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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Pacific Gas and Electric Company for (1) Administration of Stress Test Methodology Developed Pursuant to Public Utilities Code Section 451.2(b) and (2) Determination That $7.5 Billion of 2017 Catastrophic Wildfire Costs and Expenses Are Stress Test Costs That May Be Financed Through Issuance of Recovery Bonds Pursuant to Section 451.2(c) and Section 850 *et seq.* (U 39 E)	Application 20-04-023 (Filed April 30, 2020)

RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) TO MOTION OF THE UTILITY REFORM NETWORK FOR ADMISSION OF ADDITIONAL EVIDENCE

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Dated: March 17, 2021

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Pacific Gas and Electric Company for (1) Administration of Stress Test Methodology Developed Pursuant to Public Utilities Code Section 451.2(b) and (2) Determination That $7.5 Billion of 2017 Catastrophic Wildfire Costs and Expenses Are Stress Test Costs That May Be Financed Through Issuance of Recovery Bonds Pursuant to Section 451.2(c) and Section 850 *et seq.* (U 39 E)	Application 20-04-023 (Filed April 30, 2020)

RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) TO MOTION OF THE UTILITY REFORM NETWORK FOR ADMISSION OF ADDITIONAL EVIDENCE

Pursuant to Rule 11.1(e) of the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), Pacific Gas and Electric Company ("PG&E") hereby responds in opposition to the Motion filed by The Utility Reform Network ("TURN") for Admission of Additional Evidence ("Motion").

I. TURN'S MOTION IS UNTIMELY AND PROCEDURALLY IMPROPER

Under the Scoping Memo and Administrative Law Judge Haga's oral ruling at the close of the evidentiary hearing, the matter was submitted upon the filing of post-evidentiary hearing reply briefs.[1/] Reply briefs were due and in fact filed by PG&E, TURN and other parties on February 1, 2021. TURN's Motion was not filed until almost five weeks later, on March 5,

1/ Assigned Commissioner's Scoping Memo and Ruling (July 28, 2020) at 8; Dec. 16, 2020 Hearing Tr. at 1540:13-16 ("the matter will be deemed submitted upon the submission of the reply briefs" on February 1st) & 1576:25-27 ("the reply briefs are February 1st [up]on which the matter will be submitted").

2021. Accordingly, the Motion is untimely. In addition, TURN has not brought a motion to set aside the submission of the matter, as required under Commission rules.[2/]

II. THE PROPOSED EVIDENCE IS NOT MATERIAL NEW INFORMATION BECAUSE THE SAME INFORMATION WAS PREVIOUSLY DISCLOSED IN PRIOR SEC FILINGS AND IN RESPONSES TO DATA REQUESTS

In addition to being untimely and procedurally improper, TURN's motion fails to meet the requisite standard to be granted. A motion to set aside submission to take additional evidence must show "*material changes* of fact or of law . . . since the conclusion of the hearing" and must "explain why such evidence was not previously adduced."[3/]

Contrary to the Motion's assertions, the statements in PG&E's recent Annual Report on Form 10-K for the year ended December 31, 2020 ("10-K") regarding the potential impact of Section 382 of the Internal Revenue Code on utilization of net operating losses ("NOLs") (the "Proposed Evidence") are neither new nor material.

First, on July 30, 2020, when PG&E filed its Quarterly Report on Form 10-Q for the quarter ending June 30, 2020 ("Q2 10-Q"), PG&E disclosed the risk associated with the change of ownership issue under Section 382 and its potential impact on the utilization of NOLs. These included the following statements:[4/]

- "The ability of PG&E Corporation to use some or all of these net operating loss carryforwards . . . may be subject to certain limitations. Under Section 382 of the Internal Revenue Code . . . [description of Internal Revenue Code ownership change rules]."

- "PG&E Corporation does not believe that it has undergone an ownership change and its net operating loss carryforwards and other tax attributes are not limited by

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2/ *See* Commission's Rules of Practice and Procedure, Rule 13.14(b) (providing for "motion to set aside submission for the taking of additional evidence").

3/ *Id*. (emphasis supplied). *See also* D.19-12-063 (denying motion to reopen record, for failure to show material changes of fact or law and why such evidence was not previously adduced at the evidentiary hearing).

4/ Q2 10-Q, Attachment A hereto, at 126.

> Section 382 of the Internal Revenue Code. However, . . . there can be no assurance that the IRS would not successfully assert that PG&E Corporation has undergone or will undergo an ownership change pursuant to the Plan. . . . If the IRS successfully asserts that PG&E Corporation did undergo, or PG&E Corporation otherwise does undergo, an ownership change, the limitation on its net operating loss carryforwards . . . under Section 382 of the Internal Revenue Code could be material . . . ."

- "PG&E Corporation's ability to utilize its net operating loss carryforwards is critical to a successful rate-neutral securitization . . . ."

A redline comparison of the risk factors in the Q2 10-Q with the risk factors in the 10-K that were quoted by TURN's Motion is attached hereto as Attachment B. In addition, PG&E's Quarterly Report on Form 10-Q for the quarter ending September 30, 2020 ("Q3 10-Q"), and filed on October 29, 2020, contained all of the above-quoted language as well.[5/]

Second, PG&E also noted the existence of the Section 382 risk in its prepared testimony.[6/] TURN and other parties were free to explore this issue further in questioning of PG&E witnesses at the evidentiary hearings.

Third, TURN and other parties also were free to, and in fact did, obtain discovery on this subject. For example, TURN served data requests focused on Section 382 issues, in response to which PG&E answered in part:

> Section 382 of the Internal Revenue Code of 1986, as amended, limits the utilization of corporate NOLs following an ownership change. An ownership change occurs when the percentage of stock owned by 5 percent shareholders increases more than 50 percent by value over the lowest percentage of stock held by such shareholders at any time over a three-year period. If an ownership change occurs, the amount of NOLs that can be utilized each year following the change is subject to the limitations outlined in section 382.[7/]

5/ Q3 10-Q, Attachment C hereto, at 80, 127.

6/ PGE-15 at 6-5 (rebuttal testimony of D. Thomason); *see also* PGE-01 at 1-5 (opening testimony of D. Thomason).

7/ PG&E Response to TURN Data Request Set 14, Questions 9 a-b, Attachment D hereto.

In response to another TURN data request in that set, asking for any analyses of the issue, PG&E produced a 43-page PriceWaterhouseCoopers analysis, entitled "PG&E Corporation Section 382 Study."[8/] That study determined that an ownership change had not occurred as a result of consummating the Plan using the assumptions and interpretations set forth in that report.

Data requests on this topic were also served by the Alliance for Nuclear Responsibility, the Public Advocates Office ("Cal Advocates"), and the City and County of San Francisco. For example, in an August 13, 2020 response to a Cal Advocates data request, PG&E stated:

> Section 382 of the Internal Revenue Code of 1986, as amended, limits the utilization of corporate NOLs following an ownership change. An ownership change occurs when the percentage of the stock of a loss corporation owned by one or more 5% Shareholders increases by more than 50 percentage points over the lowest percentage of stock of the loss corporation owned by such shareholders at any time during the test period. . . . [further description of rule].
>
> . . . The rules of Internal Revenue Code ("IRC") section 382 are technical and complex, and certain aspects of the analysis are very sensitive to context and the underlying facts. The following is a non-exhaustive list of criteria that render this analysis uncertain: [Followed by lengthy discussion of factors, and PG&E conclusion that an ownership change has not occurred].[9/]

In short, PG&E has consistently noted the existence of this risk and PG&E's belief that it will not be subject to the Section 382 limitation on NOLs usage, but that the issue remains uncertain. The 10-K does not materially alter the mix of information. And more fundamentally, it does not change the nature of the Section 382 risk analysis, a long-disclosed issue which

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8/ *Id.*, Question 9e ("PG&E refers TURN to [the accompanying document designated] 2020Securitization_DR_TURN_14-Q09Atch01CONF"). *See also* PGE-20 (PG&E Response to TURN Data Request Set 8, Question 5), at AppB-49 to AppB-50 ("if there is taxable income, the Shareholder Deductions will be used to generate Additional Shareholder Contributions absent a change in law or a change in ownership under Internal Revenue Code section 382 that would limit the use of NOLs – both Ratepayer NOLs and Shareholders' Deductions.").

9/ PG&E Response to Public Advocates Office Data Request Set 1, Question 14 (Updated), Attachment E hereto. That response contains a further extensive discussion of Section 382 and the uncertainties in analyzing potential change of ownership, as well as PG&E's basis for concluding that an ownership change under Section 382 has not and will not occur. *See id*.

TURN and others were always free to evaluate for themselves, and to present testimony on if they wished.

III. THE PROPOSED EVIDENCE IS NOT DIFFERENT THAN PG&E'S PRIOR DISCLOSURES, EVIDENCE OR BRIEFING

TURN characterizes the 10-K disclosures emphasized in its Motion as "representations" that supposedly "are at odds with" PG&E's briefing.[10/] This is wrong in multiple respects. First, as a matter of terminology, most of the material TURN quotes is not fairly characterized as "representations"; rather, the quoted language appears in the Risk Factors section of the 10-K, where PG&E, like most other companies, delivers a lengthy list (24 pages in PG&E's 10-K) of potential risks to the business.[11/] Inclusion is meant to disclose risks; it does not alter PG&E's conclusion that a change of ownership did not occur as a result of consummating the Plan on July 1, 2020, consistent with its testimony and responses to data requests. Moreover, in an effort to demonstrate a contradiction between the 10-K and PG&E's briefing, TURN quotes passages from PG&E's brief that discuss a different topic, namely, the likelihood that the NOLs will ultimately be utilized during the term of the Securitization given reasonable forecasts of PG&E's taxable income (and the limited downside on the amount of Additional Shareholder Contributions if actual taxable income results were to come in lower than projected).

More fundamentally, the language in the 10-K that TURN highlights – that it is "more likely than not" that Section 382 limits will not apply to PG&E – is not, as TURN asserts, a "far more cautious view" than PG&E's prior statements.[12/] TURN erroneously assumes that "more likely than not" means that PG&E was barely able to reach that conclusion and recognized a very

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10/ Motion at 1.

11/ 10-K, Attachment F hereto, at 33-56.

12/ Motion at 4.

substantial possibility that the issue could come out the other way. To the contrary, "more likely than not" is simply the language of the Financial Accounting Standards Board ("FASB") standard, ASC 740, that is to be applied in evaluating whether or not a tax benefit of a tax position can be recognized for financial reporting purposes based on the technical merits of the position. "The more likely than not recognition threshold is a positive assertion that an entity believes it is entitled to the economic benefits associated with a tax position, considering the facts, circumstances, and information available."[13/] If the "more likely than not" recognition threshold is not met, then no tax benefit can be recognized for a tax position for financial reporting. If, however, the "more likely than not" recognition threshold is met, the accounting standard requires measurement and recording of the tax benefit, applying the methodology prescribed by the standard. Accordingly, PG&E recorded the tax benefit for the tax position of being able to utilize NOLs without any Section 382 limitation, and PG&E's conclusion has not changed at any point since the consummation of the Plan. Therefore, there is no "contradiction" between the use of that phrase in the 10-K and PG&E's briefing. In short, the use of this language in the 10-K simply reflects PG&E's reasonable decision to use wording that more precisely reflects the governing standard for recognition of tax benefits to clarify and enhance the understanding of the tax benefit recorded in its financial statements.[14/] As PG&E has stated in testimony, multiple discovery responses, and repeated SEC disclosures, PG&E has determined

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13/ ASC 740-10-25-6 [previously, FASB Interpretation no. 48]. *See also* D. Fleming & G. Whittenberg, *Accounting for Uncertainty*, Journal of Accountancy, September 30, 2007. https://www.journalofaccountancy.com/issues/2007/oct/accountingforuncertainty.html (commenting on the predecessor Interpretation, No. 48; emphasis supplied) ("In essence, [FIN 48's] threshold of greater than 50% certainty constitutes *a positive assertion by management that the reporting entity is entitled* to the economic benefits of the tax position.").

14/ Indeed, this language was specifically requested by PG&E's outside auditor in connection with the audit of PG&E's financial statements for the year ending December 31, 2020.

that no ownership change has occurred, and the 10-K language does not reflect any change in PG&E's view on the issue.

In sum, the cited statements do not constitute differing positions from PG&E's positions in its briefing. The risk disclosure in the 10-K is not materially different from that included in prior SEC filings from July and October 2020. TURN had a full opportunity to address this issue in the proceeding. As such, the 10-K does not constitute a material change in fact or law that could not have previously been adduced, as is required in order to justify reopening the record.

IV. CONCLUSION

Based on the foregoing and the full record in this proceeding, PG&E respectfully requests that the Commission deny TURN's Motion. Alternatively, if TURN's Motion is granted, then the Commission should admit into evidence the Attachments to this response and the cited accounting literature in order to provide necessary context.[15/]

15/ *See* D.14-04-024 at 13 (denying request for consideration of late-tendered, off-the-record material, on ground that "parties must be given an opportunity to review and comment on material that an administrative agency will use in the course of rendering a decision" and thus rejecting party's effort "to submit its materials in a way that effectively prevents [another party] from responding" to those materials).

Respectfully submitted,

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PACIFIC GAS AND ELECTRIC COMPANY

Dated: March 17, 2021

ATTACHMENT A:

FORM 10-Q FOR THE PERIOD ENDING JUNE 30, 2020, DATED JULY 30, 2020

(Excerpt)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C., 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to __________

Commission File Number	Exact Name of Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

PG&E Corporation	Pacific Gas and Electric Company
77 Beale Street	77 Beale Street
P.O. Box 770000	P.O. Box 770000
San Francisco, California 94177	San Francisco, California 94177

Address of principal executive offices, including zip code

PG&E Corporation	Pacific Gas and Electric Company
415 973-1000	415 973-7000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	PCG	The New York Stock Exchange
Equity Units	PCGU	The New York Stock Exchange
First preferred stock, cumulative, par value $25 per share, 5% series A redeemable	PCG-PE	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% redeemable	PCG-PD	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.80% redeemable	PCG-PG	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.50% redeemable	PCG-PH	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.36% series A redeemable	PCG-PI	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 6% nonredeemable	PCG-PA	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5.50% nonredeemable	PCG-PB	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% nonredeemable	PCG-PC	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PG&E Corporation:	☒ Yes	☐ No
Pacific Gas and Electric Company:	☒ Yes	☐ No

- enter into swap agreements.

The restrictions contained in these material financing agreements could affect PG&E Corporation's and the Utility's ability to operate their business and may limit their ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect PG&E Corporation's and the Utility's ability to finance their operations and expenditures, make strategic acquisitions, investments or alliances, restructure their organization or finance their capital needs. Additionally, PG&E Corporation's and the Utility's ability to comply with these covenants and restrictions may be affected by events beyond their control, including, but not limited to, prevailing economic, financial and industry conditions.

Parties have appealed the Confirmation Order.

Following entry of the Confirmation Order confirming the Plan, certain parties filed notices of appeal with respect to the Confirmation Order. There can be no assurance that any such appeal will not be successful and, if successful, that any such appeal would not have a material adverse effect on PG&E Corporation and the Utility.

PG&E Corporation may be required to issue shares with respect to HoldCo Rescission or Damage Claims, which would result in dilution to holders of PG&E Corporation common stock.

On the Effective Date, PG&E Corporation issued to the Fire Victim Trust a number of shares of common stock equal to 22.19% of the outstanding common stock on such date. As further described in "Satisfaction of HoldCo Rescission or Damage Claims and Subordinated Debt Claims" in Note 10 of the Notes to the Condensed Consolidated Financial Statements in Item 1, PG&E Corporation may be required to issue shares of its common stock in respect of allowed HoldCo Rescission or Damage Claims. If such issuance is required, it may be determined that, under the Plan, the Fire Victim Trust should receive additional shares of PG&E Corporation common stock such that it would have owned 22.19% of the outstanding common stock of reorganized PG&E Corporation on the Effective Date, assuming that such issuance of shares in respect of the HoldCo Rescission or Damage Claims had occurred on the Effective Date. Any such issuances will result in dilution to anyone who holds shares of PG&E Corporation common stock prior to such issuance and may cause the trading price of PG&E Corporation shares to decline.

PG&E Corporation common stock is subject to ownership and transfer restrictions intended to preserve PG&E Corporation's ability to use its net operating loss carryforwards and other tax attributes.

PG&E Corporation has incurred and will incur in connection with the Plan significant net operating loss carryforwards and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. The Amended Articles (as defined below) impose certain restrictions on the transferability and ownership of PG&E Corporation common stock and preferred stock (together, the "capital stock") and other interests designated as "stock" of PG&E Corporation by the Board of Directors as disclosed in an SEC filing (such stock and other interests, the "Equity Securities," and such restrictions on transferability and ownership, the "Ownership Restrictions") in order to reduce the possibility of an equity ownership shift that could result in limitations on PG&E Corporation's ability to utilize net operating loss carryforwards and other tax attributes from prior taxable years or periods for federal income tax purposes. Any acquisition of PG&E Corporation capital stock that results in a shareholder being in violation of these restrictions may not be valid.

Subject to certain exceptions, the Ownership Restrictions restrict (i) any person or entity (including certain groups of persons) from directly or indirectly acquiring or accumulating 4.75% or more of the outstanding Equity Securities and (ii) the ability of any person or entity (including certain groups of persons) already owning, directly or indirectly, 4.75% or more of the Equity Securities to increase their proportionate interest in the Equity Securities. Any transferee receiving Equity Securities that would result in a violation of the Ownership Restrictions will not be recognized as a shareholder of PG&E Corporation or entitled to any rights of shareholders, including, without limitation, the right to vote and to receive dividends or distributions, whether liquidating or otherwise, in each case, with respect to the Equity Securities causing the violation.

The Ownership Restrictions remain in effect until the earliest of (i) the repeal, amendment or modification of Section 382 (and any comparable successor provision) of the Internal Revenue Code, in a manner that renders the restrictions imposed by Section 382 of the Internal Revenue Code no longer applicable to PG&E Corporation, (ii) the beginning of a taxable year in which the Board of Directors determines that no tax benefits attributable to net operating losses or other tax attributes are available, (iii) the date selected by the Board of Directors if it determines that the limitation amount imposed by Section 382 of the Internal Revenue Code as of such date in the event of an "ownership change" of PG&E Corporation (as defined in Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) would not be materially less than the net operating loss carryforwards or "net unrealized built-in loss" (within the meaning of Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) of PG&E Corporation and (iv) the date selected by the Board of Directors if it determines that it is in the best interests of PG&E Corporation's shareholders for the Ownership Restrictions to be removed or released. The Ownership Restrictions may also be waived by the Board of Directors on a case by case basis.

If PG&E Corporation elects to treat the Fire Victim Trust as a "grantor trust", the application of the Ownership Restrictions, as defined in PG&E Corporation's Amended Articles of Incorporation, will be determined on the basis of a number of shares outstanding that could differ materially from the number of shares reported as outstanding on the cover page of its periodic reports under the Exchange Act.

The Plan contemplates that the Fire Victim Trust will be treated as a "qualified settlement fund" for U.S. federal income tax purposes, subject to PG&E Corporation's ability to elect to treat the Fire Victim Trust as a "grantor trust" for U.S. federal income tax purposes instead. Based on the facts known to date, PG&E Corporation believes that it may be beneficial to elect to treat the Fire Victim Trust as a "grantor trust", but only if PG&E Corporation receives favorable determinations from the Internal Revenue Service regarding certain aspects of such election. If PG&E Corporation does not receive such favorable determinations, it expects to treat the Fire Victim Trust as a "qualified settlement fund" for U.S. federal income tax purposes.

If PG&E Corporation were to elect to treat the Fire Victim Trust as a "grantor trust", any shares owned by the Fire Victim Trust would effectively be excluded from the total number of outstanding Equity Securities when calculating a Person's Percentage Ownership (as defined in the Amended Articles) for purposes of the Ownership Restrictions. For example, whereas the number of outstanding shares of PG&E Corporation common stock for corporate purposes as of July 27, 2020, was 1,941,473,377 shares, for purposes of the Ownership Restrictions, the number of outstanding common stock as of July 27, 2020, would be the number of outstanding shares of PG&E Corporation common stock less the number of shares of common stock owned by the Fire Victim Trust, or total outstanding shares per SEC less 476,995,175. Note that PG&E Corporation does not control the number of shares held by the Fire Victim Trust and is not able to determine in advance the number of shares the Fire Victim Trust will hold at any time. PG&E Corporation intends to periodically make available to investors information about the number of shares of common stock held by the Fire Victim Trust as of a specified date for purposes of the Ownership Restrictions, including in its Quarterly Reports and Annual Reports filed with the SEC.

PG&E Corporation will publicly announce its determination on whether it will elect to treat the Fire Victim Trust as a "grantor trust" no later than April 1, 2021. In the event PG&E Corporation decides to make a "grantor trust" election with respect to the Fire Victim Trust, PG&E Corporation intends to enforce the Ownership Restrictions as described in the foregoing paragraph (excluding any shares owned by the Fire Victim Trust from the number of outstanding Equity Securities), including with respect to Transfers (as defined in the Amended Articles) occurring before such announcement. However, it is anticipated that the Board of PG&E Corporation will exempt Transfers to shareholders occurring prior to the date hereof solely to the extent that such Transfers would have complied with the Ownership Restrictions if the Ownership Restrictions were applied on the basis that the shares owned by the Fire Victim Trust were treated as outstanding Equity Securities. For the avoidance of doubt, all other Transfers of Equity Securities (including acquisitions from and after the date hereof by shareholders benefitting from an exemption described in the preceding sentence) will continue to be subject to the Ownership Restrictions. All current and prospective shareholders are advised to consider the foregoing in determining their ownership and acquisition of PG&E Corporation common stock.

The ability of PG&E Corporation to use some or all of its net operating loss carryforwards and other tax attributes to offset future income may be limited.

As of December 31, 2019, PG&E Corporation had net operating loss carryforwards for PG&E Corporation's consolidated group for U.S. federal and California income tax purposes of approximately $5.9 billion and $1.9 billion, respectively, and PG&E Corporation incurred and will incur in connection with the Plan significant net operating loss carryforwards and other tax attributes. The ability of PG&E Corporation to use some or all of these net operating loss carryforwards and certain other tax attributes may be subject to certain limitations. Under Section 382 of the Internal Revenue Code (which also applies for California state income tax purposes), if a corporation (or a consolidated group) undergoes an "ownership change," and the corporation does not qualify for (or elects out of) the special bankruptcy exception in Section 382(l)(5) of the Internal Revenue Code, such net operating loss carryforwards and other tax attributes may be subject to certain limitations. In general, an ownership change occurs if the aggregate stock ownership of certain shareholders (generally 5% shareholders, applying certain look-through and aggregation rules) increases by more than 50% over such shareholders' lowest percentage ownership during the testing period (generally three years). Losses incurred in the same taxable year as an ownership change generally can be pro-rated between the pre- and post-change portions of the taxable year, even if a disproportionate amount of such losses were actually incurred on or prior to the date of the ownership change. Only the portion of such losses allocated to the pre-change portion of the year would be subject to the annual limitation.

As of the Effective Date, PG&E Corporation does not believe that it has undergone an ownership change and its net operating loss carryforwards and other tax attributes are not limited by Section 382 of the Internal Revenue Code. However, whether PG&E Corporation underwent or will undergo an ownership change as a result of the transactions in PG&E Corporation's equity that occurred and will occur pursuant to the Plan depends on several factors outside PG&E Corporation's control and the application of certain laws that are uncertain in several respects. Accordingly, there can be no assurance that the IRS would not successfully assert that PG&E Corporation has undergone or will undergo an ownership change pursuant to the Plan. In addition, even if these transactions did not cause an ownership change, they may increase the likelihood that PG&E Corporation may undergo an ownership change in the future. If the IRS successfully asserts that PG&E Corporation did undergo, or PG&E Corporation otherwise does undergo, an ownership change, the limitation on its net operating loss carryforwards and other tax attributes under Section 382 of the Internal Revenue Code could be material to its operations.

In particular, limitations imposed on PG&E Corporation's ability to utilize net operating loss carryforwards or other tax attributes could cause U.S. federal and California income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards or other tax attributes to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards and other tax attributes. Specifically, PG&E Corporation's ability to utilize its net operating loss carryforwards is critical to a successful rate-neutral securitization transaction after the Effective Date, the proceeds of which are expected to be used to satisfy PG&E Corporation's and the Utility's obligations to the Fire Victim Trust, and to PG&E Corporation's and the Utility's commitment to make certain operating and capital expenditures. Failure to consummate a securitization transaction or obtain alternative sources of capital could have a material adverse effect on PG&E Corporation and the Utility and the value of PG&E Corporation common stock.

The ability of PG&E Corporation to pay dividends on shares of PG&E Corporation common stock is subject to restrictions.

In response to concerns raised by California Governor Gavin Newsom, PG&E Corporation and the Utility filed the Case Resolution Contingency Process Motion with the Bankruptcy Court setting forth certain commitments in connection with the confirmation process and implementation of the Plan, including, among other things, limitations on the ability of PG&E Corporation to pay dividends on shares of its common stock (the "Dividend Restriction"). The Dividend Restriction provides that PG&E Corporation may not pay dividends on shares of its common stock until it recognizes $6.2 billion in Non-GAAP Core Earnings following the Effective Date. "Non-GAAP Core Earnings" means GAAP earnings adjusted for certain non-core items. Additionally, the ruling of the court overseeing the Utility's probation dated April 3, 2019 places further restrictions on the ability of PG&E Corporation and the Utility to issue dividends. Under the ruling, no dividends may be issued until the Utility is fully in compliance with all applicable laws concerning vegetation management and clearance requirements, as well as the vegetation management and enhanced vegetation management targets and metrics in the Utility's wildfire mitigation plan.

Subject to the foregoing restrictions, any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend on, among other things, PG&E Corporation's results of operations, financial condition, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. Certain of the Utility's debt instruments contain covenants that restrict the ability of the Utility to pay dividends to PG&E Corporation.

ATTACHMENT B:

COMPARISON OF RISK FACTOR DISCLOSURES FROM FORM 10-Q FOR THE PERIOD ENDING JUNE 30, 2020 TO FORM 10-K FOR THE PERIOD ENDING DECEMBER 31, 2020

PG&E Corporation 10-~~Q~~K for ~~Quarter~~Year Ending ~~June 30~~December 31, 2020 (filed ~~July 30~~February 25, ~~2020~~2021), Pages ~~124-126~~37-39

PG&E Corporation common stock is subject to ownership and transfer restrictions intended to preserve PG&E Corporation's ability to use its net operating loss carryforwards and other tax attributes.

PG&E Corporation has incurred and ~~will~~may also continue to incur in connection with the Plan significant net operating loss carryforwards and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. The Amended Articles (as defined below) impose certain restrictions on the transferability and ownership of PG&E Corporation common stock and preferred stock (together, the "capital stock") and other interests designated as "stock" of PG&E Corporation by the Board of Directors as disclosed in an SEC filing (such stock and other interests, the "Equity Securities," and such restrictions on transferability and ownership, the "Ownership Restrictions") in order to reduce the possibility of an equity ownership shift that could result in limitations on PG&E Corporation's ability to utilize net operating loss carryforwards and other tax attributes from prior taxable years or periods for federal income tax purposes. Any acquisition of PG&E Corporation capital stock that results in a shareholder being in violation of these restrictions may not be valid.

Subject to certain exceptions, the Ownership Restrictions restrict (i) any person or entity (including certain groups of persons) from directly or indirectly acquiring or accumulating 4.75% or more of the outstanding Equity Securities and (ii) the ability of any person or entity (including certain groups of persons) already owning, directly or indirectly, 4.75% or more of the Equity Securities to increase their proportionate interest in the Equity Securities (but see the immediately following risk factor for more information). Any transferee receiving Equity Securities that would result in a violation of the Ownership Restrictions will not be recognized as a shareholder of PG&E Corporation or entitled to any rights of shareholders, including, without limitation, the right to vote and to receive dividends or distributions, whether liquidating or otherwise, in each case, with respect to the Equity Securities causing the violation.

The Ownership Restrictions remain in effect until the earliest of (i) the repeal, amendment or modification of Section 382 (and any comparable successor provision) of the Internal Revenue Code, in a manner that renders the restrictions imposed by Section 382 of the Internal Revenue Code no longer applicable to PG&E Corporation, (ii) the beginning of a taxable year in which the Board of Directors of PG&E Corporation determines that no tax benefits attributable to net operating losses or other tax attributes are available, (iii) the date selected by the Board of Directors if it determines that the limitation amount imposed by Section 382 of the Internal Revenue Code as of such date in the event of an "ownership change" of PG&E Corporation (as defined in Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) would not be materially less than the net operating loss carryforwards or "net unrealized built-in loss" (within the meaning of Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) of PG&E Corporation and (iv) the date selected by the Board of Directors if it determines that it is in the best interests of PG&E Corporation's shareholders for the Ownership Restrictions to be removed or released. The Ownership Restrictions may also be waived by the Board of Directors on a case by case basis.

If PG&E Corporation elects to treat the Fire Victim Trust as a "grantor trust,"~~,~~ the application of the Ownership Restrictions, as defined in PG&E Corporation's Amended Articles of Incorporation, will be determined on the basis of a number of shares outstanding that could differ materially from the number of shares reported as outstanding on the cover page of its periodic reports under the Exchange Act.

The Plan contemplates that the Fire Victim Trust will be treated as a "qualified settlement fund" for U.S. federal income tax purposes, subject to PG&E Corporation's ability to elect to treat the Fire Victim Trust as a "grantor trust" for U.S. federal income tax purposes instead. ~~Based on the facts known to date,~~In January 2021, PG&E Corporation received an IRS ruling that states the Utility is eligible to make a grantor trust election with respect to the Fire Victim Trust and addressed certain, but not all, related issues. PG&E Corporation believes ~~that it may be beneficial to elect to treat the Fire Victim Trust as a~~benefits associated with "grantor trust" treatment could be realized, but only if PG&E Corporation ~~receives favorable determinations from~~and the Fire Victim Trust can meet certain requirements of the Internal Revenue ~~Service regarding certain aspects~~Code and Treasury Regulations thereunder, relating to sales of ~~such election. If~~ PG&E Corporation ~~does not receive such favorable determinations, it expects to treat the Fire Victim Trust as a "qualified settlement fund" for U.S. federal income tax purposes~~stock.

If PG&E Corporation were to elect to treat the Fire Victim Trust as a "grantor trust,"~~,~~ any shares owned by the Fire Victim Trust would effectively be excluded from the total number of outstanding Equity Securities when calculating a Person's Percentage Ownership (as defined in the Amended Articles) for purposes of the Ownership Restrictions. For example, whereas the number of outstanding shares of PG&E Corporation common stock for corporate purposes as of ~~July 27~~February 22, ~~2020~~2021, was

~~1,941,473,377~~1,984,683,820 shares, for purposes of the Ownership Restrictions, the number of outstanding common stock as of ~~July 27~~February 22, ~~2020~~2021, would be 1,506,940,230 (the number of outstanding shares of PG&E Corporation common stock less the number of shares of common stock owned by the Fire Victim Trust~~, or total outstanding shares per SEC less 476,995,175. Note that~~ as of February 22, 2021). PG&E Corporation does not control the number of shares held by the Fire Victim Trust and is not able to determine in advance the number of shares the Fire Victim Trust will hold~~ at any time~~. PG&E Corporation intends to periodically make available to investors information about the number of shares of common stock held by the Fire Victim Trust as of a specified date for purposes of the Ownership Restrictions, including in its Quarterly Reports and Annual Reports filed with the SEC.

PG&E Corporation ~~will~~expects to publicly announce its determination on whether it will elect to treat the Fire Victim Trust as a "grantor trust" no later than April 1, 2021. In the event PG&E Corporation decides to make a "grantor trust" election with respect to the Fire Victim Trust, PG&E Corporation intends to enforce the Ownership Restrictions as described in the foregoing paragraph (excluding any shares owned by the Fire Victim Trust from the number of outstanding Equity Securities), including with respect to Transfers (as defined in the Amended Articles) occurring before such announcement. However, it is anticipated that the Board of Directors of PG&E Corporation will exempt Transfers to shareholders occurring prior to July 30, 2020 (the date ~~hereof~~PG&E Corporation initially announced it was considering treating the Fire Victim Trust as a grantor trust in its Form 10-Q for the quarterly period ended June 30, 2020), solely to the extent that such Transfers would have complied with the Ownership Restrictions if the Ownership Restrictions were applied on the basis that the shares owned by the Fire Victim Trust were treated as outstanding Equity Securities. For the avoidance of doubt, all other Transfers of Equity Securities (including acquisitions from and after the ~~date hereof~~July 30, 2020 by shareholders ~~benefitting~~benefiting from an exemption described in the preceding sentence) will continue to be subject to the Ownership Restrictions. All current and prospective shareholders are advised to consider the foregoing in determining their ownership and acquisition of PG&E Corporation common stock.

The ability of PG&E Corporation to use some or all of its net operating loss carryforwards and other tax attributes to offset future income may be limited.

As of December 31, ~~2019~~2020, PG&E Corporation had net operating loss carryforwards for PG&E Corporation's consolidated group for U.S. federal and California income tax purposes of approximately $~~5.9~~28.5 billion and $~~1.9~~25.4 billion, respectively, and PG&E Corporation incurred and ~~will~~may also continue to incur in connection with the Plan significant net operating loss carryforwards and other tax attributes. The ability of PG&E Corporation to use some or all of these net operating loss carryforwards and certain other tax attributes may be subject to certain limitations. Under Section 382 of the Internal Revenue Code (which also applies for California state income tax purposes), if a corporation (or a consolidated group) undergoes an "ownership change,"~~ and the corporation does not qualify for (or elects out of) the special bankruptcy exception in Section 382(l)(5) of the Internal Revenue Code,~~ such net operating loss carryforwards and other tax attributes may be subject to certain limitations. In general, an ownership change occurs if the aggregate stock ownership of certain shareholders (generally ~~5%~~five percent shareholders, applying certain look-through and aggregation rules) increases by more than 50% over such shareholders' lowest percentage ownership during the testing period (generally three years).~~ Losses incurred in the same taxable year as an ownership change generally can be pro-rated between the pre- and post-change portions of the taxable year, even if a disproportionate amount of such losses were actually incurred on or prior to the date of the ownership change. Only the portion of such losses allocated to the pre-change portion of the year would be subject to the annual limitation.~~

As of the ~~Effective Date,~~date of this report, it is more likely than not that PG&E Corporation ~~does not believe that it~~ has not undergone an ownership change and its net operating loss carryforwards and other tax attributes are not limited by Section 382 of the Internal Revenue Code. However, whether PG&E Corporation underwent or will undergo an ownership change as a result of the transactions in PG&E Corporation's equity that occurred~~ and will occur~~ pursuant to the Plan depends on several factors outside PG&E Corporation's control and the application of certain laws that are uncertain in several respects. Accordingly, there can be no assurance that the IRS would not successfully assert that PG&E Corporation has undergone or will undergo an ownership change pursuant to the Plan. In addition, even if these transactions did not cause an ownership change, they may increase the likelihood that PG&E Corporation may undergo an ownership change in the future. If the IRS successfully asserts that PG&E Corporation did undergo, or PG&E Corporation otherwise does undergo, an ownership change, the limitation on its net operating loss carryforwards and other tax attributes under Section 382 of the Internal Revenue Code could be material to its operations.

In particular, limitations imposed on PG&E Corporation's ability to utilize net operating loss carryforwards or other tax attributes could cause U.S. federal and California income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards or other tax attributes to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards and other tax attributes. Specifically, PG&E Corporation's ability

to utilize its net operating loss carryforwards is critical to a successful rate-neutral securitization transaction~~ after the Effective Date~~, the proceeds of which are expected to be used to satisfy~~ PG&E Corporation's and~~ the Utility's obligations to the Fire Victim Trust, and to PG&E Corporation's and the Utility's commitment to make certain operating and capital expenditures. Failure to consummate a securitization transaction or obtain alternative sources of capital could have a material adverse effect on PG&E Corporation and the Utility and the value of PG&E Corporation common stock.

ATTACHMENT C:

FORM 10-Q FOR THE PERIOD ENDING SEPTEMBER 30, 2020,

DATED OCTOBER 29, 2020

(Excerpt)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C., 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to __________

Commission File Number	Exact Name of Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

PG&E Corporation	Pacific Gas and Electric Company
77 Beale Street	77 Beale Street
P.O. Box 770000	P.O. Box 770000
San Francisco, California 94177	San Francisco, California 94177

Address of principal executive offices, including zip code

PG&E Corporation	Pacific Gas and Electric Company
415 973-1000	415 973-7000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	PCG	The New York Stock Exchange
Equity Units	PCGU	The New York Stock Exchange
First preferred stock, cumulative, par value $25 per share, 5% series A redeemable	PCG-PE	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% redeemable	PCG-PD	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.80% redeemable	PCG-PG	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.50% redeemable	PCG-PH	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.36% series A redeemable	PCG-PI	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 6% nonredeemable	PCG-PA	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5.50% nonredeemable	PCG-PB	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% nonredeemable	PCG-PC	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PG&E Corporation:	☒ Yes	☐ No
Pacific Gas and Electric Company:	☒ Yes	☐ No

Tax Matters

As a result of the Plan, which includes wildfire settlement payments made in the third quarter of 2020, PG&E Corporation expects to have a federal net operating loss carryforward of around $26.0 billion and state net operating loss carryforward of $23.0 billion at the end of 2020.

Under Section 382 of the Internal Revenue Code, if a corporation (or a consolidated group) undergoes an "ownership change," net operating loss carryforwards and other tax attributes may be subject to certain limitations. In general, an ownership change occurs if the aggregate stock ownership of certain shareholders (generally 5% shareholders, applying certain look-through and aggregation rules) increases by more than 50% over such shareholders' lowest percentage ownership during the testing period (generally three years). PG&E Corporation's and the Utility's Amended Articles limit Transfers (as defined in the Amended Articles) that increase a person's ownership of PG&E Corporation's equity securities to more than 4.75% prior to the Restriction Release Date without approval by the Board of Directors. As discussed below under "Update on Ownership Restrictions in PG&E Corporation's Amended Articles," the calculation of the percentage ownership may differ depending on whether the Fire Victim Trust is treated as a qualified settlement trust or grantor trust.

As of the date of this report, PG&E Corporation does not believe that it has undergone an ownership change, and consequently, its net operating loss carryforwards and other tax attributes are not limited by Section 382 of the Internal Revenue Code.

In 2019, $6.75 billion of the liability to be paid to the Fire Victim Trust in PG&E Corporation's common stock was accrued by the Utility. Because the corresponding tax deduction generally occurs no earlier than payment, the Utility established a deferred tax asset for the accrual in 2019. On July 1, 2020, the Utility paid to the Fire Victim Trust 477 million shares of PG&E Corporation's common stock. Because of the price of the stock on the date of transfer, the shares transferred to the Fire Victim Trust were valued at $4.53 billion, $2.22 billion less than the $6.75 billion that had been accrued as a liability in the Condensed Consolidated Financial Statements. Therefore, in the quarter ended June 30, 2020, the Utility recorded a charge of $619 million to adjust the measurement of the deferred tax asset to reflect the tax-effected difference between the accrual of $6.75 billion and the tax deduction of $4.53 billion for the transfer of PG&E Corporation's shares to the Fire Victim Trust.

In addition, this deferred tax asset reflects PG&E Corporation's conclusion as of September 30, 2020 that it is more likely than not that the Fire Victim Trust will be treated as a "qualified settlement fund" for U.S. federal income tax purposes, in which case the corresponding tax deduction will have occurred at the time the PG&E Corporation common stock was transferred to the Fire Victim Trust. As discussed further below under "Update on Ownership Restrictions in PG&E Corporation's Amended Articles," PG&E Corporation believes that it may be beneficial to elect to treat the Fire Victim Trust as a "grantor trust," but only if PG&E Corporation receives favorable determinations from the IRS regarding certain aspects of such election. If PG&E Corporation makes a "grantor trust" election for the Fire Victim Trust, the Utility's tax deduction will occur instead at the time the Fire Victim Trust pays the fire victims and will be based on the price at which the Fire Victim Trust sells the shares. In this case, the accounting treatment will require a re-evaluation under applicable accounting guidance of the remaining deferred tax asset and could result in a further impairment thereof or other material impact on the Condensed Consolidated Financial Statements. Additionally, the value of the deduction may be materially different than the value of the deduction if the Fire Victim Trust is treated as a "qualified settlement fund."

Update on Ownership Restrictions in PG&E Corporation's Amended Articles

The Plan contemplates that the Fire Victim Trust will be treated as a "qualified settlement fund" for U.S. federal income tax purposes, subject to PG&E Corporation's ability to elect to treat the Fire Victim Trust as a "grantor trust" for U.S. federal income tax purposes instead. Based on the facts known to date, PG&E Corporation believes that it may be beneficial to elect to treat the Fire Victim Trust as a "grantor trust" for U.S. federal income tax purposes, subject to receipt of certain favorable determinations from the Internal Revenue Service regarding such election.
If PG&E Corporation were to make a "grantor trust" election with respect to the Fire Victim Trust, then any shares owned by the Fire Victim Trust would effectively be excluded from the total number of outstanding equity securities when calculating a person's percentage ownership for purposes of the 4.75 percent ownership limitation in PG&E Corporation's charter. For example, although PG&E had 1,984,565,829 shares outstanding as of October 20, 2020 for corporate purposes, only 1,506,822,239 shares (the number of outstanding shares of common stock less the number of shares held by the Fire Victim Trust) would count as outstanding for purposes of the ownership restrictions in the Amended Articles. As of October 20, 2020, to the knowledge of PG&E Corporation, the Fire Victim Trust had not sold any shares of PG&E Corporation common stock.

For more information about the ownership restrictions in PG&E Corporation's Amended Articles, see PG&E Corporation's and the Utility's joint quarterly report on Form 10-Q for the period ended June 30, 2020.

Any substantial sale of stock by existing stockholders could depress the market value of PG&E Corporation's common stock, thereby devaluing the market price and causing investors to risk losing all or part of their investment.

Certain existing stockholders, including the Fire Victim Trust, the investors party to the Investment Agreement and the Backstop Parties, hold a large number of the outstanding shares of PG&E Corporation. PG&E Corporation can make no prediction as to the effect, if any, that sales of shares, or the availability of shares for future sale, will have on the prevailing market price of shares of PG&E Corporation common stock. Sales of substantial amounts of shares common stock in the public market, or the perception that such sales could occur, could depress prevailing market prices for such shares. Such sales may also make it more difficult for PG&E Corporation to sell equity securities or equity-linked securities in the future at a time and price which it deems appropriate.

The ability of PG&E Corporation to use some or all of its net operating loss carryforwards and other tax attributes to offset future income may be limited.

As of December 31, 2019, PG&E Corporation had net operating loss carryforwards for PG&E Corporation's consolidated group for U.S. federal and California income tax purposes of approximately $5.9 billion and $1.9 billion, respectively, and PG&E Corporation incurred and will incur in connection with the Plan significant net operating loss carryforwards and other tax attributes. The ability of PG&E Corporation to use some or all of these net operating loss carryforwards and certain other tax attributes may be subject to certain limitations. Under Section 382 of the Internal Revenue Code (which also applies for California state income tax purposes), if a corporation (or a consolidated group) undergoes an "ownership change," such net operating loss carryforwards and other tax attributes may be subject to certain limitations. In general, an ownership change occurs if the aggregate stock ownership of certain shareholders (generally 5% shareholders, applying certain look-through and aggregation rules) increases by more than 50% over such shareholders' lowest percentage ownership during the testing period (generally three years). Losses incurred in the same taxable year as an ownership change generally can be pro-rated between the pre- and post-change portions of the taxable year, even if a disproportionate amount of such losses were actually incurred on or prior to the date of the ownership change. Only the portion of such losses allocated to the pre-change portion of the year would be subject to the annual limitation.

As of the date of this report, PG&E Corporation does not believe that it has undergone an ownership change and its net operating loss carryforwards and other tax attributes are not limited by Section 382 of the Internal Revenue Code. However, whether PG&E Corporation underwent or will undergo an ownership change as a result of the transactions in PG&E Corporation's equity that occurred pursuant to the Plan depends on several factors outside PG&E Corporation's control and the application of certain laws that are uncertain in several respects. Accordingly, there can be no assurance that the IRS would not successfully assert that PG&E Corporation has undergone or will undergo an ownership change pursuant to the Plan. In addition, even if these transactions did not cause an ownership change, they may increase the likelihood that PG&E Corporation may undergo an ownership change in the future. If the IRS successfully asserts that PG&E Corporation did undergo, or PG&E Corporation otherwise does undergo, an ownership change, the limitation on its net operating loss carryforwards and other tax attributes under Section 382 of the Internal Revenue Code could be material to its operations.

In particular, limitations imposed on PG&E Corporation's ability to utilize net operating loss carryforwards or other tax attributes could cause U.S. federal and California income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards or other tax attributes to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards and other tax attributes. Specifically, PG&E Corporation's ability to utilize its net operating loss carryforwards is critical to a successful rate-neutral securitization transaction after the Effective Date, the proceeds of which are expected to be used to satisfy PG&E Corporation's and the Utility's obligations to the Fire Victim Trust, and to PG&E Corporation's and the Utility's commitment to make certain operating and capital expenditures. Failure to consummate a securitization transaction or obtain alternative sources of capital could have a material adverse effect on PG&E Corporation and the Utility and the value of PG&E Corporation common stock.

ATTACHMENT D:

RESPONSE TO TURN DATA REQUEST 14, QUESTION 9

(Excerpt)

PACIFIC GAS AND ELECTRIC COMPANY
Securitization 2020
Application 20-04-023
Data Response

PG&E Data Request No.:	TURN_014-Q01-10		
PG&E File Name:	Securitization2020_DR_TURN_014-Q01-10		
Request Date:	November 13, 2020	Requester DR No.:	TURN-PG&E-14
Date Sent:	November 23, 2020	Requesting Party:	The Utility Reform Network
PG&E Witness:	Q1-Q2: David Thomason Q3-Q4: Joseph Sauvage Q5-Q6: David Thomason Q7-Q8: Joseph Sauvage Q9: David Thomason Q10: Bradford Cornell	Requester:	Thomas Long

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

QUESTION 09

In PG&E's Rebuttal Testimony, p. 6-5, PG&E states that

> "a limitation on the use of shareholder deduction such as NOLs under IRS Section 382 is unlikely because transfers that increase a person's equity ownership to more than 4.75 percent require PG&E Board consent under the amended articles of incorporation."

a. Please explain PG&E's understanding of the limitations of IRS Section 382 and why PG&E believes its limitations on the use of shareholder deductions would be unlikely to apply to PG&E.

---

[2] S&P's three notch positive differential applies to Issuers with "1+" recovery ratings, which indicate nominal recovery expectations of 100%. From S&P's perspective, such recovery expectations are driven by greater than 150% collateralization and strong structural features.

b. Does PG&E contend that the limitations on the use of shareholder deductions in Section 382 could never apply? Please explain any contingencies of which PG&E is aware under which those limitations could apply.

c. Please identify any prior instances in which the PG&E Board provided consent to a person's equity ownership of more than 4.75 percent.

d. Please explain the relationship of PG&E's transfer of PG&E stock to fund liabilities of the Wildfire Victim's Trust to the provisions of IRS Section 382.

e. Please provide any and all analysis performed by PG&E or its consultants to assess the risk associated with the IRS 382 limitation to PG&E's use of its NOLs.

ANSWER 09

PG&E objects to this request as vague and ambiguous, and overbroad. PG&E further objects to this request as seeking information protected by the attorney-client privilege and/or attorney work product doctrine. PG&E's response excludes any privileged information or attorney work product. Subject to its objections, PG&E responds as follows:

a. – b. Section 382 of the Internal Revenue Code of 1986, as amended, limits the utilization of corporate NOLs following an ownership change. An ownership change occurs when the percentage of stock owned by 5 percent shareholders increases more than 50 percent by value over the lowest percentage of stock held by such shareholders at any time over a three-year period. If an ownership change occurs, the amount of NOLs that can be utilized each year following the change is subject to the limitations outlined in section 382.

Under PG&E's amended articles of incorporation, transfers that increase a person's equity ownership more than 4.75 percent require PG&E Board consent. By restricting transfers of PG&E stock that would increase a person's equity ownership to more than 4.75 percent, PG&E can prohibit creating any new 5 percent shareholders that are counted towards determining the greater than 50 percent ownership change. PG&E is also monitoring public SEC disclosures of significant acquisitions of PG&E stock.

If an ownership change were to occur, section 382 would apply.

c. There have not been any prior instances in which the Board provided consent to increase a person's equity ownership more than 4.75 percent.

d. The Fire Victim Trust is currently treated as a qualified settlement fund, a separate taxpayer from PG&E. Shares transferred to the Fire Victim Trust shifted 24.08 percent of ownership in PG&E stock.

e. PG&E refers TURN to 2020Securitization_DR_TURN_14-Q09Atch01CONF, which is provided subject to the caveats and limitations within the document.

<u>ATTACHMENT E:</u>

RESPONSE TO PUBLIC ADVOCATES OFFICE DATA REQUEST 1,

QUESTION 14 (UPDATED)

(Excerpt)

PACIFIC GAS AND ELECTRIC COMPANY
Securitization 2020
Application 20-04-023
Updated Data Response

<table>
<tr><td>PG&E Data Request No.:</td><td colspan="3">PubAdv_001-Q01-29</td></tr>
<tr><td>PG&E File Name:</td><td colspan="3">Securitization2020_DR_PubAdv_001-Q01-29UPDATED</td></tr>
<tr><td>Request Date:</td><td>June 16, 2020</td><td>Requester DR No.:</td><td>001</td></tr>
<tr><td>Date Sent (Original):</td><td>July 6, 2020</td><td rowspan="2">Requesting Party:</td><td rowspan="2">Public Advocates Office</td></tr>
<tr><td>Date Sent (Updated):</td><td>August 13, 2020</td></tr>
<tr><td>PG&E Witness:</td><td>Q1-Q2: Various
Q3-Q9: David Thomason
Q10-Q11: Mari Becker
Q12: Steffen Lunde
Q13-Q14: David Thomason
Q15-Q16: Joseph Sauvage
Q17: David Thomason
Q18-Q22: Joseph Sauvage
Q23-Q25: David Thomason
Q26: Greg Allen
Q27: David Thomason
Q28: Greg Allen
Q29: David Thomason</td><td>Requester:</td><td>Christian Lambert</td></tr>
</table>

GENERAL OBJECTIONS

1. PG&E objects to each request to the extent it seeks information protected from disclosure by the attorney-client privilege, the attorney work-product doctrine, or any other privilege or protection from disclosure. PG&E intends to invoke all such privileges and protections, and any inadvertent disclosure of privileged or protected information shall not give rise to a waiver of any such privilege or protection.

2. These responses are made without waiving PG&E's rights to raise all issues regarding relevance, materiality, privilege, or admissibility in evidence in any proceeding. PG&E reserves the right, but does not obligate itself, to amend these responses as needed based on any changes to PG&E's Application or the proposed securitization structure.

3. PG&E incorporates each of these General Objections into each of its responses below. Each of PG&E's responses below is provided subject to and without waiver of the foregoing objections and any additional objections made below.

QUESTION 14

Referring to various statements beginning with PG&E's Prepared Testimony, Ch. 5, p. 13 at line 7, PG&E acknowledges that the Stress Test Methodology contemplates the potential of additional equity issuances. Please explain:

a. What is the hypothetical maximum amount of new equity that PG&E could have raised as part of its Plan of Reorganization to exit Chapter 11 bankruptcy, without implicating a change of control event that would result in the loss of its Net Operating Loss carryforward assets? For purposes of this question, provide a response that is agnostic to other potential sources of funds for PG&E's Plan of Reorganization: if PG&E had elected to maximize the amount of new equity to fund its Plan of Reorganization, what is the maximum amount of new equity it theoretically could have raised without implicating a change of control event that would result in the loss of its Net Operating Loss carryforward assets?

b. In general, what conditions of a future equity raise would trigger such a change of control event that would result in the loss of PG&E's Net Operating Loss carryforward assets? Provide statutory citations to support your response.

ANSWER 14

PG&E objects to this question as vague, ambiguous, and overbroad. Subject to its objections, PG&E responds as follows:

a.-b. Section 382 of the Internal Revenue Code of 1986, as amended, limits the utilization of corporate NOLs following an ownership change. An ownership change occurs when the percentage of the stock of a loss corporation owned by one or more 5% Shareholders increases by more than 50 percentage points over the lowest percentage of stock of the loss corporation owned by such shareholders at any time during the test period. The test period is generally defined as a three-year period ending on the day of any owner shift involving a 5% Shareholder. In determining whether an ownership change has occurred, all stock owned by shareholders who are not 5% Shareholders of such corporation is treated as stock owned by a single 5% Shareholder.

A hypothetical maximum cannot be reasonably determined due to a number of contingent factors. The rules of Internal Revenue Code ("IRC") section 382 are technical and complex, and certain aspects of the analysis are very sensitive to context and the underlying facts. The following is a non-exhaustive list of criteria that render this analysis uncertain:

> The threshold question for any Section 382 analysis is whether the corporation in question has experienced an "ownership change." An ownership change under Section 382 occurs when 5% Shareholders increase their ownership in a corporation by more than 50% (in aggregate) during the relevant testing period (typically three years). Section 382 defines 5% Shareholders as shareholders who own at least five percent of the corporation's equity by value. However, Section 382 also aggregates shareholders separately owning less than five percent of the corporation into "Public Groups" that are then treated as separate 5% Shareholders.

- Equity Value of the Company Immediately Prior to Emergence. One of the key factors driving a potential Section 382 ownership change at emergence is the extent to which the company's existing shareholders are diluted as a result of the emergence. For example, a $10 billion equity raise for a $20 billion

company may have a different impact for IRC section 382 purposes than that same equity raise would have for a $2 billion company. Therefore, it is important to know how much the existing shareholders would be diluted in order to identify a hypothetical maximum.

- <u>5% Shareholders Created by the Issuance</u>. Often, issuances to 5% Shareholders (including issuances to shareholders that become a 5% Shareholder as a result of the issuance) are less favorable from a Section 382 ownership change perspective than issuances to non-5% Shareholders. Additionally, the extent to which issuances to new 5% Shareholders adversely impact the ownership change percentage can be affected by other factors, including the ratio of the issuances to 5% Shareholders solely for cash compared to the total amount of issuances solely for cash.
- <u>Existence and Ability to Document Issuances of Shares issued to Existing Shareholders</u>. Generally the issuance of shares to non-5% Shareholders in excess of certain thresholds and which do not otherwise qualify for an exception are deemed issued to a new Public Group, which has the same unfavorable ownership consequences as issuances to 5% Shareholders. However, the Section 382 rules contain certain exceptions that allow some or all of these issuances to be deemed allocated to existing Public Groups, which generally reduces the ownership change impact of the issuance. One such exception is the Actual Knowledge Standard, which allows issuances of shares to members of an existing Public Group to be deemed issued to those groups rather than being issued to a new Public Group that may be segregated and treated as a separate 5% Shareholder.

PG&E has determined that there has not been an ownership change pursuant to Section 382 as a result of consummating the Plan on the Effective Date. Further, PG&E anticipates that it will be able to structure future equity raises, including any capital raise for the $1.8 billion Initial Shareholder Contribution, in a manner that would not cause an ownership change.

ATTACHMENT F:

FORM 10-K FOR THE PERIOD ENDING DECEMBER 31, 2020,

DATED FEBRUARY 25, 2021

(Excerpt)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2020

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to ___________

Commission File Number	Exact Name of Registrant as Specified In Its Charter	State or Other Jurisdiction of Incorporation or Organization	IRS Employer Identification Number
1-12609	PG&E CORPORATION	California	94-3234914
1-2348	PACIFIC GAS AND ELECTRIC COMPANY	California	94-0742640

77 Beale Street
P.O. Box 770000
San Francisco, California 94117
(Address of principal executive offices) (Zip Code)
415 973-1000
(Registrant's telephone number, including area code)

77 Beale Street
P.O. Box 770000
San Francisco, California 94117
(Address of principal executive offices) (Zip Code)
415 973-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	PCG	The New York Stock Exchange
Equity Units	PCGU	The New York Stock Exchange
First preferred stock, cumulative, par value $25 per share, 5% series A redeemable	PCG-PE	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% redeemable	PCG-PD	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.80% redeemable	PCG-PG	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.50% redeemable	PCG-PH	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 4.36% series A redeemable	PCG-PI	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 6% nonredeemable	PCG-PA	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5.50% nonredeemable	PCG-PB	NYSE American LLC
First preferred stock, cumulative, par value $25 per share, 5% nonredeemable	PCG-PC	NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act: none

The Utility continues to provide transmission, distribution, metering, and billing services to direct access customers at the election of their energy service provider. The CCA customers continue to obtain transmission, distribution, metering, and billing services from the Utility. In addition to collecting charges for transmission, distribution, metering, and billing services that it provides, the Utility is able to collect charges intended to recover the generation-related costs that the Utility incurred on behalf of direct access and CCA customers while they were the Utility's customers. The Utility remains the electricity provider of last resort for these customers. SB 520 (codified at Section 387 of the Public Utilities Code), which was signed by the governor and became law on October 2, 2019, allows for a request to transfer the responsibilities of the provider of last resort obligation from IOUs to other entities.

The Utility is also impacted by the increasing viability of distributed generation and energy storage. The levels of self-generation of electricity by customers (primarily solar installations) and the use of customer net energy metering (NEM), which allows self-generating customers employing qualifying renewable resources to receive bill credits at the full retail rate, are increasing, putting upward rate pressure on remaining customers. New NEM customers are required to pay an interconnection fee, utilize time of use rates, and are required to pay certain non-bypassable charges to help fund some of the costs of low income, energy efficiency, and other programs that other customers pay. Significantly higher bills for remaining customers may result in a decline of the number of such customers as they may seek alternative energy providers or adopt self-generation technologies. The CPUC initiated a proceeding to revisit the NEM tariff in 2020 and has indicated that it anticipates reaching a decision on a revised tariff by the end of 2021.

Further, in some circumstances, governmental entities such as cities and irrigation districts, which have authority under the state constitution or state statute to provide retail electric service, may seek to acquire the Utility's distribution facilities, through eminent domain. In 2020, one such entity communicated an interest in acquiring certain Utility assets through a voluntary sale during the Chapter 11 Cases. It is also expected that some of the governmental entities will construct duplicate or new distribution facilities to serve existing or potential new Utility customers. In some instances, microgrid formation is a key factor in a community's choice to engage governmental entities.

The Utility also competes for the opportunity to develop and construct certain types of electric transmission facilities within, or interconnected to, its service territory through a competitive bidding process managed by the CAISO.

The effect of such types of retail competition generally is to reduce the number of utility customers, leading to a reduction in the amount of electricity purchased from the Utility.

(For risks in connection with increasing competition, see Item 1A. Risk Factors.)

Competition in the Natural Gas Industry

The Utility competes with other natural gas pipeline companies for customers transporting natural gas into the southern California market on the basis of transportation rates, access to competitively priced supplies of natural gas, and the quality and reliability of transportation services. The Utility also competes for storage services with other third-party storage providers, primarily in northern California.

ITEM 1A. RISK FACTORS

PG&E Corporation's and the Utility's financial results can be affected by many factors, including estimates and assumptions used in the critical accounting policies described in MD&A, that can cause their actual financial results to differ materially from historical results or from anticipated future financial results. The following discussion of key risk factors should be considered in evaluating an investment in PG&E Corporation and the Utility and should be read in conjunction with MD&A and the Consolidated Financial Statements and related notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this 2020 Form 10-K. Any of these factors, in whole or in part, could materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

Risk Factors Summary

The following is a summary of the principal risks that could adversely affect our business, operations and financial results. These risks are discussed more fully below.

Risks related to post-chapter 11 environment and financial condition, including risks related to:

- PG&E Corporation's and the Utility's substantial indebtedness following the Reorganization;
- Restrictions in indebtedness documents;
- Appeals of the Confirmation Order;
- Potential additional dilution to holders of PG&E Corporation common stock;
- Any substantial sale of stock by existing stockholders;
- Ownership and transfer restrictions associated with PG&E Corporation common stock;
- Tax-related risks and uncertainties, including a potential "grantor trust" election for the Fire Victim Trust;
- Restrictions on PG&E Corporation's and the Utility's ability to issue dividends;
- PG&E Corporation's reliance on dividends, distributions and other payments; and
- The COVID-19 pandemic.

Risks related to wildfires, including risks related to:

- The Utility's ability to maintain its AB 1054 safety certification and access to the Wildfire Fund;
- The 2020 Zogg fire, the 2019 Kincade fire or future wildfires;
- Recovery of excess costs in connection with wildfires;
- The doctrine of inverse condemnation; and
- Implementation of the PSPS program.

Risks related to the outcome of enforcement matters, investigations, and regulatory proceedings, including risks related to:

- Terms of the Utility's probation or further modifications to the conditions of probation;
- The Enhanced Oversight and Enforcement Process;
- Legislative and regulatory developments;
- Outcomes of the CPUC's investigative enforcement proceedings, other known enforcement matters, and other ongoing state and federal investigations and requests for information;
- Outcomes of regulatory and ratemaking proceedings and the Utility's ability to manage its operating expenses and capital expenditures; and
- The Utility's continuing ability to recover "pass-through" costs.

Risks related to operations and information technology, including risks related to:

- The hazardous nature of the Utility's electricity and natural gas operations;
- The Utility's insurance coverage;
- Changes in the electric power and gas industries;

- A cyber incident, cyber security breach, severe natural event or physical attack on the Utility's operational networks and information technology systems; and

- The operation and decommissioning of the Utility's nuclear generation facilities.

Risks related to environmental factors, including related to:

- Severe weather conditions, extended drought and shifting climate patterns and events resulting from these conditions (including wildfires);

- Extensive environmental laws and changes in or liabilities under these laws; and

- State climate policy requirements.

General risks, including related to:

- Availability of the services of a qualified workforce and to maintain satisfactory collective bargaining agreements.

Risks Related to Post-Chapter 11 Environment and Financial Condition

PG&E Corporation's and the Utility's substantial indebtedness following the emergence from the Chapter 11 Cases may adversely affect their financial health and operating flexibility.

PG&E Corporation and the Utility have a substantial amount of indebtedness as a result of the reorganization transactions in connection with implementation of the Plan, most of which is secured by liens on certain assets of PG&E Corporation and the Utility. As of December 31, 2020, PG&E Corporation had approximately $4.71 billion of outstanding indebtedness (such indebtedness consisting of the 2028 Notes, the 2030 Notes and borrowings under the PG&E Corporation Term Loan), and the Utility had approximately $31.9 billion of outstanding indebtedness (such indebtedness including the Utility Reinstated Senior Notes, the New Utility Senior Notes, the Mortgage Bonds, and the Utility Term Loan Credit Agreement). In addition, PG&E Corporation had $500 million of additional borrowing capacity under the Corporation Revolving Credit Agreement, and the Utility had $1.9 billion of additional borrowing capacity under the Utility Revolving Credit Agreement. In addition, the Utility had outstanding preferred stock with an aggregate liquidation preference of $252 million.

Since PG&E Corporation and the Utility have a high level of debt, a substantial portion of cash flow from operations will be used to make payments on this debt. Furthermore, since a significant percentage of the Utility's assets are used to secure its debt, this reduces the amount of collateral available for future secured debt or credit support and reduces its flexibility in operating these secured assets. This relatively high level of debt and related security could have other important consequences for PG&E Corporation and the Utility, including:

- limiting their ability or increasing the costs to refinance their indebtedness;

- limiting their ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of their business strategy or other purposes;

- limiting their ability to use operating cash flow in other areas of their business;

- increasing their vulnerability to general adverse economic and industry conditions, including increases in interest rates, particularly given their substantial indebtedness that bears interest at variable rates, as well as to catastrophic events; and

- limiting their ability to capitalize on business opportunities.

Under the terms of the agreements and indentures governing their respective indebtedness, PG&E Corporation and the Utility are permitted to incur additional indebtedness, some of which could be secured (subject to compliance with certain tests) and which could further accentuate these risks. As a result of the high level of indebtedness, PG&E Corporation and the Utility may be unable to generate sufficient cash through operations to service such debt, and may need to refinance such indebtedness at or prior to maturity and be unable to obtain financing on suitable terms or at all, any of which could have a material effect on PG&E Corporation's and the Utility's business, financial condition and results of operations.

The documents that govern PG&E Corporation's and the Utility's indebtedness contain restrictions that limit their flexibility in operating their business.

PG&E Corporation's and the Utility's material financing agreements, including certain of their respective credit agreements and indentures, contain various covenants restricting, among other things, their ability to:

- incur or assume indebtedness or guarantees of indebtedness;
- incur or assume liens;
- sell or dispose of all or substantially all of its property or business;
- merge or consolidate with other companies;
- enter into any sale leaseback transactions; and
- enter into swap agreements.

The restrictions contained in these material financing agreements could affect PG&E Corporation's and the Utility's ability to operate their business and may limit their ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect PG&E Corporation's and the Utility's ability to finance their operations and expenditures, make strategic acquisitions, investments or alliances, sell assets, restructure their organization or finance their capital needs. Additionally, PG&E Corporation's and the Utility's ability to comply with these covenants and restrictions may be affected by events beyond their control, including, but not limited to, prevailing regulatory, economic, financial and industry conditions.

Parties have appealed the Confirmation Order.

Following entry of the Confirmation Order confirming the Plan, certain parties filed notices of appeal with respect to the Confirmation Order. While a number of such appeals have been dismissed, there can be no assurance that any of the remaining appeals will not be successful and, if successful, that any such appeal would not have a material adverse effect on PG&E Corporation and the Utility.

PG&E Corporation may be required to issue shares with respect to HoldCo Rescission or Damage Claims, which would result in dilution to holders of PG&E Corporation common stock, or pay a material amount of cash with respect to allowed Subordinated Debt Claims.

On the Effective Date, PG&E Corporation issued to the Fire Victim Trust a number of shares of common stock equal to 22.19% of the outstanding common stock on such date. As further described in "Satisfaction of HoldCo Rescission or Damage Claims and Subordinated Debt Claims" in Note 14 of the Notes to the Consolidated Financial Statements in Item 8, PG&E Corporation may be required to issue shares of its common stock in satisfaction of allowed HoldCo Rescission or Damage Claims. If such issuance is required, it may be determined that, under the Plan, the Fire Victim Trust should receive additional shares of PG&E Corporation common stock such that it would have owned 22.19% of the outstanding common stock of reorganized PG&E Corporation on the Effective Date, assuming that such issuance of shares in satisfaction of the HoldCo Rescission or Damage Claims had occurred on the Effective Date. Any such issuances will result in dilution to anyone who holds shares of PG&E Corporation common stock prior to such issuance and may cause the trading price of PG&E Corporation shares to decline.

Additionally, PG&E Corporation may be required to pay a material amount of cash with respect to allowed Subordinated Debt Claims (as defined in "Satisfaction of HoldCo Rescission or Damage Claims and Subordinated Debt Claims" in Note 14 of the Notes to the Consolidated Financial Statements in Item 8). Such payment may have a material adverse impact on PG&E Corporation's and the Utility's business, financial condition, results of operations, and cash flows.

Any substantial sale of stock by existing stockholders could depress the market value of PG&E Corporation's common stock, thereby devaluing the market price and causing investors to risk losing all or part of their investment.

Certain existing stockholders, including the Fire Victim Trust, the PIPE Investors and the Backstop Parties, hold a large number of the outstanding shares of PG&E Corporation. PG&E Corporation can make no prediction as to the effect, if any, that sales of shares, or the availability of shares for future sale, will have on the prevailing market price of shares of PG&E Corporation common stock. Sales of substantial amounts of shares of common stock in the public market, or the perception that such sales could occur, could depress prevailing market prices for such shares. Such sales may also make it more difficult for PG&E Corporation to sell equity securities or equity-linked securities in the future at a time and price which it deems appropriate.

PG&E Corporation may also sell additional shares of common stock in subsequent offerings or issue additional shares of common stock or securities convertible into shares of PG&E Corporation common stock. The issuance of any shares of PG&E Corporation common stock in future financings, acquisitions upon conversion or exercise of convertible securities, or otherwise may result in a reduction of the book value and market price of PG&E Corporation's outstanding common stock. If PG&E Corporation issues any such additional shares, the issuance will cause a reduction in the proportionate ownership and voting power of all current shareholders. PG&E Corporation cannot predict the size of future issuances of shares of PG&E Corporation common stock or securities convertible into shares of PG&E Corporation common stock or, for any issuance, the effect, if any, that such future issuances will have on the market price of PG&E Corporation's common stock.

PG&E Corporation common stock is subject to ownership and transfer restrictions intended to preserve PG&E Corporation's ability to use its net operating loss carryforwards and other tax attributes.

PG&E Corporation has incurred and may also continue to incur in connection with the Plan significant net operating loss carryforwards and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. The Amended Articles (as defined below) impose certain restrictions on the transferability and ownership of PG&E Corporation common stock and preferred stock (together, the "capital stock") and other interests designated as "stock" of PG&E Corporation by the Board of Directors as disclosed in an SEC filing (such stock and other interests, the "Equity Securities," and such restrictions on transferability and ownership, the "Ownership Restrictions") in order to reduce the possibility of an equity ownership shift that could result in limitations on PG&E Corporation's ability to utilize net operating loss carryforwards and other tax attributes from prior taxable years or periods for federal income tax purposes. Any acquisition of PG&E Corporation capital stock that results in a shareholder being in violation of these restrictions may not be valid.

Subject to certain exceptions, the Ownership Restrictions restrict (i) any person or entity (including certain groups of persons) from directly or indirectly acquiring or accumulating 4.75% or more of the outstanding Equity Securities and (ii) the ability of any person or entity (including certain groups of persons) already owning, directly or indirectly, 4.75% or more of the Equity Securities to increase their proportionate interest in the Equity Securities (but see the immediately following risk factor for more information). Any transferee receiving Equity Securities that would result in a violation of the Ownership Restrictions will not be recognized as a shareholder of PG&E Corporation or entitled to any rights of shareholders, including, without limitation, the right to vote and to receive dividends or distributions, whether liquidating or otherwise, in each case, with respect to the Equity Securities causing the violation.

The Ownership Restrictions remain in effect until the earliest of (i) the repeal, amendment or modification of Section 382 (and any comparable successor provision) of the Internal Revenue Code, in a manner that renders the restrictions imposed by Section 382 of the Internal Revenue Code no longer applicable to PG&E Corporation, (ii) the beginning of a taxable year in which the Board of Directors of PG&E Corporation determines that no tax benefits attributable to net operating losses or other tax attributes are available, (iii) the date selected by the Board of Directors if it determines that the limitation amount imposed by Section 382 of the Internal Revenue Code as of such date in the event of an "ownership change" of PG&E Corporation (as defined in Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) would not be materially less than the net operating loss carryforwards or "net unrealized built-in loss" (within the meaning of Section 382 of the Internal Revenue Code and Treasury Regulation Sections 1.1502-91 et seq.) of PG&E Corporation and (iv) the date selected by the Board of Directors if it determines that it is in the best interests of PG&E Corporation's shareholders for the Ownership Restrictions to be removed or released. The Ownership Restrictions may also be waived by the Board of Directors on a case by case basis.

If PG&E Corporation elects to treat the Fire Victim Trust as a "grantor trust," the application of the Ownership Restrictions, as defined in PG&E Corporation's Amended Articles of Incorporation, will be determined on the basis of a number of shares outstanding that could differ materially from the number of shares reported as outstanding on the cover page of its periodic reports under the Exchange Act.

The Plan contemplates that the Fire Victim Trust will be treated as a "qualified settlement fund" for U.S. federal income tax purposes, subject to PG&E Corporation's ability to elect to treat the Fire Victim Trust as a "grantor trust" for U.S. federal income tax purposes instead. In January 2021, PG&E Corporation received an IRS ruling that states the Utility is eligible to make a grantor trust election with respect to the Fire Victim Trust and addressed certain, but not all, related issues. PG&E Corporation believes benefits associated with "grantor trust" treatment could be realized, but only if PG&E Corporation and the Fire Victim Trust can meet certain requirements of the Internal Revenue Code and Treasury Regulations thereunder, relating to sales of PG&E Corporation stock.

If PG&E Corporation were to elect to treat the Fire Victim Trust as a "grantor trust," any shares owned by the Fire Victim Trust would effectively be excluded from the total number of outstanding Equity Securities when calculating a Person's Percentage Ownership (as defined in the Amended Articles) for purposes of the Ownership Restrictions. For example, whereas the number of outstanding shares of PG&E Corporation common stock for corporate purposes as of February 22, 2021, was 1,984,683,820 shares, for purposes of the Ownership Restrictions, the number of outstanding common stock as of February 22, 2021, would be 1,506,940,230 (the number of outstanding shares of PG&E Corporation common stock less the number of shares of common stock owned by the Fire Victim Trust as of February 22, 2021). PG&E Corporation does not control the number of shares held by the Fire Victim Trust and is not able to determine in advance the number of shares the Fire Victim Trust will hold. PG&E Corporation intends to periodically make available to investors information about the number of shares of common stock held by the Fire Victim Trust as of a specified date for purposes of the Ownership Restrictions, including in its Quarterly Reports and Annual Reports filed with the SEC.

PG&E Corporation expects to publicly announce its determination on whether it will elect to treat the Fire Victim Trust as a "grantor trust" no later than April 1, 2021. In the event PG&E Corporation decides to make a "grantor trust" election with respect to the Fire Victim Trust, PG&E Corporation intends to enforce the Ownership Restrictions as described in the foregoing paragraph (excluding any shares owned by the Fire Victim Trust from the number of outstanding Equity Securities), including with respect to Transfers (as defined in the Amended Articles) occurring before such announcement. However, it is anticipated that the Board of Directors of PG&E Corporation will exempt Transfers to shareholders occurring prior to July 30, 2020 (the date PG&E Corporation initially announced it was considering treating the Fire Victim Trust as a grantor trust in its Form 10-Q for the quarterly period ended June 30, 2020), solely to the extent that such Transfers would have complied with the Ownership Restrictions if the Ownership Restrictions were applied on the basis that the shares owned by the Fire Victim Trust were treated as outstanding Equity Securities. For the avoidance of doubt, all other Transfers of Equity Securities (including acquisitions from and after the July 30, 2020 by shareholders benefiting from an exemption described in the preceding sentence) will continue to be subject to the Ownership Restrictions. All current and prospective shareholders are advised to consider the foregoing in determining their ownership and acquisition of PG&E Corporation common stock.

The ability of PG&E Corporation to use some or all of its net operating loss carryforwards and other tax attributes to offset future income may be limited.

As of December 31, 2020, PG&E Corporation had net operating loss carryforwards for PG&E Corporation's consolidated group for U.S. federal and California income tax purposes of approximately $28.5 billion and $25.4 billion, respectively, and PG&E Corporation incurred and may also continue to incur in connection with the Plan significant net operating loss carryforwards and other tax attributes. The ability of PG&E Corporation to use some or all of these net operating loss carryforwards and certain other tax attributes may be subject to certain limitations. Under Section 382 of the Internal Revenue Code (which also applies for California state income tax purposes), if a corporation (or a consolidated group) undergoes an "ownership change," such net operating loss carryforwards and other tax attributes may be subject to certain limitations. In general, an ownership change occurs if the aggregate stock ownership of certain shareholders (generally five percent shareholders, applying certain look-through and aggregation rules) increases by more than 50% over such shareholders' lowest percentage ownership during the testing period (generally three years).

As of the date of this report, it is more likely than not that PG&E Corporation has not undergone an ownership change and its net operating loss carryforwards and other tax attributes are not limited by Section 382 of the Internal Revenue Code. However, whether PG&E Corporation underwent or will undergo an ownership change as a result of the transactions in PG&E Corporation's equity that occurred pursuant to the Plan depends on several factors outside PG&E Corporation's control and the application of certain laws that are uncertain in several respects. Accordingly, there can be no assurance that the IRS would not successfully assert that PG&E Corporation has undergone or will undergo an ownership change pursuant to the Plan. In addition, even if these transactions did not cause an ownership change, they may increase the likelihood that PG&E Corporation may undergo an ownership change in the future. If the IRS successfully asserts that PG&E Corporation did undergo, or PG&E Corporation otherwise does undergo, an ownership change, the limitation on its net operating loss carryforwards and other tax attributes under Section 382 of the Internal Revenue Code could be material to its operations.

In particular, limitations imposed on PG&E Corporation's ability to utilize net operating loss carryforwards or other tax attributes could cause U.S. federal and California income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards or other tax attributes to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards and other tax attributes. Specifically, PG&E Corporation's ability to utilize its net operating loss carryforwards is critical to a successful rate-neutral securitization transaction, the proceeds of which are expected to be used to satisfy the Utility's obligations to the Fire Victim Trust, and to PG&E Corporation's and the Utility's commitment to make certain operating and capital expenditures. Failure to consummate a securitization transaction or obtain alternative sources of capital could have a material adverse effect on PG&E Corporation and the Utility and the value of PG&E Corporation common stock.

The ability of PG&E Corporation to pay dividends on shares of PG&E Corporation common stock is subject to restrictions.

In response to concerns raised by the California Governor, PG&E Corporation and the Utility filed the Case Resolution Contingency Process Motion with the Bankruptcy Court setting forth certain commitments in connection with the confirmation process and implementation of the Plan, including, among other things, limitations on the ability of PG&E Corporation to pay dividends on shares of its common stock (the "Dividend Restriction"). The Dividend Restriction provides that PG&E Corporation may not pay dividends on shares of its common stock until it recognizes $6.2 billion in Non-GAAP Core Earnings following the Effective Date. "Non-GAAP Core Earnings" means GAAP earnings adjusted for certain non-core items. Additionally, the ruling of the court overseeing the Utility's probation dated April 3, 2019 places further restrictions on the ability of PG&E Corporation and the Utility to issue dividends. Under those terms of probation, no dividends may be issued until the Utility is fully in compliance with all applicable laws concerning vegetation management and clearance requirements, as well as the vegetation management and enhanced vegetation management targets and metrics in the Utility's WMP.

Subject to the foregoing restrictions, any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend on, among other things, PG&E Corporation's results of operations, financial condition, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant.

PG&E Corporation is a holding company and relies on dividends, distributions and other payments, advances and transfers of funds from the Utility to meet its obligations.

PG&E Corporation conducts its operations primarily through its subsidiary, the Utility, and substantially all of PG&E Corporation's consolidated assets are held by the Utility. Accordingly, PG&E Corporation's cash flow and its ability to meet its debt service obligations under its existing and future indebtedness are largely dependent upon the earnings and cash flows of the Utility and the distribution or other payment of these earnings and cash flows to PG&E Corporation in the form of dividends or loans or advances and repayment of loans and advances from the Utility. The ability of the Utility to pay dividends or make other advances, distributions and transfers of funds will depend on its results of operations and may be restricted by, among other things, applicable laws limiting the amount of funds available for payment of dividends, the conditions of the Utility's probation proceeding and certain restrictive covenants contained in the agreements of those subsidiaries. Additionally, the Utility must use its resources to satisfy its own obligations, including its obligation to serve customers, to pay principal and interest on outstanding debt, to pay preferred stock dividends and meet its obligations to employees and creditors, before it can distribute cash to PG&E Corporation. Under the Utility's Articles of Incorporation, the Utility cannot pay common stock dividends unless all cumulative preferred dividends on the Utility's preferred stock have been paid. In addition, the CPUC has imposed various conditions that govern the relationship between PG&E Corporation and the Utility, including financial conditions that require the Board of Directors to give first priority to the capital requirements of the Utility, as determined to be necessary and prudent to meet the Utility's obligation to serve or to operate the Utility in a prudent and efficient manner. It is uncertain when PG&E Corporation and the Utility will commence the payment of dividends on their common stock and when the Utility will commence the payment of dividends on its preferred stock. The deterioration of income from, or other available assets of, the Utility for any reason could limit or impair the Utility's ability to pay dividends or other distributions to PG&E Corporation, which could, in turn, materially and adversely affect PG&E Corporation's ability to meet its obligations.

California law and certain provisions in the Amended Articles and the amended and restated bylaws of PG&E Corporation (the "Amended Bylaws") may prevent efforts by shareholders to change the direction or management of the Company.

The Amended Articles and the Amended Bylaws contain provisions that may make the acquisition of PG&E Corporation more difficult without the approval of the Board of Directors, including, but not limited to, the following:

- until 2024, the Board of Directors will be divided into two equal classes, with members of each class elected in different years for different terms;
- only holders of shares who are entitled to cast ten percent or more of the votes can request a special meeting of the shareholders, and any such request must satisfy the requirements specified in the Amended Bylaws; action by shareholders may otherwise only be taken at an annual or special meeting duly called by or at the direction of a majority of the Board of Directors;
- advance notice for all shareholder proposals is required; and
- any person acquiring PG&E Corporation Equity Securities will be restricted from owning more than 4.75% of such Equity Securities, subject to certain expectations as may be determined by the Board of Directors of PG&E Corporation.

These and other provisions in the Amended Articles, the Amended Bylaws and California law could make it more difficult for shareholders or potential acquirers to obtain control of the Board of Directors or initiate actions that are opposed by the then-current Board of Directors, including delay or impede a merger, tender offer or proxy contest involving PG&E Corporation. The existence of these provisions could negatively affect the price of PG&E Corporation common stock and limit opportunities for shareholders to realize value in a corporate transaction.

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity and cash flows have been and could continue to be significantly affected by the outbreak of the COVID-19 pandemic.

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity and cash flows have been (beginning in March 2020) and could continue to be significantly affected by the outbreak of COVID-19, but the extent of such impact is uncertain. In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China, resulting in significant disruptions to manufacturing, supply chain, markets, and travel world-wide. On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the COVID-19 outbreak a public health emergency of international concern and on March 12, 2020, announced the outbreak was a pandemic. In response to the California Governor's emergency proclamation on March 4, 2020, the Utility extended a disconnection moratorium to residential and small business customers. On April 16, 2020, the CPUC approved a resolution requiring utilities to extend this disconnection moratorium through April 16, 2021. On February 11, 2021, the CPUC extended the moratorium for residential and small business customers to June 30, 2021. On December 21, 2020, a CPUC ALJ issued a ruling seeking comments on an approach to implement a temporary moratorium on service disconnections for medium-large commercial and industrial customers. On February 11, 2021, the CPUC initiated a rulemaking proceeding to consider arrearage relief for utility customers who will have outstanding utility bills when the moratorium on service disconnections ends, some of the costs of which could be funded by shareholders.

While the extent of the impact of the current COVID-19 outbreak on PG&E Corporation's and the Utility's business and financial results is uncertain, the consequences of a continued and prolonged outbreak and resulting government and regulatory orders have had and could continue to have a further negative impact on the Utility's financial condition, results of operations, liquidity and cash flows.

The outbreak of COVID-19 and the resulting economic conditions, including but not limited to the shelter-in-place orders, as such orders may be imposed from time to time, and resulting decrease in economic and industrial activity in the Utility's service territory have and will continue to have a significant adverse impact on the Utility's customers; these circumstances have impacted and will continue to impact the Utility for a period of time that PG&E Corporation and the Utility are unable to predict. For example, the economic downturn has resulted in a reduction in customer receipts and collection delays in the second, third and fourth quarters of 2020.

The Utility's customer energy accounts receivable balances over 30 days outstanding as of December 31, 2020 were approximately $825 million, or $478 million higher as compared to the balances as of December 31, 2019. The Utility is unable to estimate the portion of the increase directly attributable to the COVID-19 pandemic. The Utility expects to continue experiencing an impact on monthly cash collections in 2021 and for as long as current COVID-19 circumstances persist.

On April 16, 2020, the CPUC passed a resolution requiring COVID-19 related emergency customer protection measures starting from the March 4, 2020 Emergency Proclamation and consistent with the March 16, 2020 Executive Order, through April 16, 2021. On February 11, 2021, the CPUC approved a resolution extending these protections to June 30, 2021. The April 16, 2020 resolution allows associated costs to be tracked in a memorandum account, the CPPMA. The CPPMA allows tracking of residential and small business customers' incremental uncollectible costs. It is anticipated that implementation of the February 11, 2021 resolution will provide for the same treatment. In addition, the Utility's 2020 GRC final decision would continue the Utility's existing mechanism to address uncollectibles, which allows the Utility to readjust its uncollectibles rate on an annual basis based on the most recent 10-year average of uncollectibles. In addition, the June 11, 2020 decision in the OIR to Consider New Approaches to Disconnections and Reconnections to Improve Energy Access and Contain Costs (Disconnections OIR) provides for a two-way balancing account for residential uncollectibles and memorandum account for OIR implementation costs. The Utility is unable to predict whether these measures will allow for future recovery of these amounts.

In addition, the Utility has experienced average reductions of approximately two percent in electric load and approximately two percent in core gas load on a weather-adjusted basis from mid-March 2020 through December 2020, resulting in an estimated $430 million reduction in billed revenues for the mid-March 2019 to the December 2020 period. On January 1, 2021, electric rates were reset using sales that were adjusted for COVID-19 impacts and significant ongoing shortfalls are not currently expected in 2021. PG&E Corporation and the Utility are currently unable to quantify the long-term potential impact of the changes in customer collections or changes in energy demand on earnings and cash flows due, in part, to uncertainties regarding the timing, duration and intensity of the COVID-19 outbreak and the resulting economic downturn. Although the CPUC authorized the establishment of memorandum and balancing accounts to track costs associated with customer protection measures, the timing of regulatory relief, if any, and ultimately cost recovery from such accounts or otherwise, are uncertain.

The COVID-19 pandemic and resulting economic downturn have resulted and will continue to result in workforce disruptions, both in personnel availability (including a reduction in contract labor resources) and deployment. In preparation for the return of a few teams to their offices, the Utility has issued a "Return to PG&E Playbook" that explains the safety-related steps the company is taking, as well as the steps that PG&E Corporation's and the Utility's employees should take. The guidance includes important reminders of policies on personal hygiene, travel, reporting exposure or illness, and other topics.

Although the Utility continues to prioritize customer and community safety, these disruptions necessitate changes to the Utility's operating and capital expenditure plans, which could lead to project delays or service disruptions in certain programs. Delays in production and shipping of materials used in the Utility's operations may also impact operations.

In addition, as discussed above, a group of local government entities and organizations filed a Joint Motion asking the CPUC to require utilities to comply with additional requirements when implementing PSPS events while local areas are sheltering-in-place due to COVID-19. The requested requirements included providing back-up generation to essential services and allowing local governments to veto PSPS events for their areas. The Utility and other entities (including the other IOUs) filed responses on April 20, 2020, requesting that the CPUC deny the motion, and the moving parties and other entities filed responses on April 24, 2020. On August 24, 2020, the ALJ issued a decision holding the April 13, 2020 joint motion in abeyance, finding that the May 28, 2020 decision dealt with many of the issues raised. If the motion were reinstated in the future, a CPUC decision could restrict or impose additional requirements on the Utility in implementing PSPS events.

PG&E Corporation and the Utility expect additional financial impacts in the future as a result of COVID-19. Potential longer-term impacts of COVID-19 on PG&E Corporation or the Utility include the potential for higher credit spreads and borrowing costs and incremental financing needs. PG&E Corporation's and the Utility's analysis of the potential impact of COVID-19 is ongoing and subject to change. PG&E Corporation and the Utility are unable to predict the timing, duration or intensity of the COVID-19 situation, the timing, duration or intensity of any resurgence of COVID-19 and any variant strains of the COVID-19 virus, the effectiveness and intensity of measures to contain COVID-19 (including availability and effectiveness of vaccines), and the effects of the COVID-19 situation on the business, financial condition and results of operations of PG&E Corporation and the Utility and on the business and general economic conditions in the State of California and the United States of America.

Risks Related to Wildfires

PG&E Corporation's and the Utility's financial results could be materially affected if the Utility does not maintain an AB 1054 safety certification or is otherwise unable to access the Wildfire Fund.

On January 14, 2021, the WSD issued the Utility's 2020 Safety Certification, which under AB 1054 entitles the Utility to certain benefits, including eligibility for a cap on Wildfire Fund reimbursement and for a reformed prudent manager standard. The 2020 Safety Certification is valid for 12 months, or until a timely request for a new safety certification is acted upon, whichever occurs later.

The AB 1054 Wildfire Fund disallowance cap, which caps the amount of liability that the Utility could be required to bear for a catastrophic wildfire, is inapplicable if the Wildfire Fund administrator determines that the electric utility company's actions or inactions that resulted in the applicable wildfire constituted "conscious or willful disregard for the rights and safety of others," or the electric utility company fails to maintain a valid safety certification at the time the applicable wildfire ignited. The inability to maintain an AB 1054 safety certification and, as a result, the inaccessibility of the disallowance cap on reimbursement to the Wildfire Fund, could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. In addition, if the Utility has failed to maintain a valid safety certificate at the time a wildfire ignites, the initial burden of proof in a prudency proceeding shifts from intervenors to the Utility.

Furthermore, the Wildfire Fund will only be available for payment of eligible claims so long as there are sufficient funds remaining in the Wildfire Fund. Such funds could be depleted more quickly than expected, including as a result of claims made by California's other participating electric utility companies. PG&E Corporation and the Utility will not benefit from all of the features of AB 1054 if the Wildfire Fund is exhausted, which could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity and cash flows.

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected as a result of the 2019 Kincade fire, the 2020 Zogg fire or future wildfires.

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected as a result of the 2019 Kincade fire, the 2020 Zogg fire or future wildfires.

Based on the facts and circumstances available as of the date of this report, PG&E Corporation and the Utility have determined that it is probable they will incur a loss in connection with the 2019 Kincade fire and the 2020 Zogg fire. Although PG&E Corporation and the Utility have recorded liabilities for probable losses in connection with such wildfires, these liability estimates correspond to the lower end of the range of reasonably estimable losses, do not include several categories of potential damages that are not reasonably estimable, and are subject to change based on new information.

Although there are a number of unknown facts surrounding Cal Fire's causation determination of the 2019 Kincade fire and Cal Fire's investigation of the 2020 Zogg fire, the Utility could be subject to significant liability in excess of insurance coverage or amounts available under the Wildfire Fund under AB 1054 that would be expected to have a material impact on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. PG&E Corporation and the Utility have also received and have responded or are responding to data requests from the CPUC's SED relating to the 2019 Kincade fire and the 2020 Zogg fire. Furthermore, the Sonoma County District Attorney's Office and the Shasta County District Attorney's Office are conducting investigations into the 2019 Kincade fire and the 2020 Zogg fire, respectively. PG&E Corporation and the Utility could be the subject of additional investigations, lawsuits, or enforcement actions in connection with the 2019 Kincade fire, the 2020 Zogg fire or future wildfires.

Although the Utility has taken extensive measures to reduce the threat of future wildfires, the potential that the Utility's equipment will be involved in the ignition of future wildfires, including catastrophic wildfires, is significant. This risk may be attributable to, and exacerbated by, a variety of factors, including climate (in particular extended periods of seasonal dryness coupled with periods of high wind velocities and other storms), infrastructure, and vegetation conditions. See "Risks related to environmental factors—Severe weather conditions, extended drought and shifting climate patterns could materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows." Despite significant investment in mitigation measures to improve infrastructure and manage vegetation, as well as implementation of de-energization strategies, the Utility may not be successful in mitigating the risk of future wildfires.

In addition, the 2019 Kincade fire and the 2020 Zogg fire have had and, along with any future wildfires could continue to have adverse consequences on the Utility's probation proceeding, the Utility's proceedings with the CPUC and the FERC (including the Safety Culture OII), and future regulatory proceedings, including future applications for the safety certification required by AB 1054. PG&E Corporation and the Utility may also suffer additional reputational harm and face an even more challenging operating, political, and regulatory environment as a result of the 2019 Kincade fire, 2020 Zogg fire or any future wildfires. For more information about the 2019 Kincade fire and the 2020 Zogg fire, see Note 14 "Wildfire-Related Contingencies" in Part II, Item 8.

If the Utility is unable to recover all or a significant portion of its excess costs in connection with the 2020 Zogg fire and 2019 Kincade fire through ratemaking mechanisms and in a timely manner, PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected.

The Utility could incur substantial costs in excess of insurance coverage in the future in connection with the 2019 Kincade fire and the 2020 Zogg fire.

There can be no assurance that the Utility will be allowed to recover costs in excess of insurance, including costs recorded in those accounts in the future, even if a court decision were to determine that the Utility is liable as a result of the application of the doctrine of inverse condemnation.

The inability to recover all or a significant portion of costs in excess of insurance through increases in rates and by collecting such rates in a timely manner could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

The doctrine of inverse condemnation, if applied by courts in litigation to which PG&E Corporation or the Utility are subject, could significantly expand the potential liabilities from such litigation and materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

California law includes a doctrine of inverse condemnation that is routinely invoked in California. Inverse condemnation imposes strict liability (including liability for attorneys' fees) for damages as a result of the design, construction and maintenance of utility facilities, including utilities' electric transmission lines. Courts have imposed liability under the doctrine of inverse condemnation in legal actions brought by property holders against utilities on the grounds that losses borne by the person whose property was damaged through a public use undertaking should be spread across the community that benefitted from such undertaking, and based on the assumption that utilities have the ability to recover these costs from their customers. Plaintiffs have asserted and continue to assert the doctrine of inverse condemnation in lawsuits related to certain wildfires that occurred in the Utility's service territory, including the 2019 Kincade fire and the 2020 Zogg fire. While the Utility currently continues to dispute the applicability of inverse condemnation to the Utility, there can be no assurance that the Utility will be successful in challenging the applicability of inverse condemnation in the 2019 Kincade fire, the 2020 Zogg fire or other litigation against PG&E Corporation or the Utility.

For example, a court could determine that the doctrine of inverse condemnation applies even in the absence of an open CPUC proceeding for cost recovery, or before a potential cost recovery decision is issued by the CPUC. Although the imposition of liability under the doctrine of inverse condemnation is premised on the assumption that utilities have the ability to automatically recover these costs from their customers, there can be no assurance that the CPUC would authorize cost recovery whether or not a previous court decision had imposed liability on a utility under the doctrine of inverse condemnation. (In December 2017, the CPUC denied recovery of costs that San Diego Gas & Electric Company stated it had incurred as a result of the doctrine of inverse condemnation, holding that the inverse condemnation principles of strict liability are not relevant to the CPUC's prudent manager standard. That determination was challenged by San Diego Gas & Electric as well as by the Utility and Southern California Edison. In October 2019, the U.S. Supreme Court declined to review the case, effectively ending the challenge.)

If PG&E Corporation or the Utility were to be found liable for damages under the doctrine of inverse condemnation, but the Utility was unable to secure a cost recovery decision from the CPUC to pay for such costs through increases in rates or to collect such rates in a timely manner, the financial condition, results of operations, liquidity, and cash flows of PG&E Corporation and the Utility would be materially affected by potential losses resulting from the impact of the 2019 Kincade fire, the 2020 Zogg fire or any future wildfires. (See "PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected as a result of the 2019 Kincade fire, the 2020 Zogg fire or future wildfires." above.)

PG&E Corporation's and the Utility's financial results could be materially affected as a result of the Utility's implementation of its PSPS program.

As outlined in the 2020 WMP, PG&E Corporation and the Utility have adopted the PSPS program to proactively de-energize lines that traverse areas under elevated and extreme risks for wildfire when forecasts predict extreme fire-threat conditions. The Utility carried out nine PSPS events in 2019 and six in 2020. In addition to the 2019 and 2020 PSPS events, the Utility expects that PSPS events will be necessary in 2021 and future years.

These PSPS events have been subject to significant scrutiny and criticism by various stakeholders, including the California Governor, the CPUC and the court overseeing the Utility's probation. The Utility also is the subject of a scrutiny by the CPUC and of a class action litigation in connection with the 2019 PSPS events that was filed in the Bankruptcy Court in December of 2019. On August 14, 2020, the assigned ALJ issued a scoping memo and ruling in the 2019 ERRA Compliance proceeding that established a Phase II of the proceeding to address the impacts of PSPS events that occurred in the Utility's service territory in 2019 and how the PSPS impacted its revenue collections. To date, the assigned ALJ has not initiated the Phase II.

PG&E Corporation and the Utility cannot predict the timing and outcome of the various proceedings and litigation in connection with the PSPS events. PG&E Corporation and the Utility could be subject to additional investigations, regulatory proceedings or other enforcement actions as well as to additional litigation and claims by customers as a result of the Utility's implementation of its PSPS program, which could result in fines, penalties, customer rebates or other payments. The amount of any fines, penalties, customer rebates or other payments (if PG&E Corporation or the Utility were to issue any credits, rebates or other payments in connection with any other PSPS events (whether past events or in the future)) or liability for damages could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. In addition, the PSPS program has had an adverse impact on PG&E Corporation's and the Utility's reputation with customers, regulators and policymakers and future PSPS events may increase these negative perceptions. (For more information, see "Regulatory Matters" in Item 7. MD&A).

Risks Related to the Outcome of Other Enforcement Matters, Investigations, and Regulatory Proceedings

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected in the event of further non-compliance with the terms of probation or in the event of further modifications to the conditions of probation.

PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected in the event of further non-compliance with the terms of probation or in the event of further modifications to the conditions of probation. On January 26, 2017, following the federal criminal trial against the Utility in connection with the San Bruno explosion, in which the Utility was found guilty on six felony counts, the Utility was sentenced to, among other things, a five-year corporate probation period and oversight by a third-party monitor for a period of five years, with the ability to apply for early termination after three years.

From 2018 to 2020, the court overseeing the Utility's probation issued various orders related to the Utility's probation, including a finding that the Utility had violated a condition of its probation with respect to reporting requirements, and imposing new conditions of probation. For more information about the Utility's probation and the court's orders, see "Enforcement Matters" in Item 7. MD&A.

The Utility could incur material costs, not recoverable through rates, in the event of further non-compliance with the terms of its probation and in connection with the monitorship (including but not limited to costs resulting from recommendations of the third-party monitor). The Utility could also incur material costs, not recoverable through rates, in the event of further modifications to the conditions of its probation, such as those proposed by the court overseeing the Utility's probation on December 29, 2020 and February 4, 2021, relating to de-energizing certain distribution circuits during PSPS events based on the presence of certain vegetation, and on February 18, 2021, relating to removing all trees or portions thereof, without regard to their health, if they are leaning towards a distribution line and could either fall on the line or contact the line from the side.

The outcome of probation could harm the Utility's relationships with customers, regulators, legislators, communities, business partners, or other constituencies and make it more difficult to recruit qualified personnel and senior management. Further, it could negatively affect the outcome of future ratemaking and regulatory proceedings and result in increased regulatory or legislative scrutiny, including with respect to various aspects of how the Utility's business is conducted or organized. (See "Enforcement and Litigation Matters" in Item 7. MD&A.)

PG&E Corporation's and the Utility's financial results could be materially affected as a result of an Enhanced Oversight and Enforcement Process.

On November 24, 2020, the Utility received a letter (the "Letter") from the President of the CPUC, expressing concerns related to the Utility's vegetation management and asset management activities and explaining potential implications with respect to the Enhanced Oversight and Enforcement Process adopted by the CPUC in its decision approving PG&E Corporation's and the Utility's Plan, as well as the Utility's annual safety certification under AB 1054. According to the Letter, the President of the CPUC has "directed CPUC staff to conduct fact-finding to determine whether a recommendation to place [the Utility] into the enhanced oversight and enforcement process is warranted." On January 14, 2021, the WSD issued the Utility's 2020 Safety Certification pursuant to AB 1054. The safety certification is separate from the CPUC's enforcement authority and does not preclude the CPUC from pursuing remedies for safety or other applicable violations.

The Enhanced Oversight and Enforcement Process is a six-step process with potentially escalating CPUC oversight and enforcement measures based on specific "triggering events" identified for each of the six steps. If the Utility is placed into the Enhanced Oversight and Enforcement Process, it will be subject to additional reporting requirements and additional monitoring and oversight by the CPUC. Higher steps of the process (Steps 3-6) also contemplate additional enforcement mechanisms, including appointment of an independent third-party monitor, appointment of a chief restructuring officer, pursuit of the receivership remedy, and review of the Utility's Certificate of Public Convenience and Necessity (i.e., its license to operate as a utility). The process contains provisions for the Utility to cure and exit the process if it can satisfy specific criteria. The Enhanced Oversight and Enforcement Process states that the Utility should presumptively move through the steps of the process sequentially, but the CPUC may place the Utility into the appropriate step of the process upon occurrence of a specified triggering event.

PG&E Corporation's and the Utility's financial results could be materially affected as a result of legislative and regulatory developments.

Pursuant to Article 5.8 of the Public Utilities Code, on April 30, 2020, the Utility filed an application with the CPUC seeking authorization for a post-emergence transaction to securitize $7.5 billion of 2017 wildfire claims costs that is designed to be rate neutral to customers, with the proceeds used to pay or reimburse the Utility for the payment of wildfire claims costs associated with the 2017 Northern California wildfires. As a result of the proposed transaction, the Utility would retire $6.0 billion of Utility debt and accelerate a $592 million payment due to the Fire Victim Trust. Failure to consummate a securitization transaction could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity and cash flows. (See "Regulatory Matters - Other Regulatory Proceedings" in Item 7. MD&A.)

In addition, the Public Utilities Code requires utilities to submit annual WMPs for approval by the CPUC on a schedule to be established by the CPUC. If the CPUC rejects the Utility's WMP submittal, the Utility would become unable to obtain an AB 1054 safety certification and, as a result, become unable to access the Wildfire Fund, which could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. The statute establishes factors to be considered by the CPUC when setting penalties for failure to substantially comply with the plan. Failure to substantially comply with the plan could result in fines and other penalties imposed on the Utility that could be material. (See "Regulatory Matters – Other Regulatory Proceedings" in Item 7. MD&A.)

On July 12, 2019, the California Governor signed into law AB 1054, which, among other policy reforms, provides for the establishment of a statewide fund that is available for eligible electric utility companies to pay eligible claims for liabilities arising from wildfires occurring after July 12, 2019 that are caused by the applicable electric utility company's equipment. Although PG&E Corporation and the Utility contributed in accordance with AB 1054, an initial contribution of approximately $4.8 billion and first annual contribution of approximately $193 million to the Wildfire Fund on the Effective Date of the Plan to allow participation of the Utility therein, the impact of AB 1054 on PG&E Corporation and the Utility is subject to numerous uncertainties, including the Utility's ability to demonstrate to the CPUC that wildfire-related costs paid from the Wildfire Fund are just and reasonable, subject to a disallowance cap, and that the Wildfire Fund has sufficient remaining funds. The Wildfire Fund will only be available for payment of eligible claims so long as there are sufficient funds remaining in the Wildfire Fund. Such funds could be depleted more quickly than expected, including as a result of claims made by California's other participating electric utility companies. (See also, "PG&E Corporation's and the Utility's financial results could be materially affected if the Utility does not maintain an AB1054 safety certification or is otherwise unable to access the Wildfire Fund." above.)

The costs of participating in the Wildfire Fund are expected to exceed $6.7 billion over the anticipated ten-year life of the fund. The timing and amount of any potential charges associated with the Utility's contributions would also depend on various factors. In addition, there could also be a significant delay between the occurrence of a wildfire and the timing on which the Utility recognizes impairment for the reduction in future coverage, due to the lack of data available to the Utility following a catastrophic event, especially if the wildfire occurs in the service territory of another participating electric utility. Participation in the Wildfire Fund is expected to have a material impact on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity and cash flows, and there can be no assurance that the benefits of participating in the Wildfire Fund ultimately outweigh these substantial costs.

Finally, AB 1054 revised some of the SB 901 requirements regarding WMPs, including creating a WSD to review future plans and that plans should cover a three-year period.

In June 2018, the State of California enacted the CCPA, which went into effect on January 1, 2020, with a 12-month look-back period requiring compliance by January 1, 2019. On October 11, 2019, the State of California announced proposed regulations which provide guidance on the requirements of the CCPA. The CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. The CCPA provides for financial penalties in the event of non-compliance and statutory damages in the event of a data security breach. On November 3, 2020, Californians voted to approve Proposition 24, a ballot measure that creates the California Privacy Rights Act (CPRA). The CPRA, which will become effective on January 1, 2023, amends and expands the CCPA. Failure to comply with the CCPA and the CPRA could result in fines imposed on PG&E Corporation and the Utility that could be material.

Also, on September 10, 2018, the California Governor signed into law SB 100 (the 100 Percent Clean Energy Act of 2018), which increased the percentage from 50% to 60% of California's electricity portfolio that must come from renewables by 2030; and establishes state policy that 100% of all retail electricity sales must come from renewable portfolio standard-eligible or carbon-free resources by 2045. Failure to comply with SB 100 could result in fines imposed on PG&E Corporation and the Utility that could be material and could also result in negative publicity.

Finally, on June 30, 2020, the California Governor signed into law SB 350 (the Golden State Energy Act), a bill which authorizes the creation by the Governor of a new entity, "Golden State Energy," a nonprofit public benefit corporation, for the purpose of acquiring the Utility's assets and serving electric and gas in the Utility's service territory only in the event that the CPUC determines that the Utility's Certificate of Public Convenience and Necessity should be revoked pursuant to any process or procedures adopted by the CPUC in its decision approving PG&E Corporation's and the Utility's Plan of Reorganization.

The Utility is subject to extensive regulations and the risk of enforcement proceedings in connection with compliance with such regulations. PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected by the outcomes of the CPUC's investigative enforcement proceedings against the Utility, other known enforcement matters, and other ongoing state and federal investigations and requests for information.

The Utility is subject to extensive regulations, including federal, state and local energy, environmental and other laws and regulations, and the risk of enforcement proceedings in connection with compliance with such regulations. The Utility could incur material charges, including fines and other penalties, in connection with the order to show cause related to the 2019 PSPS events, the OII related to the 2019 PSPS events, the safety culture OII, and other matters that the CPUC's SED may be investigating. The SED could launch investigations at any time on any issue it deems appropriate.

The Utility could be subject to additional regulatory or governmental enforcement action in the future with respect to compliance with federal, state or local laws, regulations or orders that could result in additional fines, penalties or customer refunds, including those regarding renewable energy and resource adequacy requirements; customer billing; customer service; affiliate transactions; vegetation management; design, construction, operating and maintenance practices; safety and inspection practices; compliance with CPUC general orders or other applicable CPUC decisions or regulations; federal electric reliability standards; and environmental compliance. CPUC staff could also impose penalties on the Utility in the future in accordance with its authority under the gas and electric safety citation programs. The amount of such fines, penalties, or customer refunds could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

The Utility also is a target of a number of investigations, in addition to certain investigations in connection with the wildfires. (See "Risks Related to Wildfires," above.) The Utility is unable to predict the outcome of pending investigations, including whether any charges will be brought against the Utility, or the amount of any costs and expenses associated with such investigations.

If these investigations result in enforcement action against the Utility, the Utility could incur additional fines or penalties the amount of which could be substantial and, in the event of a judgment against the Utility, suffer further ongoing negative consequences. Furthermore, a negative outcome in any of these investigations, or future enforcement actions, could negatively affect the outcome of future ratemaking and regulatory proceedings to which the Utility may be subject; for example, by enabling parties to challenge the Utility's request to recover costs that the parties allege are somehow related to the Utility's violations. (See also "PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected in the event of further non-compliance with the terms of probation or in the event of modifications to the conditions of probation" above.)

PG&E Corporation's and the Utility's financial results primarily depend on the outcomes of regulatory and ratemaking proceedings and the Utility's ability to manage its operating expenses and capital expenditures so that it is able to earn its authorized rate of return in a timely manner.

As a regulated entity, the Utility's rates are set by the CPUC or the FERC on a prospective basis and are generally designed to allow the Utility to collect sufficient revenues to recover reasonable costs of providing service, including a return on its capital investments. PG&E Corporation's and the Utility's financial results could be materially affected if the CPUC or the FERC does not authorize sufficient revenues for the Utility to safely and reliably serve its customers and earn its authorized ROE. The outcome of the Utility's ratemaking proceedings can be affected by many factors, including the level of opposition by intervening parties; potential rate impacts; increasing levels of regulatory review; changes in the political, regulatory, or legislative environments; and the opinions of the Utility's regulators, consumer and other stakeholder organizations, and customers, about the Utility's ability to provide safe, reliable, and affordable electric and gas services. Further, an increase in the amount of capacity located in the Utility's service territory that is procured by the CAISO could increase the Utility's costs of procuring capacity needed for reliable service to its customers.

In addition to the amount of authorized revenues, PG&E Corporation's and the Utility's financial results could be materially affected if the Utility's actual costs to safely and reliably serve its customers differ from authorized or forecast costs. The Utility may incur additional costs for many reasons including changing market circumstances, unanticipated events (such as wildfires, storms, earthquakes, accidents, or catastrophic or other events affecting the Utility's operations), or compliance with new state laws or policies. Although the Utility may be allowed to recover some or all of the additional costs, there may be a substantial delay between when the Utility incurs the costs and when the Utility is authorized to collect revenues to recover such costs. Alternatively, the CPUC or the FERC may disallow costs that they determine were not reasonably or prudently incurred by the Utility.

The Utility also is required to incur costs to comply with legislative and regulatory requirements and initiatives, such as those relating to the development of a state-wide electric vehicle charging infrastructure, the deployment of distributed energy resources, implementation of demand response and customer energy efficiency programs, energy storage and renewable energy targets, underground gas storage, and the construction of the California high-speed rail project. The Utility's ability to recover costs, including its investments, associated with these and other legislative and regulatory initiatives will depend, in large part, on the final form of legislative or regulatory requirements, and the associated ratemaking mechanisms associated with these initiatives, including the timely adjustment of such mechanisms to reflect any lowered customer demand for the Utility's electricity and natural gas services.

PG&E Corporation's and the Utility's financial results depend upon the Utility's continuing ability to recover "pass-through" costs, including electricity and natural gas procurement costs, from customers in a timely manner. The CPUC may disallow procurement costs for a variety of reasons. In addition, the Utility's ability to recover these costs could be affected by the loss of Utility customers and decreased new customer growth, if the CPUC fails to adjust the Utility's rates to reflect such events.

The Utility meets customer demand for electricity from a variety of sources, including electricity generated from the Utility's own generation facilities, electricity provided by third parties under power purchase agreements, and purchases on the wholesale electricity market. The Utility must manage these sources using the commercial and CPUC regulatory principles of "least cost dispatch" and prudent administration of power purchase agreements in compliance with its CPUC-approved long-term procurement plan. The CPUC could disallow procurement costs incurred by the Utility if the CPUC determines that the Utility did not comply with these principles or if the Utility did not comply with its procurement plan.

Further, the contractual prices for electricity under the Utility's current or future power purchase agreements could become uneconomic in the future for a variety of reasons, including developments in alternative energy technology, increased self-generation by customers, an increase in distributed generation, and lower customer demand due to adverse economic conditions or the loss of the Utility's customers to other retail providers. Despite the CPUC's current approval of the contracts, the CPUC could disallow contract costs in the future if it determines that the terms of such contracts, including price, do not meet the CPUC reasonableness standard.

The Utility's ability to recover the costs it incurs in the wholesale electricity market may be affected by whether the CAISO wholesale electricity market continues to function effectively. Although market mechanisms are designed to limit excessive prices, these market mechanisms could fail, or the related systems and software on which the market mechanisms rely may not perform as intended which could result in excessive market prices. The CPUC could prohibit the Utility from passing through the higher costs of electricity to customers.

Further, PG&E Corporation's and the Utility's financial results could be affected by the loss of Utility customers and decreasing bundled load that occurs through municipalization of the Utility's facilities, an increase in the number of CCAs that provide electricity to their residents, and an increase in the number of consumers who become direct access customers of alternative generation providers. (See "Competition in the Electricity Industry" in Item 1.) As the number of bundled customers (i.e., those customers who receive electricity and distribution service from the Utility) declines, the rates for remaining customers could increase as the Utility would have a smaller customer base from which to recover certain procurement costs. Although the Utility is permitted to collect non-bypassable charges for above market generation-related costs incurred on behalf of former customers, the charges may not be sufficient for the Utility to fully recover these costs. In addition, the Utility's ability to collect non-bypassable charges has been, and may continue to be, challenged by certain customer groups. Furthermore, if the former customers return to receiving electricity supply from the Utility, the Utility could incur costs to meet their electricity needs that it may not be able to timely recover through rates or that it may not be able to recover at all.

In addition, increasing levels of self-generation of electricity by customers (primarily solar installations) and the use of customer NEM, which allows self-generating customers to receive bill credits for surplus power at the full retail rate, puts upward rate pressure on remaining customers, who may incur significantly higher bills due to an increase in customers seeking alternative energy providers.

A confluence of technology-related cost declines and sustained federal or state subsidies could make a combination of distributed generation and energy storage a viable, cost-effective alternative to the Utility's bundled electric service which could further threaten the Utility's ability to recover its generation, transmission, and distribution investments. If the number of the Utility's customers decreases or grows at a slower rate than anticipated, the Utility's level of authorized capital investment could decline as well, leading to a slower growth in rate base and earnings. Reduced energy demand or significantly slowed growth in demand due to customer migration to other energy providers, adoption of energy efficient technology, conservation, increasing levels of distributed generation and self-generation, unless substantially offset through regulatory cost allocations, could materially affect PG&E Corporation's and the Utility's business, financial condition, results of operations, liquidity, and cash flows.

Further, changes in commodity prices also may have an adverse effect on the Utility's ability to timely recover its operating costs and earn its authorized ROE. Although the Utility generally recovers its electricity and natural gas procurement costs from customers as "pass-through" costs, a significant and sustained rise in commodity prices could create overall rate pressures that make it more difficult for the Utility to recover its costs that are not categorized as "pass-through" costs. To relieve some of this upward rate pressure, the CPUC could authorize lower revenues than the Utility requested or disallow full cost recovery.

If the Utility is unable to recover a material portion of its procurement costs and/or if the CPUC fails to adjust the Utility's rates to reflect the impact of changing loads, the wide deployment of distributed generation, and the development of new electricity generation and energy storage technologies, PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected.

Risks Related to Operations and Information Technology

The Utility's electricity and natural gas operations are inherently hazardous and involve significant risks which, if they materialize, can materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

The Utility owns and operates extensive electricity and natural gas facilities, including two nuclear generation units and an extensive hydroelectric generating system. (See "Electric Utility Operations" and "Natural Gas Utility Operations" in Item 1. Business above.) The Utility's ability to earn its authorized ROE depends on its ability to efficiently maintain, operate, and protect its facilities, and provide electricity and natural gas services safely and reliably. The Utility undertakes substantial capital investment projects to construct, replace, and improve its electricity and natural gas facilities. In addition, the Utility is obligated to decommission its electricity generation facilities at the end of their useful operating lives, and the CPUC approved retirement of Diablo Canyon by 2024 and 2025.

The Utility's ability to safely and reliably operate, maintain, construct and decommission its facilities is subject to numerous risks, many of which are beyond the Utility's control, including those that arise from:

- the breakdown or failure of equipment, electric transmission or distribution lines, or natural gas transmission and distribution pipelines or other assets or group of assets, that can cause explosions, fires, public or workforce safety issues, large scale system disruption or other catastrophic events;

- an overpressure event occurring on natural gas facilities due to equipment failure, incorrect operating procedures or failure to follow correct operating procedures, or welding or fabrication-related defects, that results in the failure of downstream transmission pipelines or distribution assets and uncontained natural gas flow;
- the failure to maintain adequate capacity to meet customer demand on the gas system that results in customer curtailments, controlled/uncontrolled gas outages, gas surges back into homes, serious personal injury or loss of life;
- a prolonged statewide electrical black-out that results in damage to the Utility's equipment or damage to property owned by customers or other third parties;
- the failure to fully identify, evaluate, and control workplace hazards that result in serious injury or loss of life for employees or the public, environmental damage, or reputational damage;
- the release of radioactive materials caused by a nuclear accident, seismic activity, natural disaster, or terrorist act;
- the failure of a large dam or other major hydroelectric facility, or the failure of one or more levees that protect land on which the Utility's assets are built;
- the failure to take expeditious or sufficient action to mitigate operating conditions, facilities, or equipment, that the Utility has identified, or reasonably should have identified, as unsafe, which failure then leads to a catastrophic event (such as a wildfire or natural gas explosion);
- inadequate emergency preparedness plans and the failure to respond effectively to a catastrophic event that can lead to public or employee harm or extended outages;
- operator or other human error;
- a motor vehicle incident involving a Utility vehicle (or one operated on behalf of the Utility) resulting in serious injuries to or fatalities of the workforce or the public, property damage, or other consequences;
- an ineffective records management program that results in the failure to construct, operate and maintain a utility system safely and prudently;
- construction performed by third parties that damages the Utility's underground or overhead facilities, including, for example, ground excavations or "dig-ins" that damage the Utility's underground pipelines;
- the release of hazardous or toxic substances into the air, water, or soil, including, for example, gas leaks from natural gas storage facilities; flaking lead-based paint from the Utility's facilities, and leaking or spilled insulating fluid from electrical equipment; and
- attacks by third parties, including cyber-attacks, acts of terrorism, vandalism, or war.

The occurrence of any of these events could interrupt fuel supplies; affect demand for electricity or natural gas; cause unplanned outages or reduce generating output; damage the Utility's assets or operations; damage the assets or operations of third parties on which the Utility relies; damage property owned by customers or others; and cause personal injury or death. As a result, the Utility could incur costs to purchase replacement power, to repair assets and restore service, and to compensate third parties. Any of such incidents also could lead to significant claims against the Utility.

Further, although the Utility often enters into agreements for third-party contractors to perform work, such as patrolling and inspection of facilities, vegetation management, or the construction or demolition or facilities, the Utility may retain liability for the quality and completion of the contractor's work and can be subject to penalties or other enforcement action if the contractor violates applicable laws, rules, regulations, or orders. The Utility may also be subject to liability, penalties or other enforcement action as a result of personal injury or death caused by third-party contractor actions.

Insurance, equipment warranties, or other contractual indemnification requirements may not be sufficient or effective to provide full or even partial recovery under all circumstances or against all hazards or liabilities to which the Utility may become subject. An uninsured loss could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

The Utility's insurance coverage may not be sufficient to cover losses caused by an operating failure or catastrophic events, including severe weather events and events resulting from these conditions (including wildfires), or may not be available at a reasonable cost, or available at all.

The Utility has experienced increased costs and difficulties in obtaining insurance coverage for wildfires and other risks that could arise from the Utility's ordinary operations. PG&E Corporation, the Utility or its contractors and customers could continue to experience coverage reductions and/or increased insurance costs in future years. No assurance can be given that future losses will not exceed the limits of the Utility's insurance coverage. Uninsured losses and increases in the cost of insurance may not be recoverable in customer rates. A loss that is not fully insured or cannot be recovered in customer rates could materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

As a result of the potential application to IOUs of a strict liability standard under the doctrine of inverse condemnation, recent losses recorded by insurance companies, past wildfires and the risk of increased wildfires including as a result of climate change, the Utility may not be able to obtain sufficient insurance coverage in the future at a reasonable cost, or at all. In addition, the Utility is unable to predict whether it would be allowed to recover in rates the increased costs of insurance or the costs of any uninsured losses. Also, the Utility will not be able to obtain any recovery from the Wildfire Fund for wildfire-related losses in any year that do not exceed the greater of $1.0 billion in the aggregate and the amount of insurance coverage required under AB 1054. The Wildfire Fund would be available to the Utility to pay eligible claims for liabilities arising from future wildfires and would serve as an alternative to traditional insurance products, provided that the Utility satisfies the conditions to the Utility's ongoing participation in the Wildfire Fund set forth in AB 1054 and that the Wildfire Fund has sufficient remaining funds. (See "Insurance Coverage" in Note 14 of the Notes to the Consolidated Financial Statements in Item 8.)

If the amount of insurance is insufficient or otherwise unavailable, or if the Utility is unable to obtain insurance at a reasonable cost or recover in rates the costs of any uninsured losses, PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected.

The electric power and gas industries are undergoing significant changes driven by technological advancements and a decarbonized economy, which could materially affect the Utility's financial condition, results of operations, liquidity, and cash flows.

The electric power industry is undergoing transformative change driven by technological advancements enabling customer choice (for example, customer-owned generation and energy storage) and state climate policy supporting a decarbonized economy. The electric grid is a critical enabler of the adoption of new energy technologies that support California's climate change and GHG reduction objectives, which continue to be publicly supported by California policymakers. California's environmental policy objectives are accelerating the pace and scope of the industry change. For instance, SB 100, which was signed into law on September 10, 2018, increases from 50% to 60%, the percentage of California's electricity portfolio that must come from renewables by 2030. SB 100 establishes a further goal to have an electric grid that is entirely powered by clean energy by 2045. California utilities also are experiencing increasing deployment by customers and third parties of DERs, such as on-site solar generation, energy storage, fuel cells, energy efficiency, and demand response technologies. These developments will require modernization of the electric distribution grid to, among other things, accommodate two-way flows of electricity, increase the grid's capacity, and interconnect DERs.

In order to enable the California clean energy economy, sustained investments are required in grid modernization, renewable integration projects, energy efficiency programs, energy storage options, EV infrastructure and state infrastructure modernization (e.g., rail and water projects).

To this end, the CPUC is conducting proceedings to: evaluate changes to the planning and operation of the electric distribution grid in order to prepare for higher penetration of DERs and, consider future grid modernization and grid reinforcement investments; evaluate if traditional grid investments can be deferred by DERs, and if feasible, what, if any, compensation to utilities would be appropriate for enabling those investments; and clarify the role of the electric distribution grid operator. The CPUC also authorized development of two new, five-year programs aimed at accelerating widespread electric vehicle adoption and combating climate change. The new programs will increase fast charging options for consumers as well as electric charging infrastructure for non-light-duty fleet vehicles.

In addition, in light of the state's commitment to clean energy and carbon neutral economy by 2045, California has recently proposed public policies that prohibit or restrict the use and consumption of natural gas, for example in buildings, that will have for effect to reduce the use of natural gas. Reducing natural gas use could lead to a reduction in the gas customer base and a diminished need for gas infrastructure and, as a result, could lead to certain gas assets no longer be "used and useful," potentially causing substantial investment value of gas assets to be stranded. (Under CPUC precedent, when an asset no longer meets the standard of "used and useful," the asset is removed from rate base, which may result in a reduction in associated rate recovery.) However, while natural gas demand is projected to decline over time, the costs of operating a safe and reliable gas delivery system in California have been increasing, among other things, to cover the cost of long-term pipeline safety enhancements. Inability by the Utility to recover in rates its investments into the natural gas system while still ensuring gas system safety and reliability could materially affect the Utility's financial condition, results of operations, liquidity, and cash flows.

The industry changes, costs associated with complying with new regulatory developments and initiatives and with technological advancements, or the Utility's inability to successfully adapt to changes in the electric and gas industry, could materially affect the Utility's financial condition, results of operations, liquidity, and cash flows.

A cyber incident, cyber security breach, severe natural event or physical attack on the Utility's operational networks and information technology systems could have a material effect on its financial condition, results of operations, liquidity, and cash flows.

The Utility's electricity and natural gas systems rely on a complex, interconnected network of generation, transmission, distribution, control, and communication technologies, which can be damaged by natural events-such as severe weather or seismic events-and by malicious events, such as cyber and physical attacks. Private and public entities, such as the North American Electric Reliability Corporation, and the U.S. Federal government, including the Departments of Defense, Homeland Security and Energy, and the White House, have noted that cyber-attacks targeting utility systems are increasing in sophistication, magnitude, and frequency. The Utility's operational networks also may face new cyber security risks due to modernizing and interconnecting the existing infrastructure with new technologies and control systems. Any failure or decrease in the functionality of the Utility's operational networks could cause harm to the public or employees, significantly disrupt operations, negatively impact the Utility's ability to safely generate, transport, deliver and store energy and gas or otherwise operate in the most safe and efficient manner or at all, and damage the Utility's assets or operations or those of third parties.

The Utility also relies on complex information technology systems that allow it to create, collect, use, disclose, store and otherwise process sensitive information, including the Utility's financial information, customer energy usage and billing information, and personal information regarding customers, employees and their dependents, contractors, and other individuals. In addition, the Utility often relies on third-party vendors to host, maintain, modify, and update its systems, and to provide other services to the Utility or the Utility's customers. In addition, the Utility is increasingly being required to disclose large amounts of data (including customer energy usage and personal information regarding customers) to support changes to California's electricity market related to grid modernization and customer choice. These third-party vendors could cease to exist, fail to establish adequate processes to protect the Utility's systems and information, or experience security incidents or inadequate security measures. Any incidents or disruptions in the Utility's information technology systems could impact the Utility's ability to track or collect revenues and to maintain effective internal controls over financial reporting.

The Utility and its third-party vendors have been subject to, and will likely continue to be subject to, breaches and attempts to gain unauthorized access to the Utility's information technology systems or confidential data (including information about customers and employees), or to disrupt the Utility's operations. None of these breaches or attempts has individually or in the aggregate resulted in a security incident with a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. Despite implementation of security and control measures, there can be no assurance that the Utility will be able to prevent unauthorized access to its operational networks, information technology systems or data, or the disruption of its operations. Such events could subject the Utility to significant expenses, claims by customers or third parties, government inquiries, penalties for violation of applicable privacy laws, investigations, and regulatory actions that could result in material fines and penalties, loss of customers and harm to PG&E Corporation's and the Utility's reputation, any of which could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

The Utility maintains cyber liability insurance that covers certain damages caused by cyber incidents. However, there is no guarantee that adequate insurance will continue to be available at rates the Utility believes are reasonable or that the costs of responding to and recovering from a cyber incident will be covered by insurance or recoverable in rates.

The operation and decommissioning of the Utility's nuclear generation facilities expose it to potentially significant liabilities and the Utility may not be able to fully recover its costs if regulatory requirements or operating conditions change or the facilities cease operations before the licenses expire.

The operation of the Utility's nuclear generation facilities exposes it to potentially significant liabilities from environmental, health and financial risks, such as risks relating to operation of the Diablo Canyon nuclear generation units as well as the storage, handling and disposal of spent nuclear fuel, and the release of radioactive materials caused by a nuclear accident, seismic activity, natural disaster, or terrorist act. If the Utility incurs losses that are either not covered by insurance or exceed the amount of insurance available, such losses could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. In addition, the Utility may be required under federal law to pay up to $275 million of liabilities arising out of each nuclear incident occurring not only at the Utility's Diablo Canyon facility but at any other nuclear power plant in the United States.

On January 11, 2018, the CPUC approved the retirement of Diablo Canyon units by 2024 and 2025. However, the Utility continues to face public concern about the safety of nuclear generation and nuclear fuel. Some of these nuclear opposition groups regularly file petitions at the NRC and in other forums challenging the actions of the NRC and urging governmental entities to adopt laws or policies in opposition to nuclear power. Although an action in opposition may ultimately fail, regulatory proceedings may take longer to conclude and be more costly to complete. It is also possible that public pressure could grow leading to adverse changes in legislation, regulations, orders, or their interpretation. As a result, operations at the Utility's two nuclear generation units at Diablo Canyon could cease before their respective licenses expire in 2024 and 2025. In such an instance, the Utility could be required to record a charge for the remaining amount of its unrecovered investment and such charge could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

In addition, in order to retain highly skilled personnel necessary to safely operate Diablo Canyon during the remaining years of operations, the Utility will incur costs in connection with (i) an employee retention program to ensure adequate staffing levels at Diablo Canyon, which program has been approved by the CPUC, and (ii) an employee retraining and development program, to facilitate redeployment of a portion of Diablo Canyon personnel to the decommissioning project and elsewhere in the Utility. There can be no assurance that the Utility will be successful in retaining highly skilled personnel under its employee programs.

The Utility has incurred, and may continue to incur, substantial costs to comply with NRC regulations and orders. (See "Regulatory Environment" in Item 1. Business above.) If the Utility were unable to recover these costs, PG&E Corporation's and the Utility's financial results could be materially affected. The Utility may determine that it cannot comply with the new regulations or orders in a feasible and economic manner and voluntarily cease operations; alternatively, the NRC may order the Utility to cease operations until the Utility can comply with new regulations, orders, or decisions. The Utility may incur a material charge if it ceases operations at Diablo Canyon's two nuclear generation units before their respective licenses expire in 2024 and 2025. At December 31, 2020, the Utility's unrecovered investment in Diablo Canyon was $1.4 billion.

The Utility also has an obligation to decommission its electricity generation facilities, including its nuclear facilities, as well as gas transmission system assets, at the end of their useful lives. (See Note 3: Summary of Significant Accounting Policies - "Asset Retirement Obligations" of the Notes to the Consolidated Financial Statement in Item 8.) The CPUC authorizes the Utility to recover its estimated costs to decommission its nuclear facilities through nuclear decommissioning charges that are collected from customers and held in nuclear decommissioning trusts to be used for the eventual decommissioning of each nuclear unit. If the Utility's actual decommissioning costs, including the amounts held in the nuclear decommissioning trusts, exceed estimated costs, PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected.

Diablo Canyon Unit 2 has experienced four outages between July 2020 and February 24, 2021, each due or related to malfunctions within the main generator associated with excessive vibrations. If the Utility is unable to adequately address the vibration issues in the Unit 2 generator, it may be required to operate Unit 2 at reduced operating levels or take the unit out of service for additional inspection, maintenance, or replacement of the affected component. Actions that may be necessary in response to the vibrations affecting the generator, or the occurrence or length of future outages, may result in incremental costs or forgone power market revenues. The Utility will also be subject to a review of the reasonableness of its actions before the CPUC. If additional outages occur in the future, or if Unit 2's planned spring 2021 refueling outage is extended due to the inspections and replacement of the affected component, the Utility may incur additional incremental costs or forgo additional power market revenues. Furthermore, the cost of such actions may exceed current estimates, such costs may not be fully recovered from insurance through NEIL, or the costs may not be recovered through regulatory processes or otherwise. These amounts could be material and have a material effect on the Utility's financial condition, results of operations, liquidity and cash flows.

Risks Related to Environmental Factors

Severe weather conditions, extended drought and shifting climate patterns could materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

Extreme weather, drought and shifting climate patterns have intensified the challenges associated with wildfire management in California. The Utility's service territory encompasses some of the most densely forested areas in California and, as a consequence, is subject to higher risk from vegetation-related ignition events than other California IOUs. Further, environmental extremes, such as drought conditions followed by periods of wet weather, can drive additional vegetation growth (which can then fuel fires) and influence both the likelihood and severity of extraordinary wildfire events. In particular, the risk posed by wildfires has increased in the Utility's service area as a result of a prior extended period of drought, bark beetle infestations in the California forest and wildfire fuel increases due to rising temperatures and record rainfall following the drought, and strong wind events, among other environmental factors. Contributing factors other than environmental can include local land use policies and historical forestry management practices. The combined effects of extreme weather and climate change also impact this risk. According to CalFire, as of December 12, 2020, over 9,639 fires have burned 4,359,517 acres, more than four percent of the state's roughly 100 million acres of land, making 2020 the largest wildfire season recorded in California's modern history. In January 2018, the CPUC approved a statewide fire-threat map that shows that approximately half of the Utility's service territory is facing "elevated" or "extreme" fire danger. Approximately 25,000 circuit miles of the Utility's nearly 81,000 distribution overhead circuit miles and approximately 5,500 miles of the nearly 18,000 transmission overhead circuit miles are in such high-fire threat areas, significantly more in total than other California IOUs.

Severe weather events and other natural disasters, including wildfires and other fires, storms, tornadoes, floods, heat waves, drought, earthquakes, tsunamis, rising sea levels, pandemics, solar events, electromagnetic events, or other natural disasters such as wildfires, could result in severe business disruptions, prolonged power outages, property damage, injuries or loss of life, significant decreases in revenues and earnings, and/or significant additional costs to PG&E Corporation and the Utility. Any such event could have a material effect on PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows. Any of such events also could lead to significant claims against the Utility. Further, these events could result in regulatory penalties and disallowances, particularly if the Utility encounters difficulties in restoring power to its customers on a timely basis or if the related losses are found to be the result of the Utility's practices and/or the failure of electric and other equipment of the Utility.

Further, the Utility has been studying the potential effects of climate change (increased temperatures, changing precipitation patterns, rising sea levels) on its assets, operations, and services, as part of its CVA. Following completion of this assessment, the Utility is developing adaptation plans to set forth a strategy for those events and conditions that the Utility believes are most significant. Scientists project that climate change will increase electricity demand due to more extreme, persistent and hot weather. As a result, the Utility's hydroelectric generation could change, and the Utility would need to consider managing or acquiring additional generation. If the Utility increases its reliance on conventional generation resources to replace hydroelectric generation and to meet increased customer demand, it may become more costly for the Utility to comply with GHG emissions limits. In addition, climate hazards such as heatwaves, wind storms, and flooding caused by rising sea levels and extreme storms could damage the Utility's facilities, including gas, generation, and electric transmission and distribution assets. The Utility could incur substantial costs to repair or replace facilities, restore service, or compensate customers and other third parties for damages or injuries. The Utility anticipates that the increased costs would be recovered through rates, but as rate pressures increase, the likelihood of disallowance or non-recovery may increase.

Events or conditions caused by climate change could have a greater impact on the Utility's operations than the Utility's studies suggest and could result in lower revenues or increased expenses, or both. If the CPUC fails to adjust the Utility's rates to reflect the impact of events or conditions caused by climate change, PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows could be materially affected.

The Utility's operations are subject to extensive environmental laws and changes in or liabilities under these laws could adversely affect PG&E Corporation's and the Utility's financial results.

The Utility's operations are subject to extensive federal, state, and local environmental laws, regulations, and orders, relating to air quality, water quality and usage, remediation of hazardous wastes, and the protection and conservation of natural resources and wildlife. The Utility incurs significant capital, operating, and other costs associated with compliance with these environmental statutes, rules, and regulations. The Utility has been in the past, and may be in the future, required to pay for environmental remediation costs at sites where it is identified as a potentially responsible party under federal and state environmental laws. Although the Utility has recorded liabilities for known environmental obligations, these costs can be difficult to estimate due to uncertainties about the extent of contamination, remediation alternatives, the applicable remediation levels, and the financial ability of other potentially responsible parties. (For more information, see Note 15 of the Notes to the Consolidated Financial Statements in Item 8.)

Environmental remediation costs could increase in the future as a result of new legislation, the current trend toward more stringent standards, and stricter and more expansive application of existing environmental regulations. Failure to comply with these laws and regulations, or failure to comply with the terms of licenses or permits issued by environmental or regulatory agencies, could expose the Utility to claims by third parties or the imposition of civil or criminal fines or other sanctions.

The CPUC has authorized the Utility to recover its environmental remediation costs for certain sites through various ratemaking mechanisms. One of these mechanisms allows the Utility rate recovery for 90% of its hazardous substance remediation costs for certain approved sites without a reasonableness review. The CPUC may discontinue or change these ratemaking mechanisms in the future or the Utility may incur environmental costs that exceed amounts the CPUC has authorized the Utility to recover in rates.

Some of the Utility's environmental costs, such as the remediation costs associated with the Hinkley natural gas compressor site, are not recoverable through rates or insurance. (See "Environmental Regulation" in Item 1. and Note 15 of the Notes to the Consolidated Financial Statements in Item 8.) The Utility's costs to remediate groundwater contamination near the Hinkley natural gas compressor site and to abate the effects of the contamination have had, and may continue to have, a material effect on PG&E Corporation's and the Utility's financial results. Their financial results also can be materially affected by changes in estimated costs and by the extent to which actual remediation costs differ from recorded liabilities.

State climate policy requires reductions in greenhouse gas emissions of 40% by 2030 and 80% by 2050. Various proposals for addressing these reductions have the potential to reduce natural gas usage and increase natural gas costs, which may impact the future of natural gas services. The future recovery of the increased costs associated with compliance is uncertain.

The CARB is the state's primary regulator for GHG emission reduction programs. Natural gas providers have been subject to compliance with CARB's Cap-and-Trade Program since 2015, and natural gas end-use customers have an increasing exposure to carbon costs under the Program through 2030 when the full cost will be reflected in customer bills. CARB's Scoping Plan also proposes various methods of reducing GHG emissions from natural gas. These include more aggressive energy efficiency programs to reduce natural gas end use, increased renewable portfolio standards generation in the electric sector reducing noncore gas load, and replacement of natural gas appliances with electric appliances, leading to further reduced demand. These natural gas load reductions may be partially offset by CARB's proposals to deploy natural gas to replace wood fuel in home heating and diesel in transportation applications. CARB also proposes a displacement of some conventional natural gas with above-market renewable natural gas. The combination of reduced load and increased costs could result in higher natural gas customer bills and a potential mandate to deliver renewable natural gas could lead to cost recovery risk. In addition, local city governments have passed ordinances restricting use of natural gas in new construction, and if other jurisdictions follow suit, this could affect future demand for the provision of natural gas.

General Risk Factors

The Utility's success depends on the availability of the services of a qualified workforce and its ability to maintain satisfactory collective bargaining agreements which cover a substantial number of employees. PG&E Corporation's and the Utility's results may suffer if the Utility is unable to attract and retain qualified personnel and senior management talent, or if prolonged labor disruptions occur.

The Utility's workforce is aging, and many employees are or will become eligible to retire within the next few years. Although the Utility has undertaken efforts to recruit and train new field service personnel, the Utility may be faced with a shortage of experienced and qualified personnel. The majority of the Utility's employees are covered by collective bargaining agreements with three unions. Labor disruptions could occur depending on the outcome of negotiations to renew the terms of these agreements with the unions or if tentative new agreements are not ratified by their members. In addition, some of the remaining non-represented Utility employees could join one of these unions in the future.

PG&E Corporation and the Utility also may face challenges in attracting and retaining senior management talent especially if they are unable to restore the reputational harm generated by the negative publicity stemming from the ongoing enforcement proceedings and the recent Chapter 11 Cases. Any such occurrences could materially affect PG&E Corporation's and the Utility's financial condition, results of operations, liquidity, and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Utility owns or has obtained the right to occupy and/or use real property comprising the Utility's electricity and natural gas distribution facilities, electric generation facilities, natural gas gathering facilities and generation facilities, and natural gas and electricity transmission facilities, which are described in Item 1. Business, under "Electric Utility Operations" and "Natural Gas Utility Operations." The Utility occupies or uses real property primarily through various leases, easements, rights-of-way, permits, or licenses from private landowners or governmental authorities. In total, the Utility occupies 11 million square feet of real property, including 9 million square feet owned by the Utility. The Utility's corporate headquarters comprises approximately 1.7 million square feet located in several Utility-owned buildings in San Francisco, California. The Utility intends to sell its current corporate headquarters office space generally located at 77 Beale Street, 215 Market Street, 245 Market Street and 50 Main Street, San Francisco, California, and associated properties owned by the Utility, and on September 30, 2020, the Utility filed an application seeking the required CPUC approval. On October 23, 2020, the Utility entered into an office lease agreement with BA2 300 Lakeside LLC for approximately 910,000 rentable square feet of space within the building located at 300 Lakeside Drive, Oakland, California, 94612 ("Lakeside Building") to serve as the Utility's principal administrative headquarters. The term of the lease will begin on or about March 1, 2022 and will grant the Utility an option to purchase the legal parcel that contains the Lakeside Building. For more information, see Note 15 of the Notes to the Consolidated Financial Statements in Item 8.

PG&E Corporation also leases approximately 42,000 square feet of office space from a third party in San Francisco, California. This lease will expire in 2022.

The Utility currently owns approximately 158,000 acres of land, including approximately 128,000 acres of watershed lands. In 2002, the Utility agreed to implement its LCC to permanently preserve the six "beneficial public values" on all the watershed lands through conservation easements or equivalent protections, as well as to make approximately 40,000 acres of the watershed lands available for donation to qualified organizations. The six "beneficial public values" being preserved by the LCC include: natural habitat of fish, wildlife, and plants; open space; outdoor recreation by the general public; sustainable forestry; agricultural uses; and historic values. The Utility's goal is to implement all the transactions needed to implement the LCC by the end of 2022, subject to securing all required regulatory approvals.

ITEM 3. LEGAL PROCEEDINGS

PG&E Corporation and the Utility are parties to various lawsuits and regulatory proceedings in the ordinary course of their business. For more information regarding material lawsuits and proceedings, see Item 7. MD&A: "Enforcement and Litigation Matters," Item 1A. Risk Factors and Notes 2, 14, and 15 of the Notes to the Consolidated Financial Statements in Item 8**.**