2023 GRC

A.21-06-021

November 7, 2023

PG&E

Together, Building
a Better California

Safety and Security Orientation

Earthquake

- Drop
- Cover
- Hold

Fire

- Exits, escape routes, evacuation plan
- Compliant fire extinguisher

Medical Emergency

- First aid/CPR
- 911/share location
- AED

Security

- Active shooter—get out, hide out, take out
- Use badge—don't tailgate
- Lock computer when unattended
- Report Phishing emails

Ergonomics

- 30/30
- Proper ergo
- RSI Guard

COVID-19

- Handwashing/masking
- CAL-OSHA regulations, local county health orders
- Visit COVID-19 website
- HR Helpline 415-973-4357

Emergency Planning

Update emergency contacts and personal emergency preparedness plan

Psychological Safety

- Care for each other
- Look out for one another
- Create a safe space for all
- Welcome new ideas from everyone
- Practice self-care

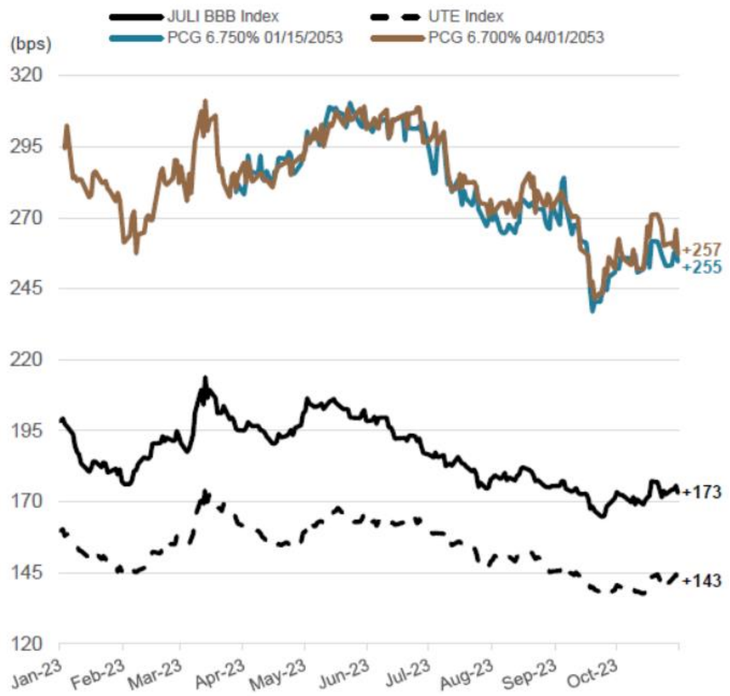
On the road,
off the phone.

Key Messages

1. PG&E's key credit metric (FFO-Debt) has been below the S&P downgrade threshold since 2020; the 2023 GRC decision is a key determinant of future credit quality and customer affordability
2. Current APD significantly impairs ability to support 4-year electric and gas customer investments
3. APD’s approach to escalation creates severe funding gap
4. PG&E proposes adjustments within reason to provide for customer benefits and mandated investments
5. Important customer work is at risk without improvements to the APD

Customer Costs Are Higher When PG&E Ratings Remain Below Investment Grade

Cost of PG&E Secured Debt vs BBB Corporate and Utility Indices



PG&E's credit ratings are sub-investment grade and its secured First Mortgage Bonds are at the lowest investment grade rating (BBB-) .

FFO/Debt (Funds from Operations divided by total debt; as defined by S&P), which drives credit ratings, is at risk for being Off-Track as communicated on PG&E's Q3 Earnings Call.

As a result of low credit ratings, PG&E's cost of borrowing is currently about 100 basis points (1%) higher than utility peers.

Due to PG&E's lower credit rating, for each $5 billion of debt issued, customers will pay an additional **approximately $1 billion in nominal interest over the life of the debt**.

Chart shows pricing for Utility First Mortgage Bonds. These are currently rated borderline investment grade (BBB-) by S&P; notably, market pricing for the bonds is impacted by the Utility's sub-investment grade (BB-) corporate rating.

Improving PG&E's credit ratings is possible with reasonable expense recovery and will have a direct impact on customer affordability by lowering the cost to fund critical work.

Revised APD still provides insufficient funding to do the work

Although the option to update the Post Test Years with CPI could somewhat help recover funding for escalation costs, it falls far short of recovery of actual inflation that has occurred and forecasted escalation – resulting in not enough money to do the work

The CPI option has the potential to capture $346M of escalation funding, but it is still $1.8B below the as-filed escalation amount across the entire GRC period.

Total Annual Revenue Requirement ($M)

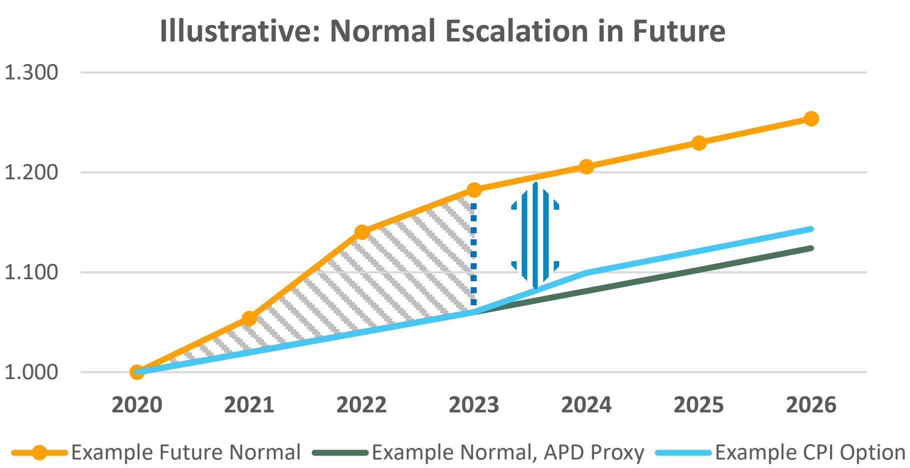
		2023	2024	2025	2026	Cumulative Impact 2023 - 2026
A	Revised APD @ 25%	$13,349	$14,073	$14,431	$14,676	
B	Revised APD @ 25% with CPI Option[1]	$13,349	$14,153	$14,551	$14,822	
C	Revised APD @ 100% as-filed IHS escalation[2]	$13,879	$14,590	$14,964	$15,238	
D	Revised PD	$13,761	$14,439	$14,745	$14,908	
B - A	Difference: CPI Option *vs* Revised APD @ 25%	$0	$80	$120	$146	**$346**
B - C	Difference: CPI Option *vs* Revised APD @ 100%	($530)	($437)	($413)	($416)	**($1,796)**

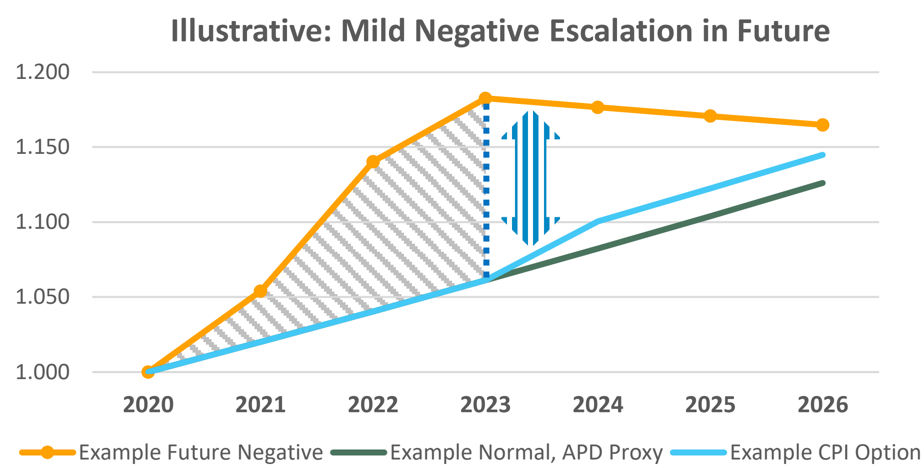
[1] To calculate scenario B, the 12-months historical CPI-U (from September) from Bureau of Labor Statistics was used for 2024 (3.7%), and the updated Q3 2023 CPI-U forecast from IHS Markit (S&P Global) was applied on a lagged basis for 2025 and 2026 (IHS forecast data are protected and confidential, so not shown here).

[2] Based on IHS Markit forecast data, Q2 2022.

The Real Inflation in 2021-2022 Compounds, and the APD Significantly Ignores that Base Needed for the 2023 GRC

- Inflation is a cost-of-service and should be recovered fully from customers. This includes the impact of inflation from the 2020 recorded year as it builds to 2023.
- The 18 as-filed escalation factors are the appropriate representation of utility <u>costs</u>, by function, unlike general CPI. IHS is highly accurate as shown in record.
- In PG&E's 2022 Update, some escalation rates continue to grow, while others are forecast to be negative during the GRC period.
- Actual inflation in 2021 and 2022, the highest years of historical inflation, was not reflected in customer rates during those years. 2021 and 2022 were based on the prior 2020 GRC forecast, *which was consistent with 'normal' inflation*.





Amount of historical escalation in actual utility costs from 2021 – 2023 that has been foregone because it was not reflected in prior rates.

Escalation gap during the 2023 GRC period is the area between two curves.

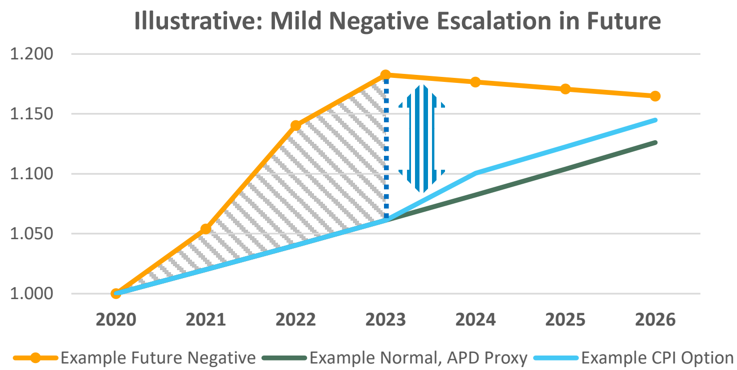
Illustrative Escalation Scenarios:

- <u>Normal, APD Proxy</u>: assumes "normal" inflation from 2020 – 2026. Normal based on BLS CPI-U from on historical average 2013 - 2021, starting month = September (2%).
- <u>Future Normal</u>: 2020-2023 based on historical BLS CPI-U, 2023–2026 based on 2.0%.
- <u>Future Mild Negative Escalation</u>: 2020–2023 based on historical BLS CPI-U, 2023–2026 based on -0.5%.

1 [Consumer Price Index Historical Tables for U.S. City Average : Mid–Atlantic Information Office : U.S. Bureau of Labor Statistics (bls.gov)]

Even with Mild Future Deflation, Illustrative Example Does Not Make Up Funding Needed for Work

Since 2023 Test Year costs are derived from 2020 recorded costs, it is necessary to account for the effects of inflation between 2020 and 2023, before applying forecasted escalation rates to the 2024, 2025, and 2026 Post Test Years.



Even under the *illustrative example* of mild negative escalation going forward, where the escalation *rates* start to converge in the future, escalation funding cannot catch up during the GRC period.

Escalation impact on $1,000

	Base Year 2020	2021	2022	Test Year 2023	PTY 2024	PTY 2025	PTY 2026	Cumulative RRQ 2023 – 2026
Example w/ Mild Negative Escalation	**$1,000**	$1,054	$1,140	$1,183	$1,177	$1,171	$1,165	**$4,695**
escalation rate		*5.4%*	*8.2%*	*3.7%*	*-0.5%*	*-0.5%*	*-0.5%*	
cumulative escalation		*1.054*	*1.140*	*1.183*	*1.177*	*1.171*	*1.165*	
Example w/ Normal Escalation	**$1,000**	$1,020	$1,040	$1,061	$1,082	$1,104	$1,126	**$4,374**
escalation rate		*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	
cumulative escalation		*1.020*	*1.040*	*1.061*	*1.082*	*1.104*	*1.126*	
Difference	**-$0**	**-$34**	**-$100**	**-$121**	**-$94**	**-$67**	**-$39**	**-$321**
% difference		*-3%*	*-9%*	*-10%*	*-8%*	*-6%*	*-3%*	*-7%*

In this example, without the correct level of escalation funding, 7% of actual costs could be unfunded over the GRC period.

Options for Revising APD to Avoid Credit Impairment

- Scenarios enable reasonable recovery of cost-of-service inflation costs, while also mitigating the full inflation-related January bill increases from PG&E's initial proposal
- Scenarios include approval of Medical/Disability request in Bill increase amounts along with noted inflation
- Update/true-up Advice Letters must be Tier 1, consistent with Sempra Decision 21-05-003, with clear parameters for Energy Division's approval

	PG&E's Request	PD Rev 1	APD Rev 1	Scenario A	Scenario B	Scenario C
Escalation Treatment	100%	100%	25% for 2021-26, and CPI update 2024-26	75% for 2021-26, and IHS true-up for 2021-26	75% for 2021-26, and CPI update for 2024-26	25% for 2021-26, and IHS true-up for 2021-26
Jan 1, 2024 Bill Increase Estimate From Decision* **	14.6%*	12.2%	11.8%	14.5%**	14.5%	12.4%**
2023 RRQ Increase Estimate from APD and total %	+$2,064M 26.2%	+$413M 12.7%	*Starting Point* 9.3%	+$450M 13.0%	+$450M 13.0%	+$100M 10.1%

Notes
* PG&E's Request bill increase was for January 1, 2023.
**True-up through 2024 reflected starting in March 2024 bills. Maximum of 24-month amortization is necessary for FFO-Debt recognition.
***PD has 36 months amortization. APD and all other scenarios have 24 months amortization.

Mandated Customer Work at Risk with APD

- New customer connections and Wildfire Mitigation have additional requirements that are not fully funded in the APD. Furthermore, additional SB410 work not possible to fund at APD levels.
- Recovering more escalation costs supports our FFO/Debt, our credit rating and therefore our access to capital to do required work.
- Lack of two-way accounts further limits our ability to do expected, incremental work.

	Revised APD Units	Scenarios A, B and C Fund Additional Work through Improved FFO/Debt
New Customer Connections 12,500 Connections Required per AB50	4,755	+2,500
Tree Removal and Inspections 146,000 WMP Required	72,242	+20,000
Pole Replacements 27,000 WMP Required	16,376	+3,000
Customer Billing Upgrade	Deferred	✘
Gas Meter Replacements 2.6MM Modules Requested	Deferred	✘

Critical Changes

1. Restore all medical, dental, disability, and mental health funding (pp.574-576, 580, 644 and OP 279, 280, 283, 321, 323)

2. Adopt escalation mechanism consistent with fact that inflation is a reasonable cost of service to be funded by customers (pp.762, 804-807, OP 378)

3. Remove language and rationale that customers and shareholders should split inflation funding (pp.804-805)