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September 19, 2019

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

Andrew Vesey
Chief Executive Officer and President
Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Re: Supplement to San Francisco's Indication of Interest in the Acquisition of Electric Distribution and Transmission Assets

Dear Messrs. Johnson and Vesey:

We write you again on behalf of the City and County of San Francisco (the "City"). The purpose of this letter is to share with you some additional context for evaluating the City's indicative proposal made on September 6, 2019, to acquire substantially all of Pacific Gas and Electric Company's ("PG&E" and collectively with PG&E Corporation, the "Debtors") electric distribution and transmission assets needed to provide electric distribution service to all electricity customers in San Francisco (the "Proposed Transaction").

The City and its advisors have reviewed the Debtors' Joint Chapter 11 Plan of Reorganization dated September 9, 2019 (the "Plan") and the related summary and materials filed by the Debtors in connection with the Plan. We appreciate that the final Plan details are still contingent on the outcome of the wildfire claims estimation process and will be modified by the recent agreement in principle that the Debtors have reached to resolve wildfire claims with entities' representing approximately eighty-five percent (85%) of the insurance subrogation claims. Given the increase in the amount of the potential subrogation claims under the settlement in principle and the potential for the liability estimates and further settlement amounts to increase above what is contemplated in the Plan, we believe that every additional dollar will be important for satisfying the Debtors' creditors and formulating a confirmable reorganization plan. **Our Proposed Transaction timing aligns with the Debtors' proposed June 30, 2020 Plan confirmation date and provides approximately $1 billion of incremental value in comparison to a new equity raise at a 13.5x P/E without the benefit of the Proposed Transaction.**

The City proposes to work with the Debtors to incorporate the Proposed Transaction into the Plan. The City is fully aligned with the Debtors' efforts to avoid disrupting the state's decarbonization goals and PG&E's assumption of all power purchase and community choice aggregation agreements. We believe that the Proposed Transaction would be complementary to the Debtors' objectives reflected in the Plan while providing substantially enhanced value to the Debtors and their creditors, customers and other stakeholders and preserving the Plan's accelerated timeline. The Proposed Transaction would provide substantial additional liquidity to fund the Debtors' numerous financial obligations reflected in the Plan and would reduce the Debtors' need to incur additional debt that ultimately could compromise PG&E's ability to provide cost-effective service to its customers.

**Enhanced Value**

The Proposed Transaction would allow the Debtors to maximize the value of PG&E's San Francisco distribution and transmission assets while raising needed cash to implement the Plan, thereby limiting equity financing requirements. The City and its advisors believe the indicative purchase price provided for in the Proposed Transaction would provide the greatest value to the Debtors' stakeholders that can be achieved due to the unique circumstances surrounding the Debtors' bankruptcy.

The City and its financial advisors have reviewed the financial terms of the Debtors' proposed exit equity financing structure, as reflected in the various backstop equity commitment letters with Knighthead and Abrams. The City is confident that the Proposed Transaction will provide greater value and lower cost capital to finance the Plan. Importantly, the Proposed Transaction could also limit financing risk to the Debtors or limit the need for more expensive incremental capital.

Using $48.0 billion as the estimated 2021 average rate base and $2.22 billion as PG&E's estimated 2021 net income, the backstop parties' investment reflects a 10x P/E multiple and an implied 1.2x rate base multiple. Alternatively, if the Debtors were to instead raise equity capital in the market at a 13.5x P/E multiple, the implied rate base multiple would be 1.3x. By contrast, using 2021 estimated numbers for comparison, the City and its advisors believe the Proposed Transaction, with an indicative $2.5 billion purchase price and an assumed $1.15 billion 2021 average rate base, provides a significantly higher 2.2x rate base multiple.

In dollar terms, the valuation of the Proposed Transaction offers approximately an **incremental $1 billion of value** in comparison to the valuation implied by a new equity raise at a 13.5x P/E multiple. As such, the Proposed Transaction provides exit funds on significantly more favorable terms to the Debtors than either the committed backstop financing or other equity financing at the 13.5x threshold valuation alone. This additional liquidity provided by the Proposed Transaction would not be subject to market fluctuations between now and the effective date of the Plan, thereby providing for an attractive source of funding for the Debtors without pricing risk.

Furthermore, the Proposed Transaction could assist the Debtors in structuring a more tax efficient transaction. The Plan is structured to preserve the value of the Debtors' net operating losses ("NOLs"). The Proposed Transaction could reduce the risk of any change of control under Internal Revenue Code section 382 by reducing the equity required to be raised from new stockholders. At the same time, a substantial portion of any taxable gain realized by PG&E upon the sale to the City of the distribution and transmission assets may be offset with such losses, thereby resulting in no material income tax liability to the Debtors, while accelerating the Debtors' monetization of its NOLs.

In addition, the City remains interested in discussing a mutually agreeable "buy down" arrangement with respect to applicable non-bypassable charge obligations. A buy down of these obligations would represent significant additional upfront value to the Debtors that would be available to support the necessary funding for the Plan.

**Timing**

The City recognizes the expedited timing embedded in the Plan necessary to achieve a confirmed plan by June 30, 2020 and is highly confident that the Proposed Transaction would align with the Debtors' proposed timetable. The City and its advisors stand ready to immediately engage in a process to complete due diligence, negotiations and documentation of the Proposed Transaction and file for California Public Utilities Commission approvals in connection with the approvals required for the Plan. We believe that incorporating the Proposed Transaction into the Plan and obtaining approvals in consolidated regulatory filings represents both a workable approach and the best opportunity for a value-enhancing transaction that meets the aggressive timetable required for Plan confirmation by June 30, 2020.

**The Path Forward**

After reviewing the Plan, the City is more convinced than ever that the Proposed Transaction would result in a mutually beneficial transaction for the Debtors and their stakeholders in the bankruptcy proceedings, as well as the City and its residents. We hope that the Debtors will make a good faith earnest effort to engage with the City as soon as possible. The San Francisco distribution system represents only a small portion of PG&E's service territory, but includes some of PG&E's oldest assets that will require substantial time and attention to remain in service reliably. The City believes the Proposed Transaction represents an opportunity for PG&E to refocus on the balance of its system, leaves its historical disagreements with the City in the past and allows the City to make the improvements and enhancements that are necessary to provide for safe and reliable electric service to its residents.

Based on the timeline outlined in the Plan, there is a limited time window for the Debtors and the City to begin engagement to meet that aggressive timeframe. The City has exhausted the public information sources available to it and requires the Debtors' engagement to complete its due diligence and to move forward with the Proposed Transaction. We hope the Debtors will be able to act while the Proposed Transaction remains feasible so that we can engage in a good faith negotiation and implementation of a mutually beneficial transaction.

Please reach out to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to the following contacts at Jefferies LLC, the City's buy-side financial advisor: 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, with any questions.

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

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.