CONCURRENCE IN SENATE AMENDMENTS
AB 913 (Calderon)
As Amended August 27, 2020
Majority vote

SUMMARY:

Authorizes the California Public Utilities Commission (CPUC) to approve the securitization by electric investor-owned utilities (IOUs) of undercollection of utility bill amounts for the year 2020. Additionally, the measure aligns the "eligible claims" period with a utility's insurance policy period for purposes of wildfire related claims.

The Senate Amendments:

Delete the Assembly version of this bill and instead:

1) Authorizes an electrical corporation to file an application requesting the CPUC to issue a financing order to authorize the recovery of certain incremental undercollection amounts for calendar year 2020, resulting from the COVID-19 pandemic, through the issuance of bonds by the electrical corporation that is secured by a rate component, if specified requirements are met. Specifically: 1) the electrical corporation's annual true-up advice letter is accepted and verified, and 2) those incremental amounts are verified for calendar year 2020.

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" from "calendar year" to "year" for purposes of aligning wildfire claims with a utility's insurance policy period.

COMMENTS:

COVID impacts on utility bill collections. The COVID pandemic has abruptly altered daily life. The public health directives to adhere to social distancing has resulted in policies to encourage working from home and also temporarily closing 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 impact of the policies to shelter at home. Unemployment has also grown significantly as compared to pre-pandemic levels. The CPUC ordered all electric and natural gas IOUs to suspend service disconnections due to non-payment for both residential and commercial customers until April 16, 2021. Publicly owned utilities (POUs) similarly adopted related policies to protect their customers from utility service disconnections. As customers utilize these programs, 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 bills and recovering their full and forecasted costs.

Authorization to Securitize. This bill would authorize, not mandate, the CPUC to approve financing orders for undercollections of utility bills experienced by electric IOUs in 2020, if they meet specified criteria. According to Southern California Edison (SCE), a supporter of this measure, "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. While too early to determine the full impact, given there are still five more months in the year, SCE estimates $600 million to $1 billion in undercollections and that could translate into a rate spike of between 4% to 7% in 2021. A dedicated rate component extends the time over which the undercollection amounts would be paid. The bonding authority authorized by this bill would not reduce overall rates, but lessen the potential for rate spikes in the short term, while increasing overall costs in the long term as the financing would include interest.

Under the provisions of this measure, CPUC would be required 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 two incremental undercollection scenarios need to be 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 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 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 desire to suspend paying their utility bills. Exactly how each class of customers will be affected is not clear yet. However, the language explicitly notes 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.

Wildfire Fund. A technical amendment in this bill would strike the word "calendar" in reference to the wildfire claims. Removing the word calendar gives 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. '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. The provisions in this measure would give the Fund Administrator the ability to align the eligible claims period with the insurance policy period of IOUs and lock-in substantial cost savings for electric customers. Without the proposed change, each utility will be forced to align their coverage with the calendar year. This would force all IOUs into the market at the same time – which will impact availability of coverage and pricing for all of our customers.

According to the Author:
This summer has seen a convergence of many challenges and crises putting a 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 a 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.

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 continue 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.

Arguments in Support:

Southern California Edison (SCE) strongly supports AB 913 (Calderon), which would authorize an electrical corporation to file an application requesting the California Public Utilities Commission (CPUC) to issue a financing order to authorize the recovery of certain incremental undercollection amounts for calendar year 2020 resulting from the COVID-19 pandemic. This bill includes two regulatory changes that will reduce costs for utility customers; and in this time of economic uncertainty, every dollar saved by a residential customer, a CARE customer, or a business is important.

Arguments in Opposition:

None submitted at this time.

FISCAL COMMENTS:

According to the Senate Appropriations Committee:

1) The CPUC estimates that costs would be absorbable to implement the provisions of this bill.

2) 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.

3) 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.

VOTES:

ASM BANKING AND FINANCE: 12-0-0
YES: Limón, Chen, Bauer-Kahan, Burke, Cervantes, Choi, Gabriel, Grayson, Melendez, Mark Stone, Weber, Wicks

ASM APPROPRIATIONS: 17-0-1
YES: Gonzalez, Bigelow, Bonta, Brough, Calderon, Carrillo, Chau, Diep, Eggman, Fong, Gabriel, McCarty, Maienschein, Obernolte, Petrie-Norris, Quirk, Robert Rivas
ABS, ABST OR NV: Bloom

ASSEMBLY FLOOR: 76-0-4
YES: Aguiar-Curry, Bauer-Kahan, Berman, Bigelow, Bloom, Boerner Horvath, Bonta, Brough, Burke, Calderon, Carrillo, Cervantes, Chau, Chiu, Choi, Chu, Cooley, Cooper, Cunningham, Dahle, Daly, Diep, Eggman, Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Gipson, Gloria, Gonzalez, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kamlager-Dove, Kiley, Lackey, Levine, Limón, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Melendez, Mullin, Muratsuchi, Nazarian, O'Donnell, Obernolte, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Smith, Mark Stone, Ting, Voepel, Waldron, Weber, Wicks, Wood, Rendon
ABS, ABST OR NV: Arambula, Chen, Eduardo Garcia, Gray

SENATE FLOOR: 39-0-1
YES: Allen, Archuleta, Atkins, Bates, Beall, Borgeas, Bradford, Caballero, Chang, Dahle, Dodd, Durazo, Galgiani, Glazer, Lena Gonzalez, Grove, Hertzberg, Hill, Hueso, Hurtado, Jackson, Leyva, McGuire, Melendez, Mitchell, Monning, Moorlach, Morrell, Nielsen, Pan, Portantino, Roth, Rubio, Skinner, Stern, Umberg, Wieckowski, Wiener, Wilk
ABS, ABST OR NV: Jones

UPDATED:

VERSION: August 27, 2020

CONSULTANT: Mary McDonald / U. & E. / (916) 319-2083 FN: 0003629