SENATE RULES COMMITTEE
Office of Senate Floor Analyses
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THIRD READING

Bill No: AB 913
Author: Calderon (D)
Amended: 8/27/20 in Senate
Vote: 21

PRIOR VOTES NOT RELEVANT

SENATE ENERGY, U. & C. COMMITTEE: 13-0, 8/28/20
AYES: Hueso, Moorlach, Bradford, Chang, Dahle, Dodd, Hertzberg, Hill, McGuire, Rubio, Skinner, Stern, Wiener

SUBJECT: Electrical corporations: wildfire and undercollection

SOURCE: Author

DIGEST: This bill authorizes the California Public Utilities Commission (CPUC) to authorize financing orders by electric investor-owned utilities (IOUs) of the debt incurred from unpaid electric utility bills for the year 2020, as specified.

ANALYSIS:

Existing law:

1) Establishes the CPUC has regulatory authority over public utilities, including electrical corporations, authorizes the CPUC to fix the rates and charges for every public utility, and requires that those rates and charges be just and reasonable. (California Constitution Article XII, Public Utilities Code §451)

2) Authorizes an electrical corporation to file an application requesting the CPUC to issue a financing order to authorize the recovery of costs and expenses related to a catastrophic wildfire through the issuance of bonds by the electrical corporation that are secured by a rate component, as provided. (Public Utilities Code §850)

3) Establishes the Wildfire Fund to pay eligible claims arising from a wildfire ignited on, or after July 12, 2019, caused by an electrical corporation as

determined by the governmental agency responsible for determining causation. Defines "eligible claims" as claims for third-party damages against an electrical corporation resulting from covered wildfires exceeding the greater of \$1,000,000,000 in the aggregate in any calendar year, or the amount of the insurance coverage required to be in place for the electrical, measured by the amount of that excess. (Public Utilities Code §§1701.8, 3280)

This bill:

1) Authorizes an electrical corporation to file an application requesting the CPUC to issue a financing order to authorize the recovery of specified incremental undercollection amounts for calendar year 2020 through the issuance of bonds by the electrical corporation that are secured by a rate component, if specified requirements are met. Specifically: (a) the electrical corporation's annual true-up advice letter is accepted and verified and (b) those incremental amounts are verified for calendar year 2020 and above the forecasted debt from nonpayment of utility bills.

2) Prohibits the recovery of the incremental undercollection amounts that are subject to a financial order through any other cost recovery application, mechanism, or request by the electrical corporation.

3) Revises the definition of "eligible claim" to change "calendar year" to "year."

Background

COVID impacts on utility bill collections. The COVID pandemic has abruptly altered daily life. The public health directives to adhere to social distancing, in response to the pandemic, has resulted in policies to encourage workers to work from home and also temporarily close businesses that may be at higher risk of spreading the virus, including restaurants, bars, retail establishments, schools, and others. In mid-March, most of the State was directed to shelter at home in order to bend the curve of increasing infections. The State also implemented orders to protect residents from the economic impacts of the policies to shelter at home. Unemployment has also grown significantly, as compared to pre-pandemic levels. Within the utility space, the CPUC ordered all electric and natural gas IOUs to suspend service disconnections due to non-payment until April 16, 2021, for both residential and commercial customers. Publicly owned utilities (POUs) similarly adopted related policies to protect their customers from utility service disconnections. As customers utilize these programs and commercial electricity sales may experience a decline due to policies to close many indoor commercial activities, electric utilities may have greater difficulty in collecting utility bill payments and recovering their full and forecasted costs.

AB 913. This bill authorizes the CPUC to approve financing orders for undercollections from utility bills experienced by electric IOUs in 2020, if they meet specified criteria. According to Southern California Edison (SCE), a supporter of this bill, "the current regulatory paradigm would 'catch up' on these undercollections in 2021 by recovering backlogged utility costs in a single year." SCE claims that they anticipate a significant increase in rates in order to make up for the shortfall. SCE estimates $600 million to $1 billion in undercollections for 2020 which could translate into a rate spike of 4-7 percent in 2021. SCE supports this bill to allow them, and other electric IOUs, to utilize a dedicated rate component in order to lengthen the time over which the undercollection amounts would be paid. The bonding authority authorized by this bill would not reduce overall rates, but could lessen the potential for rate spikes in the short-term, while increasing overall costs in the long-term as the financing includes interests on the sales of the bonds. As drafted, the CPUC would need to make several determinations before authorizing the financing orders. Specifically, the CPUC would need to accept the annual true-up advice letter filed by the electric IOU and either of two incremental undercollection scenarios are satisfied. Although, the CPUC has broad authority to authorize the electric utilities' sale of bonds, this bill would provide for greater certainty to the bond investor market that the approval of such financing orders would not be subject to the changing whims of future commissioners.

Ratepayer impacts. As noted above, the ability to finance the incremental undercollections would not reduce rates overall, but would buffer any potential immediate rate spikes should the utility be required to roll those costs into rates immediately. Nonetheless, as with any financing there are additional costs, including the cost of interest paid on the bonds that will increase costs overall. As such, the need for the CPUC to review and ensure that such costs and financing orders are just and reasonable for ratepayers is important and preserved in this bill. This bill also contains language to allow the CPUC to assign costs recovery to each customer class based on their contribution to the incremental undercollection. As noted above, the closing of several commercial enterprises to comply with public health orders may result in an overall decline in electricity sales by commercial and industrial class customers, even as the sheltering at home orders increase residential electricity sales as compared to previous years. Additionally, as the duration of the pandemic and related economic toll continues, there is an increasing likelihood that more and more commercial and residential customers may need or opt to suspend paying their utility bill in order to manage their financial challenges. Exactly how each class of customers will be affected is not clear, yet. However, the language explicitly noting the ability to assign costs to the customer's class based on its contribution to the incremental undercollections provides that stakeholders can make their case at the CPUC for such an approach. Moreover, it is too early to determine the full impact, if any, of the difference between forecasts and actuals for 2020 given there are still five more months in the year and uncertainty as to the impacts of the pandemic on electricity sales and collections, overall.

Electric generation vs. distribution costs. Customers of electric IOUs may be "bundled customers", those who receive both electric generation and distribution services from the electric IOU, and "unbundled customers," those who receive distribution service from the electric IOU but receive generation from another provider, increasingly a community choice aggregator. This bill allows for the financing of debt due to the incremental costs above those already approved in the electric IOU's general rate case for portion of the utility bill covering distribution costs. However, California Community Choice Association (CalCCA) has noted its desire to further tighten the language in the bill to ensure only debt from distribution costs would be eligible for the financing authority granted in this bill. Both SCE, supporter of this bill, and CalCCA have stated they agree with such an approach as the bill is implemented by the CPUC.

Wildfire Fund. A technical amendment in this bill would strike the word "calendar" in reference to the eligible wildfire claims in relation to the use of the AB 1054 Wildfire Fund. Removing the word "calendar" provides the electric IOUs discretion as to the specific dates for the purchase of wildfire insurance which may be procured in keeping with the wildfire season, not necessarily a calendar year. According to SCE, the lack of timing discretion could result in unnecessary increased costs to ratepayers who ultimately pay through their electric bills for the insurance premiums expenses, as an operational cost for the system, when electric IOUs buy insurance.

Related/Prior Legislation

AB 1054 (Holden, Chapter 79, Statutes of 2019), among its provisions, included authority to securitize a dedicated rate component for the purposes of funding the Wildfire Fund to pay for claims stemming from damages from specified electric IOU-caused wildfires.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Senate Appropriations Committee:

- The CPUC estimates that costs would be absorbable to implement the provisions of this bill.
- Unknown potential short-term savings, likely in the low millions of dollars annually over the next few years, to the state as a utility ratepayer due to utilities being able to backfill COVID undercollections over many years instead of only in 2020-21. In the longer term, there would be no net savings or costs due to spreading out the costs of undercollections over several years.
- Unknown potential long-term costs, possibly in the millions or low tens of millions total, to the state as a utility ratepayer due to payment of interest if the costs of undercollections are financed.

SUPPORT: (Verified 8/30/20)

Southern California Edison

OPPOSITION: (Verified 8/30/20)

None received

ARGUMENTS IN SUPPORT: According to the author:

> This summer has seen a convergence of many challenges and crisis putting greater financial strain on Californians just trying to make ends meet. AB 913 (Calderon) seeks to lessen one of those financial burdens by giving the CPUC the tools to protect IOU customers from an anticipated spike in their electricity bills in January 2021 and instead spreading those costs over time. Without action, SCE customers could see rate increase from 4 to 7% at a time when many other COVID related bills will also become due. Other utilities may face similar challenges if this pandemic continues or worsens.
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> In order to moderate that abrupt bill increase, AB 913 would give the CPUC authority to approve securitization of previously approved costs through financing orders, when under-collection reaches a specified trigger point. The bill is focused only on costs the Commission has previously deemed 'just and reasonable' – and have therefore already approved for collection through electricity rates. Reducing electricity bills in this time of economic uncertainty

helps our customers and puts the utility in a position to continuing focusing on grid hardening.

The bill also proposes a one-word deletion that would align the “eligible claims” period in AB 1054 with a utility’s insurance policy period to minimize costs to ratepayers. This is needed because ‘Eligible claims’ are currently defined in law according to a calendar year. However, wildfire season and insurance coverage periods don’t follow a calendar year schedule. Making this minor change -- which we view as clean-up and in-line with the intent of the legislation -- will lock-in substantial cost savings for electric customers.

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