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Certain Tax Consequences of the Debtors' and Shareholder Proponents' Joint Chapter 11 Plan of Reorganization

This summary was prepared by PG&E Corporation (“**HoldCo**”) and Pacific Gas and Electric Company (the “**Utility**” and, together with HoldCo, the “**Debtors**”) and their advisors in connection with the *Disclosure Statement for Debtors' and Shareholder Proponents' Joint Chapter 11 Plan of Reorganization* (as it may be amended, modified or supplemented, and together with any exhibits or schedule thereto, the “**Disclosure Statement**”), and is fully incorporated by reference therein. The following discussion is a summary of certain U.S. federal income tax consequences of the consummation of the *Debtors' and Shareholder Proponents' Joint Chapter 11 Plan of Reorganization*, dated March 16, 2020 [Docket No. 6320] (as it may be amended, modified or supplemented, and together with any exhibits or schedule thereto, the “**Plan**”)¹ to the Debtors and to certain holders of Claims and Interests. The following summary does not address the U.S. federal income tax consequences to holders of Claims or Interests who are Unimpaired or otherwise entitled to payment in full in Cash under the Plan.

The discussion of U.S. federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the “**Tax Code**”), U.S. Treasury Regulations, judicial authorities, published positions of the Internal Revenue Service (“**IRS**”), and other applicable authorities, all as in effect on the date of this Disclosure Statement and all of which are subject to change or differing interpretations (possibly with retroactive effect). The U.S. federal income tax consequences of the contemplated transactions are complex and subject to significant uncertainties. The Debtors have not as of the date of this disclosure statement requested an opinion of counsel or a ruling from the IRS with respect to any of the tax aspects of the contemplated transactions. Although the Debtors may request certain rulings from the IRS, the Plan is not conditioned upon the application or receipt of a private letter ruling from the IRS. Accordingly, there is no assurance that the IRS would not take a contrary position as to the federal income tax consequences described herein.

This summary does *not* address foreign, state, or local tax consequences of the contemplated transactions, nor does it address the U.S. federal income tax consequences of the transactions to special classes of taxpayers (*e.g.*, non-U.S. taxpayers, small business investment companies, regulated investment companies, real estate investment trusts, banks and certain other financial institutions, insurance companies, tax-exempt entities or organizations (including holders of Federal Agency Fire Claims, State Agency Fire Claims, or Public Entities Wildfire Claims), retirement plans, individual retirement and other tax-deferred accounts, holders that are, or hold their Claims or Interests through, S corporations, partnerships or other pass-through entities for U.S. federal income tax purposes, persons whose functional currency is not the U.S. dollar, dealers in securities or foreign currency, traders that mark-to-market their securities, persons subject to the alternative minimum tax or the “Medicare” tax on net investment income, persons whose Claims or Interests are part of a straddle, hedging, constructive sale, or conversion transaction, and persons who use the accrual method of accounting and report income on an “applicable financial statement”). In addition, this discussion does not address the Foreign

¹ Unless otherwise defined herein, capitalized terms used in this summary have the meanings ascribed to such terms in the Plan or the Disclosure Statement, as applicable.

1 Account Tax Compliance Act, or persons who acquire any New Utility Long-Term Notes, New
2 Utility Short-Term Notes or New Utility Funded Debt Exchange Notes as secondary purchasers.

3 The following discussion assumes that all Claims and Interests are held as “capital assets”
4 (generally, property held for investment) within the meaning of section 1221 of the Tax Code
5 (unless otherwise indicated).

6 **THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX**
7 **CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A**
8 **SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON YOUR**
9 **INDIVIDUAL CIRCUMSTANCES. ALL HOLDERS OF CLAIMS AND INTERESTS**
10 **ARE URGED TO CONSULT THEIR TAX ADVISOR FOR THE U.S. FEDERAL, STATE,**
11 **LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.**

12 **1. Consequences to the Debtors**

13 For U.S. federal income tax purposes, each of the Debtors is a member of an affiliated
14 group of corporations of which HoldCo is the common parent and which files a single
15 consolidated U.S. federal income tax return (the “**Tax Group**”). The Debtors estimate that, as of
16 December 31, 2018, the Tax Group had approximately \$3.9 billion of federal consolidated net
17 operating losses (“**NOLs**”) and other tax attributes. As described below, the Debtors expect to
18 incur additional deductions through the Effective Date, and over time following the Effective
19 Date, in respect of cash or other property transfers by, or on behalf of, the Debtors to the Wildfire
20 Trusts and Go-Forward Wildfire Fund (although not all such transfers may be deductible). The
21 amount of any such NOLs and other tax attributes, including any deductions for payments of
22 Claims under the Plan, remain subject to audit and potential adjustment by the IRS. NOLs arising
23 in taxable years beginning after 2017 may only be used to offset up to 80% of taxable income in
24 a given year.

25 As discussed below, depending in part on the extent of changes in stock ownership of
26 HoldCo pursuant to the Plan, the utilization of any NOLs (including NOLs resulting from the
27 implementation of the Plan) and certain other tax attributes of the Reorganized Debtors following
28 the Effective Date could be subject to limitation under section 382 of the Tax Code. To assist in
preventing any future or further limitation on the Reorganized Debtors’ utilization of such tax
attributes under section 382 due to any changes in the stock ownership of the Reorganized Debtors
following the Effective Date, the Plan allows for the potential imposition of certain stock transfer
restrictions in the organizational documents of the Reorganized Debtors.

29 **(a) Cancellation of Debt**

30 In general, the Tax Code provides that, rather than including the amount of cancellation
31 of debt (“**COD**”) in taxable income, a debtor in a bankruptcy case must reduce certain of its tax
32 attributes—such as NOL carryforwards and current year NOLs, capital loss carryforwards, tax
33 credits, and tax basis in assets—by the amount of any COD incurred pursuant to a confirmed
34 chapter 11 plan. The amount of nontaxable COD income incurred is generally the amount by
35 which the indebtedness discharged exceeds the value of any consideration given in exchange
36 therefor. Certain statutory or judicial exceptions also may apply to limit the amount of COD
37
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1 incurred by a debtor for U.S. federal income tax purposes, such as in the case of contested
2 liabilities and the cancellation or discharge of a liability that would have given rise to a deduction
3 when paid. The Debtors do not expect to incur any material amount of COD (if any) as a result
4 of the implementation of the Plan, and thus do not anticipate any material reduction in the NOL
5 carryforwards or other tax attributes of the Tax Group as a result of any COD incurred.

6 **(b) *Funding and Tax Status of the Wildfire Trusts***

7 On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized
8 Debtors will fund, or cause to be funded, the Wildfire Trusts. Pursuant to the Plan, the trusts will
9 be funded with, depending on the particular trust, (i) cash, (ii) New HoldCo Common Stock, (iii)
10 the Assigned Rights and Causes of Action, (iv) the Tax Benefits Payment Agreement, and (v) the
11 assignment of rights under certain insurance policies. For U.S. federal income tax purposes, the
12 Debtors intend to treat all such fundings as made by, or on behalf of, the Utility, on the basis that
13 any Subrogation Wildfire Claims or Fire Victim Claims against HoldCo are derivative of those
14 against the Utility.

15 As discussed below, each trust comprising the Wildfire Trusts should be treated as a
16 “qualified settlement fund” for U.S. federal income tax purposes, unless the Reorganized Debtors
17 elect to treat such trust as a grantor trust (meaning that the trust is treated effectively as an
18 extension of the Reorganized Debtors for U.S. federal income tax purposes). The Debtors do not
19 currently anticipate making a grantor trust election and, unless otherwise noted, the remainder of
20 this discussion so assumes. Accordingly, the Reorganized Debtors generally should be entitled
21 to a current federal income tax deduction for all transfers of cash, stock and other property (other
22 than any new debt or other obligation of the Reorganized Debtors to make cash payments in the
23 future) to each trust to the same extent the Reorganized Debtors would have been entitled to a
24 deduction if such amounts had been paid directly to the holders of the Subrogation Wildfire
25 Claims or Fire Victim Claims. The Reorganized Debtors would only be entitled to a deduction
26 with respect to the entry into the Tax Benefits Payment Agreement as and when payments are
27 made pursuant to the agreement. In addition, the Reorganized Debtors generally will not be
28 entitled to a deduction to the extent the Fire Victims Trust is funded through insurance proceeds
or the transfer of the Debtors’ rights under various insurance policies.

Each trust will be subject to a separate entity level tax at the maximum rate applicable to
trusts and estates (currently 37%) on the income of the trust, payable out of the assets of the trust.
In determining the taxable income of the trust, (i) any amounts of cash, stock and other property
transferred by the Debtors to the trusts (other than any accrual of interest income on any amounts
payable by the Debtors to the trust after the Effective Date or distributions with respect to New
HoldCo Common Stock) will be excluded from the trust’s income; (ii) any sale, exchange, or
distribution of property by the trust generally will result in the recognition of gain or loss in an
amount equal to the difference between the fair market value of the property on the date of
disposition and the adjusted tax basis of the trust in such property; and (iii) administrative costs
(including state and local taxes) incurred by the trust will be deductible. In general, the adjusted
tax basis of property received by the trusts pursuant to the Plan will be its fair market value at the
time of such receipt.

1 In contrast, if an applicable grantor trust election is made with respect to a trust, the
2 Reorganized Debtors would not be entitled to any deduction upon the funding of such trust, but
3 rather would only be entitled to deduct any amounts as and when the trust actually satisfies the
4 respective claims. In addition, any income and expenses of such trust would be treated for U.S.
5 federal income tax purposes as the income and expenses of the Reorganized Utility.

6 **(c) *Funding of the Go-Forward Wildfire Fund***

7 Subject to satisfaction of the conditions set forth in AB 1054 as determined, where
8 applicable, by the CPUC, on the Effective Date or as soon as reasonably practicable thereafter,
9 the Reorganized Debtors will fund, in accordance with the California Public Utilities Code and
10 the Reform Legislation, approximately \$4.8 billion to the Go-Forward Wildfire Fund. The
11 Reorganized Debtors will also be responsible for ongoing funding commitments to the Go-
12 Forward Wildfire Fund as required by the terms of the Reform Legislation. The deductibility of
13 the amounts contributed to the Go-Forward Wildfire Fund is uncertain, both as to timing and
14 amount. It is possible that the Reorganized Debtors may be able to deduct the amounts contributed
15 over time (possibly ten or fifteen years), or as the amounts are actually used for the benefit of the
16 Reorganized Debtors (and not subject to repayment), or possibly, only once the fund is terminated
17 and the amounts contributed are not returned.

18 **(d) *Limitation of NOL Carryforwards and Other Tax Attributes***

19 Following the Effective Date, any NOL carryforwards and certain other tax attributes
20 allocable to periods prior to the Effective Date (“**Pre-Change Losses**”) may be subject to certain
21 limitations. Under section 382 of the Tax Code, if a corporation (or consolidated group)
22 undergoes an “ownership change,” and the corporation does not qualify for (or elects out of) the
23 special bankruptcy exception in section 382(l)(5) of the Tax Code discussed below, the amount
24 of its Pre-Change Losses that may be utilized to offset future taxable income generally are subject
25 to an annual limitation. In general, losses incurred in the same taxable year as an ownership
26 change can be pro-rated between the pre- and post-change portions of the taxable year, even if a
27 disproportionate amount of such losses were actually incurred on or prior to the date of the
28 ownership change. Only the portion of such losses allocated to the pre-change portion of the year
would be subject to the annual limitation. Whether the Debtors will undergo an ownership change
is currently uncertain and will depend in part on the terms of the equity financing.

(i) Annual Limitation

In the event of an ownership change, the amount of the annual limitation to which a
corporation (or consolidated group) that undergoes an ownership change will be subject is
generally equal to the product of (A) the fair market value of the stock of the corporation (or
common parent corporation of the consolidated group) immediately before the ownership change
(with certain adjustments) multiplied by (B) the “long term tax exempt rate” in effect for the
month in which the ownership change occurs (1.63% for ownership changes occurring in March
2020). For a corporation (or consolidated group) in bankruptcy that undergoes an ownership
change pursuant to a confirmed bankruptcy plan, the fair market value of the stock of the
corporation is generally determined immediately *after* (rather than before) the ownership change
after giving effect to the discharge of creditors’ claims, but subject to certain adjustments; in no

1 event, however, can the stock value for this purpose exceed the pre-change gross value of the
2 corporation's assets. In addition, as discussed below, the annual limitation potentially may be
3 increased in the event the corporation (or consolidated group) has an overall "built-in" gain in its
4 assets at the time of the ownership change. Any portion of the annual limitation that is not used
5 in a given year may be carried forward, thereby adding to the annual limitation for the subsequent
6 taxable year.

7 If a loss corporation (or consolidated group) has a net unrealized built-in gain at the time
8 of an ownership change (taking into account most assets and items of "built-in" income, gain, loss
9 and deduction), any built-in gains recognized (or, according to a current IRS notice, treated as
10 recognized) during the following five years (up to the amount of the original net unrealized built-
11 in gain) generally will increase the annual limitation in the year recognized, such that the loss
12 corporation (or consolidated group) would be permitted to use its Pre-Change Losses against such
13 recognized built-in gain income in addition to its regular annual allowance. Alternatively, if a
14 loss corporation (or consolidated group) has a net unrealized built-in loss at the time of an
15 ownership change, then any built-in losses recognized during the following five years (up to the
16 amount of the original net unrealized built-in loss) generally will be treated as Pre-Change Losses
17 and similarly will be subject to the annual limitation. On September 9, 2019, the IRS issued
18 proposed regulations that would significantly modify the calculation and treatment of net
19 unrealized built-in gains and losses; however, the IRS recently amended the proposed effective
20 date provision to exempt from the new regulations ownership changes pursuant to chapter 11
21 cases filed prior to the regulations becoming effective. The proposed regulations, therefore,
22 should not apply to the Debtors. Accordingly, the Debtors estimate that the Tax Group would
23 have a net unrealized built-in gain in excess of \$6 billion as of the Effective Date.

24 If a corporation (or consolidated group) does not continue its historic business or use a
25 significant portion of its historic assets in a new business for at least two years after the ownership
26 change, the annual limitation resulting from the ownership change is reduced to zero, thereby
27 precluding any utilization of the corporation's Pre-Change Losses (absent any increases due to
28 the recognition of any built-in gains as of the time of the ownership change).

(ii) Section 382(l)(5) Bankruptcy Exception

19 Under section 382(l)(5) of the Tax Code, an exception to the foregoing annual limitation
20 rules generally applies where "qualified creditors" and existing shareholders of a debtor
21 corporation receive, in respect of their claims or equity interests, at least fifty percent of the vote
22 and value of the stock of the reorganized debtor (or a controlling corporation if also in bankruptcy)
23 pursuant to a confirmed chapter 11 plan. The IRS has in private letter rulings applied section
24 382(l)(5) of the Tax Code on a consolidated basis where the parent corporation is in bankruptcy.
25 Under this exception, a debtor's Pre-Change Losses are not limited on an annual basis, but,
26 instead, are required to be reduced by the amount of certain previously deducted interest with
27 respect to any debt converted into stock in the reorganization. No debt is being exchanged for
28 stock in connection with the Plan. Moreover, if this exception applies, any further ownership
change of the Reorganized Debtors within a two-year period after the Effective Date would
preclude the Reorganized Debtor's subsequent utilization of any Pre-Change Losses in existence
at the time of such ownership change. A debtor that qualifies for the section 382(l)(5) exception
may, if it so desires, elect not to have the exception apply and to instead be subject to the annual

1 limitation described above. It is currently uncertain whether the Plan will result in an ownership
2 change and, if an ownership change were to occur, whether the Reorganized Debtors would
3 qualify for the section 382(l)(5) exception.

3 (e) *Backstop Tax Receivable Agreement*

4 Pursuant to the Plan and the Equity Backstop Commitment Letters, the Backstop Parties
5 will, under certain circumstances, acquire from the Debtors (through a trust arrangement) a tax
6 receivable agreement pursuant to which the Reorganized Utility would be required to annually
7 make a cash payment in an amount determined based on the utilization of tax benefits arising
8 from the use of NOLs and deductions from the payment of Fire Claims (other than any tax benefits
9 for which the Reorganized Debtors have payment obligations under the Tax Benefits Payment
10 Agreement). The U.S. federal income tax treatment of any amount received (or deemed to be
11 received) by the Reorganized Utility for the tax receivable agreement is currently uncertain and
12 depends on the particular terms of the tax receivables agreement and the tax characterization of
13 the tax receivable agreement – for example, as a separate contractual property right, as a
14 contingent debt obligation, as an equity interest in the Reorganized Utility, or otherwise.
15 Depending on the appropriate characterization, the Debtors may recognize income with respect
16 to any amount received for the tax receivable agreement and may or may not be entitled to a
17 deduction in the future as payments are made under the agreement. In the event that the Debtors
18 implement the capital structure described in the testimony provided in the Plan OII proceeding
19 referenced in Section III.C of the Disclosure Statement, they will not be required to provide the
20 Backstop Parties with the tax receivable agreement. The Debtors' capital structure remains
21 subject to change, in which case they may be required to provide the Backstop Parties with the
22 tax receivable agreement in accordance with the Equity Backstop Commitment Letters.

15 2. **Consequences to Holders of Certain Claims and Interests**

16 This summary discusses the U.S. federal income tax consequences to holders of Utility
17 Senior Note Claims (other than Utility Reinstated Senior Note Claims), Utility Funded Debt
18 Claims, Subrogation Wildfire Claims, Fire Victim Claims and HoldCo Common Stock who are
19 U.S. Holders, and does not discuss tax consequences for those who are not U.S. Holders.

20 As used herein, the term “**U.S. Holder**” means a beneficial owner of such Claims or
21 Interests that is for U.S. federal income tax purposes:

- 22 • an individual who is a citizen or resident of the United States;
- 23 • a corporation, or other entity taxable as a corporation for U.S. federal income tax
24 purposes, created or organized in or under the laws of the United States, any state
25 thereof or the District of Columbia;
- 26 • an estate the income of which is subject to U.S. federal income taxation regardless
27 of its source; or
- 28 • a trust, if a court within the United States is able to exercise primary jurisdiction
over its administration and one or more U.S. persons have authority to control all

1 of its substantial decisions, or if the trust has a valid election in effect under
2 applicable Treasury Regulations to be treated as a U.S. person.

3 If a partnership or other entity or arrangement taxable as a partnership for U.S. federal
4 income tax purposes holds such Claims or Interests, the tax treatment of a partner in such
5 partnership generally will depend upon the status of the partner and the activities of the
6 partnership. ***If you are a partner in such a partnership holding any such Claims or Interests,
7 you should consult your own tax advisor.***

8 (a) ***U.S. Holders of Utility Senior Note Claims and Utility Funded Debt
9 Claims***

10 Pursuant to the Plan, holders of Allowed Utility Impaired Senior Note Claims, Utility
11 Short-Term Senior Note Claims and Utility Funded Debt Claims will receive (i) cash equal to
12 their Utility Impaired Senior Note Claim Interest Amount, Utility Short-Term Senior Note Claim
13 Interest Amount or their Utility Funded Debt Claims Interest and Charges Amount, as applicable,
14 and (ii) in satisfaction and discharge of the remainder of their Allowed Claims, New Utility Long-
15 Term Notes, New Utility Short-Term Notes or New Utility Funded Debt Exchange Notes
16 (collectively, the “**New Utility Notes**”), as applicable. Pursuant to the Noteholder RSA, certain
17 holders will also receive an additional payment, termed an Underwriting Fee. The discussion
18 herein does not address the federal income tax treatment of such additional payment; recipients
19 of such payment are urged to consult their tax advisors regarding the appropriate U.S. federal
20 income tax treatment.

21 The receipt of a new debt instrument in satisfaction for an existing debt instrument will be
22 treated as an “exchange” for U.S. federal income tax purposes, if the terms of the two instruments
23 (taking into account any related transactions) are significantly different as determined for U.S.
24 federal income tax purposes. The Debtors expect, and the discussion herein assumes, that the
25 receipt of New Utility Notes by a holder of Utility Senior Note Claims or Utility Funded Debt
26 Claims will be respected as an “exchange” for U.S. federal income tax purposes.

27 The U.S. federal income tax consequences of the Plan to a U.S. Holder of Utility Senior
28 Note Claims or Utility Funded Debt Claims depends, in part, on whether such claims and the New
Utility Notes constitute “securities” for U.S. federal income tax purposes. The term “security” is
not defined in the Tax Code or in the Treasury Regulations issued thereunder and has not been
clearly defined by judicial decisions. The determination of whether a particular debt obligation
constitutes a “security” depends on an overall evaluation of the nature of the debt, including
whether the holder of such debt obligation is subject to a material level of entrepreneurial risk and
whether a continuing proprietary interest is intended or not. One of the most significant factors
considered in determining whether a particular debt obligation is a security is its original term. In
general, debt obligations issued with a weighted-average maturity at issuance of less than five (5)
years do not constitute securities, whereas debt obligations with a weighted-average maturity at
issuance of ten (10) years or more constitute securities. The maturity of the Utility Senior Note
Claims ranges from approximately five (5) to thirty (30) years. The maturity of the Utility Funded
Debt Claims ranges from approximately one (1) to seven (7) years. The New Utility Long-Term
Notes will have a 10-year or 30-year maturity, the New Utility Short-Term Notes will have a 5-
year or 8-year maturity and the New Utility Funded Debt Exchange Notes will have either a 5.5-

1 year or 20-year maturity. *U.S. Holders of the Utility Senior Note Claims and Utility Funded*
2 *Debt Claims are urged to consult their own tax advisors regarding the appropriate status of*
3 *such claims for U.S. federal income tax purposes.*

4 (i) Recapitalization Treatment

5 In the event that the applicable Utility Senior Note Claims, Utility Funded Debt Claims
6 and New Utility Notes constitute “securities” for U.S. federal income tax purposes, a U.S.
7 Holder’s receipt of New Utility Notes in exchange for Allowed Utility Senior Note Claims or
8 Allowed Utility Funded Debt Claims should be treated as a “recapitalization” for U.S. federal
9 income tax purposes. The classification as a recapitalization generally serves to defer the
10 recognition of any gain or loss by the U.S. Holder. However, a U.S. Holder will recognize any
11 gain (computed as discussed in the next section) to the extent of any cash received, other than
12 cash received in respect of accrued but unpaid interest and possibly accrued original issue discount
13 (“OID”), which will be separately taxable as ordinary interest income to the extent not previously
14 included in income (*see* —“Distributions in Discharge of Accrued Interest or OID,” below). *See*
15 — “Character of Gain or Loss,” below.

16 In a recapitalization exchange, a U.S. Holder’s tax basis in the New Utility Notes as it
17 relates to its Allowed Utility Senior Note Claims or Utility Funded Debt Claims should equal such
18 U.S. holder’s adjusted tax basis in its Claims, increased by any gain or interest income recognized
19 in the exchange, and decreased by any deductions claimed in respect of any previously accrued
20 but unpaid interest and the amount of cash received. In general, the holder’s holding period for
21 such portion of the New Utility Notes would include the holder’s holding period for its Claim,
22 except to the extent that any New Utility Notes are issued in respect of a Claim for accrued but
23 unpaid interest and possibly accrued OID.

24 (ii) Taxable Exchange Treatment

25 In the event that an Allowed Utility Senior Note Claim or Allowed Utility Funded Debt
26 Claim, as applicable, does not constitute a “security” for U.S. federal income tax purposes, or the
27 New Utility Note received does not constitute a “security” for U.S. federal income tax purposes,
28 a U.S. Holder of such an Allowed Claim generally will recognize gain or loss in an amount equal
to the difference, if any, between (i) the sum of the “issue price” of the New Utility Notes received
and the amount of any cash received in satisfaction of its Claims (other than any cash received in
respect of a Claim for accrued but unpaid interest and possibly accrued OID), and (ii) the U.S.
Holder’s adjusted tax basis in its Claims (other than any tax basis attributable to accrued but
unpaid interest and possibly accrued OID). *See* — “Character of Gain or Loss,” below. As
discussed below (*see* — “Ownership and Disposition of the New Utility Notes”), the “issue price”
of the New Utility Notes is expected to be the fair market value of such notes at issuance. A U.S.
Holder will have ordinary interest income to the extent of any cash allocable to accrued but unpaid
interest or possibly accrued OID not previously included in income. *See* — “Distributions in
Discharge of Accrued Interest or OID,” below.

In a taxable exchange, a U.S. Holder of Utility Senior Note Claims or Utility Funded Debt
Claims will generally have a tax basis in the New Utility Notes received in satisfaction of its

1 Claims equal to the fair market value of such notes. The holder's holding period in the New
2 Utility Notes should begin the day following the Effective Date.

3 (iii) Character of Gain or Loss

4 Where gain or loss is recognized by a U.S. Holder, the character of such gain or loss as
5 long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a
6 number of factors, including the tax status of the U.S. Holder, whether the Claim constitutes a
7 capital asset in the hands of the U.S. Holder and how long it has been held, whether the Claim
8 was acquired at a market discount, and whether and to what extent the U.S. Holder previously
9 claimed a bad debt deduction.

10 A U.S. Holder that acquired a Claim from a prior holder at a "market discount" may be
11 subject to the market discount rules of the Tax Code. A U.S. Holder that purchased its Claim
12 from a prior holder will be considered to have purchased such Claim with "market discount" if
13 the U.S. Holder's adjusted tax basis in its Claim immediately after its acquisition is less than the
14 adjusted issue price of such Claim by at least a statutorily defined *de minimis* amount. Under
15 these rules, gain recognized on the exchange of Claims (other than in respect of a Claim for
16 accrued but unpaid interest) generally will be treated as ordinary income to the extent of the
17 market discount accrued (on a straight line basis or, at the election of the holder, on a constant
18 yield basis) during the holder's period of ownership, unless the holder elected to include the
19 market discount in income as it accrued. If a U.S. Holder of Claims did not elect to include market
20 discount in income as it accrued and, thus, under the market discount rules, was required to defer
21 all or a portion of any deductions for interest on debt incurred or maintained to purchase or carry
22 its Claims, such deferred amounts would become deductible at the time of the exchange.

23 In the case of an exchange of any Utility Senior Note Claims or Utility Funded Debt
24 Claims for New Utility Notes that qualifies as a recapitalization exchange, the Tax Code indicates
25 that any accrued market discount in respect of such Claims should only be currently includable in
26 income to the extent of any gain recognized in the recapitalization exchange. However, any
27 accrued market discount that is not included in income should carry over to such New Utility
28 Notes, such that any gain recognized by a U.S. Holder upon a subsequent disposition of such notes
would be treated as ordinary income to the extent of any accrued market discount not previously
included in income. To date, specific Treasury Regulations implementing this rule have not been
issued.

29 (iv) Distributions in Discharge of Accrued Interest or OID

30 In general, to the extent that any consideration received pursuant to the Plan by a U.S.
31 Holder of a Claim is received in satisfaction of interest accrued during its holding period, such
32 amount will be taxable to the U.S. Holder as interest income (if not previously included in the
33 U.S. Holder's gross income). Conversely, a U.S. Holder may be entitled to recognize a loss to
34 the extent any accrued interest or amortized OID was previously included in its gross income and
35 is not paid in full. However, the IRS has privately ruled that a holder of a "security" of a corporate
36 issuer, in an otherwise tax-free exchange, could not claim a current deduction with respect to any
37 unpaid OID. Accordingly, it is also unclear whether, by analogy, a U.S. Holder of a Claim that
38 does not constitute a "security" would be required to recognize a capital loss, rather than an

1 ordinary loss, with respect to previously included OID that is not paid in full. Holders are urged
2 to consult their tax advisors regarding the allocation of consideration received under the Plan, as
3 well as the deductibility of accrued but unpaid interest (including OID) and the character of any
loss claimed with respect to accrued but unpaid interest (including OID) previously included in
income for U.S. federal income tax purposes.

4 (v) Ownership and Disposition of the New Utility Notes

5 The following discussion is based on the preliminary terms of the New Utility Notes,
6 which are subject to change in whole or in part.

7 In general, payments of stated interest on the New Utility Notes should be taxable to a
8 U.S. Holder as ordinary interest income at the time such payments are accrued or are received, in
accordance with the holder's regular method of tax accounting.

9 In addition, depending on the issue price, some or all series of New Utility Notes may be
10 treated as issued with OID. A debt instrument generally has OID if its "stated redemption price
11 at maturity" exceeds its issue price by more than a statutorily defined *de minimis* amount. The
"stated redemption price at maturity" of each series of New Utility Notes would include all
12 principal and interest payable over the term of such New Utility Notes, other than qualified stated
interest (*i.e.*, other than stated interest that is unconditionally payable at least annually at a constant
13 rate in cash or property other than debt of the issuer). The stated interest payable on the New
Utility Notes should be considered qualified stated interest for this purpose.

14 The "issue price" of any series of New Utility Notes will depend on whether such notes,
15 or a substantial portion of the Allowed Utility Senior Note Claims or Allowed Utility Funded
Debt Claims exchanged for such series of New Utility Notes, are traded on an established market.
16 A debt instrument is considered traded on an established market for U.S. federal income tax
purposes only if such debt is traded on an established market during the 31-day period ending 15
17 days after the Effective Date. Pursuant to applicable Treasury Regulations, an "established
market" need not be a formal market. It is sufficient if there is a readily available sales price for
18 an executed purchase or sale, or if there is one or more "firm quotes" or "indicative quotes" for
the debt instrument, in each case as such terms are defined in applicable Treasury Regulations.
19 The Debtors determination of whether a series of New Utility Notes or a substantial portion of the
Allowed Utility Senior Note Claims and Allowed Utility Funded Debt Claims exchanged for such
20 series is traded on an established market will be binding on a U.S. Holder unless such holder
discloses, on a timely-filed U.S. federal income tax return for the taxable year that includes the
21 Effective Date, that such holder's determination is different, the reasons for such holder's
different determination and, if applicable, how such holder determined the fair market value.
22

23 If, as the Debtors expect, the New Utility Notes are treated for U.S. federal income tax
24 purposes as traded on an established market, the issue price of the New Utility Notes will equal
their fair market value on the Effective Date. If a series of New Utility Notes is not considered
25 traded on an established market, but a substantial portion of the Allowed Utility Senior Note
Claims and Allowed Utility Funded Debt Claims exchanged for such series is traded on an
26 established market, the issue price of the New Utility Notes will be based on the fair market value
of such Notes (with appropriate adjustments), as determined by the Debtors. Such determination
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1 will be binding on a U.S. Holder unless such holder discloses, on a timely-filed U.S. federal
2 income tax return for the taxable year that includes the Effective Date, that its determination
3 differs from the Debtors' determination. If neither a particular series of New Utility Notes nor a
4 substantial portion of the Allowed Utility Senior Note Claims and Allowed Utility Funded Debt
Claims exchanged for such series is considered traded on an established market, the issue price
for the New Utility Notes should be the stated principal amount of the New Utility Notes.

5 In general, and subject to the discussion of acquisition and bond premium in the below, a
6 U.S. Holder must include OID in gross income as it accrues over the term of the New Utility
7 Notes using the "constant yield method" without regard to its regular method of accounting for
8 U.S. federal income tax purposes, and regardless of when the holder receives cash payments
9 attributable to that income. The amount of OID includible in income for a taxable year by a U.S.
10 Holder generally equals the sum of the daily portions of OID that accrue on its interest in the New
11 Utility Notes for each day during the taxable year on which such holder holds such interest,
12 whether reporting on the cash or accrual basis of accounting for U.S. federal income tax purposes.
13 The daily portion is determined by allocating to each day of an accrual period (generally, the
14 period between interest payments or compounding dates) a pro rata portion of the OID allocable
15 to such accrual period. The amount of OID that will accrue during an accrual period is the product
16 of the "adjusted issue price" of the U.S. Holder's interest in the New Utility Notes at the beginning
17 of the accrual period multiplied by the yield to maturity of the New Utility Notes less the amount
18 of any qualified stated interest allocable to such accrual period. The "adjusted issue price" of an
19 interest in the New Utility Notes at the beginning of an accrual period will equal its issue price,
20 increased by the aggregate amount of OID that has accrued on such interest in all prior accrual
21 periods, and decreased by any payments made during all prior accrual periods on such interest
22 other than qualified stated interest.

23 Any OID that a holder includes in income will increase the holder's adjusted tax basis in
24 its interest in the New Utility Notes. A U.S. Holder generally will not be required to include
25 separately in income cash payments (other than in respect of qualified stated interest) received on
26 its New Utility Notes; instead, such payments will reduce the holder's adjusted tax basis in such
27 interest by the amount of the payment.

28 The rules regarding the determination of issue price and OID are complex, and the OID
rules described above may not apply in all cases. Accordingly, each holder of New Utility Notes
is urged to consult its tax advisor regarding the possible application of the OID rules to the New
Utility Notes.

Acquisition and Bond Premium on the New Utility Notes. The amount of OID or stated
interest includible in a U.S. Holder's gross income with respect to the New Utility Notes will be
reduced if the debt is acquired (or deemed to be acquired) at an "acquisition premium" or with
"bond premium."

A debt instrument is acquired at an "acquisition premium" if the holder's tax basis in the
debt is greater than the adjusted issue price of the debt at the time of the acquisition, but is less
than or equal to the stated redemption price at maturity of the debt. If an exchange qualifies for
recapitalization treatment, a U.S. Holder may have acquisition premium. If a U.S. Holder has
acquisition premium, the amount of any OID includible in its gross income in any taxable year

1 with respect to the New Utility Notes to which such acquisition premium relates will be reduced
2 by an allocable portion of the acquisition premium (generally determined by multiplying the
3 annual OID accrual with respect to such portion of the holder's interest by a fraction, the
4 numerator of which is the amount of the acquisition premium, and the denominator of which is
5 the total OID).

6 If a U.S. Holder has a tax basis in any New Utility Notes received that exceeds the stated
7 redemption price at maturity of such notes, such New Utility Notes will be treated as having "bond
8 premium" and, if applicable, the U.S. Holder will not include any OID on such notes in income.
9 A U.S. Holder may elect to amortize any bond premium over the period from its acquisition to
10 the maturity date of such notes, using a constant yield-to-maturity method prescribed under
11 applicable Treasury Regulations, in which case the U.S. Holder should have an ordinary deduction
12 as an offset to stated interest income in respect of such New Utility Notes, and a corresponding
13 reduction in its tax basis in such notes for purposes of computing gain or loss. If such an election
14 to amortize bond premium is not made, a U.S. Holder will receive a tax benefit from the premium
15 in computing such holder's gain or loss upon the sale or other taxable disposition of such New
16 Utility Notes, including the repayment of principal.

17 An election to amortize bond premium will apply to amortizable bond premium on all
18 notes and other bonds the interest on which is includible in the U.S. Holder's gross income and
19 that are held at, or acquired after, the beginning of the U.S. Holder's taxable year as to which the
20 election is made. The election may be revoked only with the consent of the IRS.

21 ***Sale, Exchange or Other Disposition of the New Utility Notes.*** Upon the sale, exchange
22 or other disposition of the New Utility Notes, a U.S. Holder generally will recognize gain or loss
23 equal to the difference, if any, between the amount realized on the sale, exchange or other
24 disposition (other than amounts attributable to accrued but unpaid stated interest, which generally
25 will be taxable as ordinary income to the extent not previously included in income) and its
26 adjusted tax basis in the New Utility Notes. The gain or loss generally will be treated as capital
27 gain or loss except to the extent the gain is treated as accrued market discount in which case it
28 is treated as ordinary income. *See* — "Character of Gain or Loss," above. Any capital gain or loss
generally should be long-term if the U.S. Holder's holding period for its New Utility Notes is
more than one year at the time of disposition. A reduced tax rate on long-term capital gain may
apply to non-corporate U.S. Holders. The deductibility of capital loss is subject to significant
limitations.

21 **(b) *U.S. Holders of Subrogation Wildfire Claims and Fire Victim Claims***

22 Pursuant to the Plan, and in complete and final satisfaction of their respective Claims,
23 holders of Allowed Subrogation Wildfire Claims will receive cash from the Subrogation Wildfire
24 Trust, and the Debtors expect that holders of Allowed Fire Victim Claims will receive cash
25 distributions from the Fire Victims Trust. All distributions received by holders of such Claims
26 will solely be from the applicable Wildfire Trusts. For U.S. federal income tax purposes, any
27 amounts received by a U.S. Holder of a Subrogation Wildfire Claim or Fire Victim Claim from a
28 Wildfire Trust should be treated by such holder as if distributed directly by the Debtors. For a
discussion of the U.S. federal income tax treatment of the Wildfire Trusts, *see* "Consequences to
the Debtors – Funding and Tax Status of the Wildfire Trusts," above.

1 The U.S. federal income tax consequences to U.S. Holders of Allowed Subrogation
2 Wildfire Claims and Allowed Fire Victim Claims – including whether such holder may have
3 income or loss on account of their Claims – will depend on, among other things, the nature of the
4 Claim, such as whether the Claim is for personal injury or property damage, is a Subrogation
5 Wildfire Claim or a Claim otherwise held by a third-party, and whether the holder has previously
6 claimed losses for U.S. federal income tax purposes with respect to such Claim. To the extent
7 that some or all of the amounts received by a holder of an Allowed Fire Victim Claim are generally
8 attributable to, and compensation for, such holder’s personal physical injuries or sickness, within
9 the meaning of section 104 of the Tax Code, any such amounts received by the holder generally
10 should be nontaxable. To the extent that some or all of the amounts received by a holder of an
11 Allowed Fire Victim Claim are generally attributable to, and compensation for, damage to or the
12 destruction of such holder’s property, amounts received by such holder with respect to such a
13 Claim that are used to restore such holder’s damaged or destroyed property to its original
14 condition, or used to replace destroyed property, or a part thereof, with similar property, generally
15 should be nontaxable to the holder, but only to the extent that a loss has not previously been
16 claimed with respect to such property for U.S. federal income tax purposes. Any amount received,
17 however, in respect of property that has been destroyed and will not be replaced by the holder, or
18 for which a loss has previously been claimed, generally may give rise to gain or loss equal to the
19 difference between (i) such amount received and (ii) the adjusted tax basis of the holder in the
20 destroyed property. ***Because the U.S. federal income tax treatment of any amount received by
21 a U.S. Holder will depend on facts particular to such holder, all U.S. Holders should consult
22 their own tax advisors as to the proper tax treatment of such receipts.***

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(c) U.S. Holders of HoldCo Common Stock

15 Pursuant to the Plan, each holder of HoldCo common stock on the Effective Date will
16 retain its shares subject to the terms of the New Organizational Documents and to dilution from
17 any New HoldCo Common Stock issued pursuant to the Plan. In addition, each such holder of
18 HoldCo common stock may be distributed rights (a subscription right) to participate in the Rights
19 Offering on a pro rata basis. In general, U.S. Holders of a HoldCo common stock should not
20 recognize income or gain for United States federal income tax purposes as a result of the Plan.

19 The U.S. federal income tax treatment of the receipt of subscription rights as the receipt
20 of “options” to acquire stock of Reorganized Holdco or, alternatively, as an integrated transaction
21 pursuant to which holders of HoldCo common stock are treated as receiving the underlying stock
22 (partially for cash and partially in respect of their existing stock interest) is uncertain. Regardless
23 of the characterization of the subscription rights, receipt of a right to participate in the Rights
24 Offering on a pro rata basis under either characterization is not expected to be taxable to a U.S.
25 Holder of HoldCo common stock. A U.S. Holder’s basis in subscription rights received generally
26 will be determined by allocating the basis of currently held stock of HoldCo between such stock
27 and the rights received, unless the fair market value of the rights received at the time of the
28 distribution is less than fifteen percent of the fair market of the such holder’s HoldCo common
stock (and the distribution is not treated as part of a tax “recapitalization” of the existing HoldCo
common stock for new stock and rights), in which case no allocation is required and the basis of
the rights received will be zero unless the holder elects otherwise. Upon exercise of such rights,
a U.S. Holder’s tax basis in the stock of Reorganized HoldCo received should generally be equal
to the sum of its tax basis in the subscription right, if any, and the amount paid in exercise of the

1 right. If the holder is treated as having received subscription rights of value, such that the holder
2 obtains a tax basis in the rights, and such rights lapse unexercised, the holder generally should
3 recognize a capital loss in the amount of the holder's tax basis in the rights.

4 A U.S. Holder's holding period in any New HoldCo Common Stock received upon
5 exercise of a subscription right should begin on the day on which the right was exercised unless
6 considered part of a tax recapitalization, in which event the holder's holding period in the New
7 HoldCo Common Stock and subscription rights received would include the holder's holding
8 period for its HoldCo common stock.

9 **(d) U.S. Holders of HoldCo Rescission or Damage Claims**

10 Pursuant to the Plan, and in satisfaction and discharge of their respective Claims, each
11 holder of an Allowed HoldCo Rescission or Damage Claim will receive New HoldCo Common
12 Stock. Allowed HoldCo Rescission or Damage Claims include any Claims subordinated under
13 section 510(b) of the Bankruptcy Code arising from rescission of a purchase or sale of existing
14 common stock of HoldCo common stock, or from damages arising from the purchase or sale of
15 such stock. Accordingly, the U.S. federal income tax treatment of the receipt of New HoldCo
16 Common Stock by U.S. Holders of such Claims will depend on, among other things, the nature
17 of such Claims and the extent to which, if at all, the holder has previously claimed a loss in respect
18 of its Claim. ***Holders of Allowed HoldCo Rescission or Damage Claims are urged to consult
19 their own tax advisors as to the U.S. federal income tax consequences to them of receiving New
20 HoldCo Common Stock, including the extent to which any recovery is taxable (for example, in
21 the case of a prior U.S. holder of HoldCo common stock, it is possible that the receipt of New
22 HoldCo Common Stock might be treated as a tax-free recapitalization or similar non-
23 recognition transaction for U.S. federal income tax purposes) and the character of any income
24 or loss.***

25 **(e) Withholding on Distributions and Information Reporting**

26 All distributions to holders of Claims and Interests under the Plan are subject to any
27 applicable tax withholding. Under U.S. federal income tax law, interest, dividends, and other
28 reportable payments may, under certain circumstances, be subject to "backup withholding" at the
then applicable withholding rate (currently 24%). Backup withholding generally applies if the
holder (a) fails to furnish its social security number or other taxpayer identification number, (b)
furnishes an incorrect taxpayer identification number, (c) fails properly to report interest or
dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under
penalty of perjury, that the tax identification number provided is its correct number and that it is
not subject to backup withholding. Backup withholding is not an additional tax but merely an
advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain
persons are exempt from backup withholding, including, in certain circumstances, corporations
and financial institutions. ***Holders of Claims and Interests are urged to consult their tax advisors
regarding the potential for and applicable rules governing backup and other tax withholding
in connection with the transactions contemplated by the Plan.***