



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

SUBJECT: SEE BELOW

DATE: December 6, 2019

SUBJECT: INFORMATION REGARDING THE TRANSFORMATION OF PG&E INTO A CUSTOMER-OWNED UTILITY

Approved

Date

12/6/19

DISCUSSION

During the December 4th, 2019 Rules and Open Government Committee meeting, Councilmember Khamis expressed interest in information that would provide an overview of how and why PG&E should be turned into a customer-owned utility. In response, I am attaching documents that frame the need to radically transform how PG&E operates, draft guiding principles for a customer-owned utility option, as well as a list of the growing coalition of elected leaders that have expressed support over the past few weeks.

Attachment A: Guiding Principles

Attachment B: FAQs

Attachment C: CPUC Letter

Attachment D: Op-ed

Attachment E: Elected official list

ATTACHMENT A

Customer-Owned Utility Operating Principles

Geographic Inclusion and Equity

- The customer-owned utility will not seek to sever any geographic portion of the current PG&E service area.
- Governance and operations will prioritize ensuring that no disparate negative impact is borne by any specific region, county, or city, as a result of the transformation of the utility from investor- owned to customer-owned.

Governing Board Responsibilities & Selection Process

- The fiduciary duty of the Governing Board will be to the customer-owners.
- Governing Board will assume ratemaking and capitalization responsibilities in place of CPUC regulation.
- Interim Governing Board nominees will be presented in the Bankruptcy Process.
- Selection of Governing Board members will be through a two-step process, with a nominating committee patterned on the CAISO selection process, vetting candidates for election.
- Governing Board will oversee the management of the organization, hire and/or retain senior management.
- Organization charter will require board members to meet qualification requirements of competence, independence, and specific skill sets (e.g., utility expertise, safety, cyber-security, infrastructure, management).

Labor and Workforce

- The customer-owned utility will preserve existing PG&E labor contracts and preserve the existing skilled workforce.
- The customer-owned utility will commit to maintaining and growing a skilled workforce that is focused on improving the safety and reliability of the utility's infrastructure, as well as improving customer service and affordability.

Power Supply Procurement

- The customer-owned utility will be subject to all State requirements requiring renewable energy procurement, energy efficiency initiatives, and emission reductions as they relate currently to the investor-owned utilities.
- Existing contracts with independent power producers would be maintained and respected.
- The customer-owned utility will support local efforts to administer and implement public purpose programs such as energy efficiency and renewable energy incentives programs funded through the public goods charge. Primary responsibility for power supply procurement in areas where qualified Community Choice Aggregators (CCA's) already procure power will shift to those qualified CCAs, who will become the provider of last resort (POLR) in their territory. "Qualified" CCAs will meet good utility practices, including adopting risk management policies and procedures, maintaining a bond rating, retaining adequate operating reserves, and establishing limits on uses of ratepayer funds. The customer-owned utility will serve the remaining customers whose communities choose not to form a CCA.

- The customer-owned utility will support new CCA formation and options to reduce costs for all ratepayers including options to reduce and stabilize the Power Charge Indifference Adjustment (PCIA) and other non-bypassable utility charges.

Public Accountability

- Notwithstanding “private” entity legal status, the customer-owned utility will operate subject to best practices with regard to transparency and accountability of decision-making. That includes:
 - Adherence with applicable public record and open meeting rules, including the Brown Act and Public Records Act.
 - Prohibitions on organized political contributions.
 - Outreach to underserved communities.
 - Goals for supplier diversity including women, minority, disabled veteran, and LGBTQ contracting and employment.
 - And other important public policy objectives.

Rate & Credit Quality

- The customer-owned utility will be committed to low-cost financing for capital investments needed to maintain the grid, adhere to safety and reliability standards, realize energy policy objectives, and improve customer affordability.
- By charter, the organization will be required to maintain investment-grade credit quality.
- The current balance of rate allocation between urban and rural customers will be maintained.
- The customer-owned utility will commit to ensuring continued rate discounts for low-income residents (through the CARE program and similar initiatives).
- The customer-owned utility will continue to offer the same Net Energy Metering (NEM) rates for customers with on-site solar as did PG&E. The customer-owned utility will fully grandfather NEM rates for existing NEM customers and any future changes to NEM will apply only prospectively for new NEM installations.
- As a not-for-profit, rates will not include any profit. Rates will be set to maintain adequate reserves and all excess revenues will be re-invested into the communities served by the customer-owned utility.

Safety and Response

- The customer-owned utility will be subject to state agency standards and oversight relating to health, safety, and wildfire protection.
- The customer-owned utility will develop a transparent, prioritized capital investment plan to address infrastructure needs of both the distribution and transmission system to prevent wildfires, reduce Public Safety Power Shutoff (PSPS) events, and improve overall system reliability.
- Required PSPS events will be based on best practices, with a transparent decision-making structure, emphasis on coordination with local first responder and emergency service agencies, and high-quality customer communication.
- The customer-owned utility will fully support the development of distributed energy generation and storage, including local micro-grids.

ATTACHMENT B

Customer-owned utility – Frequently Asked Questions

1. What is a customer-owned utility? Are there many customer-owned utilities in the U.S.?

A customer-owned utility is based on the cooperative utility model. A transformed PG&E would become a private, non-profit entity that is owned by its customers. There are more than 900 cooperative utilities across the U.S., some having millions of customers.

Cooperative organizational models exist throughout the economy, including credit unions and “mutual” insurance companies owned by the policy-holders. The customer-owned utility would not be a public governmental organization, nor one that is attached to any particular public agency. It would be its own entity, in line with state law and its charter, which would include best practices with regard to transparency and accountability of decision-making.

2. How is a customer-owned utility different from an investor-owned utility?

Some of the main ways include:

	Investor-owned model (currently PG&E)	Customer-owned model
Ownership	Shareholders or investors	Ratepayers
Structure	Private, for profit	Private, non-profit, mutual benefit corporation. Not a government agency, nor attached to a public agency
Governing board	Mostly hedge fund managers and venture capitalists	Accountable to its ratepayers. Public sector and utility expert focus
Mission	Optimize return on investment for shareholders	Optimize benefits for ratepayers, safety
Financing	Stockholders/investors Sale of bonds and bank borrowing (conventional debt)	Access to lower cost non-profit financing Sale of bonds and bank borrowing

3. Who is advocating to transform PG&E into a customer-owned utility and why?

On November 5, 2019, San José Mayor Sam Liccardo led a coalition over 20 Mayors and County Supervisors, representing over a third of PG&E’s service territory, in asking the California Public Utilities Commission (CPUC) to consider transforming PG&E into a customer-owned utility as part of the bankruptcy process. Since then, the coalition has grown to over 110 elected officials.

PG&E declared bankruptcy for a second time in January 2019.ⁱ Currently, there are two plans for PG&E to get out of bankruptcy that focus on repayment of creditors, but not on

meaningful reorganization and a viable path forward for PG&E to adequately invest in its infrastructure, which is necessary to increase safety and reliability and limit Public Safety Power Shutoffs (PSPS).

PG&E projects it needs to spend \$28 billion over the next four years to upgrade and harden its infrastructure.ⁱⁱ A customer-owned utility can invest in infrastructure at a lower cost to ratepayers because it can raise capital at a lower cost – as much as 40% lower – than PG&E can as an investor-owned utility. This will save ratepayers billions over the next decades, and ensure more infrastructure and public safety investments at a lower impact to rates.

The coalition believes PG&E must be reimagined to change its culture, restore customer confidence, and align its financial interests with the public interest. A customer-owned utility would remove profit as PG&E's primary organizational focus and instead focus on ensuring customer savings, safety, and resiliency. The ownership transformation would change the top management and the board culture, but keep PG&E's highly-trained, skilled, and motivated workforce. The coalition proposes increasing transparency by requiring the customer-owned utility to adopt best practices like open access to records and open meetings, and banning political contributions.

4. If PG&E were transformed into a customer-owned utility, how much of PG&E's current territory and business would it include?

The coalition of Mayors and County Supervisors are proposing that the customer-owned utility cover all of PG&E's service territory and both its electric and gas businesses.

5. Why is PG&E in bankruptcy, and is this the first time?

On April 6, 2001, PG&E Company entered bankruptcy protection for the first time and was no longer able to finance the procurement of electricity to serve its customers.ⁱⁱⁱ At that time, the State of California committed to purchase electricity on behalf of all PG&E customers, ultimately costing the State about \$45 billion for long term electric power contracts at above market costs.^{iv} PG&E also paid \$10 billion in debt to emerge from bankruptcy in April 2004 and increased ratepayer costs through added fixed fees to raise funds to cancel the company's debt.^v

On January 29, 2019, PG&E filed for Chapter 11 bankruptcy in federal court for a second time following catastrophic wildfires in 2017 and 2018 which CalFIRE attributed to PG&E's poorly maintained infrastructure, including their electric wires, poles, and other equipment.^{vi, vii, viii, ix, x} The 2017-2018 wildfire damage claims are currently estimated at least \$30 billion.^{xi} PG&E's total estimated outstanding debt as of November 2019 is at estimated at about \$55 billion, significantly higher than their outstanding debt in 2001, when they first filed for bankruptcy.

6. What does it mean for PG&E to be in bankruptcy?

Chapter 11 bankruptcy has two basic elements:

1. To repay what the company owes
2. To create a successor business that will not fail again and have to seek court protection

Currently, there are two plans for PG&E to get out of bankruptcy that focus on repayment of creditors. One plan, proposed by the Company itself and its allies, is designed to protect PG&E shareholders, while the second plan, proposed a group of hedge funds and their allies, benefits PG&E bondholders. Neither plan proposes a viable path forward by which PG&E can raise the billions of dollars needed to rebuild and repair its infrastructure while taking steps to ensure it doesn't enter bankruptcy for a third time.

7. What are the benefits of a customer-owned utility?

The first benefit is allowing more cost-effective investment in infrastructure. PG&E projects it needs to spend \$28 billion over the next four years to upgrade and harden its infrastructure. A customer-owned utility can invest in infrastructure at a lower cost to ratepayers because it can raise capital at a lower cost – as much as 40% lower – than PG&E can as an investor-owned utility. Customer-owned utilities do not have to pay shareholder dividends and do not pay federal taxes, lowering costs. This will save ratepayers billions over the next decades, and ensure more investment at a lower impact to rates.

Second, reimagining PG&E as a customer-owned utility gives Northern Californians an opportunity to change its culture, restore customer confidence, and align its financial interests with the public interest. A customer-owned utility would remove profit as PG&E's priority and organizational focus and instead focus on customer savings, safety, and resiliency. It would change the management and board culture, but keep PG&E's high-trained, skilled and motivated workforce. Northern Californians could increase transparency in their electric utility by requiring the customer-owned utility to adopt best practices like open access to records and open meetings, as well as banning political contributions.

A third benefit is timing – reorganizing PG&E into a customer-owned utility can happen during the bankruptcy process, ensuring faster, more cost-effective investment in infrastructure and safety than the two Chapter 11 plans currently under consideration.

8. Would ratepayers pay more under a customer-owned utility?

No, ratepayers would not pay more under a customer-owned utility than they would under an investor-owned structure. That said, because PG&E needs to make such large investments in its old, under-maintained infrastructure, rates will increase in the near-term under any ownership model, but a customer-owned utility would remove some of that upward pressure.

Customer-owned utilities have access to lower cost non-profit financing at a cost up to 40% lower than IOUs. Customer-owned utilities do not have to pay shareholder dividends and do not pay federal taxes, lowering costs. As an investor-owned utility, PG&E earns a 10-12% return on equity and passes profits onto shareholders as dividends.^{xiii} From 2009-2017, PG&E paid out \$7 billion in dividends.^{xiii, xiv, xv, xvi} As a result, a customer-owned utility that is not required to pay shareholder dividends would save customers billions of dollars over the next decade that can be re-invested into the utility.

9. Who would be on the governing board?

The customer-owned utility's governing board would be accountable to ratepayers and include ratepayers with expertise in utilities, safety, and the public sector, among other fields and without conflicts of interest. Elected officials would not be on the governing board.

Governing board members could be selected similar to the method for appointing members to the California Independent System Operator (CAISO). A small committee of independent experts would vet the nominees, followed by an election that all customers could participate in.

10. Who would set rates?

The Governing Board of the customer-owned utility will set the rates and assume the provision of capital in place of CPUC regulation, in the same manner as the Board of Sacramento Municipal Utility District (SMUD), Modesto Irrigation District (MID), or Turlock Irrigation District (TID), etc.. The customer-owned utility would continue to be regulated by the CPUC in areas of health, public safety, and wildfire protection.

11. Who would regulate the customer-owned utility?

The customer-owned utility would still be regulated by the CPUC in areas of health, public safety, and wildfire protection and would comply with state and federal environmental statutes. However, its Governing Board would regulate customer rates and the provision of capital instead of the CPUC, which currently oversees these areas for PG&E.

12. Why can the customer-owned utility model have a more resilient financial foundation?

The customer-owned utility would set its own rates, sufficient to cover operating costs and debt. Investor-owned utilities do not have that flexibility since their rates are controlled by the CPUC. Rating agencies typically view customer-owned and government-owned entities as stronger and more stable financially because those entities have the authority to set their own rates, limiting regulatory uncertainty. Thus, the customer-owned utility will have access to a deeper and less expensive pool of public debt relative to an investor-owned utility.

13. What would the culture of a customer-owned utility be like?

The foremost difference in the culture between an investor- and customer-owned utility is that a customer-owned utility would align PG&E's financial interest with public interest. In contrast, as an investor-owned utility, profit and shareholder returns are PG&E's primary focus.

The coalition of Mayors and County Supervisors advocate that the customer-owned utility, even though it is technically a private entity operate will operate subject to best practices of transparency and accountability by conducting open meetings, maintaining public records and so forth. While there would be a shift in the management and board culture, PG&E's highly trained, skilled, and motivated workforce would remain. The customer owned utility would ban political contributions, so as to maintain status as an independent entity.

14. What would happen to Community Choice Aggregations (CCAs) like San José Clean Energy if PG&E were transformed into a customer-owned utility?

There are 19 Community Choice Aggregations (CCAs) in California that provide electricity generation service to more than 10 million customers, including about half within PG&E's service territory. CCAs are operated by local governments and prioritize providing local benefits and savings, as well as clean energy and greenhouse gas reduction.

Because a customer owned utility is designed to serve local communities without a profit motive, there is no incentive to limit customer load migration to CCAs or municipal utilities. If PG&E were transformed into a customer-owned utility, qualified CCAs would become the primary, sole generation provider for the community they serve, and municipal utilities' operations would remain unchanged. The customer-owned utility would procure power for communities that have not formed a CCA or municipal utility, allow new CCAs to form, and provide distribution and gas service for the whole territory (except for areas where municipal utilities provide these services). Finally, the customer-owned utility would support options to reduce all costs for ratepayers including options to reduce and stabilize the Power Charge Indifference Adjustment (PCIA) and other non bypassable utility charges.

15. Would there still be Public Safety Power Shutoffs with a customer-owned utility?

Yes, at least in the beginning. Due to PG&E's poorly-maintained infrastructure and the unpredictable impacts of climate change, Public Safety Power Shutoffs may still be needed in the long-term, but they would hopefully be smaller and more surgical in scope. However, a customer-owned utility would allow for faster, more cost-effective investment in infrastructure to increase safety and reliability than if PG&E were to remain an investor-owned utility. In addition, a customer-owned utility would ensure that power shutoff decisions are made to align with the public's best interest, not private investors' like an investor-owned utility might be inclined to.

16. Would wildfire victims and creditors be repaid if PG&E were transformed into a customer-owned utility?

Yes, wildfire victims and creditors would be repaid as part of PG&E exiting the bankruptcy process.

17. What are the drawbacks to a customer-owned utility?

The road to implementation could be difficult, as PG&E opposes the financial structure. PG&E's bankruptcy and underinvestment in infrastructure present challenges and massive expenses over the next decade, regardless.

That said, a customer-owned utility can invest in infrastructure at a lower cost to ratepayers because it can raise capital at a lower cost – as much as 40% lower – than PG&E can as an investor-owned utility. Customer-owned utilities do not have to pay shareholder dividends and do not pay federal taxes, lowering costs. This will save ratepayers billions over the next decades, and ensure more investment at a lower impact to rates.

18. How much has PG&E paid out to shareholders in the past 10 years? If the customer-owned utility does not have to pay dividends to shareholders, what would the customer-owned utility do with savings?

PG&E paid out \$7 billion as dividends to shareholders between 2009 and 2017.^{xvii, xviii, xix, xx} Under the customer-owned structure, expenses going to dividends would be used to service the bonds for the acquisition of the enterprise in the beginning stages. In the future, some portion of what would have been dividends would go to a combination of rate stabilization, additional investments, purchase of insurance, and so forth.

19. What would happen to PG&E's workforce?

PG&E's employees, including its field employees, are highly trained, and motivated, and should remain. The customer-owned utility will preserve existing PG&E labor contracts and preserve the existing skilled workforce. It will also commit to maintaining and growing a skilled workforce that is focused on improving the safety and reliability of the utility's infrastructure, as well as improving customer service and affordability.

20. Is the customer-owned model compatible with California's regulatory framework?

There are three small electric utility cooperatives in California. They are part of the Golden State Power Cooperative, which serves as the California trade association for these cooperatives and for certain public utility districts.

The model of a mutual company/cooperative for PG&E should be viewed as compatible with California's regulatory framework: The adoption by the California State Legislature and approval by the Governor in 2009 of a statute (Sections 2776-2778 of the California

Public Utilities Code), which authorizes the formation of electric cooperatives as a “private corporation of association organized for the purpose of transmitting or distributing electricity exclusively to its stockholders or members at cost.”

21. Would funding and capital needs have to come from within the rate structure or state taxpayer bonds?

Funding and capital would come entirely from rates. There is no state taxpayer indebtedness in this model.

22. Will there be a change to low-income subsidies paid out for CARE and FERA customers of PG&E?

CARE and FERA programs for low-income customers would not change.

23. Is the customer owned model compatible with storage and microgrids?

The customer-owned utility’s focus on public safety and grid resiliency will encourage CCAs and municipal utilities to invest in storage and microgrids to guard against broad power shutoffs that have adverse public health and safety consequences.

24. Should an entity like this be operated under the same management system?

The Governing Board will determine the best management structure and prioritize highly trained management focused on improving the safety and reliability of the utility’s infrastructure, as well as improving customer service and affordability.

25. Are there serious issues with a publicly owned non-profit raising capital for safety upgrades in the system?

The coalition of elected officials proposing to transform PG&E into a customer-owned utility have been discussing the idea with major banks, who have expressed interest in the proposal.

ⁱ Official Form 201, Voluntary Petition for Non-Individuals Filing for Bankruptcy, PG&E Corp., January 29, 2019; SEC Filing Form-8k, January 29, 2019.

ⁱⁱ PG&E News Release, “PG&E Submits Updated Financing Proposal for Safety and Reliability Infrastructure Investments for 16 Million Customers; Commits to Working Toward Long-Term Policy Solutions to Best Serve Interests of Customers, Utility and California,” April 22, 2019.

ⁱⁱⁱ “On April 6, 2001, Pacific Gas and Electric Company (the “Utility”) filed a voluntary case under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of California (the “Court”) which was assigned Case No. 01-30923 DM (the “2001 Case”). As of the date hereof, the 2001 Case remains open and pending before the Court.” Official Form 201, Voluntary Petition for Non-Individuals Filing for Bankruptcy, PG&E Corp., January 29, 2019; PG&E News Release, “Pacific Gas and Electric Company Files for Chapter 11 Reorganization,” April 6, 2001.

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- iv Weare, Christopher (2003); *The California Electricity Crisis: Causes and Policy Options*; p. 3–4; San Francisco: Public Policy Institute of California.
- v Associated Press, “PG&E Ends 3 years under Chapter 11,” April 13, 2004.
- vi Official Form 201, Voluntary Petition for Non-Individuals Filing for Bankruptcy, PG&E Corp., January 29, 2019; SEC Filing Form-8k, January 29, 2019.
- vii CAL FIRE News Release, “CAL FIRE Investigators Determine the Cause of the Cascade Fire,” October 9, 2018.
- viii CAL FIRE News Release, “CAL FIRE Investigators Determine Causes of 12 Wildfires in Mendocino, Humboldt, Butte, Sonoma, Lake, and Napa Counties,” June 8, 2018.
- ix CAL FIRE News Release, “CAL FIRE Investigators Determine Causes of Four Wildfires in Butte and Nevada Counties,” May 25, 2018.
- x CAL FIRE Camp Fire Incident Information, May 15, 2019.
- xi Peter Eavis and Ivan Penn, New York Times, “Can PG&E Survive the California Wildfires?” October 29, 2019.
- xii California Public Utilities Commission Return on Equity (ROE) (Actual and Authorized)
- xiii “Dividends paid to common shareholders by PG&E Corporation were \$1.0 billion in 2017, \$921 million in 2016, and \$856 million in 2015” *PG&E Corporation and Pacific Gas and Electric Company, 2017 Joint Annual Report to Shareholders*, pg. 65.
- xiv “Dividends paid to common shareholders by PG&E Corporation were \$828 million in 2014 and \$782 million in 2013” *PG&E Corporation and Pacific Gas and Electric Company, 2015 Joint Annual Report to Shareholders*, pg. 47.
- xv “Common stock dividends paid: \$746 million (2012) and \$704 million (2011)” *PG&E Corporation and Pacific Gas and Electric Company, 2013 Annual Report*, pg. 13.
- xvi “Common stock dividends paid: \$662 million (2010) and \$590 million (2009).” *PG&E Corporation and Pacific Gas and Electric Company, 2011 Annual Report*, pg. 19.
- xvii “Dividends paid to common shareholders by PG&E Corporation were \$1.0 billion in 2017, \$921 million in 2016, and \$856 million in 2015” *PG&E Corporation and Pacific Gas and Electric Company, 2017 Joint Annual Report to Shareholders*, pg. 65.
- xviii “Dividends paid to common shareholders by PG&E Corporation were \$828 million in 2014 and \$782 million in 2013” *PG&E Corporation and Pacific Gas and Electric Company, 2015 Joint Annual Report to Shareholders*, pg. 47.
- xix “Common stock dividends paid: \$746 million (2012) and \$704 million (2011)” *PG&E Corporation and Pacific Gas and Electric Company, 2013 Annual Report*, pg. 13.
- xx “Common stock dividends paid: \$662 million (2010) and \$590 million (2009).” *PG&E Corporation and Pacific Gas and Electric Company, 2011 Annual Report*, pg. 19.

ATTACHMENT C

November 4, 2019

Hon. Marybel Batjer, President
Hon. Martha Guzman Aceves
Hon. Liane M. Randolph
Hon. Clifford Rechtschaffen
Hon. Genevieve Shiroma

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

President Batjer and Commissioners:

RE: Critical Matters Related to the PG&E Bankruptcy

As local leaders across Northern and Central California, collectively representing more than 5 million residents, we write to you about a matter vital to the safety and quality of life of the communities we serve. While our immediate attention focuses on the recovery of our neighbors and communities from recent tragic fires and power shut-offs, we have serious concerns about whatever emerges from the bankruptcy of Pacific Gas and Electric Company and its parent, PG&E Corporation. We write in our individual capacities as elected and appointed leaders, but as our coalition of local leaders grows in the weeks ahead, we will advocate these positions with our boards and councils as well, and seek their support.

Both the federal bankruptcy code and state law invest the California Public Utilities Commission with a responsibility for approving any Plan of Reorganization for those entities. The Bankruptcy Court may not confirm such a Plan if it involves any rate change (as is the likely case) without this Commission's assent, while recently-enacted state law establishes your approval as a necessary predicate for the emergent entity to have access to the Wildfire Fund. The Commission now plays an essential part in the restoration of Northern California's incumbent utility to a position where it can provide safe, reliable, and affordable power to our citizens.

At present, the Commission is considering the scope of its review. It is focusing primarily on the two plans before it, developed in the Chapter 11 proceeding by competing financial interests. One, from the companies themselves, reflects the current driving forces that govern PG&E, namely financial entities that purchased controlling equity interests as the crisis unfolded. The other is the product of distressed asset bondholders. Both vie for ultimate control, and both reflect a short-term desire to maximize financial gain for their proponents. Neither plan addresses the three key matters that we believe are of utmost importance. They are:

First, the discussions so far have been almost entirely devoid of any consideration of whether PG&E can emerge under either plan as a viable, credit-worthy entity. The bankruptcy code requires that the reorganized PG&E to be a feasible, financially stable enterprise, able to perform its functions for the long term. Under Section 1129 (a)(11) of the Bankruptcy Code, the Court

may not confirm a Plan that does not meet this standard. Even without that mandate, as a matter of public policy, this should be a primary consideration. Rather, the proceedings appear dominated so far by a pitched battle between Wall Street titans for control of the bankruptcy process, control of the company, and the ability to control exit financing. This is merely spectacle, without regard for what will be left behind when the financial players inevitably leave the scene.

Second, the scope of review must include consideration of whether the reorganization plans before you address any of the organic operational issues that have plagued this company to the great detriment of its customers. The public interest cannot be swept aside in the name of merely addressing the bankruptcy exit. The Plan of Reorganization must substantially improve the company's operational footing — boosting its capacity to deliver electricity and gas that meets its customers' reasonable expectations for reliable service, while remaining solvent. This requires aligning the financial interest of the company with the public interest — for focused investment in safe, resilient, well-maintained, and sustainable infrastructure.

So far, neither Plan before you posits a vision for a reorganized PG&E that will address those operational issues.

Third, the Commission has indicated that as part of its review, it will examine “structural” issues involving PG&E's governance. We urge you to embrace this aspect of your review broadly and incisively.

Recently, Governor Newsom declared that “when they come out of bankruptcy, [PG&E] has to be a completely re-imagined company.” We agree. That reimagining must begin now, as part of your review.

In a growing coalition of local community leaders, we are developing a proposed structural change for PG&E that addresses all three of these key elements. Based on a foundation currently in the Public Utilities Code, we will propose transforming PG&E into a mutual benefit corporation — in essence, a cooperative owned by its customers.

We propose a customer-owned utility for three primary reasons. The most compelling rationale is that PG&E correctly estimates it must invest tens of billions of dollars over the next decade for system hardening, wildfire protection and cyber-security. A mutualized PG&E can raise capital from a broad pool of debt financing in amounts substantially greater than can an investor-owned PG&E, and at much lower cost. A customer-owned utility can operate without the burdens of paying dividends to shareholders, and exempt from federal taxation. As a result, a cooperative financial structure will save ratepayers many billions of dollars in financing costs over this next decade. A customer-owned PG&E will better focus its scarce dollars on long-neglected maintenance, repairs, and capital upgrade, and mitigating some part of the substantial upward pressure on rates.

Next, a customer-owned utility structure can be accomplished through a Chapter 11 Plan, with results far superior to those that would be seen from the two plans currently under consideration.

Finally, the customer-owned utility structure would allow PG&E to begin the process of restoring public confidence, in part by allowing the public to have greater role in determining decisions that increasingly have come to define matters of life and death. To the extent that the public continues to believe that a profit motive has dominated PG&E's decision making, the enterprise will never regain the trust of its customers, its regulators, and public policy-makers. It is time to pass control of the company from geographically distant investors to its customers.

Although recent actions bring the urgency of change into sharp relief, we do not pursue this option out of mere anger or angst. Rather, the moment compels PG&E's transformation. AB 1054 was a response to the realization that customers will be called upon to bear billions of dollars of costs associated with wildfire recovery and payment of claims. We face the need for a completely re-engineered and reconstructed system to adapt to the realities of climate change and poorly maintained infrastructure. PG&E cannot meet these challenges if it stumbles out of bankruptcy, barely able to raise capital, and suffering prohibitive costs.

There is a better way, and we want you to consider it. Your proceeding is that opportunity. We urge that it not be a cramped or limited exercise, focused solely on getting through the current Chapter 11 case.

We stand ready to participate in these proceedings, and to work with you. However, we again urge that the scope of your inquiry must address these broader and compelling matters that go well beyond the immediate desire to simply get through the bankruptcy proceeding. The Commission must do more than approve a Plan – any Plan – merely so that the bankruptcy can be concluded. This situation requires a full and comprehensive effort to chart a sustainable course for the future of PG&E, one that will serve the interests of its customers, and position the company to meet the challenges we will face from a changing climate.

Signed:

Mayor Sam Liccardo, City of San José
Mayor Darrell Steinberg, City of Sacramento
Mayor Libby Schaaf, City of Oakland
Mayor Michael Tubbs, City of Stockton
Mayor Steve Ly, City of Elk Grove
Mayor Barbara Halliday, City of Hayward
Mayor Larry Klein, City of Sunnyvale
Mayor Jesse Arreguin, City of Berkeley
Mayor Tom Butt, City of Richmond
Mayor Drew Bessinger, City of Clovis
Mayor Randall Stone, City of Chico
Mayor Julie Winter, City of Redding
Mayor Ian Bain, City of Redwood City
Mayor Brett Lee, City of Davis
Mayor Martine Watkins, City of Santa Cruz
Mayor Teresa Barrett, City of Petaluma

President Carole Groom, San Mateo County
Board of Supervisors
Chair Ryan Coonerty, Santa Cruz County
Board of Supervisors
Chair Kate Sears, Marin County Board of
Supervisors
Chair Don Saylor, Yolo County Board of
Supervisors
Chair Mark Medina, San Benito County Board
of Supervisors

Mayor Heidi Harmon, City of San Luis Obispo
Mayor Dominic Foppoli, City of Windsor
Mayor Jack Dilles, City of Scotts Valley
Mayor Amy Harrington, City of Sonoma
Mayor John Dell'Osso, City of Cotati

cc:

Hon. Gavin Newsom, Governor
Hon. Toni G. Atkins, President Pro Tem, California State Senate
Hon. Anthony Rendon, Speaker of the California Assembly
Hon. Ben Hueso, Chair Senate Committee on Energy, Utilities & Communications
Hon. John M.W. Moorlach, Vice Chair Senate Committee on Energy, Utilities &
Communications
Hon. Chris R. Holden, Chair Assembly Committee on Utilities & Energy
Hon. Jim Patterson, Vice Chair Assembly Committee on Utilities & Energy
Administrative Law Judge Peter Allen
Service List I.19-09-016

A better way: Let's give PG&E's customers the reins

By Sam Liccardo, Special to CalMatters

"I think it's wrong that only one company makes the game 'Monopoly.'" —Steven Wright.

The light at the end of the utilities' tunnel has been shut off for the hundreds of thousands of California residents who have recently lost their power, been evacuated from their homes, or worse.

The current dystopia of alternating wildfires and blackouts follows a decade in which Pacific Gas & Electric distributed \$7 billion to shareholders but chronically underinvested in maintenance and safety.

It follows a year in which the company's executives proposed \$11 million in bonuses for themselves, while in bankruptcy, with tens of billions of debts to wildfire victims.

In bankruptcy court, two hedge funds cast lots over the company's carcass, with one set of investors proposing to issue junk bonds to pay debts, and the other pledging to pay off wildfire victims with—wait for it—PG&E's worthless stock.

If history is any guide, we'll see PG&E emerge from bankruptcy burdened with multi-billion dollar obligations for infrastructure upgrades, and an ownership group seek to deliver short-term "shareholder value" at the expense of long-term investment. State taxpayers, inevitably, will be left with the tab.

There is a better way.

Mayors and other local leaders throughout California have banded together to publicly urge exploration of an alternative model: a customer-owned utility.

To be clear, we do not advocate for government ownership of PG&E, which would require a buyout costing taxpayers tens of billions of dollars for poorly maintained infrastructure, before a single dollar would be spent improving it.

Rather than having the government manage this multi-billion dollar enterprise, the company should be run like other customer-owned businesses—such as credit unions, or mutual

insurance corporations—with management responsive to markets, and responsible to customers.

It's hardly a novel concept. More than 900 utility "cooperatives"—including a couple with billions in revenues—currently serve 19 million customers in the U.S.

Two reasons motivate our efforts:

- First, we need a PG&E that aligns its financial interest with the public interest. A corporate board representing customers—rather than New York hedge funds or global institutional shareholders—will best focus the company's resources on providing safe and reliable service to California ratepayers. Restoring the public trust in PG&E requires bringing customers into the boardroom.
- Second, regardless of who or what owns PG&E when it emerges from bankruptcy, a tall financial mountain remains. All of the solutions to what ails our electricity distribution system—such as building microgrids, upgrading transmission and distribution lines, and improving vegetation maintenance—will require tens of billions of dollars of investment. We need a utility company with ready access to capital markets to make these big bets.

A customer-owned cooperative would encounter sharply lower capital costs than PG&E does today, because it would not need to pay dividends to shareholders, or federal taxes to Uncle Sam. By saving billions in interest payments, a customer-owned company would devote more of its resources to improving the company's infrastructure and service.

As local leaders representing five million residents served by PG&E, we're urging the California Public Utilities Commission—which has the authority to approve or reject whatever entity emerges from the U.S. Bankruptcy Court—to broaden the scope of its review.

Rather than simply rubber-stamping the outcome of the bankruptcy court proceedings, the Public Utilities Commission must embrace its role as guardian of the public interest. It must consider whether a customer-owned model can better deliver results and restore public trust than can a hedge fund looking to rationalize its purchase of stock at four times its current market value.

When asked about our proposal, a PG&E spokesperson remarkably told the Wall Street Journal that the company is "not for sale." Of course, PG&E is for sale. That's the irritating little thing about bankruptcy. The question isn't whether the company gets reorganized, but how, and whether we'll use this crisis or waste it.

No one should pretend that the path ahead is an easy one. A newly-branded customer-owned utility won't save us from wildfires or power-shut offs next month, or even next year. Microgrids will take billions to build many years to install.

Century-old transmission poles will take time to replace. Public trust may take longer to restore. A new model of ownership will better ensure a single-minded focus on improving service, safety, and reliability—and that's a future worth investing in.

Sam Liccardo is mayor of San José, America's 10th largest city. He wrote this commentary for CalMatters.

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