

Docket:	A.20-04-023
Exhibit Number:	WTF-2
Commissioner:	Marybel Batjer
ALJ:	Robert Haga
Witness:	Aaron L. Rothschild

**REBUTTAL TESTIMONY OF AARON L. ROTHSCHILD
ON BEHALF OF WILD TREE FOUNDATION**

**Application of Pacific Gas and Electric Company for Authority to Securitize Certain Costs
and Expenses Pursuant to Public Utilities Code Section 850 et seq.**

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Dated: November 11, 2020

1 **Q. Please state your name and business address.**

2 **A.** My name is Aaron L. Rothschild. My business address is 15 Lake Road, Ridgefield, CT.

3 **Q. By whom are you employed and what is your position?**

4 **A.** I am President of Rothschild Financial Consulting.

5 **Q. Please describe your duties and responsibilities.**

6 **A.** I am responsible for preparing expert witness testimony, capital market research, business
7 development, and building consulting teams.

8 **Q. What is the purpose of your rebuttal testimony?**

9 **A.** The purpose of this rebuttal testimony is to refute claims made in the Testimony Of Robert
10 Earle On Behalf of The Coalition of California Utility Employees in support of Pacific Gas
11 & Electric Company's ("PG&E") Application 20-04-023. My opening testimony and
12 testimony herein demonstrate that PG&E's proposal violates the terms of PG&E's
13 bankruptcy plan that requires ratepayer neutrality as a prerequisite for PG&E participation
14 in the AB 1054 wildfire insurance fund and does not fulfill the requirements of AB 1054
15 because it is not rate neutral on average.

16 **Q. Please summarize Mr. Earle's testimony in support of the proposed securitization.**

17 **A.** Mr. Earle claims that PG&E's proposed securitization should be swiftly approved mainly
18 because it would benefit ratepayers, support California policy goals, facilitate safer and
19 more reliable service, and accelerate payment to wildfire victims.

1 **Q. According to Mr. Earle’s testimony, why will consumers benefit from PG&E’s**
2 **proposed securitization?**

3 **A.** Mr. Earle claims that consumers will benefit from the securitization because it will
4 accelerate PG&E’s path to an investment-grade credit rating which will result in a lower
5 cost of debt (paid for by consumers through rates) sooner than if the securitization is not
6 approved. He acknowledges that there is a risk that the Customer Credit Trust will not
7 have the funds to fully reimburse ratepayers, but asserts that “layers of protection mitigate
8 the risk of non-reimbursement to customers.”¹

9 **Q. Do you agree with Mr. Earle’s claim that PG&E’s proposed securitization will benefit**
10 **consumers?**

11 **A.** I do not agree with Mr. Earle’s claim that the proposed securitization will benefit
12 consumers. First, Mr. Earle’s claim is not consistent with ratepayer neutrality. The basis
13 for his claim is that consumers will *likely* be reimbursed for the Fixed Recovery Charge
14 revenues remitted to the Bond Trustee but, he also states that there “is a potential risk that
15 the Customer Credit Trust would not have sufficient funds to reimburse customers
16 fully.”² If there is any chance that consumers will not be fully reimbursed, the plan is not
17 rate neutral. In this case, there is a significant likelihood that customers will not be fully
18 reimbursed. Second, I disagree with Mr. Earle’s claim that PG&E’s analysis indicating
19 that there is a 16% chance that consumers will not be fully reimbursed is conservative. He
20 claims that the results of PG&E’s Monte Carlo simulation are conservative because they
21 are based on a median simulated return of 6.93% instead of the historical median return of

¹ A.20-04-023, Testimony Of Robert Earle On Behalf of The Coalition of California Utility Employees at p. 1:9.
² *Id.* at p. 1:7-8.

1 10.17%. He refers to the difference between 30 year annualized historical returns vs.
2 simulated returns as a “Pessimism Gap”, but it is not pessimistic to consider that high stock
3 valuations indicate that future returns will likely be lower than in the past. It is realistic.
4 As stated by PG&E witness Allen, “There are a number of reasons the forward-looking
5 analysis performed in this work uses more conservative assumptions than historical data
6 would, by itself, dictate.”³ Additionally, TURN witness Ellis showed that a Monte Carlo
7 simulation based on return expectations in line with the median of investor forecasts results
8 in a considerable chance the Credit Trust will be underfunded.⁴ Based on a more realistic
9 investor forecasted return of 5.59%, TURN calculates that there is a 44% chance that there
10 will be a Trust shortfall resulting in ratepayers not being reimbursed.⁵

11 **Q. What is your conclusion regarding Mr. Earle’s testimony?**

12 **A.** As stated in my direct testimony, I recommended PG&E’s proposed securitization be
13 rejected by the Commission because it does not meet the requirements established in AB
14 1054 and in Decision 20-05-053 that it be ratepayer neutral and that ratepayers not pay for
15 the costs of the 2017 fires that PG&E caused. PG&E’s shareholder should thereby be
16 required to pay for the full \$7.5 billion in wildfire liabilities. Should the Commission
17 nonetheless decide to approve PG&E’s securitization application, I recommend the
18 modifications described in my opening testimony to better protect consumers.

19 **Q. Does this conclude your rebuttal testimony?**

20 **A.** Yes.

³ A.20-04-023, Prepared Testimony of Greg Allen on Behalf of PG&E at p. 6-31:11-13.

⁴ A.20-04-023, Prepared Testimony of Mark Ellis’ on Behalf of TURN at p.16.

⁵ *Ibid.*