

Understanding Chapter 11 Bankruptcy and Pacific Gas & Electric

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What is Chapter 11 of the United States Bankruptcy Code?

- Bankruptcy law in general solves the problem of financial distress
- Chapter 11 is about reorganization; Chapter 7 is about liquidation
- On January 29, 2019, PG&E filed for Chapter 11 in order to reorganize its business



Benefits of Bankruptcy for PG&E

- “Automatic stay” for the more than 750 lawsuits arising out of 2017 and 2018 wildfires
- Opportunity to borrow \$5.5 billion in debtor-in-possession (“DIP”) financing to invest in its operations; PG&E is getting 3 years of runway!
- Opportunity to shed bad contracts and sell assets to make the business more profitable and easier to manage
- “Breathing space” for governance reforms



Bankruptcy 101 nuts and bolts

- Creditors in Chapter 11 have claims that are subject to “discharge.”
- Here, the wildfire victims and PG&E’s bondholders have, for the most part, claims of equal priority
- Bankruptcy law draws a distinction between “pre-petition” (meaning, ‘pre-filing for bankruptcy’) conduct and “post-petition” conduct
- Post-petition creditors (for example, 2019 wildfire creditors) would be “administrative claimants” entitled to be paid in full



What Will PG&E's Bankruptcy Process Look Like?

- Where we are:
 - Judge Montali is starting to grant preliminary relief to stabilize the business
 - PG&E is poised to be allowed to borrow the DIP loan, securing financing for a long bankruptcy case



Where we are going

- Negotiations between several stakeholders – bondholders, shareholders, wildfire victims
- Different official committees appointed (creditors, tort victims)
- Some process will be put in place to estimate the claims of the wildfire victims
- Question of whether FERC can block PG&E from tearing up power purchase agreements



What PG&E will need to leave bankruptcy

- PG&E will have the exclusive right to propose a plan of reorganization for a period of 18 months, accounting for extensions in the initial 120 day period that are routinely granted
- Intense negotiations, key moving parts: How much past wildfire liability is there really? How does PG&E get in front of future liability? Will there be a big 2019 wildfire claim that “swamps” the existing debt? Will the legislature / CPUC provide PG&E with extra revenue or insurance? Will the CPUC support rate increases?

