

OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR



OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

September 6, 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: San Francisco's Indication of Interest in the Acquisition of Electric
Distribution and Transmission Assets

Dear Messrs. Johnson and Vesey,

As you know, the City and County of San Francisco (the "City") initiated intensive work beginning in January 2019 to determine the feasibility of a potential acquisition of electric utility assets serving San Francisco held by Pacific Gas and Electric Company ("PG&E" and collectively with PG&E Corporation, the "Debtors") in connection with the Debtors' Chapter 11 bankruptcy cases. We write to inform you that, after investing additional substantial resources since delivering our letter dated March 14, 2019 to PG&E Corporation (attached as Attachment A), the City and its advisors have concluded their initial analysis of a potential transaction. Based on that analysis, the City has prepared this acquisition proposal.

Accordingly, we are pleased to submit this non-binding indication of interest ("IOI") to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers in San Francisco (such assets collectively, as further described below, the "Targeted Assets" and such transaction, the "Proposed Transaction"). We submit this IOI with the support of the San Francisco Board of Supervisors (the "Board of Supervisors") and the San Francisco Public Utilities Commission (the "SFPUC").

Subject to the terms and conditions described herein, the City is prepared to engage immediately with the Debtors and its stakeholders to facilitate the negotiation, documentation, execution and bankruptcy court approval of an acquisition transaction that we believe will be mutually beneficial for the City's constituents, the Debtors and their creditors, customers and other stakeholders.

1. Rationale for the Proposed Transaction

The City is uniquely positioned to acquire the Targeted Assets and provide enhanced value to the Debtors and their stakeholders. For over a century, the City has owned and operated its Hetch Hetchy Power municipal retail electric utility, including its own electric generation,

transmission and distribution facilities. Hetch Hetchy Power and CleanPowerSF (San Francisco's Community Choice Aggregation program) supply nearly 80% of San Francisco's electricity needs. The SFPUC, through Hetch Hetchy Power and CleanPowerSF, has a long track record of providing safe, reliable, affordable and sustainable electric service.

More recently, investment in distribution facilities has become an important initiative for the SFPUC to ensure reasonable access to electric distribution services for its customers, and to secure service for new Hetch Hetchy Power customers. Given the City's overlapping footprint with the Targeted Assets, the ability to integrate the Targeted Assets with the Hetch Hetchy Power infrastructure, the City's ability to access low-cost sources of financing and with no obligation to provide a return on equity capital or recover income taxes in its rate structure, the City believes that it will be able to achieve its long-held goal of providing cost-effective electric distribution service to all customers in San Francisco, while providing substantial value to the Debtors and their stakeholders.

The City has closely followed the Debtors' bankruptcy cases and believes that, through the Proposed Transaction, the City can assist PG&E in maximizing value for its stakeholders by providing a significant cash infusion to the Debtors. The City can, with the Debtors' cooperation, consummate the Proposed Transaction expeditiously to facilitate the Debtors' timely emergence from bankruptcy, consistent with the Debtors' articulated goals and timetable. Importantly, the Proposed Transaction reflects a premium valuation for the Targeted Assets due to the unique circumstances of the Debtors' chapter 11 bankruptcy cases, and would result in significant cash consideration that would be available to the Debtors and their stakeholders. The City has also analyzed the potential impacts of the Proposed Transaction on PG&E's remaining customers; we believe such impacts, if any, would be modest and can be mitigated in a way that is fair to all customers. The City will continue paying its fair share of systemwide costs.

The City also believes that the Proposed Transaction would provide meaningful benefits to the City and its residents, including: (i) stable and competitive rates for customers throughout San Francisco, (ii) enhanced focus on local needs, (iii) increased ability to achieve the City's aggressive climate action goals as well as other important local policy objectives and (iv) additional attractive long-term career and business opportunities for local residents and businesses.

2. Targeted Assets

The Targeted Assets would include substantially all of PG&E's distribution assets, 230/115 kV transformers and 115 kV transmission lines located within the City limits and certain other assets that are needed to properly service customers in San Francisco as described more particularly in Attachment B.

Given the unique geography of San Francisco within PG&E's overall service territory, the City contemplates that a physical separation of the Targeted Assets can be accomplished in a straightforward manner. The City and its engineering and technical advisors have evaluated various separation scenarios and the City welcomes a discussion with PG&E regarding the disposition of specific assets and the development of a mutually acceptable separation plan that maximizes reliability and efficiency for both San Francisco customers and PG&E's remaining customers.

3. Purchase Price

The City is pleased to submit an indicative purchase price for the Targeted Assets of \$2.5 billion to be paid in cash upon the closing of the Proposed Transaction. Based on the City's key assumptions described below, this indicative purchase price represents a 2.5x multiple of

estimated year end 2019 rate base and more than a 35x multiple of estimated 2019 earnings for the Targeted Assets. The City believes that this indicative purchase price represents a very attractive premium valuation compared to recent electric utility transactions that reflects the unique circumstances of, and expedited timing resulting from, the Debtors' Chapter 11 bankruptcy cases.

In addition, in connection with the Proposed Transaction and taking into account the indicative purchase price for the Targeted Assets, the City is interested in discussing an arrangement to implement a "buy down" of any non-bypassable charge obligations¹ that may be applicable to the City's customers in exchange for a full release of those obligations, subject to the approval of the California Public Utilities Commission ("CPUC"). The City believes that such an arrangement would significantly increase the sources of cash available to PG&E in connection with the Proposed Transaction.

4. Key Assumptions

Based on an in-depth asset-by-asset analysis of the Targeted Assets conducted by the City's expert valuation, engineering and technical advisors, the City used several valuation methodologies to assess the value of the Targeted Assets. The City's proposal and the indicative purchase price are based upon, and are subject to, a number of assumptions, including the following key assumptions:

- Debt-Free Purchase: The Targeted Assets would be acquired free of any debt associated with the Debtors.
- Rate Structure:
 - Rate base for the Targeted Assets totaling \$1.00 billion as of December 31, 2019
 - Authorized capitalization structure that includes 47% long-term debt, or \$470 million, as of December 31, 2019
 - Net income contribution totaling \$53 million for 2019.
- Bankruptcy Matters and Timing:
 - The Proposed Transaction would be undertaken as an asset sale in connection with a confirmed plan of reorganization of the Debtors in their Chapter 11 bankruptcy cases. As an alternative, the City would also consider a Bankruptcy Code Section 363 sale if the Debtors prefer.
 - The City will not assume or otherwise be responsible for liabilities of the Debtors arising prior to the closing of the Proposed Transaction, other than the Debtors' executory obligations under executory contracts that the City elects for the Debtors to assume and assign to the City in connection with the bankruptcy cases and for which the Debtors would be responsible for any cure costs.
 - The Debtors' Plan of Reorganization will be confirmed by the bankruptcy court no later than June 30, 2020, and the Proposed Transaction will close as soon as all required regulatory approvals are obtained.

¹ For example, charges such as the Power Charge Indifference Adjustment (PCIA), DWR Bond Charge, New System Generation Charge (NSGC), Competition Transition Charge (CTC) and new non-bypassable charges that may arise from state legislation, but only to the extent applicable to the City's customers under CPUC rules and regulations implementing those charges.

The City's key assumptions, including its expert advisors' estimations of the physical condition and age of the Targeted Assets included in rate base, are based on publicly available information. As a result, these key assumptions and the resulting indicative valuation are subject to refinement based on further comprehensive due diligence, including an analysis of non-public information that the Debtors would provide.

5. Financing

Financing for the Proposed Transaction is expected to include the issuance of municipal power revenue bonds by the SFPUC. The SFPUC's credit is well established by its issuance of power revenue bonds in 2015. The SFPUC's Power Enterprise, which includes Hetch Hetchy Power, currently maintains "AA" and "AA-" credit ratings from S&P Global Ratings and Fitch Ratings, respectively. In June 2018, San Francisco voters approved an amendment to the City's charter authorizing the Board of Supervisors to approve selling power revenue bonds for purposes that include financing the acquisition of electric transmission and distribution facilities such as contemplated in the Proposed Transaction. The City anticipates that the SFPUC's Power Enterprise would be expanded to include the Targeted Assets in connection with the Proposed Acquisition.

The City has worked closely with its buy-side financial advisor, Jefferies LLC ("Jefferies"), to evaluate financing structures. The City is confident in its ability to execute the financing based on the revenues from the Targeted Assets, as the municipal capital markets regularly absorb transactions of this size and the City and its various departments are frequent issuers.

6. Transaction Documentation

The Proposed Transaction will be conditioned on the negotiation of mutually agreeable definitive documentation between PG&E and the City, including an asset purchase agreement that contains reasonable and customary terms for acquisitions of electric utility systems and a transition services agreement to ensure the continuous provision of safe and reliable electrical service to San Francisco. The City and PG&E would work together to identify an appropriate transition period and scope of transition services prior to the closing of the Proposed Transaction and the City would endeavor to reduce the scope and length of transition services.

We also anticipate that separation of the Targeted Assets may require certain ancillary agreements between the City and PG&E, including, for example, coordination, shared facilities and customary utility border agreements that the parties would need to negotiate and execute in connection with the closing of the Proposed Transaction.

7. Employees

The City intends to recruit willing PG&E employees who currently operate and maintain the Targeted Assets. The City believes it can offer stable careers with appealing wages and benefits that will be attractive to PG&E employees. We would seek your cooperation in the recruitment process to ensure appropriate personnel to operate the system, while avoiding any disruption across the balance of the PG&E system. The City has a long history of working productively with its unionized workforce and intends to honor the successor provisions of PG&E's collective bargaining agreements.

8. Transaction Conditions

Entering into definitive documentation for the Proposed Transaction is conditioned upon the following matters, to the City's satisfaction: (i) the City's completion of comprehensive business and legal due diligence, which will require the assistance of the Debtors, (ii) the parties' negotiation of definitive documentation and ancillary agreements, and (iii) the receipt of the

City's requisite internal approvals described below. In addition, the Proposed Transaction would be subject to customary closing conditions, including, without limitation, receipt of a bankruptcy court order approving the Proposed Transaction that is acceptable to the City and required regulatory approvals.

a. Internal Approvals

As referenced above, the proposal contained in this IOI has the support of the Board of Supervisors and the SFPUC. Entering into definitive documentation for the Proposed Transaction would require the approval of the Board of Supervisors and the SFPUC, which can be sought expeditiously once the definitive agreements are finalized.

b. Regulatory Approvals

We anticipate that the Proposed Transaction will require the following regulatory approvals or clearances: (i) CPUC approval under Section 851 of the California Public Utilities Code, (ii) Federal Energy Regulatory Commission approval under Section 203 of the Federal Power Act, along with certain ancillary approvals, and (iii) compliance with the California Environmental Quality Act ("CEQA"). We anticipate that the regulatory filings would be coordinated with the bankruptcy court's schedule to allow for filing as soon as practicable in connection with the Debtors' plan of reorganization and that all required regulatory approvals and clearances would be received upon or prior to the receipt of all regulatory approvals required for the Debtors' plan of reorganization.

9. Due Diligence

The City and its team of advisors have created this proposal using information sourced from public filings, including FERC, Securities Exchange Commission and other regulatory filings and investor presentations. Access to non-public information and cooperation from the Debtors would be required for the City to expeditiously complete its comprehensive business and legal due diligence and finalize its valuation assumptions. If it would be helpful to PG&E to expedite the diligence confirmation process, the City is willing to provide a comprehensive list of the due diligence information that would be required for the City to complete its due diligence process to move forward with the Proposed Transaction.

The City has retained multiple expert advisors that have assisted the City in conducting its initial due diligence and submitting this IOI, including:

- Jefferies: buy-side financial advisor
- MRW & Associates, LLC: financial feasibility advisor
- NewGen Strategies and Solutions, LLC: asset appraisal advisor
- Advisian / Siemens Industry, Inc.: engineering advisor
- Flynn Resource Consultants Inc.: technical and regulatory advisor
- Morgan, Lewis & Bockius LLP: transaction legal counsel
- Orrick Herrington & Sutcliffe LLP: bond legal counsel

10. Non-Binding

This IOI represents a general statement of the City's interest in purchasing the Targeted Assets 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 IOI. The City does not commit to any definite course of action as to the Proposed Transaction prior to completing any required CEQA compliance.

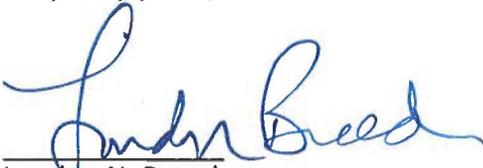
11. Next Steps

The City appreciates your earnest consideration of this non-binding proposal. We welcome the opportunity to discuss this proposal, together with the significant benefits that it would provide, with appropriate representatives of the Debtors. As you know, we have a meeting scheduled with Mr. Johnson on September 26 to discuss various matters, including the City's interest in the Proposed Transaction. We understand that the Debtors will be filing a proposed plan of reorganization in short order. After reviewing the proposed plan, we may follow up with the Debtors to provide additional analysis demonstrating how the Proposed Transaction would enhance and could be coordinated with the proposed plan.

We have a full team, including outside legal, financial and engineering advisors and senior City representatives, engaged and standing ready to complete the City's comprehensive due diligence and work expeditiously towards definitive documentation, with the assistance of PG&E, subject to the terms and conditions described above. As noted above, with the Debtors' prompt engagement, the City believes that it can complete its outstanding work in a timeframe consistent with the Proposed Transaction being approved in parallel with PG&E's anticipated plan confirmation process, and ahead of the June 30, 2020 legislative deadline.

Any inquiries with respect to this IOI can be directed to Sean Elsbernd (415-554-6603), Chief of Staff to Mayor Breed, or to 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

Jason Wells, PG&E Corporation Chief Financial Officer
Janet Loduca, PG&E Corporation Senior Vice President and General Counsel

Attachments: A. Letter to PG&E Corporation dated March 14, 2019
B. Targeted Assets

Attachment A

Letter to PG&E Corporation dated March 14, 2019

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LONDON N. BREED
MAYOR

DENNIS J. HERRERA
CITY ATTORNEY

March 14, 2019

VIA ELECTRONIC MAIL AND USPS

John R. Simon
Interim Chief Executive Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Jason P. Wells
Senior Vice-President and Chief Financial Officer
PG&E Corporation
77 Beale Street, P.O. Box 770000
San Francisco, CA 94177

Dear Mr. Simon and Mr. Wells,

The City and County of San Francisco (the "City") has initiated work to evaluate the cost and feasibility of acquiring PG&E's electric distribution facilities that serve San Francisco. While you have probably heard public reports about this effort, we write you directly to underscore the seriousness of our purpose and facilitate lines of communication going forward.

The analysis the City is undertaking will enable us to make an initial determination whether such an acquisition is feasible, including whether it would benefit City taxpayers and electric customers, produce a fair price to PG&E for these assets, and advantage PG&E's employees and its ratepayers outside of San Francisco. We will work with the City's Board of Supervisors and Public Utilities Commission to evaluate these factors. If we determine the acquisition is feasible, we intend for the City to make a formal offer to PG&E within the coming months as part of the bankruptcy process.

Please contact us if you would like to discuss this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "London N. Breed".

London N. Breed, Mayor

A handwritten signature in cursive script, appearing to read "Dennis J. Herrera".

Dennis J. Herrera, City Attorney

cc: Janet C. Loduca, Senior Vice-President and Interim General Counsel, PG&E Corporation
Members, Board of Supervisors
Members, Public Utilities Commission
Harlan Kelly, General Manager, Public Utilities Commission

Attachment B
Targeted Assets

Attachment B Targeted Assets

This Attachment B provides an overview description of the assets the City proposes to purchase from PG&E. The description provided here is not intended to be the comprehensive list of assets to be purchased that would be included in a final purchase and sale agreement. Subject to due diligence and discussions with PG&E, some assets described here may not be included, and other assets may be added to a binding pricing and a final purchase and sale agreement.

Broadly, the City is proposing to purchase substantially all of PG&E's transmission and distribution assets that are necessary for the City to provide safe and reliable retail electric service to all electricity customers in San Francisco.

These assets are currently anticipated to include:

- i. All of PG&E's distribution assets within San Francisco, including distribution-level substations, metering, customer-level interconnections, and related facilities, as needed for operational control.
- ii. PG&E's 115 kV transmission assets within San Francisco, and PG&E's 230 kV to 115 kV transformers, as needed for operational control. (This excludes PG&E's 230 kV transmission lines, and 230 kV busses at a) the Embarcadero Substation, b) Martin Substation and c) Potrero Substation.).
- iii. A portion of the Martin substation or interconnections to the Martin substation to enable the City to control all 115 kV and 12 kV power flows from Martin into San Francisco, and a lease agreement for a portion of the Martin substation in which City equipment is located, as needed for operational control.
- iv. An option to purchase the open bay position planned at PG&E's proposed Egbert Switching Station, as needed for operational control.

The City's proposal also includes related assets, materials, records and other items, as required for safe and reliable service to customers and safe and reliable operation of the assets above, including:

- a. Other systems and equipment such as meters, relays, SCADA, transformers, rolling stock, telecommunication and control center equipment, and spares; support systems, standards, AMR facilities,

- distribution system model data, system maps and diagrams, records, and all similar items required to operate the assets.
- b. All of PG&E's reliability, safety, operating, maintenance and capital improvement records for the assets that are purchased.
 - c. PG&E's operating and maintenance facilities (for communications, SCADA, security, control and emergency response), service yards, warehouses; ; customer service and call center; and other facilities; all as located in San Francisco, and as necessary for safe and reliable operation and maintenance of the assets described above.
 - d. PG&E's customer service, metering and billing records, including program and service agreements, dispute notices, outstanding complaints, and similar customer-related information.
 - e. PG&E-owned land, easements, rights-of-way, lease agreements, and other land-related agreements (or appropriate new lease or other agreements between San Francisco and PG&E) necessary for safe and reliable operation and maintenance of the assets described above.
 - f. PG&E-owned streetlights and similar unmetered facilities in San Francisco.

The City's proposal excludes all PG&E land and facilities related to its "General Office" operations in San Francisco, i.e., those facilities related to PG&E's San Francisco headquarters, and excludes all land and facilities related to PG&E's natural gas operations and services.¹

Asset Purchase Alternatives

While not incorporated into the City's indicative price proposal, the City is open to discussing alternative permutations of the asset grouping described above, such as (but not limited to):

- Purchase of all of the high-voltage transmission assets in San Francisco, including the high-voltage lines excluded above;
- Modifications of the interconnections at the Martin substation allowing for PG&E to maintain ownership of many of the assets at the Martin substation, to ensure reliability and/or accelerate transfer of customers from PG&E to the City;

¹ PG&E has gas and electric facilities (materials, service vehicles, construction equipment, etc.) co-located at 18th and Harrison Street and related blocks. This proposal assumes mutually-acceptable arrangements to allow the City to utilize this facility.

- Other alternatives that would add value, accelerate transfer, and/or ensure continued safe and reliable service for both PG&E's and the City's customers.