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Governor nixes deal, threatens state takeover of PG&E

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Governor Gavin Newsom (New York Times News Service)

Gov. Gavin Newsom has threatened a state takeover of the Pacific Gas & Electric Co. after the utility submitted a new restructuring plan he maintains is not in the public interest.

PG&E's deal with a group of bondholders clears a major hurdle in its bankruptcy by eliminating the only competing reorganization plan, but Newsom again urged the court to hold off on approving PG&E's proposal for it to emerge from bankruptcy.

Despite "clear guidance" from his office, Newsom argued, PG&E has "yet to make a single modification" to its plan to remedy "its many deficiencies," according to court documents filed on Wednesday night.

"The governor's expectation is that the debtors' plan must be materially amended to incorporate necessary changes to the governance and management provisions, enforcement mechanisms and proposed capital structure to allow the necessary transformation of the utility," attorneys representing Newsom wrote in their objection.

Newsom is already "pursuing strategies to protect California's interests through further intervention," including a state takeover, they continued.

A committee of bondholders led by Elliott Management Corp. and Pacific Investment Management Co. have been pushing a rival restructuring plan that would have given them control of PG&E if confirmed. The deal between the two sides finances lower-cost debt for the utility in exchange for withdrawal of the competing plan.

The agreement will save PG&E roughly $1 billion, according to the company.

PG&E CEO Bill Johnson praised the deal in a statement, describing it as a "positive development to move forward with our Plan of Reorganization."

"This agreement helps achieve our goals of fairly compensating wildfire victims, protecting customers' bills and emerging from Chapter 11 as the utility of the future that our customers and communities expect and deserve," he said.

But Newsom remained skeptical of PG&E's arrangement with financial firms to fund its reorganization and necessary safety investments to participate in AB 1054, a multibillion-dollar wildfire mitigation fund, among other concerns he previously raised to U.S. Bankruptcy Judge Dennis Montali.

PG&E's plan continues to rely on large amounts of expensive debt, which would leave it with insufficient financing for its wildfire prevention efforts, according to court filings.

Despite the "reality that [PG&E's] plan requires substantial amendments to satisfy AB 1054," the utility still agreed to "one-way options" that allow those financing the proposal to back out of their commitments if it's altered, Newsom argued. He said the inclusion of the opt-out clauses "render these very expensive commitments illusory."

"It seems clear that rather than amend the debtors' plan to incorporate the necessary changes, the debtors instead intend to try to leverage the Chapter 11 process to force the California Public Utilities Commission to approve -- and the state of California to accept -- a sub-optimal plan," the objection continues.

The state Public Utilities Commission and Newsom must sign off on PG&E's plan for it to emerge from bankruptcy.

While raising the governor's frustrations about the financial requirements of PG&E's plan as constructed, Nancy Mitchell, representing Newsom, warned at a Dec. 17 bankruptcy hearing, "The parties need to recognize AB 1054 isn't a rubber stamp."

Newsom also pointed to more stringent governance requirements and enforcement mechanisms, which may include a full overhaul of PG&E's board of directors, for him to approve a plan.

Montali will consider Newsom's objection at a Jan. 29 hearing.

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