STATE OF CALIFORNIA

Budget Change Proposal - Cover Sheet

DF-46 (REV 08/17)

Fiscal Year	Business Unit	Department	Priority No.
2019-20	8660	Public Utilities Commission	002

Budget Request Name	Program	Subprogram
8660-302-BCP-2019-A1	6680-Regulation of Utilities	6680055-Energy

Budget Request Description

PUC Response to Utility Bankruptcy

Budget Request Summary

The California Public Utilities Commission (CPUC) requests $28,000,000 from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for a legal services contract. This proposal requests that the funds be available for encumbrance until June 20, 2022 and available for liquidation through June 30, 2024.

The legal services contract is an unanticipated cost for advice and representation on corporate and utility restructuring, finance and bankruptcy matters. The CPUC is an important state party with standing and a significant role to play in the PG&E bankruptcy proceeding. The CPUC must have funds in its budget to pay for expert representation in the PG&E Bankruptcy proceeding. In addition, the CPUC must have expert counsel who can advise on corporate finance and restructuring questions that other utilities might face. The funding will also cover a Financial Advisor hired as a subcontractor by counsel, which is typical in restructuring matters. Counsel must be able to rely on an advisor to evaluate complex financial conditions and arrangements, as well as the flow of information in the financial markets, allowing counsel to provide informed advice to the CPUC. Counsel will also provide advice on debt securitization, including debt issued by utilities in connection with the 2017 and other California wildfires.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed
☐ Yes ☒ No	

Does this BCP contain information technology (IT) components? ☐ Yes ☒ No *If yes, departmental Chief Information Officer must sign.*	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Project Approval Document: Approval Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
Arocles Aguilar	3/26/19	Kelley Moss	3/26/19
Department Director	**Date**	**Agency Secretary**	**Date**
Alice Stebbins	3/26/19		

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

PPBA	Date submitted to the Legislature
Original Signed by Amanda Martin	MAR 29 2019

Analysis of Problem

A. Budget Request Summary

The California Public Utilities Commission (CPUC) requests $28,000,000 from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for a legal services contract. This proposal also requests that this appropriation be available for encumbrance until June 30, 2022, and liquidation until June 30, 2024.

The legal services contract is an unanticipated cost for advice and representation on corporate and utility restructuring, finance and bankruptcy matters. The CPUC is an important state party with standing and a significant role to play in the PG&E bankruptcy proceeding. The CPUC represents the interests of ratepayers in bankruptcy proceeding and represents significant state statutory mandates including but not limited to climate change, the renewable portfolio standard, critical infrastructure and important public purpose programs and the State's interest in having a financially healthy utility to provide safe and reliable utility service to California. The CPUC must have funds in its budget to pay for expert representation in the PG&E Bankruptcy proceeding. In addition, the CPUC must have expert counsel who can advise on corporate finance and restructuring questions that other utilities might face. The funding will also cover a Financial Advisor hired as a subcontractor by counsel, which is typical in restructuring matters. Counsel must be able to rely on an advisor to evaluate complex financial conditions and arrangements, as well as the flow of information in the financial markets, allowing counsel to provide informed advice to the CPUC. Counsel will also provide advice on debt securitization, including securitizations related to the exit from bankruptcy.

B. Background/History

The utility business is highly capital intensive. Utilities make large investments in infrastructure, such as power lines or green energy, and then recoup their costs over time, in rates. While these investments are being recouped, the utilities finance their investments by borrowing on the financial markets or issuing equity. Ratepayers pay the carrying costs of this debt and equity in rates, so it is important to have utilities that are financially healthy and can support debt and equity structures that are not costly to ratepayers. Regulating a utility's financial structure and transactions is one of the CPUC's key responsibilities. (See, e.g., Public Utilities Code sections 816-823 and 851-854.)

Currently, California is experiencing increasingly destructive wildfires that threaten the lives and property of its citizens. Forest fires have increased from an average of 60,000 acres annually from the 1960s to the 1990s to 175,000 acres in the 2000s and over 250,000 annually this decade. The amount of costs utilities are projected to absorb from wildfires is extremely high. For example, estimates for total 2017-2018 wildfire costs and liabilities for PG&E reach up to $30 billion. It is not clear what additional costs and liabilities PG&E will be required to absorb in 2019 and beyond. SCE and, to a lesser extent, SDG&E are also facing their own liabilities for wildfires. The size of these potential costs has caused a noticeable, detrimental decline the financial condition of California electric utilities. PG&E, SCE, and SDG&E have all had their credit ratings downgraded and are on negative watch.

Most notably, on November 14, 2018, PG&E drew down its revolving credit facility, an action perceived in the financial markets as one that would be taken by a company with financial challenges. PG&E lost its investment grade status in early January 2019. PG&E then filed a Chapter 11 Bankruptcy proceeding on January 29, 2019. In connection with this filing PG&E obtained $5.5 million of Debtor In Possession (DIP) financing for two years, with a one-year extension option. The terms of the financing imply PG&E plans to spend up to three years in bankruptcy court. While it is under the protection of the bankruptcy court, PG&E's assets form a "bankruptcy estate" over which the court has jurisdiction. As the state utility regulator, the CPUC is an important party with standing and a significant role to play in the PG&E bankruptcy proceeding. In the prior 2001 PG&E bankruptcy proceeding, the CPUC played a key role in protecting the state's interests. The prior PG&E bankruptcy, exit financing and bond securitization lasted over

three years. It is noteworthy that 18 years later that original bankruptcy docket remains open as there are still matters that require the bankruptcy court's jurisdiction to resolve.

The bankruptcy proceeding takes place against the backdrop of the steps the Legislature and the CPUC have taken to respond to both wildfire risk and to the threat to the utilities' financial condition. In Chapter 626, Statutes of 2018 (SB 901), the Legislature adopted a special cost recovery regime for 2017 wildfires. The Legislature also gave the utilities the ability to use the tool of "securitization" to spread wildfire costs that were included in rates out over time, resulting in a smaller rate impact. Utilities were also directed to prepare wildfire mitigation plans and file to recover the costs of implementing those plans. The CPUC has opened a proceeding to implement SB 901 and is also conducting a separate proceeding (I.15-08-019) to examine utility corporate structure, as part of its general mandate to regulate the financial structure of utilities. These proceedings have some interrelationship with broad, high level questions the bankruptcy court will address. The CPUC must resolve concerns about the financial risks faced by all three large IOUs if it is to succeed in its mandate of having healthy utilities with the financial wherewithal to provide safe and reliable service at affordable rates—while also helping to achieve California's greenhouse gas reduction goals.

Both in its own right and because of its interrelation with policy issues the CPUC is addressing, the PG&E bankruptcy is a significant event that will require a significant effort from the CPUC. The case is extremely complex, with PG&E, debtholders, equity holders, wildfire victims, and other creditors all participating extensively and being represented by sophisticated counsel. PG&E is represented by Weill Gotshall and by Cravath. Debtors are represented by similar large and sophisticated law firms. Many large financial institutions are participating in this case, including institutional investors, banks such as Lazard, Citibank and J.P. Morgan, along with insurance companies and those who have purchased "subrogated" insurance claims or purchased distressed PG&E debt at a discount. Many of the plaintiff counsel in liability lawsuits against PG&E to recover damages for wildfires have joined together and been permitted to form their own official committee to be represented in the bankruptcy proceeding, which shows they intend to take an active role. Activist investors are also involved the PG&E bankruptcy, with Blue Mountain Group having signaled that they intend to launch a proxy fight to replace members of PG&E's board. All of these parties are represented by expert counsel.

Bankruptcy cases are specialized proceedings in a unique court, which is a subdivision of the United States District Courts. In Chapter 11, the Debtor remains in possession of its assets and continues to run its business; however, it does so under the supervision of the court. Significant actions by the Debtor that are not in the normal course of business must be approved by the court. This creates an additional layer of review for PG&E's actions, in addition to CPUC regulation. Bankruptcy does not displace CPUC regulation of PG&E but it does require the CPUC to work in the context of the bankruptcy proceeding for some of its regulatory programs. The CPUC has standing to appear as a creditor and, since it is the regulator of PG&E, its participation is essential for proper consideration of questions on how PG&E should administer its estate. The CPUC must appear, take positions and work with parties in bankruptcy court to protect the interests of California and ratepayers, because the court now plays a significant oversight role over PG&E. In the past, PG&E has also attempted to use the bankruptcy court to sidestep the CPUC's authority and jurisdiction. The CPUC must also participate in the current bankruptcy proceeding to make sure its jurisdiction, and the jurisdiction of the state, is not displaced.

Ultimately, bankruptcy proceedings are designed to foster collaboration among all parties to develop a "plan" that allows the Debtor to exit bankruptcy. That plan must be acceptable to a wide range of creditors and approved by the court. All parties to a bankruptcy proceeding expect to negotiate the ultimate plan amongst themselves. These discussions are complex, and in the case of a large company such as PG&E can require the balancing of numerous competing interests, and the buy-in of the financial community. The CPUC must participate effectively in negotiations on any plan developed by PG&E, by the CPUC, or another party. A plan is normally proposed by the Debtor, but if time goes by the Debtor loses the exclusive right to present a plan. In the past PG&E

bankruptcy proceeding, the CPUC developed and presented an alternative plan, which led to PG&E beginning to seriously engage with the CPUC to develop an exit strategy that met the state's objectives.

When PG&E filed for bankruptcy in January, 2019, the CPUC was in the process of renewing its legal services contract with bankruptcy counsel. Counsel were at that time engaged on an "as needed" basis under a legal service contract which was set to expire in June 30, 2019. The CPUC required immediate assistance on the PG&E bankruptcy and worked with counsel to develop a case plan. As is usual in complex restructurings, the CPUC also sought to obtain a financial advisor who could work with counsel to understand the financial condition of PG&E, evaluate the various exit plans as they were proposed, and help the CPUC with its communications with the financial community. The CPUC also expects this Financial Advisor to provide advice on the two remaining utilities who are not in bankruptcy, since the financial condition of all California utilities is an issue the CPUC must face. The CPUC is entering into a new legal services contract with its counsel that will include the PG&E bankruptcy and have an estimated budget that will allow counsel and the financial advisor to effectively represent the CPUC. The contract is for a three-year period, mirroring the DIP financing. The budget for this legal services contract is, after an initial 6-mont ramp-up period: approximately $500,000 per month for legal counsel, billed at hourly rates, and $450,000 a month for the financial advisor.

C. State Level Considerations

The PG&E Bankruptcy is a major event that affects a company that is not only a major employer and a major presence in the California economy, but is also relied upon by millions of Californians to provide safe, reliable electric and gas service at reasonable rates. Additionally, PG&E plays an important role in helping California achieve its greenhouse gas reduction goals and must continue to do so in the future. PG&E is also expected to provide a significant amount of compensation to wildfire victims, as a result of court proceedings brought by wildfire victims.

By placing itself under the protection of the bankruptcy court, the company has created a new layer of review over the company's actions. The state must be heavily involved in the bankruptcy court proceedings to protect its many interests. California's people and its economy require that PG&E continue to operate safely and reliably, and charge reasonable rates. SB 901 demonstrates the Legislature's concern that all California Utilities be able to continue to operate, maintain enough financial health to benefit ratepayers, and make necessary investments in safety and reliability. Chapter 312, Statutes of 2018 (SB 100), is among the many bills establishing the critical role utilities play in reducing the state's and the world's carbon footprint.

The CPUC, in particular, must monitor and participate in bankruptcy court proceedings because PG&E's operations are subject to state regulation in so many areas. Any plan put forth to allow PG&E to exit bankruptcy must account for PG&E's role in the California economy. California needs to ensure that the company is structured in a way that allows it to continue to provide safe and reliable service at reasonable rates. The company must also have access to capital markets to fund its continued operations and its investments in wildfire mitigation, improving system safety and helping California reach its greenhouse gas targets. The plan must be structured in a way that takes into account California's regulatory scheme and the important role PG&E plays in the California economy.

In addition, California benefits greatly when its utilities maintain good financial health. All three utilities must be able to access the capital markets on reasonable terms so they can provide safe, reliable electric and gas service at reasonable rates; and help California achieve its greenhouse gas reduction goals. Wildfire liability questions affect the financial health and the borrowing ability of all utilities. Further, the financial markets can treat the California utilities as a single group, and although only PG&E is in bankruptcy, the CPUC must also monitor and maintain the ability of all utilities subject to its jurisdiction to continue to provide essential services in a safe, reliable, and

affordable manner, since the provision of these services underpins the state's economy and all Californians' quality of life. The contract would also allow the CPUC to act to preserve the financial health of utilities other than PG&E, if necessary.

D. Justification

The CPUC is requesting $28,000,000 to provide sufficient resources for the next three years for a legal services contract to obtain advice and counsel on bankruptcy and restructuring matters, including the PG&E bankruptcy. This is an unanticipated cost arising from PG&E's decision to seek bankruptcy court protection on January 29, 2019. As detailed below, the CPUC requires expert counsel in order to effectively discharge its obligations now that PG&E is subject to the jurisdiction of the US Bankruptcy Court.

The 2017 and 2018 California wildfires have resulted in a high level of scrutiny being placed on California Utilities' financial affairs due to unknown costs associated with wildfires. PG&E filed for Chapter 11 bankruptcy protection on January 29, 2019 in large part as a result of this pressure. Restructuring and Bankruptcy is a highly specialized and technical area of the law – with its own set of statutes, courts, and court rules/practice. Even though the PG&E bankruptcy is the most noticeable event resulting from the liabilities caused by wildfires, all three major investor-owned utilities in California are experiencing financial effects that are causing them to face additional scrutiny from the investment community, and have resulted in downgrades of their ratings from all three credit rating agencies.

To effectively represent the CPUC in the bankruptcy proceeding, and to advise on financing and restructuring issues affecting all electric utilities, the CPUC must have funds to obtain expert outside counsel who both: (1) specialize in restructuring and bankruptcy matters, and (2) who have an established track record of working with the complex and large-dollar value restructurings. Such counsel must be part of the nationwide legal services and financial community so they can provide effective and timely advice when events in the financial markets have an impact on a California utility's ability to borrow at a reasonable cost, raise equity, or maintain good financial health. Counsel must also be able to advice on and evaluate complex financial transactions and the financial condition of large publicly traded corporations. CPUC regulatory attorneys cannot provide that type of advice or develop the expertise or professional relationships needed to assist on such matters. The counsel who have these skills work at nationally recognized firms and their market rate fees reflect their expertise. The CPUC must have funds in its budget to engage appropriate counsel.

More specifically, the PG&E bankruptcy is a very large and complex proceeding. Specialized counsel are required to provide effective representation to the CPUC because there are a large number of interested parties present in that case. These parties all have significant financial interests and are represented by expert counsel. These parties have the ability to raise complex, interrelated issues regarding the financial position of PG&E, both currently and going forward. These parties also have the ability to raise questions about the corporate governance, structure, and operations of PG&E, its business relationships with power and natural gas suppliers, the CAISO, and with PG&E's other business partners. Ultimately all these issues can be considered and ruled upon by the Bankruptcy Judge, absent some clear claims of preemption brought by the CPUC.

Because the issues that are raised by PG&E's financial condition are extremely challenging, sophisticated expert counsel who have experience with large-scale corporate restructurings and the underlying financial analysis that would allow a company to exit bankruptcy are required for this engagement. Effective representation for the CPUC also requires the retention of respected, experienced counsel who can command respect from other parties and work effectively with all of them and understand and negotiate the group dynamic that will form among the bankruptcy parties.

Analysis of Problem

Bankruptcy proceedings are more collaborative than many court proceedings and, ultimately, most parties must become comfortable with the exit plan that is presented to the Bankruptcy Judge for approval. The CPUC must have funding for counsel who can take on the following assignments, among other tasks:

- Case Administration—monitoring the chapter 11 and related case dockets; reviewing pleadings and staying abreast of case developments, including claims analysis
- Asset Sales—representing the CPUC in connection with any asset dispositions and ensuring compliance with regulatory requirements
- Relief from Stay Proceedings—advice and representation with respect to applications seeking relief from the automatic stay imposed in the chapter 11 case
- Debtor-in-Possession Financing—representation in connection with PG&E's D-I-P financing and ensuring compliance with regulatory requirements
- Labor and Union Matters—advice and representation in connection with any relief sought with respect to collective bargaining agreements and benefit plan arrangements
- Claims Administration and Objections—preparation and prosecution of the CPUC's claims against PG&E and advice and representation in connection with PG&E's claims resolution process
- Plan and Disclosure Statement—advice and representation in connection with chapter 11 plan formulation, negotiation, confirmation and implementation
- Litigation—advice and representation in adversary proceedings and contested matters in the chapter 11 case and in related proceedings, and responding to any discovery and similar information requests directed towards the CPUC, its counsel or counsel's financial advisor.
- Court Hearings—representation of the CPUC in all significant hearings in the bankruptcy court and elsewhere in related proceedings
- Exit Financing—representation of the CPUC in connection with financing required for PG&E to implement a chapter 11 plan
- Executory Contract Matters—advice with respect to motions to assume or reject executory contracts, including power purchase agreements
- Counsel and Advice to Decisionmakers—Education, strategic advice and coordination with and responding to inquiries from individual Commissioners' offices, CPUC staff, as well as assisting the CPUC as it coordinates with other governmental and regulatory authorities

In parallel with bankruptcy representation, the CPUC's counsel must also be able to assist when the CPUC utilizes the securitization tool that will be made available in SB 901 to spread the recovery of certain costs over time and reduce impacts to ratepayers. SB 901 provides that two types of wildfire costs may be securitized by any California electric utility that is facing wildfire costs. Costs that may be recovered from ratepayers as a result of the application of SB 901's "harm test" (contained in Public Utilities Code section 451.2(b)) can be securitized, as well as costs from 2019 and later wildfires that are found to be reasonable. In some circumstances, similar bond financings will also be agreed upon as part of a bankruptcy exit package. These securitizations will require the utilities to issue a specific type of bond, which is a niche financial product. The potential terms of any such proposed financings will likely be considered in the bankruptcy proceeding as part of the evaluation of PG&E's future financial health, especially its health as it exits bankruptcy.

Analysis of Problem

In past financing transactions, expert bond counsel worked together on the complex bond securitization process, which involves the U.S. Securities and Exchange CPUC and requires highly specialized knowledge and experience. In the past the CPUC has engaged outside counsel for these transactions, both for advice on the deal itself, and to protect the CPUC's interests in the technically complicated negotiation of the bond's structure and the document preparation process. Counsel will review bond financing documents, often known as debentures, to ensure that the structure of any transaction is compliant with the underlying California statutory authorization, advise the CPUC on whether or not the terms of such a transaction are beneficial to ratepayers and both financially and as a result of terms and conditions. Counsel will also review prospectuses and disclosure documents to ensure they accurately describe the CPUC's role and authority and do not indirectly limit the CPUC's ability to regulate California utilities.

In performing this work, the CPUC's counsel must be able to consult with financial analysts and advisors and analysis who can quickly develop a detailed understanding of the utilities' current financial position. The CPUC will enter into a legal services contract that has a financial advisor as a subcontractor to bankruptcy and restructuring counsel. Counsel must be able to consult with advisors and analysts at all stages of the Chapter 11 proceedings, in particular on any restructuring that will take place in the bankruptcy context. Counsel must also be able to rely on advisors and analysts who have established relationships in the financial community and can quickly learn what research others have done into utilities' financial position and the opinions they have formed as a result of that research.

The CPUC must have resources to allow counsel to subcontract financial matters to advisors and analysts with in-depth analytical capabilities coupled with knowledge of the roles and tactics of the participants in multiparty, complex financial situations and negotiations. This is a specialized skill that requires years of participation in multiple different transactions, specifically restructuring transactions, to be acquired. CPUC employees do not regularly become involved in such transactions and do not have the expertise to provide sophisticated advice to the CPUC on proposed restructurings (or bankruptcies) of large utilities. In addition, bankruptcy matters and financial transactions can evolve and proceed quickly. When there is a risk of an insolvency or a proposal to change the structure of a utility, the CPUC and its counsel need access to expert financial advice from experienced professionals who can immediately understand and advise on a complex matter and develop a course of action, rather than relying on less experienced analysts who would take more time to come up to speed on the financial underpinnings of an insolvency or restructuring proposal and may not be able to quickly develop or evaluate options, or make recommendations.

The CPUC also needs financial advisors who have established relationships with members of the financial community and can work directly and effectively with debt and equity holders, insurance holders, and with the financial advisors to the utilities the CPUC regulates. Effective representation for the CPUC requires the retention of seasoned, experienced advisors who can command respect from actors in the financial community, and in the context of bankruptcy, the many parties to such a proceeding, and work effectively with all of them. To carry out its mandate, the CPUC must have advisors with the ability to understand and negotiate the group dynamic that will form among bankruptcy parties and in the financial community. This level of experience must be acquired over the course of a specialized career and such work cannot be performed by the CPUC's regulatory staff.

Outside the direct context of the PG&E bankruptcy, as the CPUC addresses the broader effects of that bankruptcy in the capital markets, and in the capital market's views of all California utilities, the CPUC must be able to develop a sophisticated understanding, at a detailed level, of all utilities' financial condition in the current situation caused by the PG&E bankruptcy. The CPUC also must be able to have access to and compare its analysis with the analyses performed by members of the financial community, including banks, dept and equity holders, along with rating agencies. The

Analysis of Problem

CPUC must have funding for a contract that includes an advisor working with counsel and the CPUC to provide:

- Analysis of rating agency factors for regulated utilities
- Analysis of capitalization and cost of capital of peer companies
- Education of CPUC technical staff on the nature of analysis typically performed by firms in the financial markets
- Education of CPUC technical staff on the use and functioning of complex financial models and modelling software
- Timely review and strategic advice on CPUC internal position papers and draft CPUC decisions and reports
- Informally consultation with others in financial community and report sentiment to counsel and CPUC
- Review of proposed asset sales based on relevant valuation metrics
- Due diligence of business plan underlying plan of reorganization in bankruptcy court
- Review and analysis of executory contracts subject to possible rejection
- Review of PG&E's valuation and pro forma debt capacity based on the underlying business plan
- Analysis of corporate structure and any potential alternative corporate structures for PG&E
- Analysis of proposed plans of reorganization and impact on ratepayers
- Analyze cost of capital for related utilities and implications for California utilities and ratepayers
- Due diligence proposed capital spending plans for wildfire safety
- Development of alternatives to current corporate structure

E. Outcomes and Accountability

By engaging outside counsel and an advisor the CPUC will be able to effectively participate in the PG&E bankruptcy proceeding and to effectively conduct its own regulatory proceedings reviewing electric utilities' financial structure in a post-wildfire environment. With these resources, the CPUC will be able to develop and implement an effective overall strategy in a complex situation. The CPUC will also be able to coordinate among many different types of actions that it, the utilities it regulates and the parties in the PG&E bankruptcy will take. The CPUC anticipates that its counsel and advisor will be involved in multiple different actions where the CPUC would either not be able to participate effectively or not have the ability to follow a coordinated strategy or respond effectively to numerous events that have an effect on the ultimate outcome: the development of PG&E exit plan from bankruptcy.

Analysis of Problem

Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
Bankruptcy Court						
Review of Bankruptcy-Driven Asset Sales	1	2	3	4	0	0
Review of Applications to Approve Utility Debt and Equity Issuances (D-I-P – PG&E only)	2	0	0	0	0	0
Review of Applications to Approve Utility Debt and Equity Issuances (excluding D-I-P)	0	3	3	4	0	0
Relief from Stay Proceedings (per asset/action)	4	8	6	2	0	0
Plan and Disclosure Statement (assumes competing plan)	0	0	1	2	0	0
Claims Administration for CPUC Claims	1	1	1	1	0	0
Executory Contract Matters	1	5	4	3	0	0
Exit Financing (Negotiating and Approval)	0	0	1	1	0	0
Adversary Proceedings	2	4	4	3	0	0
Hearings	10	10	25	20	0	0
CPUC Proceedings and Actions					0	
Stress Test Methodology	1	1	0	0	0	0
Stress Test Ratemaking			1	3	0	0
Corporate Structure and Reorganization Proceeding	1	1	1	0	0	0
Major Wildfire Mitigation Cost Recovery Proceedings	1	3	3	3	0	0
CPUC Review of Bankruptcy-Driven Asset Sales	1	2	3	4	0	0
CPUC Review of Applications to Approve Utility Debt and Equity Issuances	4	8	10	12	0	0
Cost of Capital Proceedings	1	1	0	0	0	0
Significant Contacts With Debt and Equity Holders	4	8	8	8	0	0
Significant Contacts With Rating Agencies	5	12	12	13	0	0
2017 Wildfire Cost Securitization	0	0	1	2	0	0
2019+ Wildfire Cost Securitization	0	0	0	1	0	0

F. Analysis of All Feasible Alternatives

Alternative 1: Approve request as proposed

Pros:

- The CPUC will be able to participate effectively in federal bankruptcy court proceedings, as it did in 2000-2002.
- The CPUC will be able to defend its jurisdiction and prevent attempts to move questions on how PG&E is regulated to the jurisdiction of a federal judge.

- The CPUC will be able to develop a sophisticated response to the many discreet problems that arise in bankruptcy with long-term implications, such as asset sales, rejection of contracts, labor issues, and the assumption of long term debt.
- The CPUC will be in a position to understand and influence the plan of reorganization that must be developed prior to PG&E's exit from bankruptcy.
- The CPUC will have the expertise to address other complex financing matters that will arise over the next few years, including the financial position of other utilities and securitization.

Cons:

- The CPUC will engage highly experienced counsel and a sophisticated advisor whose services will require appropriate compensation.

Alternative 2: Rely on Consortium of State Agencies and Appear in PG&E Case as Group, with Funding Spread Among Agencies Accordingly

Pros:

- Fewer costs to CPUC. Cost of representation spread to many other agencies as well.

Cons:

- Only issues directly relating to PG&E bankruptcy addressed. The financial condition and potential non-bankruptcy restructuring of other utilities will not be addressed.
- Securitization issues will not be addressed.
- Potential for conflicts among members of a statewide consortium will prevent the state from acting quickly and limit participation in fast-paced financial negotiations.
- Difficulty of counsel in representing multiple clients could increase costs.
- Concerns about sharing market-sensitive and confidential information could hamper the effectiveness of a group.
- Other agencies will be required to expend monies from their budget on this effort.

Alternative 3: Limit Participation and Simply Monitor PG&E Bankruptcy with Existing Staff

Pros:

- No additional expenses would be incurred if the CPUC redirects the work of its attorneys.

Cons:

- The CPUC would only be able to monitor the bankruptcy proceeding and not participate.
- Major issues regarding the financial and organizational structure of PG&E would be decided by the company and its debtors, without input from California policymakers.
- The CPUC's ability to interact with the financial community and to educate itself about the financial structure of the utilities it regulates would be curtailed.
- California would denied a seat at the table during discussion on how one of its main industries would be structured for the foreseeable future.

G. Implementation Plan

Upon approval of funding, the CPUC will have the ability to fund its three-year legal services contract through June 30, 2022. Because of the immediate need to respond to the urgent situation created by PG&E's decision to filed for bankruptcy, the CPUC has engaged counsel and a subcontractor and is prepared to absorb costs until the beginning of the next fiscal year. As of the time of the submission of this budget augmentation request, the legal services contract is undergoing review at DGS/OLS.

H. Supplemental Information

Not applicable.

Analysis of Problem

I. Recommendation

Approve this proposal (Alternative 1) for $28,000,00 from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for a Legal Services Contract.

Neither of the alternatives to approving the request—participating as a consortium or monitoring bankruptcy proceedings—fully addresses the need for effective legal representation as well as Alternative 1. Therefore, the CPUC recommends approval of this proposal for $28,000,000 for a legal services contract covering representation of the CPUC in bankruptcy proceedings and related restructuring and securitization matters.

BCP Fiscal Detail Sheet

BCP Title: PUC Response to Utility Bankruptcy **BR Name: 8660-302-BCP-2019-A**

Budget Request Summary

	FY19					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5340 - Consulting and Professional Services - External	0	28,000	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$28,000**	**$0**	**$0**	**$0**	**$0**
Total Budget Request	**$0**	**$28,000**	**$0**	**$0**	**$0**	**$0**

Fund Summary

Fund Source - State Operations						
0462 - Public Utilities Commission Utilities Reimbursement Account	0	28,000	0	0	0	0
Total State Operations Expenditures	**$0**	**$28,000**	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$0**	**$28,000**	**$0**	**$0**	**$0**	**$0**

Program Summary

Program Funding						
6680055 - Energy	0	28,000	0	0	0	0
Total All Programs	**$0**	**$28,000**	**$0**	**$0**	**$0**	**$0**