PG&E Bankruptcy Judge Gives Outside Group's Plan a Chance

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A Pacific Gas & Electric worker in San Francisco. Competing blueprints for the utility's future will be allowed to proceed in bankruptcy court. CreditCreditJeff Chiu/Associated Press

Pacific Gas & Electric, California's largest utility, suffered a setback in bankruptcy court on Wednesday that could alter the course of a corporate restructuring that promises to have far-reaching consequences for millions of customers.

Dennis Montali, a federal bankruptcy judge, ruled that PG&E no longer had the sole right to shape the terms of its reorganization, opening a path in court for backers of a rival proposal. The competing plan was devised by a group of PG&E creditors that includes prominent hedge funds, and it is supported by individuals with claims against PG&E for wildfire damages.

The company sought bankruptcy protection in January, saying it faced an estimated $30 billion or more in liabilities related to wildfires that caused widespread property damage and killed dozens of people.

The judge's ruling, after a contentious court hearing on Monday, came as hundreds of thousands of PG&E customers were without electricity. The company shut off power on Wednesday in wide areas of its territory, including much of the Bay Area, to reduce fire hazards posed by gusty winds after months of dry weather.

Losing the exclusive right to put forward restructuring terms is a huge blow to PG&E's management and its largest shareholders, which also include hedge funds. The ruling, issued after regular market hours, sent the company's stock down nearly 30 percent in extended trading.

The creditors' plan, drawn up by a group of PG&E bondholders that include Elliott Management, an activist hedge fund, would leave the current shareholders with a tiny stake in PG&E once it emerges from bankruptcy.

In making his decision, Judge Montali seemed to be encouraging an accord between the parties. "A dual-track plan course going forward may facilitate negotiations for a global resolution and narrow the issues which are in legitimate dispute," he wrote.

Sympathy for the wildfire victims also seemed to play a role in the decision. The judge wrote that "the parties most deserving of consideration" had spoken through the group representing the wildfire claimants.

Frank Pitre, a lawyer for wildfire victims, said, "We are extremely pleased that the court has opened the process to promote competition over the best plan for this company to emerge from bankruptcy, showing due concern for ensuring fair compensation to fire victims."

PG&E opposes the bondholders' plan because, in its view, it allows them to acquire a large stake in the company on the cheap. "We are disappointed that the bankruptcy court has opened the door to consideration of a plan designed to unjustly enrich Elliott and the other ad hoc bondholders and seize control of PG&E at a substantial discount," James Noonan, a PG&E spokesman, said in an emailed statement. He added that PG&E was working toward a "fair resolution of all remaining individual wildfire claims."

PG&E's plan would pay $8.4 billion to wildfire victims, while the bondholders are offering up to $14.5 billion.

The final number in part depends on what is found in other courts. A federal district judge will estimate potential wildfire damages, and is set to hear testimony from expert witnesses in January. And a California Superior Court judge has scheduled a January trial to determine whether PG&E's equipment caused a 2017 blaze in the wine country, known as the Tubbs fire.

PG&E has said it will pay all claims approved by the court.

The bankruptcy battle has repercussions in PG&E's service area, which encompasses most of Northern and Central California. The state's goal is for the company to emerge with the financial wherewithal to undertake measures intended to head off wildfires caused by PG&E's power lines.

In addition, under a law enacted this year, the bankruptcy must be completed by June for the company to tap a new state fund being set up to help pay for the catastrophic costs of future wildfires. A provision of California's constitution makes a utility responsible for damage caused by its equipment even when no negligence is involved.

As recently as August, Judge Montali had allowed PG&E to retain the exclusive right to plan its exit from bankruptcy. But after that, the group representing those with wildfire liability claims formally told the court it backed the terms of the bondholders' plan and their request to end PG&E's sole right to propose a reorganization.

The judge on Wednesday wrote that wildfire claimants had "changed their position from the last time the court considered terminating exclusivity, and spoken loudly and clearly that they want their and the senior noteholders' proposed plan to be considered."

Even though PG&E was in bankruptcy and facing large wildfire liabilities, hedge funds bought its shares in the belief that they had become significantly undervalued. The bet worked for a while. PG&E's shares traded at nearly $24 a share earlier this year. But they plunged after Judge Montali allowed the state court to take up the Tubbs fire, raising the prospect of large damages.

Giving the bondholders an equal footing in the bankruptcy drove the steep decline on Wednesday to $8 in extended trading.

Under their plan, the bondholders would put $29.2 billion into PG&E and get a 59 percent stake in the company. Nearly 41 percent of the stock in the reorganized PG&E would be put into trusts to help pay insurance claims and the damages submitted by the wildfire victims