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Announcement: Moody's: Political Risk Increases for PG&E, California's Largest Utility

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New York, July 10, 2013 -- On July 8, 2013, the Consumer Protection and Safety Division (CPSD) of the California Public Utility Commission (CPUC) requested a procedural approval to correct its position related to its $2.25 billion San Bruno Penalty recommendation for Pacific Gas & Electric (PG&E, A3 stable).

Moody's views this request to have negative credit implications for PG&E since it could lead to a higher penalty amount than previously thought and does not bode well for the regulatory environment in California, which is being adversely affected by political considerations. Even though we believe PG&E's A3 rating with a stable outlook is appropriate at this time, we may take a rating action or change our outlook should we believe that the political developments over the next several weeks indicates a worsening of the California regulatory environment or that the penalty amount is so large that it would be difficult for PG&E to finance the penalty with equity alone.

The events that lead to this procedural request are highly unusual. According to industry sources and press reports, some of the attorneys assigned to the San Bruno case at the CPSD had a sharp disagreement with the head of the CPSD on the severity of the penalty when the recommendation brief and the follow up clarification were issued. The disagreement resulted in their reassignment to other cases and those attorneys subsequently went public with their grievances, including one, according to The Oakland Tribune, who maintained that some of CPSD's recommendations made in the briefs were unlawful. On June 26, 2013, the CPUC reinstated the lead attorney for the case. A week and a half later, on July 8, 2013, the lead attorney filed a request on behalf of the CPSD for the procedural change as discussed above but without the head of the CPSD's signature.

While we cannot opine on the validity of the claims by the attorneys, we are concerned that the San Bruno case has lasted almost three years and counting without being resolved. The process has been contentious and filled with intrigue. The cost related to San Bruno keeps growing and the latest twist adds to uncertainty just when the case appeared to be moving towards closure. Though we believe the penalty amount is still likely to be an amount that PG&E can finance with equity, thus protecting debt holders and credit quality, there is an increasing potential that the politics could lead to a surprising outcome and impair PG&E's credit quality.

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