Top US utility company prepares bankruptcy filing after California wildfires

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PG&E, which is the owner of the biggest US power utility by customers, has said it is preparing to file for Chapter 11 bankruptcy protection as soon as this month amid pressure from potentially crushing liabilities linked to California's catastrophic wildfires in 2017 and 2018.

PG&E, which provides electricity and natural gas to 16 million customers in northern and central California, faces widespread litigation, government investigations and liabilities that could potentially exceed $30 billion due to the fires, the company said.

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Its shares plunged 55% today to $8.92, giving it a market capitalisation of less than $5 billion.

The stock is down 88% from late 2017, before wildfires devastated PG&E's service areas.

PG&E's chief executive officer was replaced on Sunday by General Counsel John Simon on an interim basis.

San Francisco-based PG&E is working on lining up roughly $5.5 billion in so-called debtor-in-possession financing to help operations during bankruptcy proceedings.

The utility said the bankruptcy process will not affect electric or natural gas services for customers. Company advisers expect that it may take up to two years to emerge from bankruptcy.

In theory, California politicians could avert PG&E's bankruptcy with legislative action. Last year, the state approved a law helping utilities recoup costs from fires in 2017, but not blazes in 2018.

Both lawmakers and regulators may be constrained in how much more they can help PG&E, at least by allowing it to further raise electricity rates.

California's average rate is 16 cents per kilowatt hour, while those in neighbouring Oregon and Washington are approximately half as much, according to data from the U.S. Energy Information Administration provided by energy consulting firm McCullough Research. The US average is 10 cents per kilowatt hour.

'Significant liability'

PG&E said in a securities filing it could potentially raise more money and avoid seeking bankruptcy protection, but argued such a move would be complex, uncertain and expensive.

Moody's and S&P both recently cut PG&E's credit rating deeper into junk territory, citing concerns that the company required dramatic government intervention to shore up its finances. The actions resulted in significant financial constraints for PG&E, the company said.

A bankruptcy filing could help the company deal with such fundamental problems as the prospect of continually being exposed to financial fallout from future wildfires, the company said.

Many PG&E customers live near dry forests where rain has become increasingly rare - conditions for potential future blazes.

PG&E's regulator, the California Public Utilities Commission, began in late December to investigate whether the company should make significant structural changes, including becoming owned by the state or splitting up its businesses.

The company said it is looking for new members for its board of directors with safety experience.

PG&E said it could face "significant liability" in excess of its insurance coverage if its equipment was found to have caused the Camp Fire that swept through the California mountain community of Paradise last November.

PG&E's liabilities from that fire could be catastrophic if authorities determine its equipment caused the blazes. Under California law, utilities are exposed to liability from wildfires regardless of their negligence. The company decided to prepare to file for bankruptcy in part to address that issue, known as "inverse condemnation."

In a regulatory filing it questioned whether it could continue to operate in the years ahead as a so-called investor-owned utility by being exposed to that risk. Investors might avoid the company if questions around that risk remain unanswered.

A federal judge last week proposed restricting PG&E from using power lines deemed unsafe during high winds in this year's fire season.

Energy companies that supply PG&E could be hit by its bankruptcy. One of the most exposed is Kinder Morgan Inc KMI.N, the second largest North American pipeline operator, analysts said.

PG&E plans to seek court protection from creditors around Jan. 29, the company said. It alerted employees on Monday in order to comply with California law.

The company's board ousted CEO Geisha Williams and decided to undergo a restructuring at a meeting this weekend in San Francisco, according to a source familiar with the matter.

Williams had served as CEO since March 2017, before the fatal blazes.

PG&E, which drew down remaining amounts on credit lines totalling $3.3 billion in November, had about $1.5 billion of liquidity as of Friday. A notice to employees about a pending bankruptcy could potentially dry up PG&E's access to capital.