

# PG&E HEARING EXHIBIT PGE-57

A.20-04-023

## PG&E'S SECURITIZATION 2020

The Utility Reform Network's Response to PG&E Data Request 4,  
Questions 2, 12, 13

**PACIFIC GAS AND ELECTRIC COMPANY**  
**Application 20-04-023**  
**(Securitization)**

**TURN Response to PG&E Data Requests Set 4**

PG&E Data Request No.:	PGE_TURN004
PG&E File Name:	Securitization2020_DR_PGE_TURN004
Date Requested:	November 16, 2020
Date of Response	November 23, 2020, Revised (Q11) November 25

**Q 2: With respect to Table 3 of the revised Ellis Testimony dated November 10, 2020, and associated workpaper(s), confirm that Ellis added 10.25% each year through 2050 to the sum of (i) any “Shortfall” as defined in the revised Ellis Testimony at page 20, n. 25. plus (ii) “Customer Credit shortfall tax gross-up” as used in the revised Ellis Testimony at page 21, line 2. If TURN does not confirm by an unqualified yes, please explain all reasons TURN cannot confirm with an unqualified yes.**

In Table 3, the references to “shortfall” – “first shortfall year” (column heading) and “probability of shortfall” (line 26) refer only to the Trust returns. As in Callan’s original model, shortfalls are rolled forward each year and deducted from any Trust surplus at the end of its life. The TURN values in lines 20-25 reflect the addition of an annual time-value-of-money charge of 10.25% on the accrued shortfall.

**Q 12: With reference to TURN's response to Data Request Set 2, Question 4, TURN states "Table DR2-Q4-1 summarizes the key inputs and results for each methodology. Means are used to represent averages instead of the previously-used medians due to the small sample size and the general absence of outliers."**

- a. Why does the revised Ellis Testimony dated November 10, 2020, use average instead of mean with respect to investor forecasts?**

In this context, average and mean are synonymous.

- b. How does TURN define outlier as used in the above quoted sentence?**

Outlier is defined as more than one standard deviation outside the absolute range of all other data points in the same asset class. Under this criterion, there was only one near-outlier in the data set: State Street's US fixed income forecast of 0.61% was 0.99 standard deviation outside the range of the other data points.

**Q 13: Describe all experience of Mark Ellis prior to his testimony in this proceeding, with the actions described in TURN Response to Questions 1, 2, 3, 4, 6, and 21.**

Mr. Ellis has over twenty-five years of experience performing complex economic modeling and financial valuation at Sempra Energy, McKinsey & Company, the MIT Energy Laboratory, and ExxonMobil. Specific experience relevant to his responses includes the following:

- Mr. Ellis was responsible for developing and implementing Sempra's cost of capital methodology, used across the enterprise to evaluate new investments and to set performance targets in executive compensation plans. In the course of that work, Mr. Ellis extensively reviewed both the academic and practitioner literature on cost of capital, return forecasting methods, and market-implied expected rates of return. Mr. Ellis gained previous experience in this area analyzing risk-adjusted discount rates and market-implied expected returns while at McKinsey.
- Mr. Ellis led Sempra's annual strategy review process. That work entailed specialized, detailed analyses and assessments of various issues of interest to the board of directors, including financial risk; financial implications of potential tax and regulatory reform; market-implied investor return expectations for individual business units, asset classes, and Sempra and its industry competitors; and valuation of assets with complex return attributes and embedded optionality.
- Mr. Ellis's work on cost of capital, risk-adjusted returns, capital structure,

and energy market dynamics provided the economic foundation for many of Sempra's key strategic decisions, including:

- Exiting merchant generation through asset sales or transfer to a utility affiliate
  - Retaining its energy trading business when its industry peers were exiting and later valuing a complex JV structure when the business outgrew Sempra's balance sheet
  - Identifying, valuing, and monetizing real option value in various energy infrastructure assets
  - Early entry into utility-scale solar and subsequent early exit from renewables as returns no longer exceeded the cost of capital
  - Shift of strategic focus from natural gas pipelines and storage to electric utilities, culminating in Sempra's acquisition of Oncor
  - Reducing its sovereign risk exposure in Mexico through the sequenced issuance of local public market debt and equity
  - Repurposing baseload LNG receiving terminals, first as real options for LNG suppliers, then as export facilities
  - Embrace of greenhouse gas-related regulation as a strategic tailwind
- At ExxonMobil, Mr. Ellis was responsible for modeling and valuation of complex international energy projects that spanned as many as five tax jurisdictions, each with different tax rates, depreciation schedules, capital controls, and regulations.
  - Modeling and analysis of complex economic and financial issues have been core responsibilities throughout his career. The topics have ranged widely, but common requirements have included high attention to detail; rigorous grounding in financial, economic, and statistical fundamentals; and identifying the handful of key insights that enable decision makers to move forward with conviction.