Pacific Gas and Electric Company Securitization

A. 20-04-023

TURN HEARING EXHIBIT

TURN-24

PG&E responses to TURN Data Request Set 17, Questions 2, 6, 7, 19, 21, 25, 26

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

PG&E Data Request No.:	TURN_017-Q01-30		
PG&E File Name:	Securitization2020_DR_TURN_017-Q01-30		
Request Date:	November 20, 2020	Requester DR No.:	TURN-PG&E-17
Date Sent:	December 4, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1-Q7: Bradford Cornell Q7: David Thomason Q8-Q9: Bradford Cornell Q10-Q15: Greg Allen Q16: Bradford Cornell, David Thomason Q17-Q18: Jan Berman Q19: David Thomason Q20: Bradford Cornell, David Thomason Q21: David Thomason Q22-Q24: Bradford Cornell Q25: David Thomason, Bradford Cornell Q26-Q27: David Thomason Q28: Jan Berman Q29-Q30: David Thomason	Requester:	Tom Long

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

b. PG&E refers TURN to Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell).

QUESTION 02

On page 10-22 of its rebuttal testimony, PG&E states:

> "Mr. Ellis asserts that PG&E fails to account for an interest tax shield that he claims benefits shareholders but 'comes straight out of the pockets of customers.' Regardless of any benefit to shareholders, the relevant inquiry for present purposes is whether there is any impact on expected cash flows to/from customers."

a. In PG&E's forecast of taxable income in the Excel spreadsheet "2020Securitization_DR_Misc_Chapters 3_6_7_UPDATED08-07-2020_Securitization Application Update Model_Final," tab Taxable Income Forecast, provided in response to TURN DR1-Q3, rows 19 and 39, "Securitization Interest Expense" is deducted from PG&E's Federal and State taxable income. Does PG&E intend to deduct the Securitization interest expense from its taxable income?

   i. If not, why not?

   ii. If so, would PG&E be able to deduct this interest expense without the Securitization?

b. By how much is this deduction expected to reduce PG&E's taxes over the life of the Securitization?

c. What is PG&E's estimate of the present value of this deduction?

   i. What discount rate does PG&E assume in estimating the present value of this deduction?

   ii. If PG&E cannot calculate the present value of this deduction, explain why not.

   iii. Provide any and all supporting data, analysis, and documentation for this calculation.

d. Identify whether customers, PG&E shareholders or a third party would be responsible for paying the interest on the Securitization debt.

e. Would the securitization interest have to be paid in the absence of Securitization?

f. What is the forecasted dollar value of the interest paid over the life of the Securitization?

g. What is PG&E's estimate of the present value of this interest expense to its payer? If PG&E cannot calculate the present value of interest paid, explain why not.

h. Will customers be able to deduct the interest expense from Trust income? Why or why not?

ANSWER 02

a. The consolidated tax group, of which PG&E is a member, deducts interest expense on debt that is issued by all members of the consolidated tax group, including the Temporary Utility Debt or any future debt that is used to replace the Temporary Utility Debt if the Securitization is not approved, and if approved and issued, the Recovery Bonds.

b. The deduction will be equal to interest on the Recovery Bonds and, assuming there is taxable income, will reduce taxable income by that amount. The precise amount of the deduction will depend on the actual interest paid on the Recovery Bonds.

c. PG&E objects to this request as not relevant. PG&E has not prepared this calculation. PG&E refers TURN to Chapter 7, Comparison of Traditional Financing and Securitization (D. Thomason) for the statutorily required present value calculation as described therein of the revenue requirements of the proposed Securitization (subject to final pricing and structuring at issuance).

d. The interest will be paid by the SPE entity that issued the bonds. As stated in Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), in periods where the Customer Credit equals the FRC, customers will not have any net increase in their rates as a result of the proposed Securitization. If the Customer Credit is less than the FRC, then customers will pay some portion of the FRC. In that case, the FRC will be grossed up to include the tax payable on the principal portion of the FRC, but the deduction of interest will reduce the necessary tax-gross up. As a result, if customers pay some portion of the FRC, they receive the benefit of the interest deduction.

e. There would be no securitization interest in the absence of securitization, but there would be interest on Temporary Utility Debt and on any new debt to refinance the Temporary Utility Debt—and, in both cases, the interest would be deducted. PG&E's proposed Securitization is rate-positive, and for the reasons set forth in Chapter 1, Introduction (D. Thomason), Chapter 1, Introduction – Rebuttal (D. Thomason), Chapter 5, Stress Test Methodology (D. Thomason; J. Sauvage), Chapter 5, Stress Test Methodology – Rebuttal (D. Thomason; J. Sauvage), Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), Chapter 6, Customer Credit Mechanism and Investment Returns – Rebuttal (D. Thomason; G. Allen), and Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), the risk of payment of the FRC by customers is more than adequately compensated by the benefits of the proposed Securitization.

f. – g. PG&E refers TURN to subpart b above. An estimate of the Recovery Bond structure and principal and interest is included in 2020Securitization_DR_Misc_Chapters 3_6_7_Securitization Application_TestimonyWorkingModel_Final (1).xlsx, which was previously provided in response to TURN Set 1.

h. PG&E objects to this request as vague and ambiguous, in particular with reference to "customers," "deduct," and "Trust income." PG&E refers TURN to subparts a through g above. Under the proposed Securitization, interest expenses and taxable income, including from Customer Credit Trust Returns and the Recovery Bonds (if authorized

[redacted]

QUESTION 06

Provide proforma income, balance sheet, and cash flow statements for both the Trust and the special purpose entity that will issue the Recovery Bonds for their entire lives or as long as PG&E can forecast. If PG&E is unable to provide these financial forecasts, explain why they cannot be provided.

ANSWER 06

PG&E objects to this request as unduly burdensome and not relevant. Subject to its objections PG&E responds as follows:

PG&E refers TURN to Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), and Chapter 10, Expert Rebuttal Regarding Customer Benefit (B. Cornell), for the relevant cash flows.

QUESTION 07

In PG&E's updated direct testimony (page 6-8) and in response to TURN DR13, Q2, PG&E explains that it elects to designate some pre-2018 shareholder NOLs as ratepayer NOLs for purposes of determining the timing of Additional Shareholder Contributions.

a. Does PG&E contend that it can apply the value of NOLs to the Trust in a sequence that differs from the requirements pursuant to federal tax law?

b. If yes, explain why the difference is permissible under IRS rules.

    i. If no, explain why this assumption is included in the model.

c. What is the purpose of this election?

d. What is the impact of this designation on the timing of Additional Shareholder Contributions?

e. Provide a schedule of forecast Additional Shareholder Contributions if PG&E were to contribute them to the Trust at the time they are deducted for income tax purposes.

f. Does PG&E propose to flow through to ratepayers any differences between the timing of NOL deductions for income tax purposes and the contributions to the Trust associated with those NOLs? If not, would PG&E propose that the value of any differences be retained by shareholders?

g. If this election changes the timing of Additional Shareholder Contributions, what is the present value of this timing change? What discount rate is used to estimate this calculation?

ANSWER 07

PG&E objects to this request as vague and ambiguous. PG&E further objects to this request as incorrectly stating that PG&E has made an “election” or “designation.” Subject to its objection, PG&E responds as follows:

a. Yes, for the purpose of PG&E’s proposed Securitization and Customer Credit, PG&E has developed the formula to calculate Additional Shareholder Contributions to the Customer Credit Trust that is described in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen).

b. Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), reflects a proposed formula to calculate how shareholder deductions will be used to generate Additional Shareholder Contributions and fund the Customer Credit. While the formula looks to IRS rules in certain respects, the formula is not required to comply with IRS rules in all respects.

c. As noted in PG&E’s objection above, PG&E has not made any “election.” The formula is described in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen), and was developed to fund the Customer Credit with incremental cash flow resulting from avoided taxes under PG&E’s go-forward business plan following emergence from Chapter 11, and to simplify the calculation of Additional Shareholder Contributions.

d. As noted in PG&E’s objection, there is no “designation.” PG&E has proposed a formula in Chapter 6, Customer Credit Mechanism and Investment Returns (D. Thomason; G. Allen). PG&E has not modeled an alternative formula, and there is not a mandatory formula from the IRS against which to compare.

e. PG&E refers TURN to subpart d above.

f. The proposal for the use of shareholder tax benefits to fund the Customer Credit is not part of any ratemaking in any rate cases. In rate case ratemaking, shareholder items are excluded, and the flow through of any Ratepayer NOLs would be a normalization violation. Additionally, accelerated deductions of assets in rate base inure to the benefit of customers via deferred tax liabilities that offset rate base.

g. As noted in PG&E’s objection above, there has not been an “election.” PG&E refers TURN to subpart d above.

QUESTION 19

On page 6-5 of its rebuttal testimony, PG&E states that it "anchored its forecast of taxable income on growth in rate base" that starts with a "Plan forecast of net income through 2024; PG&E then estimated growth in rate base of 7 percent from 2025 through 2030 and 5 percent thereafter"

a. Provide the forecasted portion of total ratebase estimated to be associated with PG&E's gas system in each year between 2025 and 2035.

b. How does PG&E account for forecasted reductions in natural gas demand through 2050 in the development of its ratebase and net income forecasts?

ANSWER 19

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

a. As described in Chapter 6, Customer Credit Mechanism and Investment Returns – Rebuttal (D. Thomason; G. Allen), for the years 2025-2050 PG&E applied a growth rate to the 2024 total rate base, and did not forecast separate gas and electric rate base.

b. PG&E's rate base growth forecast reflects an expectation that ongoing investments in gas infrastructure will be necessary for safety and reliability despite a reduction in throughput. PG&E anticipates that electrification will ultimately impact PG&E's future gas infrastructure investments, but will also drive a significant and offsetting increase in electric infrastructure investments.

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[redacted]

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QUESTION 21

On page 6-5 of its rebuttal testimony, PG&E states that it "anchored its forecast of taxable income on growth in rate base" that starts with a "Plan forecast of net income through 2024; PG&E then estimated growth in rate base of 7 percent from 2025 through 2030 and 5 percent thereafter"

a. Provide the forecasted portion of total ratebase estimated to be associated with PG&E's gas system in each year between 2025 and 2035.

b. Identify the total portion (in $ and on a % basis) of current ratebase associated with PG&E's gas system.

ANSWER 21

a. PG&E objects to this request as duplicative of Question 19 subpart a and refers TURN to its response to that request.

b. PG&E objects to this request as vague and ambiguous. PG&E interprets "current ratebase" to mean 2019 recorded rate base. The table below reflects 2019 weighted average rate base on a dollars and percentage basis:

2019	$ (Thousands)	%
Electric	29,560,368	71.62%
Gas	11,711,912	28.38%
Total	41,272,280	100.00%

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

QUESTION 25

Did PG&E conduct any quantitative scenario analysis, sensitivity analysis, stress-testing, risk assessment, or other similar investigation into the uncertainty of the Trust for customers, beyond the following analyses mentioned in its updated testimony and rebuttal?

Updated Testimony Chapter 6.C.6: Historical Context (pp. 6-30 ff.) Rebuttal Testimony Chapter 11.B.5: Potential Impacts of Catastrophic Adverse Events (pp. 10-13 ff.)

- *Catastrophic fire scenario*
- *20% income reduction scenario*
- *TURN contributions forecast scenario*

a. If not, why not?

b. If so, provide copies of those assessments and all supporting data, analyses, and documentation.

ANSWER 25

PG&E objects to this request as seeking information protected from disclosure by the attorney-client privilege and the attorney work-product doctrine. PG&E's response excludes any privileged information or attorney work product. PG&E further objects to this request as referring to "Chapter 11.B.5" when the correct reference is "Chapter 10.B.5." Subject to its objections, PG&E responds as follows:

PG&E confirms that it conducted the three analyses listed above. For the reasons stated in the Rebuttal Testimony, the alternative scenarios are adequate to assess risk and demonstrate that the proposed Securitization is rate neutral under a wide range of outcomes.

QUESTION 26

Does PG&E conduct quantitative scenario, sensitivity analysis, stress-testing, risk assessment, or other similar investigations into uncertainty for investments and other significant corporate decisions?

a. If not, why not?

b. If yes, explain PG&E's process for assessing the risk of large ($1 billion or more) investments.

   i. What input variables are changed or modified in these analyses?

   ii. What output metrics are evaluated?

   iii. What metrics are used to assess risk?

   iv. What metrics are used to assess value to customers and to PG&E shareholders?

   v. What discount rates are used to compare value and risk across different time periods?

c. How does the risk assessment process for the Trust differ from PG&E's process for large investments?

   i. What elements of PG&E's regular process were not used to investigate the Trust?

   ii. What elements of PG&E's risk assessment of the Trust are not used in PG&E's regular process for large investments?

   iii. Provide an explanation for any and all differences between the two processes.

ANSWER 26

PG&E objects to this request as overbroad and unduly burdensome, and not relevant. PG&E further objects to this request is vague and ambiguous. Subject to this objections, PG&E responds as follows:

PG&E interprets this question as asking about PG&E's process for assessing risk of infrastructure projects that are in the development and/or approval stage.

b. Yes, in the course of developing and approving infrastructure projects PG&E evaluates the various risks associated with such investments. Those evaluations include assessing various alternatives to the preferred project, as well as risks associated with the execution of the project. Risks around the cost of a project are evaluated, as well as the ability of a project to meet various safety, reliability, and environmental requirements. The costs of various alternatives are typically presented on a net present value basis using an appropriate discount rate. Cash flows that carry conventional risk of cost of service regulation are discounted at the company's cost of capital. Contractual cash flows may be discounted using a discount rate appropriate for the tenor and risk of a counterparty.

c. Risk assessment for Trust investments will follow the policies that are put in place once the Trust is created and its management committee members approved by the Commission. *See* responses to Questions 1, 3, 4, 5, 8, 9, 16, 19, 22, 23, 24, and 25 for the analysis conducted as reasonable and appropriate to evaluate the issues pertinent to this proceeding regarding the rate-neutrality of the proposed Securitization.