Pacific Gas and Electric Company Securitization

A. 20-04-023

TURN HEARING EXHIBIT

TURN-22

PG&E's Response to TURN Data Request 5-2

PACIFIC GAS AND ELECTRIC COMPANY
Securitization 2020
Application 20-04-023
Data Response

PG&E Data Request No.:	TURN_005-Q01-08		
PG&E File Name:	Securitization2020_DR_TURN_005-Q01-08		
Request Date:	August 13, 2020	Requester DR No.:	005
Date Sent:	August 27, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1: David Thomason Q2: Joseph Sauvage Q3: Joseph Sauvage Q4: David Thomason Q5: David Thomason Q6: David Thomason Q7: David Thomason Q8: David Thomason	Requester:	Thomas Long

QUESTION 02

Referring to PG&E Testimony, p. 5-16, PG&E states: "In order for PG&E to achieve, the necessary three-notch upgrade and reach an investment-grade issuer credit rating, its FFO/Debt metric would need to improve significantly to around 23% at the Utility, assuming no changes to its business risk or two negative modifiers."

a. Does PG&E believe that it could achieve a "two-notch" upgrade by removing both negative modifiers (the "negative comparable rating analysis modifier," and the "weak management and governance modifier") from its profile? If not, please: (i) explain why removal of negative modifiers would not be expected to result in a "two-notch" upgrade in credit ratings; and (ii) explain precisely and in detail how removal of the negative modifiers would affect PG&E's credit ratings, in PG&E's view.

b. Can PG&E guarantee that a FFO/Debt metric of 23 percent will result in an upgrade by S&P to BBB- if the two negative factors remain unchanged?

c. Does PG&E assert that it should be acceptable to ratepayers for PG&E to achieve an investment grade issuer rating while maintaining the current negative "weak management and governance modifier?"

    i. If the answer to part c above is "yes," please explain any and all reasons why weak management and governance as noted by a credit rating agency should be acceptable to ratepayers.

ANSWER 02

PG&E objects to this request as vague and ambiguous. Subject to its objections, PG&E responds as follows:

a. Yes, because S&P defines each modifier as corresponding to a one-notch upgrade or downgrade in the company's credit rating, respectively. Accordingly, if both negative modifiers are removed, and there is no other change in the underlying credit, PG&E's credit rating can be expected to improve by two notches.

b. No, there is no guarantee that a 23 percent FFO/Debt metric will result in an upgrade of PG&E's credit rating to BBB-, but an upgrade to BBB- by S&P is more likely with the proposed Securitization than without it. PG&E believes it is reasonable to conclude a 23 percent FFO/Debt can result in an investment-grade issuer rating because it is the low-end threshold metric for an intermediate financial profile with an anchor rating of BBB/BBB-. If the anchor rating was BBB, the two negative modifiers would result in a rating of BB+, which would be one notch away from investment grade; if there was only one negative modifier it would result in a rating of BBB-, which is investment grade. Moreover, as described in Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), served August 7, 2020, consummation of the proposed Securitization is anticipated to strengthen the opportunity to achieve an investment-grade issuer credit rating by improving the credit metrics and by increasing the likelihood of improving PG&E's business position or removing one or both negative modifiers.

c. PG&E is undertaking all reasonable steps to remove the negative modifiers from its credit rating profile and to further strengthen its credit metrics following emergence from Chapter 11, including by pursuing the proposed Securitization. PG&E believes that the achievement of an investment-grade issuer credit rating benefits PG&E and its customers.