Bond Case Briefs

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PG&E Bonds Belie Fear of Imminent Bankruptcy Over Wildfires.

- **Utility could face $17.3 billion in liabilities from fires**
- **State lawmakers considering whether to modify liability rules**

Fears that the company — which provides gas and power to 16 million people — could take that step have reached the highest level of California government, with Governor Jerry Brown saying “there is concern that we could lose our utilities.”

But the bond market shows the talk may be premature.

Even after a report this week that PG&E hired a debt restructuring firm, prices on some of its $17.8 billion of long-term securities don’t reflect a fire sale. In fact, the company sold more corporate securities Thursday. And in the credit default swaps market, where investors bet on the survival of companies, PG&E’s risk has risen, but not to levels seen for those on the brink.

“They’re not priced as though the world is ending,” said Nicholos Venditti, who oversees about $11 billion of local government debt at Thornburg Investment Management in Santa Fe, New Mexico, of the utility’s municipal bonds. “They’re priced as though this thing has some hair on it. Not Cousin Itt levels of hair — but a fair amount.”

PG&E may face as much as $17.3 billion in liabilities from wildfires that swept northern California wine country last fall, JPMorgan Chase & Co. estimated. California investigators have already named PG&E equipment as the ignition source of 16 of the blazes that destroyed thousands of homes and killed 44 people. The uncertainty from the ongoing probes has wiped out more than $13 billion of the company’s market value.

Law Change

Under California law, utilities can be held liable for costs if their equipment is found to have caused a fire — regardless of whether they followed safety rules — based on a legal principle known as “inverse condemnation.” PG&E is pushing for relief under these rules, saying that climate change is among the factors sparking blazes. It has spent $1.7 million in lobbying over just three months ending in June, three times the amount it expended the same period last year, state filings show.

With lawmakers set to adjourn Aug. 31, PG&E may be bluffing to spur action that would saddle customers and taxpayers with higher costs, said state Senator Jerry Hill, a Democrat. “PG&E will use the threat of bankruptcy to extract the best deal they can.”

Rising Risk

Wall Street is closely following the company, which besides its prodigious stock capitalization has borrowed money in the corporate bond market as well as through a state agency in the municipal bond market, typically the avenue for local governments. Fitch Ratings on Thursday said it could cut the debt ratings into junk status if it has to absorb wildfire costs quickly. In a statement, PG&E said "due to uncertainties around policy solutions, we are experiencing higher costs of financing."

That meant opportunity for fixed-income investors seeking higher yields. Their demand led PG&E to increase its corporate debt offering Thursday to $800 million from $600 million, as 10-year bonds yielded 1.7 percentage points more than Treasuries. That's still cheaper than the average spread that high-yield issuers pay over Treasuries at 3.33 percentage points, according to data compiled by Bloomberg.

The company said the higher financing costs come at a "critical" time to modernize systems and meet clean energy priorities.

"To be clear, without reform, the current situation is not financially sustainable over the long term and our focus continues to be on communicating the urgent need to find policy solutions that protect victims, protect customers and protect the state's climate and clean energy goals by keeping the state's utilities financially viable," it said.

Governor Brown last week proposed legislation that would require a court to consider whether a utility acted "reasonably" when deciding whether it should end up on the hook for fire damages. Chief Executive Officer Geisha Williams told investors on July 26 that Brown's proposal was "insufficient" and is "one of many things that need to be considered in a more comprehensive set of reforms."

Enough Cash

Reuters reported this week that the company hired Weil Gotshal & Manges LLP to explore debt restructuring options, including putting a unit into bankruptcy. The story was met with skepticism by debt research firm CreditSights Inc., which said that even if PG&E had to pay $10 billion in claims immediately, it has enough cash to absorb it. PG&E had suspended its dividend in December to preserve cash.

PG&E has warned lawmakers that a bankruptcy like the one its electric unit filed amid the energy crisis in 2001 is possible without relief from the liability laws, Bloomberg Intelligence said Wednesday.

At the time of that bankruptcy, Moody's Investors Service ranked the company Caa2, the fourth-lowest rung in junk. That's much lower than its current A3 investment-grade rating, which reflects that a resolution is probable, said Moody's analyst Jeffrey Cassella. "We're expecting some kind of constructive outcome."

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