

California Governor Rejects PG&E's Restructuring Proposal

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(Bloomberg) -- California Governor Gavin Newsom rejected PG&E Corp.'s proposed restructuring plan on Friday, dealing a major blow to the power giant as it tries to exit the biggest utility bankruptcy in U.S. history.

Newsom said in a letter to PG&E Chief Executive Officer Bill Johnson that the utility's restructuring plan falls "woefully short" of the state's requirements. The governor said any reorganization of the San Francisco-based power company would require a better financing plan, an entirely new board with a majority from California and the option of a government takeover should PG&E fail to meet safety performance metrics.

PG&E's bankruptcy punctuates "more than two decades of mismanagement, misconduct, and failed efforts to improve its safety culture," Newsom said in his letter. And its plan to reorganize does not "result in a reorganized company positioned to provide safe, reliable and affordable service to its customers," he said.

Newsom's support is crucial to PG&E's restructuring. The company declared bankruptcy in January after its equipment was blamed for starting catastrophic wildfires in 2017 and 2018, including the deadliest blaze in California history. The fires saddled the utility with an estimated \$30 billion in liabilities, and it has spent months trying to cobble together a viable restructuring plan as shareholders and bondholders fight for control of it.

PG&E, which has until Tuesday to respond and make changes, said in a statement that it believes its current plan meets state requirements and "is the best course forward for all stakeholders." The San Francisco-based company said it will "work diligently in the coming days to resolve any issues that may arise."

Deal with Victims

The rejection is a major setback for PG&E just a week after it reached a \$13.5 billion settlement to pay victims affected by the fires its equipment caused. A deal with victims had emerged as the company's largest obstacle in planning a reorganization.

Based on a provision in that settlement, the governor had to find that PG&E's plan complied with state legislation passed in July. The law required PG&E to settle past fire liabilities and resolve its bankruptcy by June if it wants to participate in a newly established wildfire insurance fund and avoid future damages tied to catastrophic fires.

Read More: Elliott Bashes PG&E Plan, Says It Would Be Junk-Bond Issuer

Newsom's demands could give activist investor Elliott Management Corp. and Pacific Investment Management Co. another shot at rallying support around a rival restructuring plan. They're leading a group of bondholders that have offered to inject \$20 billion in cash into PG&E in exchange for most of the equity in the company.

The bondholders were, in fact, the first to reach a deal with wildfire victims, agreeing to pay them \$13.5 billion while PG&E initially proposed just \$8.4 billion. But the utility later raised its offer and won over fire victims, announcing the settlement last week.

Junk Bonds

In a statement Thursday, Elliott said PG&E's own restructuring proposal would saddle the company with an additional \$10 billion in debt, limit its safety investments and turn the utility into a "junk-bond issuer."

In his letter, Newsom similarly raised concerns about the company's plan to use a combination of debt, secured debt, securitization and monetization of its net operating losses leaving it "with limited ability to withstand future financial and operational headwinds." He also said the state is focused on meeting the needs of Californians and not "on which Wall Street financial interests fund an exit from bankruptcy."

PG&E described Elliott's rival plan as "a last-ditch effort to derail the wildfire victims' settlements, and force costly, uncertain and protracted litigation." The company said the bondholders' proposal only stands to "enrich those firms backing it" and said the group would actually charge interest rates on debt that are above market rate.

In the hours leading up to Newsom's letter, PG&E issued statements from fire victims' attorneys, backing its settlement.