Corrected Transcript

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PG&E Corp. (PCG)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the PG&E Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Matt Fallon, Senior Director of Investor Relations. Please go ahead.

Matt Fallon
Senior Director, Investor Relations, Pacific Gas & Electric Co.

Good morning, everyone. Thank you for joining us for PG&E's second quarter earnings call. With us today are Patti Poppe, Chief Executive Officer; and Chris Foster, Executive Vice President and Chief Financial Officer.

I want to remind you that today's discussion will include forward-looking statements about our outlook for future financial results. These statements are based on assumptions, forecasts, expectations, and information currently available to management. Some of the important factors that could affect the company's actual financial results are described on the second page of today's second quarter earnings call presentation. The presentation also includes a reconciliation between non-GAAP and GAAP measures. The presentation can be found online along with other information at investor.pgecorp.com. We also encourage you to review our quarterly report on Form 10-Q for the quarter ended June 30, 2022.

With that, I'll hand it over to Patti.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

Thank you, Matt. Good morning, everyone. Thanks for joining us. I'll focus on three key areas today. First, our financial results; second, our continued work to build trust with policymakers and play our role as an enabler for California's prosperity; and third I'll provide an update on our wildfire mitigation progress. Our results through the first half keep us on track to deliver our full year 2022 non-GAAP core EPS guidance of $1.07 to $1.13. We've got the system in place to manage the inevitable pluses and minuses. The system provides confidence that we'll deliver our commitment of at least 10% non-GAAP core EPS growth through 2024 and at least 9% in 2025 and 2026.

As a result of further progress on legacy items, our rate neutral securitization and good cash management, we are lowering and narrowing our equity guidance. We are projecting a need of $0 to $250 million for the remainder of the year. We're on the right path to mitigate financial risk and deliver the consistent results you can expect from PG&E.

We're continuing to build trusting relationships with policymakers and work with them on outcomes that are [indiscernible] (00:03:39) for our customers and allow us to deliver the energy they want safely and reliably. Earlier this year, Governor Newsom reached out to ask us to evaluate keeping Diablo Canyon open beyond its scheduled retirement in 2024 and 2025 to support the capacity and reliability of the state's electric supply system.

We're exploring the possibility of keeping this plant open for California's benefit. It is not an easy option and it will require much coordination between the state, multiple regulatory bodies and PG&E as well as many others impacted by the outcome of this decision. We, of course, are motivated to be of service to the people of California and our policymakers, and we'll continue to work with the state regarding the future of Diablo Canyon and to ensure reliability. I am very thankful to our team at the plant for continuing to remain focused on safe and excellent operations as the conversation and decisions move forward.

We're also continuing to work with legislators on Senate Bill 884. The amended language in the undergrounding bill provides a supportive framework for PG&E to file a long-term undergrounding plan, which is good for customers and investors because it allows us to build a more robust plan for labor, the lowest cost contracts, and provide the fastest path to eliminating the highest risk and improving reliability at the same time on our power lines.

I'm pleased with the relationships we're building with these key policymakers in California. We're proud to be recognized as essential to California's safety and clean energy goals. Our ability to continue to demonstrate the turnaround of PG&E enables long-term relationships built on mutual benefit and prosperity.

Just this week we filed our final responses in the review of our 2022 wildfire mitigation plan. We welcome the healthy dialogue with the Office of Energy Infrastructure Safety, and we believe our responses address their concerns, make our plans stronger, and make our communities safer. We look forward to a draft decision on our wildfire mitigation plan by the end of September.

Given the dry conditions we've seen in our service area in 2022, I thought I'd spend some time discussing our wildfire mitigation tools described on slide 5. As a result of the significant work that we've completed since 2019 combined with the protocols we've implemented for our EPSS and PSPS programs, we estimate that we've mitigated more than 90% of the wildfire risk in our service area.

Our approach to catastrophic wildfire mitigation is driven by multiple layers of protection, starting with vegetation management, enhanced inspections and our longer term system hardening work, anchored by our undergrounding plan. While we continue to make progress on our longer term mitigations, we layer in EPSS and PSPS to mitigate risk today.

Our situational awareness capability, which we built over the past three years, including installation of our high definition cameras, the use of enhanced technology, and our hazard awareness and warning center and the expertise of our safety and infrastructure protection team allows for better coordination and faster response should an ignition occur, providing our final layer of protection.

The 90% risk mitigation today is informed by the results we're seeing in operations. For example, on the circuits where we've implemented our EPSS program, we've observed significant reductions in reportable ignitions and the acres impacted per ignition this year are significantly lower despite very dry conditions. We're continuing to pursue opportunity to improve beyond the 90% risk mitigation, additional innovative technology solutions such as partial voltage SmartMeter alarm and down conductor capability. We anticipate that additional opportunities, including undergrounding, will provide us with greater long-term protection while reducing the customer impact.

As you can see on slide 6, the fire potential index guides our wildfire mitigation effort. Most of the damage in recent years has occurred under R3 and higher conditions. In recent years, we've experienced more acres and structures damage due to fire spread driven by fuels and terrain. To mitigate the fuels and terrain-driven risk, in 2022, we've enabled EPSS for all fire potential conditions across all our high fire risk areas, except other conditions of heavy fog, high humidity and precipitation. Historically, nearly all of the acres and structures burned during extreme wind event. For these conditions, categorized as R-5 and higher, we rely on our PSPS program.

I talked a lot about mitigating physical risk today, as I know this is a key area of concern, given the impact of climate change across California, and the rest of the world. As you've heard, we have the right system in place to keep our co-workers and our customers safe from physical risk and a mindset that has us continuously improving that system every day.

Please be assured that the team and I are also continually focusing on mitigating financial risk. We know our customers are experiencing major inflationary impacts outside of utility bills and at PG&E, we're planning to keep costs down, even as we invest in our system by utilizing our simple and affordable model.

I'm going to focus on the non-fuel O&M cost reduction line you see here on slide 7. I'm never short on stories and this quarter is no different. Here's a simple example of an opportunity we came across in our inspection work. People often think it will cost more to do high quality work; I beg to differ. Last year, due to multiple verification methodologies between our vegetation management tree inspectors and our work verification team, we had a 40% rejection rate on tree inspections, resulting in a crew coming back out to correct the mess.

We cut that rejection rate by half already this year by adopting a uniform, technology-driven inspection process, saving almost $100 million. Better first time quality is more affordable, one example of many such opportunities. We are just getting started here and there's a long runway of opportunities across the entire enterprise that the team is learning to uncover.

On the financing front, we successfully completed our rate-neutral securitization bond issuance in July, using the proceeds to pay down temporary utility debt to strengthen our balance sheet. Importantly, S&P moved our outlook to stable after the rate-neutral issuance. We're following through on our commitment to you, our investors, to delever our balance sheet and reduce financing costs for our customers, a real time demonstration of our simple and affordable model in action.

Finally, let's turn to our report card, which you can see here on slide 8. We chose these metrics to show you where our focus is, delivering consistent outcomes through 2022 and beyond, by building on our culture and our capabilities. One metric I want to highlight is our CPUC reportable admissions greater than or equal to 100 acres in high fire threat areas. Fires of this size are a small percentage of ignitions, but account for more than 90% of the acres burned and more than 95% of the structures damaged from 2015 to 2021 in our service area. We have zero CPUC reportable ignitions over 100 acres so far in 2022.

You'll recall that in early June, PG&E filed an electric incident report on the Old Fire, which was 570 acres with no reported serious injuries, fatalities or structural damage. We filed the EIR as required because Cal Fire collected our equipment and there was media attention. However, we are not recording this as a CPUC reportable ignition at this time as we are not aware of any damage to our equipment at Cal Fire's suspected ignition point. Cal Fire is continuing their investigation on the cause of the fire and we'll review the final report when it's available and the associated recordability accordingly.

In addition, last week the Oak Fire started in Mariposa County. After the time of the reported ignition, we de-energized lines for firefighter safety at the request of Cal Fire. Based on our review of our data, we are not aware of any information suggesting our facilities were involved in the ignition. We have not filed an EIR and Cal Fire continues their investigation into the cause of the fire. We do want to take this opportunity to thank our firefighters and the broader first responder community for working so hard to keep our community safe. Physical and financial risk reduction are the building blocks that enable predictable results for customers and investors. I feel good about progress to date.

With that, I'll hand it over to Chris to provide a deeper dive into our financial and regulatory items.

Christopher A. Foster

Executive Vice President & Chief Financial Officer, PG&E Corp.

Thank you, Patti. We are on track to deliver our financial commitments this year. In addition, we are reaffirming our 2022 to 2026 earnings per share CAGR of 10% and reaffirming EPS growth of at least 10% each year in 2022 to 2024 and at least 9% in 2025 and 2026. As Patti mentioned, I'm pleased to share that we just issued $3.9 billion of our rate-neutral securitization bonds at a weighted average rate of 5.05%. Our transaction completes a critical element of our reorganization financing plan with a total of $7.5 billion of securitization bonds now issued. This contributes to our focus on near-term efficient financing. The recent actions by both S&P and Fitch on our credit ratings reflect increasing confidence in our plans to make the investment our customers need and affordably finance our system enhancement.

This morning, I want to cover three key areas where we are laser-focused on mitigating financial risk and delivering predictable outcomes for you, our investors. First, a recap of our second quarter and first half financial results and a reiteration of our full year guidance; second, a deeper dive into our results ownership center and how we're using that to execute on a simple and affordable model' and finally a few highlights on important regulatory and legal matters.

Slide 9 shows our second quarter and first half result. Non-GAAP core earnings per share for the quarter came in at $0.25 and at $0.55 for the first half of the year. We recorded non-GAAP core income of $536 million for the second quarter of 2022. This income keeps us on pace to hit the common stock dividend reinstatement eligibility criteria by mid-2023.

Moving to slide 10, our first half EPS growth is on target at $0.55, up $0.05 or 10% from last year. You can see our rate base growth of $0.03 a share in the first half and another $0.04 projected for the second half, a clear reflection of our investment in customer priorities. Please also note our favorable cost performance of $0.04 so far and another $0.02 to $0.04 planned for the second half. Combined, this tracks nicely to our roughly $200 million or 2% non-fuel O&M reduction plan.

What you do not see here in our yearly forecasts are risks due to pension costs that we manage on behalf of our coworkers. Due to our longstanding pension recovery mechanism approved by CPUC, we do not see an impact to earnings even with the current market volatility. There are other changes, including our regulatory agenda as well as tax and other items and combined this shows how we are delivering on our at least 10% EPS growth this year, consistent progress to deliver for our customers and investors.

As shown next on slide 11, we're reaffirming our non-GAAP core EPS of $1.07 to $1.13. We are also narrowing and lowering our equity range for 2022 and are now forecasting $0 to $250 million in equity needs for the year. As we resolve legacy claim, which I'll talk about a bit later, we maintain our confidence that our equity needs will be limited this year.

Let's move to our simple and affordable model. We adopted this model to help reduce medium and long term financial risk for both our customers and you, our investors. The model allows us to reduce risk for our customers, holding down bill increases over time. And we'll deliver on this model by using the lean operating system which allows us to actively manage variability. It's about evaluating and executing against opportunities like putting lasting fixes instead of temporary repairs in the system, which helps avoid expensing costs that would otherwise flow through right away to our customers.

Our efforts on this front give us greater confidence in our financial targets for the long term. It starts with lean and how my coworkers are using these proven techniques to manage performance, reducing medium and long term financial risk.

Turning to slide 13. For the past eight months, we've been maturing our process to bring improved visibility and control, to executing our work plans affordably in a room we finally refer to as the ROC, short for the Results Ownership Center. On the left hand side of the slide, you can see the element of visibility and control. In the ROC, we hold a weekly cross-functional operating review focused on our plan and performance against our financial target.

This is the same method we've used to consistently deliver on our operational goals for our wildfire mitigation plan over the last year. You've heard Patti say, we sweat the details so you don't have to. The ROC is where that statement comes to life. Additionally, we leverage the 1-3-10 concept of visual management; using consistently refreshed data all attendees can tell within one second if our performance is on track, within three seconds which way the metric is trending, and within 10 seconds, the recovery plan for any metric that is not on track.

Managing all aspects of variability as shown on the right-hand side of the slide is how we deliver predictable results. When a key financial metric is off track or trending off track, we identify it almost immediately you can current data, not month-old or quarter-old data. The conversation always include who is doing what by when. And the resulting catch-back plan will include a combination of short-term containment and long-term countermeasures.

In addition to O&M and capital cost performance, our focus in the ROC this year has been on efficiencies in our contracted spending, evaluating productive time, expense to capital optimization to create lasting system enhancements for our customers and internal staffing levels.

Taking productive time, for example; in addition to the training rationalization Adam Wright discussed at Investor Day, we've also improved our time reporting this year based on an idea serviced at the ROC. Our co-workers in the field now explicitly report hours lost due to no work or work delays when they are not able to charge to a specific job. Having this data now readily available allows us to problem solve.

Work delays can occur when a crew cannot access a customer's property, for example. But with good planning, we can enable that crew with a backup job. This simple change to our time reporting has uncovered a huge opportunity to increase productive hours and just a 1% improvement translates to approximately 30,000 more productive hours per month. You can imagine we're excited about how this can translate into better outcomes for the hometowns we serve.

This example, along with our focus on first-time quality that Patti spoke to and many others is how through the ROC our entire enterprise owns our financial result and not just members of the finance team. Again visibility and control provide predictable results. Our focus is on delivering that for you, our customers and our investors.

Now, I'll cover the key regulatory, legislative and legal updates for the quarter. Turning to slide 14, at the top; as I mentioned in my opening, we've now issued the full $7.5 billion in rate-neutral securitization bond. We used those proceeds to pay off $5 billion of utility temporary debt, and we'll pay off the remaining $1 billion in the first quarter of 2023 as that debt becomes callable. The remaining proceeds will go towards paying down short-term borrowings at the utility.

Completion of this securitization was a key aspect of improving our balance sheet. And as a result, last week S&P moved us to stable outlook and in June, Fitch Ratings revised their outlook, moving us from stable to positive.

Keeping with the theme of securitization, as expected, on June 29, the CPUC issued a favorable proposed decision granting our request to securitize up to approximately $1.4 billion of eligible AB 1054 capital expenditures previously found reasonable in the 2020 GRC. We expect a final vote on this proceeding on August 4, which – that timing keeps us on plan to proceed with a bond issuance later this year or early 2023. These securitizations are an important aspect of our financing plan; a stronger balance sheet, improved credit rating, and reduced borrowing spread.

Moving down the slide, we've made substantial progress resolving legacy securities, legal claims. The net impact we're reflecting this quarter is $145 million. We believe this is a constructive outcome within our forecasted equity need. Additionally in connection with the 2019 Kincade Fire and based on the status of discussions with certain subrogation entities and individual claimants, during this quarter, we recorded an incremental charge of $150 million for additional potential losses above available insurance. The movement you're seeing in this pocket of legacy claims demonstrates our commitment to putting these litigation matters in the rearview mirror and we're making progress on these key legal matters while maintaining our focus on financing. As a reminder, we have now reduced and narrowed our 2022 equity needs range from $100 million to $400 million, down to a range of $0 to $250 million.

Next on the slide, we summarize the status of our yet-to-be-recovered wildfire-related spend. As you can see, we have approximately $5.2 billion outstanding at the end of the quarter. Of this amount, approximately $1 billion is approved for cost recovery in 2022 and 2023. Clearly we still have more work to do. But just around the corner in September, we plan to file our next WMCE application. And as a reminder, based on the CPUC schedule, we expect proposed decisions on both our 2020 and 2021 WMCE filings during Q4 this year. Together, these represent the majority of the $2.2 billion shown here as pending a final decision.

And finally at the bottom of this slide, we're highlighting our two outstanding cost of capital application. The CPUC held oral arguments in the 2022 case last Friday, but we had a chance to reiterate our position that the cost of capital component should remain at pre-2022 levels for 2022. This month, the CPUC also issued a scoping note on our 2023 cost of capital application. The Commission accepted our request to include an updated cost of debt in September, which we think is constructive given where rates have moved. The schedule provides for a possible final decision at the CPUC last business meeting of the year on December 15.

Before I move from key regulatory cases, just a brief update on the 2023 GRC for which we requested a test-year revenue requirement of $15.34 billion. On July 11, we submitted our rebuttal testimony responding to GRC proceedings stakeholders' comments and recommendations. We continue to defend our request and as a next step are evidentiary hearings starting on August 15. We expect a final decision in the third quarter of 2023.

I'll close by reiterating that we're on track to deliver our 2022 financial targets, using proven tools and techniques to remain to deliver predictable result, mitigating financial risk. Our commitment is worth repeating again; non-GAAP core EPS growth of at least 10% each year in 2022 to 2024 and at least 9% in 2025 and 2026.

With that, I'll hand it back to Patti.

Patricia K. Poppe

Chief Executive Officer & Director, PG&E Corp.

Thank you, Chris. As we move through 2022, we're focused on minimizing physical and financial risk. Our layers of protection start with system inspections, repairs, vegetation management, overhead hardening, and our 10,000-mile undergrounding program, which provide long-term, sustainable, climate-resilient infrastructure.

In the near term, additional layers of protection are provided by engineered enhanced power line safety settings when fuel risk is high and our public safety power shutoff program during high wind events. Our coordination with local and state-wide agencies and situational awareness and fast response continues to strengthen and reduce our physical risk and provide a final and essential layer of protection.

To mitigate financial risk for customers and investors, we will continue to fully deploy our simple and affordable model. I'm pleased with the progress as I see our relationships and trust growing with policymakers and stakeholders here in California. PG&E is an essential contributor to California's prosperity. We'll keep an eye on the horizon and ensure we're making the right investments to deliver California's clean energy future.

Something really exciting is blossoming here at PG&E. We feel the momentum and we hope you do too. Operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from the line of Jonathan Arnold with Vertical Research. Please go ahead.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning, guys.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Morning, Jonathan.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Hi. Could I ask first just – can we get an update on the EPSS effectiveness you are experiencing in 2022? I know you spoke to the overall 90% risk mitigation, but are we still seeing that kind of 80% reduction that you talked about at the Analyst Day? Or has that evolved somewhere?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah, Jonathan, first of all, as we talk about EPSS, let's just step back for a second and remember that the objective is to end catastrophic wildfire. That's the objective of the program. And for that, we have layers of protection, EPSS being one of them. So on EPSS effectiveness, we're in the 70%-plus range right now as we've gotten a larger sample size and obviously conditions are very challenging here in California. We feel good about that 70% because in concert with the 70%-plus ignition reduction, the acres burned per ignition is dramatically lower in the plus 65% range.

And so we feel like that is a really important sign of progress. And in fact, we're working a new metric, Jonathan, and it's not ready for prime time. But what we're looking at is sort of an ignitions times acres burned and as we look back on previous years, we've seen significant improvement when we look at that, all of that driving toward the elimination of catastrophic wildfire.

The other thing I'll share on EPSS effectiveness that we feel good about is the duration of those outages has dropped dramatically year-over-year. In fact, we set a target for ourselves of 240 minutes and we are well under that year-to-date and so our operations team has done an extraordinary job responding to this new configuration of a system that frankly no one else in the industry at this scope and scale has this sort of safety measure in place and we continue to have successful conversations with communities who are most impacted by EPSS.

In fact, Pismo Beach is a good example, a community down by San Luis Obispo was experiencing multiple outages. Our engineering team went and studied that circuit, was able to make repairs and modifications and engineering improvements to significantly reduce the outages and so we held webinars with the community and the local leaders gave us very positive feedback about our responsiveness and so we just continue to be focused on our hometowns and making sure that we're keeping everybody safe.

Operator: Our next question will come from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Good morning, guys.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Morning, Shar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Patti, just wanted to maybe start off with the progress that's being made on kind of multiple fronts in terms of physical de-risking, in particular, kind of how the undergrounding plans are evolving and just the general sensitivity of the CPUC around affordability. And just as a quick follow-up, understanding that the regulatory process is still ongoing, but what are the current expectations from potential moves with legislation and any updates around the RFP process where that stands from Jacobs implementing the program? Thanks.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah. Thanks, Shar. Well, it's great because undergrounding and affordability go hand in hand. Undergrounding is a great example of our simple and affordable model at work where we're going to be able to transition from a highly expense-intensive vegetation management program to more permanent corrective action, which is undergrounding the lines.

As you may remember, when we filed our modification to the GRC, we added $7 billion of capital for the first couple of years of the undergrounding plan and offset with $1 billion of expense reduction resulting in a flat – no modification essentially to the rate increases of that ask. And so, we think it's an important combination.

I'll just say we're really pleased with the progress on the undergrounding bill. I think it shows a couple things. Number one, our customers have been demanding that we invest in our infrastructure. There, I've seen so many quotes and headlines about PG&E underinvested in its infrastructure. This is our pathway to investing in the infrastructure to keep our people safe and have a climate-resilient energy system.

Our legislators see the same thing. And they are working with us. Senate Bill 884 is making progress. We like the current draft. There's still – it's still a live ball, I would say, there's still modifications that can be made and so we continue to work closely, but we like the idea that there's clarity to a long-term plan and clarity that the legislature expects us and will hold us accountable to completing this undergrounding plan. We want that too.

And so that accountability then translates into a 10-year plan and the OEIS and the CPUC are directed to review and approve that in a timely fashion, which allows us to save the most dollars for our customers. It allows us to do that massive infrastructure project at the most affordable price. It gives us the opportunity and better long term contracts, better access to equipment at a lower cost, staffing up a labor workforce to deliver that incredible infrastructure project. And so I just feel like undergrounding is such a perfect example of the simple affordable model at work and making the system safe.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Thank you, Patti. And just one last quick one in terms of the guidance, the reduction in equity needs is certainly really appreciated there. You have securitizations getting debt off the balance sheet. Does that open some opportunity to maybe simplify financing needs going forward?

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Hi Shar, it does. I think if you look at equity, what we've said is that really looking forward to getting some of these important legacy items behind us which we're able to make progress on, including this quarter, that helped us refine and really narrow our equity guide for the year and that's really ultimately about a good financing plan that's looking to couple of years out at any point. We also got, as you mentioned, the rate neutral securitization completely done here by midyear, which was nice because ultimately we weren't initially sure if we could get it all done at this point or if it was going to take us to the end of the year.

And then on the debt side, ultimately, we've got a couple of things there, right, that are going to help us further simplify. First, we've got an AB 1054 securitization that's really our next one coming up that we're hoping to execute later this year or early next. And then along the same timeframe, we're probably going to be looking at ongoing needs for long-term debt, which really just finance our rate base growth and that's consistent with our base financing plan.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it, thank you, guys.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Thanks, Shar.

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Thanks, Shar.

Operator: Your next question comes from the line of Julien Dumoulin-Smith with Bank of America. Please go ahead.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey, good morning, team. Thank you very much and congrats again on another quarter with the zero 100-acre-plus fire. So good stuff.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Thanks, Julien.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.
Q

Absolutely, want to recognize it. Maybe this more of a financial question; your equity issuance, can we talk about the reduced needs here and how to think about that in the long term? Obviously moving things in the right direction here. Can you talk about just what drove that in part, but also more specifically, how we can think about longer term needs as well here, especially you want to avoid them considering where the stock is. So I appreciate the continued hustle.

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.
A

Absolutely, Julien, I think you said it, that hopefully our focus is going to be on certainly where we're trading at this point to have to make the best economic decision we can. And so obviously, looking at the five-year plan at this stage and really the focus is consistently on making sure that we're putting these legacy items up front and center because they are a driver for us. Specifically, you saw us resolve or make substantial progress [ph] and able to bound securities claims at $145 million (00:35:00). We're making progress on the Kincade-related claims, and so we've got a much better focus now with the increase we had there quarter-over-quarter on where that will land as well. And as you can imagine, those are two key drivers. As you look in future years, we're going to have fewer implications on that front. We're going to have – obviously the Zogg Fire is completely covered by insurance at this stage.

So you can imagine, Julien, that really our focus is going to be on making it right with these communities where we need to. That's going to be the core focus of the company. At the same time, we've got to actively manage our financing needs, which is, I think what you're seeing the results of this year and bringing down the range from $100 million to $400 million down to $0 to $250 million this quarter.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.
Q

Yeah, absolutely. Let me pivot here to the outlook real quickly. How is the new AB 205 and SB 180 impact you guys as well as the federal effort here? I mean is that new bill potentially able to help defray costs from the state back to the feds in terms of paying for Diablo and ultimately at the bottom line is also what does this mean financially for you all, considering that you were going to have a fully depreciated asset in a couple years there?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

So Julien, obviously Diablo Canyon is very much on our minds. And so if we step back and just think about what is being discussed here and what the path forward is. First of all, it's – we continue to remind all engaged parties that the clock is ticking here. We've got a real sense of urgency in order to transition from being in a decommissioning posture to a life extension posture.

So the most important thing to us right now is that we get certainty on the decision-making. We have to secure casks. We have to order fuel. There are some very near-term items. The actions that we would need to take if, in fact, we change the posture of the plant. And so with that, we're working very closely with the state first to understand what are the needs and what do we need to do to move forward.

This is not an easy option. Legislation will have to be passed. The permitting and relicensing of the facility is complex and so there's a lot of hurdles to be overcome in order to move forward. However, we like the fact that that plant's value is being recognized by the state. There seems to be kind of a shift in the attitude about the role that nuclear can play in a GHG-free economy. And so obviously our team at Diablo continues to do great work and earn the respect of the citizens of California and the policymakers as well.

We have – we do think that the DOE funding is a possibility and certainly the state has expressed interest in maximizing that and making sure that Diablo Canyon gets included in the DOE's program to extend the life of nuclear, again nationally, I think there's been a real shift in attitude about the value of these baseload nuclear facilities. And so, given that, we're just going to continue to work through the financials, and that will be second to making sure that the plant is ready and safe and able to operate for the state.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it, and just for – financially for you guys, and again, it's a depreciated asset by about 2025 here, right? I mean, we shouldn't be thinking about that earnings impact beyond any differently?

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

That's accurate, Julien. At this stage...

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Or clearly...

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

That was part of our prior agreement with the CPUC to fully depreciate the assets and – by the end of retirement life of the second unit in 2025. We are also watching certainly the different pieces that are moving on the state level, Patti [ph] said well (00:38:52) that we're looking at the federal level. The state also has a resiliency fund that they're looking at. And additionally, you mentioned the specific pieces of legislation, including customer arrearages and certainly think that that's a good example of the legislature acting on behalf of our customers and helping to lower costs. And so certainly there's a financing advantage for – in that for us as well.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it. All right. Excellent, guys. Thank you.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Thanks, Julien.

Operator: Your next question comes from the line of Richard Sunderland with JP Morgan. Please go ahead.

Richard W. Sunderland
Analyst, JPMorgan Securities LLC

Q

Hi, good morning. Thank you for the time today. Maybe a quick follow-up on Diablo Canyon. You spoke to some of the hurdles there, but can you speak to the timing at all in terms of if there's a red line when you need to address a few of those items in switching from decommissioning to life extension?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Yeah. So legislation, we believe legislation and it's pretty well agreed that the legislation is required in order to change the permitting and relicensing timeline. And so the legislature needs to pass any new laws by the end of April, April 30 (sic) [August 31], and then they're signed by the governor in September. And so that really drives an important deadline for us. And in addition to the fact that we need to order casks and the fuel and so given that the combination of that timing really does drive the decision-making.

Richard W. Sunderland
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you. And then switching gears here, maybe you can speak to the timeline and achievability of addressing the residual wildfire risk that's on top of the 90% estimated mitigation today. Are these items that you're focused on in the near-term or sort of longer term aspiration as technology evolves?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Yeah. We're implementing new technologies as we speak literally. In fact, when we look at the utilization of our SmartMeter technology to its full potential, it can identify risks and faults on the system and we're already implementing that system-wide. So that's an additional layer of protection.

Another layer of protection is on our secondary lines or down conductors, we have new settings that we can utilize and some new technology in a controller box that we're deploying out to the system as we speak. So what I can tell you is every single day we have a technology team who is focused on ending catastrophic wildfire. Our team at our advanced technology center, ATS, they are working night and day to come up with new and better technologies to deploy. So we're not waiting. You can rest assured and as the quarters progress, we'll continue to share progress on those additional layers of protection that we're putting in.

Richard W. Sunderland
Analyst, JPMorgan Securities LLC
Q

Great. Thank you for the color.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Yes, thanks, Richard.

Operator: Your next question will come from the line of Michael Lapides with Goldman Sachs. Please go ahead.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC
Q

Hey, guys. Thank you for taking my question and congrats on a good first half of the year. So quickly, how are you thinking about Dixie, the Dixie wildfire and the potential for this to be the test case to kind of I don't know, see how AB 1054 actually gets put to work when it comes to a wildfire that may have over $1 billion in costs? Kind of walk us through where that stands potentially and is this going to be, in your view, the potential trial run to see how this all plays out?

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Michael, happy to take it. I think that there is that potential. At this stage, as you know, we've recorded a $1.15 billion total impact and so that would imply that the $150 million a year could interact with the Wildfire Fund itself. I just have to emphasize, this could take some time. I think in the interim, what we're very focused on, including with an accelerated claims process in the community, is making sure that we have impacted families paid quickly. So at this point, we've got over 100 claims that have come forward in that way and that allowed us to compensate impacted local communities quickly. So that's the near term.

Over time, there's really the – the way to think about this is we've got our insurance layer itself, CPUC recoveries above that of roughly $360 million, you've got then FERC-related recoveries of roughly $100 million and then ultimately the remainder would be tapping the Wildfire Fund. So there could be time here before we really get to the stage of tapping the fund, because the statute actually requires that you're substantially completed with your claims themselves before you move forward to the fund.

I think in terms of the fact pattern and our operational prudency as it related to the Dixie Fire, I think we've been quite clear that in terms of vegetation management, in terms of the management of our assets and the appropriate response, I think all of those things position us well for the recovery themselves at the various jurisdictions, including at the Wildfire Fund.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks, Chris. And just one quick one, can you remind me, when is the last date or the deadline for when either property or other claims have to be filed for Dixie?

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Sure thing. So there's two to keep in mind. The first would be personal injury statute of limitations, which runs from two years from the incident, and then property damage, which is three years. Those are the two primary drivers of claims and claims timing.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you, Chris. Much appreciated, guys.

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Sure thing.

Operator: Your next question will come from the line of Nick Campanella with Credit Suisse. Please go ahead.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, good morning. Thanks for taking my question. I wanted to just ask about the pending wildfire legislation in the Senate here, understanding we're kind of in recess and this will go through August. But I believe there have been some amendments. And I'm just curious, current bill, as it stands today, if it was passed, how would that affect your plan? Is it acceptable in current form and what should we kind of expect here as we get to the end of August?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah. We feel good about the current draft. Some of the things that we did not like about the previous drafts have been removed. I think it was important for our legislatures – the legislators and the authors of the bill to understand how important it was that the financial mechanisms be in place so we can attract the high value capital to fund the program. We know it's important to you to have certainty for your clients to make sure that those moms and pops who invest their money in a utility can count on a predictable return.

And so, I think that was a really good understanding that we formed there so the language is good about cost recovery, the permitting assistance, as well as especially the legislative direction to OEIS and the CPUC to support a 10-year plan, which would be outside the general rate case. An infrastructure project of this scope and scale, so important that it be longer term, so we can get the labor force ready, we can get the equipment ready, we can get the long-term contracts, that will save our customers the most money. We can do the program at the lowest total cost when we have that longer term plan.

And so, having visibility, transparency, and frankly, accountability to for us to do what we said we're going to do and to get the unit costs where we want the unit cost, I think it's in the best interests of everyone to have this kind of legislative direction, to provide the certainty that we need. And just to remind you on timing, August 31 is the deadline for bills to be passed and sent to the governor and then September 30 is the last day the governor can sign a bill. And so, that will be the timing of that legislative activity.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks, appreciate that. And I know it's – just happened yesterday, but just inflation protection act and the AMT specifically if there is an alternative minimum tax, how does that affect the company, I mean just looking at the BBB example, maybe you've done some work there already?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah. In fact, Nick, I was in Washington, D.C., two days ago, in fact, with a small group of CEOs focused on this climate package, encouraging its inclusion in this new program and it's amazing to me how much can happen in two days. And so we're excited about the clean energy components of the package. We think that it will allow us to continue to grow the clean energy assets here in California by a variety of owners, not just the utility, but making sure that we've got that clean energy transition at the most economic and lowest societal cost.

We're excited about the inclusion of hydrogen and the standalone storage credits. We're studying the implications for the EV credits, but it looks like the cap is being proposed to be lifted, which would be good and important here in California because EVs are such an important part of our future. Of course, like I would suppose most businesses, we don't love the corporate minimum tax. For us, it is a pass-through, which is why we don't like it. It puts affordability pressure directly on our customers. And so there's obviously a lot of discussion about that. We'll continue to work our simple and affordable model, however, and we'll ride that rollercoaster so you don't have to. We'll make the necessary adjustments to continue to build our funding, our infrastructure for our customers as they would wish and lower costs in a variety of areas if, in fact that additional cost gets borne by our customers.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC
Q

Got it. Thanks. Appreciate that. Just one more follow up, if I can, just on the victims' trust, I think we've seen some turnover in the folks that were running the trust and just kind of curious on, what the conversations have been of late. If you could provide any kind of color on the relationship or just in general your ability to align yourself even more than before there?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Yeah. Nick, thanks for asking the question. I had a very productive conversation with the new administrator, Cathy Yani. She is a professional. She has been in this business for many – well, her whole career and she was very impressive to me. I was happy to have the chance to talk with her. And look, I clarified for her that we want what they want, we want to maximize the value of this agreement that was made on behalf of victims. And obviously, our stock price has an impact on that. And their actions with the volume of shares that they own have an impact on the stock price.

And so, we talked about that and we talked about how working together could be very beneficial to the victims. And that's our sole focus. And again, we want what they want, to make it right. And we obviously think working together with them is more productive than working independently. However, they've been clear that they want to make sure that they get certainty around the dollars that they will have available to distribute to victims.

And if you check their website, you can see they've made significant progress in disbursing funds. She's very focused on doing that efficiently and effectively [ph] until certainty helps (00:50:37) them. Bottom line, we want what they want and we'll look forward to continuing to work with them.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC
Q

All right. Thanks for everything today.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Thanks, Nick.

Operator: Your next question will come from the line of Gregg Orrill with UBS. Please go ahead.

Gregg Orrill
Analyst, UBS Securities LLC
Q

Yeah, hi. Good morning.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.
A

Morning, Gregg.

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.
A

Morning.

Gregg Orrill
Analyst, UBS Securities LLC

Q

So maybe following up on Nick's question. Are you looking at additional ways to provide certainty to the fire victims?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

The ball is really in their court; they own the stock and it's up to them how they want to disburse it.

Gregg Orrill
Analyst, UBS Securities LLC

Q

Okay, got it. And then just on the wildfire-related cost recovery, the $5.2 billion, could you tie that back to recoveries timeline and how that sort of quantify the improvement in FFO to debt, would it – tie it back to the credit measures?

Christopher A. Foster
Executive Vice President & Chief Financial Officer, PG&E Corp.

A

Sure thing, Gregg. I think that this is going to be a key for the company over the next really two years, primarily with the majority of the funds coming in in 2023 and 2024 that help us from a cash flow perspective. The key things to keep in mind are really two. First, quarter over quarter, the overall increase that you saw, a move of roughly $0.5 billion was directly related to prior vegetation management work that was critical for the system.

Second thing to keep in mind is that we do have two important data points here that are expected in Q4, which is the resolution of both the 2020 wildfire mitigation and catastrophic event or WMCE-related account, as well as the 2021. When you look at those two together, that's roughly the $2.2 billion that we talked about. So those are going to be key in terms of getting resolution there and then keeping us on track for our FFO guide.

Operator: Our next question will come from the line of David Arcaro with Morgan Stanley. Please go ahead.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Oh hey, thanks so much for taking my question. Good morning.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Morning, David.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Wanted to check in on load growth and what you're seeing this year; I know longer term you've got targets and it's an important component to reduce the customer bill impact from your rate base growth over time and that's driven by longer term programs around electrification and EVs. But I guess I'm curious what you're seeing currently this year and expectations for the rest of the year in terms of load growth.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah. So we're continuing to look at that. We definitely see continued load growth. It's lower at this early part of our five-year plan. At the latter part of the five-year plan and then going into the 10-year plan, we see significantly more forecast. It'll be interesting to see if the additional incentives on EVs accelerates adoption here in California. But as we've said, 1% to 3% is in our long-term forecast.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thanks for that. And then Patti, you mentioned a couple of technology aspects, the partial voltage detection and down conductor programs just to kind of attack that last 10% of the risk. When could we see maybe programs like that get officially rolled out or targets set in place and kind of quantified?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Well, the partial voltage detection through our SmartMeters is deployed, that is deployed as we speak and so we're learning a lot as we get those partial voltage alarms. We have a 60-minute response time. We're trying to narrow that into even less than that so we can get out and observe the situation and find out if it's in fact unsafe. And so in the coming months, you'll get more – we'll share more insights with you on what we're learning there. Again, that's an infrequent occurrence, but it is an occurrence.

And then the down conductor, I think, has a ton of potential. It does require new hardware. Some of the hardware that we have on the system can be reprogrammed and so we're doing that as we speak. But there's new hardware that needs to be deployed, and some of that is caught up in the supply chain constraints globally and so we're continuing to work to accelerate the implementation of these particular controller boxes and we look forward to sharing news and progress on that as well.

We definitely have already experienced down conductors that have been identified by this equipment and de-energized automatically. We're seeing the benefits of it, but it's on a smaller scale than EPSS where we have it 100% deployed. So in the coming months, we'll share more about the deployment and the completion of the installation of that hardware.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. Thank you.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

You're welcome. Thank you.

Operator: Your next question will come from the line of Ryan Levine with Citi. Please go ahead.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Morning. Throughout the call, you had highlighted [ph] AB 1054 and the (00:56:01) August 31 deadline for pending legislation within the state. Given that we're nearing the deadline, are there any other processes or legislation – legislative bills that could be introduced at the last minute here as we work towards the deadline?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

I'm happy to report that our team is very engaged in Sacramento, has a good pulse on what's coming. And at this stage, bills have had to have been introduced. There's procedurally – it's – now an amendment can be added to an existing package and so we have to be on the lookout for that. But we don't have any alarm bells on the horizon at this stage.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then, on the undergrounding effort, what progress has the company made on RFPs and other contracting efforts for undergrounding packages over the last few months?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

Yeah, we're not complete on the selection of our final partners that we'll be selecting, but we'll definitely make that public when we do. I'm happy to report we've already undergone more miles of line this year than we did the entire year last year. So, we've accelerated our capabilities and the team is just continuing to make great progress.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

And then, last question for me in terms of the engagement with the victims' trust, you highlighted your recent meeting but in terms of the overall cadence or pace of engagement, has it started to pick up with the change in leadership of the organization or have things been relatively consistent over the last six to nine months?

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

A

I would say it's been consistent, but maybe over the last six months where I would suggest that we've had a lot of conversations in the last six months, helping the trust to understand what's happening with the equity price, why it is what it is and what we can do together to really serve the victims best.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Appreciate it. Thank you.

Operator: At this time, I'll turn the conference back over to Patti for any closing remarks.

Patricia K. Poppe
Chief Executive Officer & Director, PG&E Corp.

Thank you, Regina. Well, thanks, everyone. We know it's a busy day for you. And as I said in my prepared remarks, something special is happening here at PG&E, and we can feel the momentum. And I really hope you're feeling it, too. Have a great afternoon. Be safe out there.

Operator: Ladies and gentlemen, that will conclude today's call. Thank you all for joining. You may now disconnect.