Commission on Catastrophic Wildfire Cost and Recovery Meeting — Feb. 25, 2019

Dear Commissioners:

In advance of the above meeting, please note the following public comment and suggestion:

Our firm has been involved as an investor and analyst in thousands of bankruptcies since its founding over 21 years ago. During that timeframe, we have seen that stockholders in nearly every bankrupt company, usually receive no recovery whatsoever. In fact, stockholders of bankrupt companies in the U.S. receive a recovery in fewer than 1% of all cases. One notable exception to this rule has been PG&E - when it was a victim of the Enron-manipulated power market in the early 2000's. Thus, Bankruptcy Courts usually allocate value recovery "down the waterfall" of creditors and claimants, with shareholder interests almost always last in line.

In this case, PG&E has broken the law by victimizing thousands of Californian citizens. It under-invested in properly maintaining its infrastructure to protect Californian citizens from the normal risks of fires and explosions inherent in utility operations. As a result, thousands of Californian citizens have proper legal claims against PG&E for death, injuries and damages (estimated in the tens of billions of dollars) caused by the company's negligence. It's important to note that PG&E didn't underinvest in maintaining infrastructure due to lack of readily available funds; this is evidenced by the fact that the company paid out billions and billions of dollars worth of shareholder dividends leading up to the 2017-18 fires. PG&E's lack of attention to its infrastructure maintenance has already been deemed the proximate cause of these horrific injuries and damages. Much like the case of a landlord who doesn't shovel his sidewalk to save money and therefore causes injury to an innocent pedestrian, PG&E has acted negligently.

More recently, it has been argued that all of California's utilities would stand to lose their investment grade credit ratings unless the state steps up to shoulder the cost burden of future wildfires. However, that argument is totally misleading because each utility operating in California can certainly maintain its infrastructure in the normal course of business and within its previously-approved budget without the need for additional funds. Moreover, debt investors are literally lining up to purchase California's utility debt which can be issued in either unsecured or secured form (secured lenders are usually deemed senior to litigants in bankruptcy) to protect against future litigation risks.

With the above important facts in mind, we recommend that the State of California simply let the bankruptcy process for PG&E proceed in the normal course of business without providing any state-sponsored bailout of the utility - the cost of which would, of course, ultimately fall onto California's citizens. While lobbyists and others (including hedge funds) with vested interests in getting bailed out may argue otherwise, the Bankruptcy Code is already designed to contemplate exactly these kinds of difficult situations. It would simply allocate wildfire tort claims into one class of unsecured creditors against the PG&E debtors and these claimants would be part of the normal unsecured creditor "waterfall of recovery" described above.

Under regular Bankruptcy absolute priority rules, the first creditors in the waterfall who are due to receive less than full face value of their claims typically receive the lion's share of the newly-issued equity to be distributed as a firm emerges from bankruptcy. Going this route would likely impair equity holders but that's the normal course of business for nearly all bankruptcies.

To do otherwise, by providing state funds to PG&E or allowing the company to securitize wildfire costs, implicitly sanctions "bad behavior" by providing s taxpayer-funded bailout to a bad actor. Also, history has proven that a socialist approach (of bailing out the utility's stockholders) would be much more expensive over the long-term than the free market approach which lets normal economic forces decide on the company's valuation and allocation of recoveries. In summary, any California state-sponsored action to assist PG&E's equity holders here would be tantamount to granting upside profit potential to stock investors without allocating downside risk sharing for those same investors. While that solution may feel good in the short term, it also guarantees lack of future accountability for the next crisis and is likely to cause PG&E to be forced back into bankruptcy for a third time in the future.

California has a great opportunity right now to demonstrate a strong but fair approach to managing its electric and gas infrastructure. It shouldn't dilute that opportunity by granting socialistic favors to private shareholder interests. I am available to discuss these views and to provide any additional information about them or our firm's positioning here at your leisure.

Thank you,

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