Denial of the Motion**

14 **1. The Economic Crash**

15 The now-worldwide onset of the Coronavirus has caused a massive economic crash,
16 causing the U.S. economy to slide into what appears to be a deep recession, with all closely-
17 watched averages down to bear-market levels. Additionally, there is an historic number of
18 Americans filing for unemployment benefits -- over 6 million during the last week of March, 2020.
19 In short, most economic experts assert that the U.S. in this deep economic recession for a long
20 period of time. None of these factors existed when the Debtors proposed their half-cash/half-stock
21 \$13.5 billion settlement with the fire victims. Based on the current economic circumstances, the
22 \$13.5 billion is no longer worth \$13.5 billion, a risk that fire victims should not shoulder on their
23 own, when other creditors with the same legal claims receive all cash.

24 A substantial portion of the \$13.5 billion – \$6.75 billion is to be paid in stock in the new
25 company exiting bankruptcy. But that stock is no longer worth \$6.75 billion, but only \$4.85 billion
26 – *i.e.*, about \$1.9 billion less than promised. *See* accompanying Declaration of Eric Lowrey in
27 support of this objection (“Lowrey Decl.) para.. 5, second bullet point. This decline in stock value
28 could further deteriorate given several factors: PG&E’s ongoing wildfire risks; its weak credit

1 portfolio; the potential for its earnings forecast to be revised downward due to further economic
2 downturns; and its inability to pay any dividends for a minimum of three years, something that is a
3 key attribute that potential utility investors look for when deciding whether to purchase stock. *See*
4 *Lowrey Decl.*, ¶ 5.

5 Not only is there a very real risk that the stock going to the fire victims trust will be worth
6 less than the promised \$6.75 billion, but the \$6.75 billion cash portion of the fire victims'
7 settlement may also turn out to be less. The cash portion of the settlement calls for the payment of
8 \$5.4 billion on the effective date (assuming the Debtors are able to obtain financial commitments to
9 come up with the capital to make that payment, which at this point is still unclear), with a deferred
10 payment of \$1.35 billion paid in two installments (\$650 Million on January 15, 2021 and \$700
11 Million on January 15, 2022), without interest and with questionable security. (*See*, Plan section
12 1.208). Because the deferred payments do not bear any interest, that amount needs to be
13 discounted, which results in a deduction of \$45 Million from the \$1.35 billion. Additionally, the
14 deferred payments means that the new PG&E will have to make it through two fire seasons while,
15 at the same time, these deferred payments are generated by tax attributes that may never occur
16 because if there is a mass sale of PG&E stock shortly after exit from bankruptcy, the IRS might
17 consider that a change of control such that the net operating losses essentially disappear. *Lowrey*
18 *Decl.* ¶ 5, 3rd bullet point. Moreover, upon exit, the new PG&E will have some \$38 billion in debt,
19 leaving little margin for error if it is to achieve enough money to pay the \$1.35 billion in deferred
20 payments. Finally, the current economic downturn is very likely to have a material negative impact
21 on the Debtors' financial forecast over the next 12 to 18 months, which could put a significant
22 portion of the deferred cash payments at substantial risk to the fire victims. *Lowrey Decl.* ¶ 7.

23 Therefore, these objecting fire victims respectfully suggest that this Court should not
24 confirm the \$13.5 billion to the tort claimants unless and until that full amount is certain to get to
25 those claimants without any deductions whatsoever.

26 2. The Guilty Pleas

27 Recently, the Debtors pleaded guilty to 84 counts of felony involuntary manslaughter in
28 violation of Cal. Penal Code § 192(b) and one count of unlawfully causing a fire in violation of Cal.

1 Penal Code § 452 bringing a fine of \$4 Million² (which the Debtors initially stated was to paid out of the
 2 fire victims' trust, but relented when faced with overwhelming objections from fire victims). However,
 3 because the Debtors are convicted felons for causing the Camp Fire, they are now subject to punitive
 4 damages from those fire victims whose losses are attributable to that fire. When the Debtors proposed the
 5 \$13.5 billion settlement there was no real threat of punitive damages, which there is now, and which makes
 6 the \$13.5 billion inadequate to pay all fire victims' claims, as well as any substantial punitive damages to the
 7 Camp Fire victims. Therefore, the motion to establish the \$13.5 billion should be denied unless and until the
 8 Debtors prove to this Court that the fire victims will receive consideration actually worth \$13.5 billion, plus
 9 any additional amount to satisfy any punitive damages claims by the Camp Fire victims.

10 III

11 RESOLUTION OF THE PROBLEM

12 Providing \$13.5 billion for the fire victims is achievable without dismantling the entire
 13 settlement with the Debtors. Either the Debtors can amend the settlement to provide for an all-cash
 14 payment to the fire victims on the effective date, or if the Debtors are unable to accomplish that,
 15 they should include a backup plan – *i.e.*, a backstop, if you will – that protects the \$13.5 billion all-
 16 cash amount, and there are at least two groups that can provide that backstop. First there is the
 17 Customer-Owned Utility proposal, which assures that fire victims will receive the \$13.5 billion in
 18 cash upon the effective date. Declaration of Francis .O. Scarpulla in support of this objection
 19 (“Scarpulla Decl.”), Exhibit A, response no. 8. In fact, the Customer-Owned Utility propose the
 20 following, among other provisions: 1) to fully fund the fire victims' trust with \$13.5 billion all cash
 21 on or before September 30, 2020; 2) treat all other creditors exactly the same as in the current
 22 Debtors' agreement, including the \$11 billion cash to the subrogation insurance group; 3) pay the
 23 settling public entities their \$1 billion in cash; and 4) fully comply with all requirements of AB
 24 1054. Scarpulla Decl., Exhibit A.

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 27
 28 ² Debtors' motion before the Bankruptcy Court to approve the plea agreement, and the plea agreement are filed at Bankr. Dkt No. 6418 (Mar. 23, 2020).

1 A second potential backstop could be from the Bondholders, who proposed a \$13.5 billion
2 all cash payment to the fire victims, but who eventually joined the Equity group in the current
3 proposal. In fact, there could be an amalgamation of both the Customer-Owned Utility group, with
4 the Bondholders and with the Equity group to resolve this bankruptcy case for the benefit of all
5 creditors.

6 **IV**
7 **CONCLUSION**

8 As the objecting fire victims have pointed out, this Court should not grant the Debtors'
9 motion without guaranteeing that the fire victims shall receive the full value of the promised
10 \$13.5 billion payable into their trust fund for future distributions to the claimants. If the Debtors
11 are not willing to so guarantee that the fire victims will receive the \$13.5 billion, undiluted in any
12 way, then this Court could order all interested parties to a mediation with the previously-agreed to
13 mediators, Judge Daniel Weinstein (Ret.) and Robert Mayer, which would end with a unified
14 agreement on behalf of the fire victims.

15
16 Dated: April 3, 2020

TRODELLA & LAPPING, LLP

17
18 By /s/ Richard A. Lapping
19 Richard A. Lapping

20 Co-Counsel for Creditors Listed Below

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behalf of all others similarly situated; WILLIAM O'BRIEN, MING O'BRIEN, and FUGUAN O'BRIEN by her Guardian ad Litem, Ming O'Brien; MICHAEL HEINSTEIN, KYE HEINSTEIN; and CLINTON REILLY

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Pursuant to Local Rule 5-1(i)(3), I attest that concurrence in filing this document has been obtained from the signatories.

/s/ Richard A. Lapping
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10 **UNITED STATES DISTRICT COURT**
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13 In re:
14 PG&E CORPORATION
15 -and-
16 PACIFIC GAS AND ELECTRIC
17 COMPANY,
18 Debtors.

Case No. 19-cv-05257-JD

Bankruptcy Case No.: 19-30088-DM

**DECLARATION OF FRANCIS O.
SCARPULLA IN SUPPORT OF OBJECTION
BY CERTAIN FIRE VICTIMS TO
DEBTORS' MOTION PURSUANT TO 11
U.S.C. 105(a) AND 502(c) TO ESTABLISH
AMOUNT OF FIRE VICTIM CLAIMS FOR
ALL PURPOSES OF THE CHAPTER 11
CASE; JOINDER IN RESPONSE OF TCC**

Date: May 21, 2020
Time: 10:00 a.m.
Ctrm: 11
Judge: Hon. James Donato

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24 /////
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27 /////
28 /////
29

1 I, Francis O. Scarpulla, declare as follows:

2 1. I received the document attached hereto as Exhibit 1 from the Consumer-Owned
3 Utility Group.

4 I declare under the penalty of perjury under the laws of the United States of America that
5 the foregoing is true and correct.

6 Executed April 3, 2020 in the City and County of San Francisco, California.

7

8 By: /s/ Francis O. Scarpulla
9 Francis O. Scarpulla

10 Submitted by:

11 TRODELLA & LAPPING, LLP

12

13 By /s/ Richard A. Lapping
14 Richard A. Lapping

15 Co-Counsel for Creditors
16 KAREN ROBERDS and ANITA FREEMAN,
17 for themselves and on behalf of all others
18 similarly situated; WILLIAM N. STEEL, for
19 himself and on behalf of all others similarly
20 situated; WILLIAM O'BRIEN, MING
21 O'BRIEN, and FUGUAN O'BRIEN by her
22 Guardian ad Litem, Ming O'Brien; MICHAEL
23 HEINSTEIN, KYE HEINSTEIN; and
24 CLINTON REILLY; and Class Claimant GER
25 HOSPITALITY, LLC and RICHARD
26 CARPENETI

22 Pursuant to Local Rule 5-1(i)(3), I attest that concurrence in filing this document has been
23 obtained from the signatory, Francis O. Scarpulla.

24 /s/ Richard A. Lapping
25 Richard A. Lapping

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EXHIBIT 1

TCC Diligence List

March 25, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

Questions:

Timing of Bankruptcy Court and Regulatory Approvals

- 1. Is your Customer-Owned Utility (“COU”) Proposal intended to be a primary Plan of Reorganization (“Plan”) or a backup Plan?**

The COU proposal for PG&E to exit bankruptcy as a COU (the “COU Plan”) was intentionally prepared so that it could be either a primary or a backup Plan. The Coalition has urged the Debtors, so far without success, to adopt its Plan as the Company’s primary Plan, and, failing that, as a backup Plan.

The COU Plan could still be the primary Plan for the Debtors if they decided to adopt it instead of their current Plan. Presumably, however, they will not do that, unless, for example, they are unable to secure financing for the current Plan.

For any other creditor group, the Debtors still retain the exclusive right to file and seek to confirm a Plan. Accordingly, if a creditor or creditor group wished to propose the COU Plan as an alternative to the Company’s Plan, such creditor or group could not do so unless it were to file a motion with the Bankruptcy Court seeking authorization to file a competing Plan, and the court granted such relief.

- 2. Is the COU Proposal intended to meet all requirements of AB1054 prior to June 30, 2020?**

The COU Plan is intended to meet the requirements of AB 1054 by June 30th.

- a. If not, what is the length of time you anticipate for CPUC review of the COU plan?**

See Above.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

3. Does the plan protect fire victims from having their claims exposed to another wildfire?

a. What would be the timeline for PG&E to emerge from bankruptcy in the COU Proposal?

The COU Plan can be confirmed before June 30, with bridge financing to fund the required payment into the Wildfire Fund, and finally closed and go effective by September 30. At closing, the Victims' Trust would be fully funded in cash, which would thereby protect victim beneficiaries from any further financial risk in regard to their recoveries.

4. The COU proposal calls for the Debtors' to agree to sell their assets to the COU, and to assume and assign their executory contracts to the COU. How do the proponents intend to compel the Debtors to accept the offer?

The COU Plan is not an acquisition. It is a conversion of the Debtors into a COU as part of the bankruptcy process under Section 1123(b)(5) of the Bankruptcy Code. In essence, the Federal Bankruptcy Court effectuates this structural transformation as part of the confirming PG&E's plan of reorganization. Assuming that the COU Plan is a backup to the Debtors' Plan, the Debtors would have consented to this conversion, if the backup conditions are triggered.

The COU should be introduced now as a backup component within the current Plan to protect against a possible failure of the debtors financing and consequent delays, thereby allowing both confirmation of a viable Plan by June 30th and the most efficient payment of claims to fire victims.

Assuming that the COU is not proposed by the debtors but proposed by another party, then the court could confirm the Plan, provided that one or more classes vote to accept the COU Plan, with or without the agreement of the debtors.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

5. Who will be the plan proponent(s) for the COU plan of reorganization?

As the backup, the Debtors would be the Plan proponents. However, the TCC could also be a proponent or a co-proponent with the Debtors.

6. Assuming, as proponents note, that a contested valuation in the bankruptcy court may be necessary, describe your estimate of the length of time such contested confirmation will last.

Estimation of equity value, if any, could be accomplished on an accelerated basis within weeks. On the other hand, market conditions suggest that equity parties would be well advised to seek an agreed-upon resolution of this question.

7. Do you believe that the COU proposal is exempt from CPUC approval pursuant to PUC Section 3291? If yes, describe the basis on which you make that assumption. If no, when do you intend to file an application with the CPUC for approval of the COU Plan?

Specifically, the COU would be organized as a mutual benefit corporation under California law and would operate as an electrical cooperative as defined by Sections 2776-2778 of the Public Utilities Code. Those provisions provide that such an entity is permitted to set its own rates and issue its own debt, but would otherwise be subject to the health, safety and wildfire protection jurisdiction of the CPUC. In other words, the COU would have rate-setting autonomy and determine its own capital structure, but the CPUC would still have a regulatory role for other purposes, which likely would include the provisions of Section 3291 and the other elements of AB 1054. Correspondingly, the COU would be eligible to participate in the Wildfire Fund (note that even if the COU were somehow considered a "new" entity, Section 3291(e) provides that such an entity may be eligible for participation).

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

Treatment of Wildfire Claims under the COU Plan

8. Does the COU Proposal pay fire victims \$13.5B in cash on or before August 29, 2020?

- a. **If not, what would be the consideration amount, form of consideration, and timing of payment?**
- b. **Would the payment be made to a resolution trust controlled by the victims? As stated above, the goal is to fully fund the Victims' Trust in cash by closing on September 30, 2020,**

As stated above, the COU Plan calls for fully funding the Victims' Trust in cash by closing on or before September 30, 2020. The payments would be to the resolution trust as described in the Debtor's current Plan.

9. Given actual claims of fire victims may be more than \$20B to \$50B, does the COU Proposal compensate for the deficit if the \$13.5B fails to make all 70,000 +/- fire victims whole?

No, neither the COU, nor the Debtors' IOU plan, nor indeed any reorganization format can compensate for a possible \$20 - 50 billion exposure if the settlement is rejected or if opt outs overwhelm the agreed settlement amount. What the COU can do that the IOU never can, is to transfer ownership to ratepayers, of whom victims are likely to be a large subset, in an entity that will be stronger, more sustainable and more credit-worthy than emergent entity envisioned under the Debtor's Plan.

Treatment of Other Creditors and Equity Security Holders under the COU Plan

10. Does the COU Proposal pay the subrogation claims \$11B in cash on the effective date?

Yes. The COU Plan accepts all the settlements reached by the Debtor with exception that it would provide for the funding of the Victim Trust with \$13.5 billion in cash.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

11. Does the COU Plan pay the setting public entities \$1 billion cash on the effective date?

Yes. See Above.

12. Does the COU Plan incorporate the existing bondholders?

Yes. See Above.

13. Does the COU Plan incorporate the existing equity holders?

Yes. The COU Plan contemplates compensating equity an amount to be determined by the Bankruptcy Court or agreed to by current equity to address any equity value.

14. Does the COU Proposal pay FEMA, the other U.S. government claims, the state of California, and all of the other public entity claimants the amounts that the TCC negotiated with them without reducing the \$13.5B recoveries for the fire victims?

The COU Plan would not change the recently announced agreement with FEMA and California OES and other public entities regarding the scope and priority of those claims. As stated in the response to Question 11, above, the COU Plan accepts all settlements reached by the Debtor, including the agreement with specified public agencies in the summer of 2019.

15. Does the COU Plan pay the Ghost Ship claimants \$150M as the Bondholders offered?

The COU Plan has not been specific with respect to the Ghost Ship plaintiffs, but has assumed the treatment of their claims would be as specified in the Debtor's Plan.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

Financing Sources and Uses

16. How much capital in total will be required to accomplish all the COU Proposal intends to do – i.e., purchase assets, operate the utility, and pay fire claim victims?

The COU Plan, like the Debtor's Plan, assumes \$59 billion in total claims plus an amount to be determined by the Bankruptcy Court or agreed to by current equity to address any equity value. The COU Plan, which encompasses the entire entity, contemplates raising capital in the form of debt financing, which is expected to be highly rated. As a customer-owned utility, the company won't need to pay dividends and will be able to set its own rates, determine cost recovery, and establish its own capital structure, among other factors. As a result, the emergent COU is expected to be viewed as a financially stronger enterprise and, thus, be more financeable in the capital markets.

a. Do you expect financing contingencies?

The guidance we have received during discussions with major banks is that a customer-owned utility, even one financed with up to 100% debt financing would be an investment grade enterprise, assuming utility rates currently approved for PG&E, among other things. As such, we believe a COU has the best likelihood of successfully raising financing for PG&E's exit from bankruptcy.

17. What are the contemplated capital sources in amount and form in the COU Proposal?

a. Does the COU Plan have respective financing commitments? If so, how much and in what form?

See answer to Question 16, above.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

18. Does the COU Plan intend to rely on tax-exempt muni bond funding either now or in the future?

a. If so, how would this form of financing be helpful? Please keep in mind any potential requirements for voting approval and legislation action.

b. Does the COU Proposal intend to rely on tax-exempt muni bond funding either now or in the future?

The Rostenkowski Amendment precludes tax exempt financing for an acquisition. We have not modeled capital planning on tax-exempt financing for future needs, and while opportunities may be available to access the tax-exempt market (e.g., for specific infrastructure projects or through public vehicles) the COU Plan is premised upon taxable debt.

19. Does the COU Plan use any of the Debtors' current financing commitments to finance its Plan?

No.

a. Is consent required of lenders, if so?

N/A

Governance/Ratemaking/Operations

20. Does the COU Proposal remove the holding company?

a. If so, what are the expected cost savings? (i.e., \$500M per year)

Following the conversion to a COU, the holding company would no longer exist in its current form. Any cost savings realized following the conversion to a COU would be used to accelerate capital investments or passed on to ratepayers.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

- 21. Since a customer-owned utility is not regulated in the same manner by the CPUC, does the COU Proposal provide that the Plan itself would be rate neutral?**

The COU Plan would be rate neutral as defined by AB 1054.

- 22. Similarly, does the COU Proposal guarantee to limit future customer rate increases to the annual California CPI (calculated without including energy costs)?**

PG&E's rates will undoubtedly need to increase in the coming years as the company plans to spend at least \$40 billion over the next five years on system hardening, modernization and wildfire protection. The expectation is that the COU will operate under the same envelope of forecast rate projections in the short-to-medium term as would the existing investor-owned utility under PG&E's Plan. However, the COU approach would provide for the moderation of rate increases with a significantly lower cost of capital.

Under the COU Plan, cost of capital savings begin to accrue almost immediately and become increasingly material within several years of confirmation, with preliminary estimates exceeding \$10 billion in cumulative cost of capital savings during the first decade (with potential for additional growth in the amount of annual cost of capital savings beyond the first 10 years). Realized cost of capital savings under the COU Plan would be reinvested (or used to support additional capital raising) to upgrade the utility's infrastructure more rapidly than would be the case under the PG&E Plan. Put differently, the COU cost of capital advantage could provide for a leap forward in terms of total investment in the utility's infrastructure as the annual cost savings, which would be growing each year, could be used to finance additional infrastructure investments.

As and when infrastructure health and safety conditions at the utility have reached an acceptable level and the many well-publicized deficiencies in PG&E's infrastructure have been addressed, then it would be expected that rates would begin to be lower than the level they would have been at under PG&E's Plan and expected rate path.

TCC Diligence List (Cont'd)

March 19, 2020

Reorganizing PG&E as a Customer-Owned, Mutual Benefit Corporation

Coalition for a Customer-Owned Utility

Attn: Alan Gover, Dan Richard, Eric Lowrey, and D.J. (Jan) Baker

23. Does the COU Plan identify a competent operator to operate PG&E?

We have developed detailed governance proposals and have identified initial board leadership. The customer-owned utility board would evaluate current management and determine what any necessary changes in personnel. This could include retention of some portion of management, changes in individuals or consideration of a contractual relationship with an outside operator.

24. Does the COU Proposal include buying and/or selling off (once acquired) PG&E in Segments (e.g. Gas v. Electric)?

The COU plan encompasses the entire entity. There is no plan to sell of assets.

Political

25. What has been the feedback on the COU Proposal from the Governor's Office since it was first presented in February?

The COU Plan was first presented in the fall. The Governor's office encouraged the development of the COU Plan, suggested discussions with other parties and has had multiple meetings with the COU Plan proponents and with Mayor Liccardo. Consistent with the recent announcement, the Governor's office articulated a preference for PG&E to have an opportunity to emerge as an investor-owned entity if that could be done satisfactorily in terms of financial viability and cultural transformation. The Governor's office has maintained that the COU Plan would be a viable backup. The Governor's office contacted the COU Plan advisory team on Friday to reiterate that position.