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 G) | A.20-04-023 (Filed April 30, 2020) |

**MOTION OF THE UTILITY REFORM NETWORK FOR ADMISSION OF ADDITIONAL EVIDENCE**

Thomas J. Long, Legal Director
Matthew Freedman, Staff Attorney

THE UTILITY REFORM NETWORK
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San Francisco, CA 94103
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TLong@turn.org

March 5, 2021

**MOTION OF THE UTILITY REFORM NETWORK FOR**

**ADMISSION OF ADDITIONAL EVIDENCE**

Pursuant to Rule 11.1 and Rule 13.10 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) hereby submits this motion requesting admission of a post-hearing exhibit into the evidentiary record of this proceeding. The exhibit proposed for admission is attached to this pleading.[1]

Evidentiary Hearings for this proceeding concluded on December 16, 2020. Opening briefs were filed on January 15, 2021 and reply briefs were filed on February 1. On February 25, 2021, PG&E filed its annual Form 10-K at the United States Securities and Exchange Commission (SEC). The contents of this filing include representations relating to the ability of PG&E to apply Net Operating Loss (NOL) Carryforwards to future taxable income that are at odds with the claims made in PG&E's opening and reply briefs.

PG&E expects the monetization of these NOLs to enable $7.59 billion in contributions to the proposed Customer Credit Trust (CCT). The potential that NOLs will be unavailable to fund the CCT raises serious questions about the likelihood that PG&E's proposals will satisfy the requirement in Public Utilities Code §3292(b)(1)(D) that any securitization be "neutral, on average, to….ratepayers".[2] Given the central importance of rate neutrality, and the fact that PG&E specifically characterized the risks associated with these NOLs differently in its briefs

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[1] Attachment A.

[2] PG&E disputes that this statutory requirement applies to this transaction but otherwise commits to "pursue a rate-neutral securitization transaction". (PG&E reply brief, page 50)

than in its subsequent filing at the SEC, TURN urges the Commission to give due consideration to the representations and characterizations PG&E included in its 10-K filing.

In both opening and reply briefs, PG&E urges the Commission to find that these NOLs will be able to fund $7.59 billion in Additional Shareholder Contributions over the coming years. In its opening brief, PG&E states that "there is virtually no risk that the full amount of the Additional Shareholder Contributions will not be contributed to the Trust to fund Customer Credits."[3] The opening brief goes on to state as follows:

> Nor does PG&E anticipate limits on use of the Shareholder Tax Benefits due to a change in ownership under Internal Revenue Service ("IRS") code section 382 because PG&E's Amended Articles of Incorporation require Board consent for transfers that increase equity ownership to more than 4.75 percent.[4]

PG&E's reply brief similarly addresses risks relating to the amount and timing of NOL realization and states "it is not therefore a question of if, but when, the $7.59 billion will be contributed to the Trust."[5]

Twenty-four calendar days after the filing of its reply brief, PG&E filed its annual 10-K statement with the SEC. The 10-K addresses potential limits on PG&E's ability to receive the benefits of these NOLs pursuant to Section 382 of the Internal Revenue Code. The relevant portion of the filing is as follows:[6]

[3] PG&E opening brief, page 97.
[4] PG&E opening brief, page 98.
[5] PG&E reply brief, page 83.
[6] Attachment A (Ex. TURN-44), PG&E Form 10-K for the period ending 12/31/2020, filed February 25, 2021, pages 38-39. [emphasis added]

**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.

This representation of the risk associated with the future use of these NOLs is at odds with the statements contained in PG&E's briefs. While PG&E's opening brief states that it does not "anticipate limits" on the use of these NOLs under IRS Code Section 382, the 10-K statement offers the far more cautious view that "it is more likely than not" that no limits will apply.[7] Moreover, the 10-K statement notes that "there can be no assurance" as to whether the IRS would "successfully assert" the existence of an "ownership change" that could limit PG&E's use of the NOLs, a determination that "could be material to its operations."[8] The 10-K statement goes on to explain that an adverse determination from the IRS would jeopardize PG&E's ability to use the NOLs for its "rate-neutral securitization transaction", a reference to the proposals pending in A.20-04-023.[9]

PG&E's characterizations in the 10-K, particularly the notion that its assumed treatment of the NOLs is "more likely than not" to prevail, reveal a far greater level of uncertainty than was disclosed its briefs. The "more likely than not" characterization is used by tax practitioners to reflect an uncertain tax position based on the belief that "the position has a greater than 50 percent likelihood of being sustained on its merits."[10] The level of risk communicated by this characterization materially diverges from the near-certainty ("virtually no risk"[11]) offered by PG&E in its pleadings in this proceeding. Given the central role of the NOLs in financing the $7.59 billion in Additional Shareholder Contributions, the Commission should take note of

[7] PG&E opening brief, page 98.
[8] Attachment A (Ex. TURN-44), PG&E Form 10-K, page 39.
[9] Attachment A (Ex. TURN-44), PG&E Form 10-K, page 39.
[10] For example, see 26 CFR §1.6694-2(b)(1).
[11] PG&E opening brief, page 97.

statements made by PG&E to federal regulators indicating the potential for some or all of the NOLs to be unavailable for future use.

Since the characterization contained in the 10-K statement was not available until several weeks after the submission of reply briefs, TURN had no opportunity to incorporate this new information into its briefs. Because the information contained in the 10-K filing is material to the resolution of contested factual issues in this proceeding, the Commission should reopen the record to admit this additional evidence. Once admitted, the Commission can carefully consider the extent to which PG&E's recent representations to the SEC reveal risks to ratepayers that are greater than previously disclosed. If so, these greater risks should be taken into consideration when weighing the relief requested by PG&E and alternative proposals made by other parties.

TURN provides the relevant excerpt as an attachment to this motion and has preliminarily identified the material as Exhibit TURN-44.[12]

Dated: March 5, 2021

Respectfully submitted,

By: __________/s/______________
Thomas J. Long

By: __________/s/______________
Matthew Freedman

Thomas J. Long, Legal Director
Matthew Freedman, Staff Attorney

**THE UTILITY REFORM NETWORK**
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[12] TURN provides this excerpt because the entire 10-K filing is 404 pages. TURN does not oppose entering the entire 10-K filing into the record if requested by PG&E or another party.

**Attachment A**

Exhibit TURN-44

PG&E Form 10-K for the period ending 12/31/2020 (filed February 25, 2021)

*EXCERPT*

**Pacific Gas and Electric Company Securitization**

**A. 20-04-023**

**TURN POST-HEARING EXHIBIT**

**TURN-44**

Excerpt - PG&E Form 10-K for the period ending 12/31/2020

filed with US Securities and Exchange Commission on February 25, 2021

# PG&E CORP

## FORM 10-K
(Annual Report)

### Filed 02/25/21 for the Period Ending 12/31/20

| | |
|---|---|
| Address | 77 BEALE STREET<br>P.O. BOX 770000<br>SAN FRANCISCO, CA, 94177 |
| Telephone | 4159731000 |
| CIK | 0001004980 |
| Symbol | PCG |
| SIC Code | 4931 - Electric and Other Services Combined |
| Industry | Electric Utilities |
| Sector | Utilities |
| Fiscal Year | 12/31 |

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

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**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 |

PG&E Corporation

**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)

Pacific Gas and Electric Company

**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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

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

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 |

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act).

| **PG&E Corporation** | **Pacific Gas and Electric Company** |
|---|---|
| ☒ Large accelerated filer | ☐ Large accelerated filer |
| ☐ Non-accelerated filer | ☒ Non-accelerated filer |
| ☐ Smaller reporting company | ☐ Smaller reporting company |
| ☐ Accelerated filer | ☐ Accelerated filer |
| ☐ Emerging growth company | ☐ Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

| | |
|---|---|
| PG&E Corporation: | ☐ |
| Pacific Gas and Electric Company: | ☐ |

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

| | |
|---|---|
| PG&E Corporation: | ☒ |
| Pacific Gas and Electric Company: | ☒ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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

**Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2020, the last business day of the most recently completed second fiscal quarter:**

| | |
|---|---|
| PG&E Corporation common stock | $12,130 million |
| Pacific Gas and Electric Company common stock | Wholly owned by PG&E Corporation |

**Common Stock outstanding as of February 22, 2021:**

| | |
|---|---|
| PG&E Corporation: | 1,984,683,820 shares |
| Pacific Gas and Electric Company: | 264,374,809 shares (wholly owned by PG&E Corporation) |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the documents listed below have been incorporated by reference into the indicated parts of this report, as specified in the responses to the item numbers involved:

| | |
|---|---|
| Designated portions of the Joint Proxy Statement relating to the 2021 Annual Meetings of Shareholders | Part III (Items 10, 11, 12, 13 and 14) |

Contents

***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.