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FYI

PG&E Says Explosion Penalty May Drive It to Brink of Bankruptcy

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(Bloomberg) -- PG&E Corp., owner of California's largest electric utility, said it may be pushed to the edge of bankruptcy if state regulators impose a proposed \$2.25 billion penalty for a deadly 2010 pipeline explosion.

If approved, the company would pay a total of \$4 billion, including money already spent on pipeline upgrades and safety work, Chairman and Chief Executive Officer Tony Earley said in an interview at Bloomberg headquarters in New York today. The San Francisco-based company would need to sell about \$2 billion in additional stock, he said.

"The risk is you can't raise that capital and you end up in bankruptcy," Earley said. Investors would have to buy stock that they "would never get a return on" because the money couldn't be recovered from customers. "If I was a shareholder, I wouldn't be buying PG&E stock under those circumstances."

Last month, staff of the California Public Utilities Commission changed a prior recommendation and called for PG&E to pay \$2.25 billion in penalties for the explosion that killed eight people in San Bruno, California, including a \$300 million fine for

violating safety rules. An earlier proposal would've given the company credit for money already spent on upgrades and safety work.

The penalty is more than four times the company's net income last year and is 15 years worth of earnings for the gas business, Earley said. Moody's Investors Service and Standard & Poor's have said they would review California's regulatory system if the full penalty is assessed.

PG&E Bankruptcy

PG&E put its utility unit into bankruptcy in 2001 after electricity costs tripled in the aftermath of the state's deregulation of power markets. Earley said if the gas unit were a separate business, "I would've just turned the keys in."

A spokeswoman for the commission didn't immediately respond to an e-mail seeking comment.

"Penalties should hurt a little," said Mindy Spatt, a spokeswoman for the Utility Reform Network, a customer advocacy group based in San Francisco. "PG&E seems to think penalties shouldn't hurt at all. They're just whining."

The five-member commission still must vote on a penalty, and a decision is expected by year-end, Earley said. The commission has asked PG&E to file an explanation by tomorrow of how it intends to finance the proposed penalty.

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