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November 4, 2019

William Johnson
Chief Executive Officer and President
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: Response to PG&E's Letter Regarding San Francisco's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Mr. Johnson:

We enjoyed meeting with you at City Hall on September 26, 2019. We write in response to your letter dated October 7, 2019, which we received on October 11, 2019. We address below several aspects of your letter and, again, request that PG&E engage with us substantively on these issues. We continue to believe the City's purchase of PG&E's assets would provide significant benefits to PG&E and its customers outside of San Francisco. We also address the October 1, 2019 proposal from PG&E for resolving disputes that unnecessarily delay and increase the cost of electric service to key City facilities.

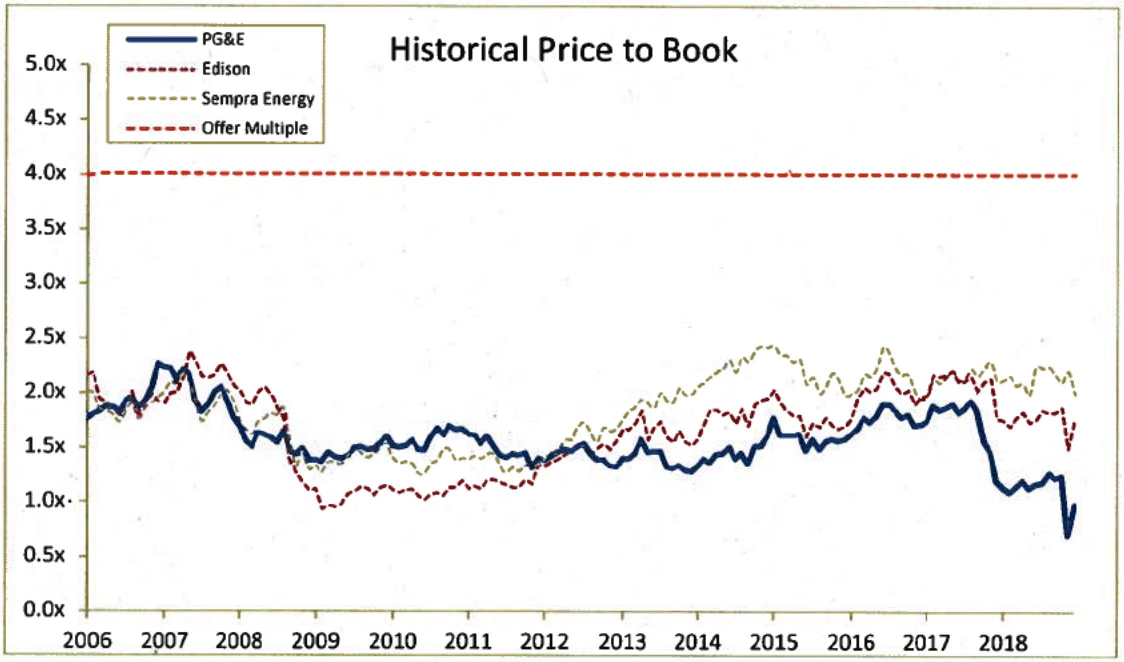
1. PG&E's Response to the City's Offer

As we expressed in the meeting, City officials are united in their commitment to obtain PG&E's facilities so that the City can provide distribution service to all customers in San Francisco, as the Raker Act intended in 1913. We believe that completing the transaction through a negotiated agreement with PG&E during the bankruptcy will be more beneficial to PG&E and its stakeholders, including remaining ratepayers, than an acquisition through other means.

As you know, we worked with independent experts to analyze the book value and market value of PG&E's assets along with other relevant issues. We would welcome a discussion with PG&E of the three financial issues you identify on page two of the letter: fair-market value of the assets, cost of the City's proposed transaction for ratepayers outside of San Francisco, and separation cost.

Fair market value: As pointed out in our letter to you, the $2.5 billion offer price is approximately 2.5 times our $1 billion estimate of the book value of the assets we propose to purchase. This translates to a market to book value for PG&E's common stock of about 4 times.[1] Over the past 13 years, including long periods when PG&E has been financially healthy, the market value of PG&E's common stock has never been close to 4 times its book value, running more typically at around 1.6 times (and rarely exceeding 2 times).

The chart below shows PG&E common stock, price to book ratio, 2006-2018, and as compared to the common stock of the holding companies for SCE and SDG&E[2]:



We also estimated the rate regulated earnings contribution of the assets we propose to acquire, and calculated our proposed purchase price. The price implies a price-to-earnings multiple in excess of 35 times. This is a meaningful premium to (i) PG&E's average historical trading multiple, (ii) PG&E's peers' average historical trading multiples, and (iii) the average multiples associated with precedent transactions in the regulated utility industry. We would welcome the opportunity to share our associated underlying assumptions as part of a broader engagement with your team.

[1] Assumes a rough 50/50 debt/equity ratio and PG&E's debt trades at par.
[2] Data sourced from Bloomberg.

Moreover, PG&E's receipt of $2.5 billion in cash from the City would allow for PG&E bondholders and shareholders to be paid **in full** for their outstanding investment in the assets we propose to purchase ($1.0 billion), leaving an additional $1.5 billion in cash immediately available for other valuable uses, such as bolstering PG&E's financial strength, funding additional outstanding wildfire claims, and/or future rate reductions for PG&E's remaining ratepayers. These benefits are large given that the targeted assets are a relatively small portion of PG&E's assets and business interests. The sale of the targeted assets to the City would reduce the size of PG&E, but only modestly. The $1 billion amount is only about 4% of PG&E's total electric rate base of about $25 billion and only 2.5% of its total rate base, electric and gas assets combined (about $40 billion[3]).

Ratepayer Impacts. Your letter states that our proposal would have a large impact on customers outside of San Francisco; this is not explained and is inconsistent with our analysis. As stated above, the portion of PG&E's business represented by the assets the City proposes to purchase is small relative to PG&E's assets in total. The City already provides nearly 80% of the electricity used in San Francisco, and we will continue to pay PG&E for transmission voltage deliveries. So, the revenue loss to PG&E is primarily limited to the revenues earned on its distribution system within San Francisco. Any impact, positive or negative, on PG&E's remaining customers is similarly small.

Further, the impacts to PG&E's overall costs and revenues may be positive. Together with the reduction in size come reductions in PG&E's service obligations, operating costs, and future capital investment needs. A reasonable estimate of impacts on PG&E's remaining customers requires estimates of the cost savings that would offset those lost revenues, specifically reductions in future operating expenses, capital investment requirements, reduced interest and principal payments to current bondholders, and

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[3] See, e.g., http://s1.q4cdn.com/880135780/files/doc_financials/2018/q4/Presentation-and-Complete-Earnings-Exhibits.pdf, slide 10.

reduced profits paid to current shareholders. PG&E's assets in San Francisco are some of the oldest in PG&E's system and will require replacement and upgrading in order to provide reliable service.

A precise estimate requires asset-specific information about PG&E's future operating expenses and capital investment requirements for the assets that are sold. This is information that PG&E has and should be willing to share with us to facilitate a transaction that benefits all stakeholders. San Francisco welcomes a dialogue and exchange of information with PG&E regarding PG&E's San Francisco-specific costs.

Separation Costs. Your statement that the City's offer underestimates separation costs is puzzling because the City's offer did not specify a separation cost or plan, noting that this should be an issue for discussion. Most of San Francisco's perimeter is coastline with no distribution grid separation needed. PG&E's transmission interconnections to San Francisco are clear, and are limited to where the lines from the Martin substation in Daly City cross into San Francisco. The City's work to date indicates that several separation alternatives are available and feasible, with the cost, time and effort required largely dependent upon PG&E's willingness to work with the City to speed the process while ensuring that both parties' needs for operational control, reliability and safety are met.

While the conventional wisdom regarding regulated electric utilities may be that "bigger is better," that metric does not apply in PG&E's case. Some have argued that, in fact, PG&E's service territory is too large and its service obligations too broad to be managed reliably, safely and cost-effectively.[4] This modest reduction in size and service obligations presents an opportunity for PG&E to focus on its system hardening needs across its service territory, by removing its obligations with respect to San Francisco's urban, aging, largely undergrounded and complex electric distribution infrastructure.

We understand your desire to continue serving all of your customers and your reluctance to sell these assets. And we agree that PG&E's customers rely on PG&E every day for essential services, but the assumption that continuing service from PG&E is best for all customers is not well-founded. Municipal utilities, including the San Francisco Public Utilities Commission, have provided safe, reliable electric service tailored to their customers at rates below PG&E's rates for decades.

Finally, we appreciate your point that PG&E has been headquartered in San Francisco for 115 years and is invested in the community. Under the City's proposal, PG&E would continue to provide gas service to San Francisco customers and transmission service to the City, and would earn substantial revenues from those services. PG&E can continue to be headquartered here and be part of our community, while making a fresh start on what has long been a difficult relationship with the City.

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[4] See, e.g. http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M252/K547/252547055.PDF (questions asked by the California Public Utilities Commission in I. 15-08-019, pp. 11-12); https://www.sfgate.com/bayarea/article/Governor-Newsom-PG-E-California-breakup-14538847.php# ("Newsom said at a conference in San Francisco Tuesday that California residents would benefit from PG&E breaking into smaller pieces."); https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/About_Us/Organization/Commissioners/Michael_J._Picker/PresidentPickerCommentsonPGESafetyCultureandEnforcementTheory.pdf ("The question may not be whether PG&E is too big to fail, but instead, 'is the company too big to succeed?'").

2. PG&E's October 1, 2019 Proposal for Interconnecting City Loads

In our meeting, you acknowledged that PG&E may not have been entirely reasonable in imposing requirements for connecting City loads and indicated that PG&E would do better in the future. The confidential settlement proposal we received from your team on October 1, was not better than the proposals we've seen over the last several years. In some significant ways, it was worse. The City's team will respond to PG&E with a new proposal that addresses the key issues of dispute in a simpler way that is consistent with federal law. We hope you will direct your team to work with us to quickly resolve these issues.

We look forward to further discussions with you on these matters. Please contact Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or the following contacts at Jefferies: Scott Beicke (212-336-7479), Americas Co-Head of Power, Utilities and Infrastructure, or Simon Wirecki (310-575-5251), Western Regional Head for Municipal Finance.

Very truly yours,

London N. Breed
Mayor

Dennis J. Herrera
City Attorney

cc. All members Board of Supervisors
All SFPUC Commissioners
Harlan L. Kelly Jr., SFPUC General Manager
Ben Rosenfield, City Controller
Scott Beicke, Jefferies Americas Co-Head of Power, Utilities and Infrastructure
Simon Wirecki, Jefferies Western Regional Head for Municipal Finance
Andrew Vesey, PG&E Chief Executive Officer and President
Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel

This letter represents a general statement of the City's interest in the Proposed Transaction and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. Unless and until the parties have, among other things, completed comprehensive due diligence, negotiated definitive transaction documentation for the Proposed Transaction, obtained necessary internal approvals, executed definitive transaction documentation for the Proposed Transaction and obtained a bankruptcy court order authorizing the Proposed Transaction, neither the City nor the Debtors shall be under any legal obligation of any kind whatsoever as to the Proposed Transaction by virtue of this letter. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required California Environmental Quality Act compliance.