

Memorandum

Date: October 18, 2021

To: Marybel Batjer, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

From: Department of Water Resources

Subject: Rulemaking 21-03-001 – 60-day Notice Regarding 2022 Wildfire Nonbypassable Charge

In this 60-day Notice, the Department of Water Resources (DWR or the Department) provides notice to the California Public Utilities Commission (CPUC or the Commission), to direct the Investor-Owned Utilities (IOUs) to initiate, on all non-exempt load delivered to ratepayers in the IOU service areas, the Wildfire Nonbypassable Charge (NBC) (as defined below) of \$6.52/MWh (\$0.00652/kWh) beginning on January 1, 2022.

In the 60-day Notice sent to the CPUC on July 30, 2020, DWR provided information for the CPUC to direct the IOUs to impose a Wildfire NBC of \$5.80/MWh (\$0.0058/kWh) beginning October 1, 2020 through December 31, 2020 in order to collect \$225.6 million, which is the pro rata portion of the 2020 annual Revenue Requirement (25 percent of \$902.4 million) as required by the Wildfire Prevention and Recovery Act of 2019, Division 28 (commencing with Section 80500) of the California Water Code, along with the Rate Agreement between the DWR and the CPUC, and Assembly Bill 1054, (collectively referred to as Act) and described in CPUC Decision 19-10-056. Additionally, for the 2021 Revenue Requirement Period, DWR projected that the required 2021 Wildfire NBC would be comparable to the 2020 charge of \$5.80 per megawatt-hour (MWh) (\$0.00580/kWh) of billed electrical usage in each IOU service area. Consequently, this prior charge was projected to collect \$902.4 million for the 2021 Revenue Requirement Period as required by the Act and described in CPUC Decision 19-10-056.

The increase in the 2022 NBC, compared to the 2020 and 2021 NBCs, is primarily due to an under-collection of the Revenue Requirement caused by the timeframe associated with the delay between imposing the NBCs on customer bills and the Department's receipt of revenues related to such charges. A second factor affecting the under-collection is the decreased non-exempt actual load compared to forecasted amounts.

DWR will continue to support and assist the CPUC in its implementation of CPUC Decision 19-10-056.

Background on Assembly Bill 1054 (AB1054)

On July 12, 2019, Governor Newsom signed legislation that addressed critical issues related explicitly to catastrophic wildfires and their impact on the IOUs and ratepayers.

The legislation encompasses Assembly Bill 1054 (AB 1054) and a companion bill, Assembly Bill 111 (AB 111), with AB 111 primarily covering the oversight and implementation of AB 1054. The aim is to reduce wildfire risks while establishing a system to spread the exposure IOUs have for liabilities from wildfires. The legislation, among other things, creates a new fund to facilitate payment of wildfire-related liabilities (the Wildfire Fund) and authorizes DWR to issue revenue bonds to help capitalize the Wildfire Fund (Wildfire Revenue Bonds).

AB 1054 also effectuates the end of the Bond Charge for the Power Supply Revenue Bonds (PSRB). It institutes the Wildfire NBC by directing the CPUC, through the IOUs, to impose Wildfire NBCs and collect Wildfire NBCs for deposit into the DWR Charge Fund in the same manner as the Bond Charge for the PSRBs. The new Wildfire NBC Revenue Requirement should equal the average annual amount of Bond Charges for the PSRBs collected from January 1, 2013, through December 31, 2018, which is \$902.4 million per year¹.

AB 1054 directed the CPUC to make a just and reasonable determination regarding the issuance of DWR Wildfire Revenue Bonds and the \$902.4 million Revenue Requirement throughout the program. Accordingly, CPUC Decision 19-10-056, effective on October 24, 2019, approved the imposition and collection of the Wildfire NBCs in the same manner as the Bond Charges for the PSRBs under the Power Supply Program. This decision also determined that the \$902.4 million per year Revenue Requirement (as defined in the Wildfire Rate Agreement) is just and reasonable.

Key Agreements for the Wildfire NBCs

The **Wildfire Rate Agreement** for the Wildfire NBCs contains a covenant that the CPUC shall calculate, revise, and impose Wildfire NBCs to be always sufficient to fund the \$902.4 million annual Revenue Requirement. This covenant has the force and effect of an "irrevocable financing order" under the California Public Utilities Code. Under section 842(d) of the California Public Utilities Code, any action required by an "irrevocable financing order" is binding upon the CPUC. As it may be constituted from time to time, the CPUC shall have no authority to rescind, alter or amend any requirement thereunder.

As described in the Wildfire Rate Agreement, Wildfire NBCs sufficient to fund the Revenue Requirement for each Revenue Requirement Period will be remitted to DWR and will be used to support the Wildfire Fund Program administered by the California Earthquake Authority as the Wildfire Administrator. Furthermore, DWR is authorized by AB1054 to use a portion of the NBCs to cover Wildfire Program Related Costs to the extent needed. Program Related Costs are defined to include: (1) amounts necessary to pay for the principal and interest on Wildfire Bonds issued by the Department when due, (2) the amounts necessary to make payments under any contracts, agreements, or obligations entered into pursuant to the Act, (3) reserves as needed or desirable as

¹ The Department's revenue requirements are based on collected amounts (cash rather than accrual).

determined by the Department, (4) repayment of the loan from the Surplus Money Investment Fund to the Wildfire Fund and (5) the administrative costs of the Department incurred in administering Division 28 of the Water Code. The monthly 2022 projected Program Related Costs summary is attached in Appendix A of this 60-day Notice.

In the event of the issuance of Wildfire Revenue Bonds, the **Wildfire Indenture** will establish DWR's obligations concerning the issuance and security of certain Wildfire Revenue Bonds.² Under the Wildfire Indenture, the primary source of moneys for the payment of debt service on the Wildfire Revenue Bonds and other Program Related Costs will be Wildfire NBC revenues, which constitute part of the "Trust Estate" securing the Wildfire Revenue Bond. The "Trust Estate" will be assigned and pledged to the Trustee under the Wildfire Indenture as security for payment of the Wildfire Revenue Bonds and Parity Obligations. Importantly, the Wildfire Indenture identifies within the DWR Charge Fund "charge accounts" primarily to deposit Wildfire NBC revenues and application thereof per the Act.

To service and implement the collection of revenues, the CPUC has approved (Decision 20-07-014) **Servicing Orders** directing the IOUs to bill and collect Wildfire NBCs and perform other services on behalf of DWR relating to the Wildfire Program. Under such Orders, the IOUs collect Wildfire NBCs solely as the agents of DWR.

Revenue Sufficiency

In respect to the Wildfire NBCs, DWR agrees, in the Wildfire Rate Agreement, to cooperate with and assist the CPUC in its determination, at least annually, of the Wildfire NBCs. Pursuant to Section 3289 of the Public Utilities Code, the CPUC is required to impose Wildfire NBCs in an amount sufficient to fund the Revenue Requirement for each Revenue Requirement Period, or the first and last Revenue Requirement Period, which is the pro rata portion thereof for such period.

The Wildfire Rate Agreement obligates DWR, at least annually and more frequently as deemed reasonably necessary or appropriate by DWR or the CPUC, to conduct a review and determine if the amount collected by the Wildfire NBCs is forecasted to be sufficient to meet the Revenue Requirement. If any annual or more frequent review indicates that collections received by DWR concerning the Revenue Requirement are or will be insufficient to meet the Revenue Requirement, and DWR notifies the CPUC of the under-collection. In such a case, the CPUC is required under the Wildfire Rate Agreement to take necessary action to correct or avoid any deficiency, including adjustment of existing Wildfire NBCs. The CPUC may modify (increase) the Wildfire NBC to cover such a shortfall on an interim basis pending receipt of a deficiency notice from DWR, to the extent that DWR has not provided a notice to the CPUC of any deficiency within the period required by the Wildfire Rate Agreement. So long as the

² The Wildfire Administrator, in conjunction with the State Treasurer and Department of Finance, will decide when DWR issues bonds based on several factors focused on the durability of the Wildfire Fund.

CPUC also determines, based on their record, that Wildfire NBCs are not sufficient to meet the Revenue Requirement. DWR will pledge in the Wildfire Indenture to conduct such reviews and determinations as mandated by the Wildfire Rate Agreement.

With this Notice DWR is fulfilling its requirement that it shall notify the CPUC every year by November 1st, the annual collections received by DWR with respect to the Revenue Requirement and the amount of excess or deficiency in collections above or below the Revenue Requirement. The CPUC will undertake within 60 days to adjust the Wildfire NBC in the subsequent year to reflect any excess or deficiency.

If within any Revenue Requirement Period DWR forecasts that the CPUC's Revenue Requirement will not be met and that the collections will not be sufficient to fund the Revenue Requirement, then DWR is to notify the CPUC in writing within 20 days of such determination, and the CPUC is required to act within 30 days of such notification to increase the Wildfire NBC so that amounts collected during that period are sufficient to fund the Revenue Requirement. The Wildfire Rate Agreement also stipulates that, even if DWR does not give such notice, the CPUC may calculate, revise, and impose Wildfire NBCs to cover a shortfall on an interim basis.

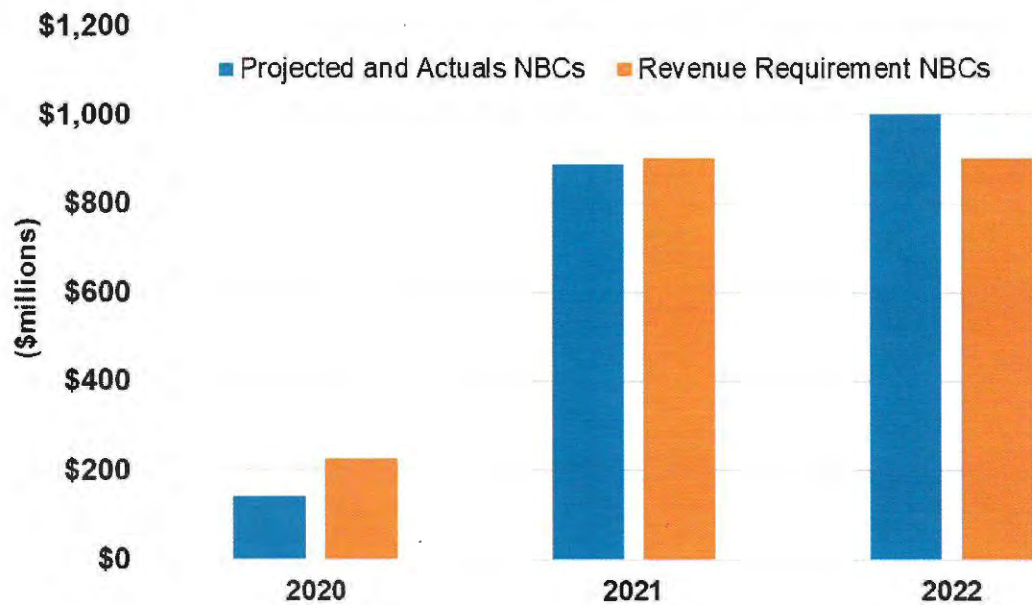
For the period of October 1, 2020, through December 31, 2020, DWR had given notice to the CPUC to adopt a mechanism to direct the IOUs to impose and collect \$5.80/MWh (\$0.00580/kWh) and to collect \$225.6 million, which is the pro rata portion of the 2020 Revenue Requirement (25 percent of \$902.4 million) as required by the Act and described in CPUC Decision 19-10-056. Additionally, notice was provided to the CPUC to direct the IOUs to implement a 2021 Wildfire NBC of \$5.80 per megawatt-hour (MWh) (\$0.00580/kWh) of billed electrical usage in each IOU service area. This charge was projected to collect, for 2021, \$902.4 million as required by the Act and described in CPUC Decision 19-10-056.

Overall, the \$225.6 million for the prorated portion of 2020 and the \$902.4 million for the calendar year 2021 (totaling \$1.128 billion for the period of October 1, 2020, through December 31, 2021) are not projected to be received by DWR by the end of 2021. Using actual collections through September 30, 2021, and projecting collections using IOU load information for the remainder of 2021, the Department is projected to receive \$1.030 billion resulting in an under-collection of \$98 million.

The revenue projections compared to actuals are illustrated in the chart and table below.³ As seen in the table below, \$85 million of the \$98 million under-collection occurred between October 2020 and December 2020 and was caused by the time lag between the initial imposition of NBCs on customer bills and the customer cash remittances received by DWR.

³ The chart in 2022 represents the receipt of the under-collected revenues in prior periods and projected 2022 NBC revenues.

Actual and Projected NBC Remittances vs Revenue Requirement



Year	Projected and Actuals NBCs (\$millions)	Revenue Requirement NBCs (\$millions)	NBC rates
2020	140.6	225.6	\$5.80 per MWh
2021	889.4	902.4	\$5.80 per MWh
2022	1,000.4	902.4	\$6.52 per MWh
Total	2,030.4	2,030.4	

Calculation of Wildfire NBC

In this 60-Day Notice, DWR is conveying to the CPUC its calculation of the Wildfire NBC for 2022 with the following estimated information: 1) the under-collections of the Revenue Requirements for 2020 and 2021 consistent with Decision 19-10-056, the Wildfire Rate Agreement, and AB 1054; 2) the electricity sales forecast for all IOUs for the remaining months in 2021; 3) the electricity sales forecast for the calendar year 2022; 4) DWR's calculation of the resulting 2022 Wildfire NBC for customers subject to the Wildfire NBCs pursuant to Decision 19-10-056.

The calculation of Wildfire NBCs and the subsequent review of the sufficiency of Wildfire NBCs, in each case, to fund the Revenue Requirement during a particular Revenue Requirement Period is determined based on the forecasted electricity usage

of the customers in the IOU service areas of the IOUs after excluding any electricity usage for certain specified exempt customers and consumers.

For the period beginning January 1, 2022, through December 31, 2022, DWR requests that the CPUC adopt a mechanism to direct the IOUs to impose and collect a Wildfire NBC of \$6.52/MWh (\$0.00652/kWh) to collect the \$902.4 million Revenue Requirement pursuant to D.19-10-056, plus the under-collected amount of \$98 million, for a total of \$1.0004 billion, as required by the Act and described in Decision 19-10-056. For the 2022 Revenue Requirement Period, this charge is projected to collect \$1.0004 billion as required by the Act and defined in Decision 19-10-056. DWR is providing this 60-day Notice to the CPUC by November 1st with its projection for the 2022 Wildfire NBC as required by the Act.

	Cash Receipts (30-day lag)	Revenue Requirement	Difference
2020	\$ 140,593,468	\$ 225,600,000	\$ (85,006,532)
2021	\$ 889,405,828	\$ 902,400,000	\$ (12,994,172)
2022	\$ 1,000,400,704	\$ 902,400,000	\$ 98,000,704
Total	\$ 2,030,400,000	\$ 2,030,400,000	-\$*

*The zero difference at the end of 2022 makes-up past under-collections.

Data Used in Calculating the Wildfire NBC

DWR sent data requests to the IOUs on June 1, 2021 and received responses to the data requests on or around June 22, 2021. The responses provide forecasted load at the customer meter for bundled load, direct access load, and community choice aggregation load with additional details for the load in these categories that would not be exempt from the Wildfire NBCs. Additionally, the IOUs were requested to provide an estimate of other departing loads: municipal departing load, customer-generated departing load, and other departing load that would be classified as distributed generation. DWR reviewed these forecasts and compared them with the actual loads supporting the collection of the previously issued PSRBs. Table two below shows the projected aggregate Total Load and Non-Exempt Load for the forecast period (in gigawatt-hours) for the PG&E, SCE, and SDG&E service areas combined.

Load Type	Bundled (GWhs)	Direct Access and CCA (GWhs)	Total (GWhs)
Non-Exempt Load	73,899	80,858	154,757
Total Load	84,815	88,040	172,855

To determine the Wildfire NBCs needed, DWR uses a collection curve methodology. The collection curve methodology accounts for the lag between the time of the imposition of NBCs on customer bills and the customer cash remittances received by DWR. The monthly non-exempt loads forecasted to be billed to customers each month are multiplied by an assumed Wildfire NBC, resulting in a forecasted remittance accrual. This accrual amount is then reduced by a forecasted uncollectible factor. On average, the time between the imposition of charges and the collection of revenues from such charges is 30 days. Using both the collection curve and the uncollectible factor, the Department then calculates the NBC that produces \$902.4 million plus any over or under-collection in prior periods that is projected to be sufficient, on a cash basis, to meet the Revenue Requirement as specified in the Act.

Revenue Sufficiency

As previously noted, DWR concurs in the Wildfire Rate Agreement respective to the Wildfire NBCs to cooperate with and assist the CPUC in its determination, at least annually, of the Wildfire NBCs. Under Section 3289 of the Public Utilities Code, the CPUC is required to impose Wildfire NBCs in an amount sufficient to fund the Revenue Requirement for each Revenue Requirement Period, or the first and last Revenue Requirement Period, the pro rata portion thereof for such period.

Summary

In this 60-Day Notice, DWR is transmitting to the CPUC its calculation of the Determination of the Wildfire NBC for 2022 with the following estimated information: 1) a report of the actual collections through September 30, 2021 and thereafter projected NBCs compared to the Revenue Requirements for the period of October 2020 through December 31, 2021, 2) the 2022 Revenue Requirement consistent with CPUC Decision 19-10-056, the Wildfire Rate Agreement, and AB 1054, 3) the electricity sales forecast for all IOUs for 2022, and 4) DWR's calculation of the resulting Wildfire NBC for non-exempt customers for the period of January 1, 2022 through December 31, 2022 considering the under-collection for prior periods pursuant to CPUC Decision 19-10-056.

If you have any questions or need additional information, please contact Jesse Cason at (916) 557-4620 or jesse.cason@water.ca.gov.



Jesse Cason, Jr,
Chief, California Energy Bond Office

(Cc: See attached list.)

Cc: Honorable Clifford Rechtschaffen, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Martha Guzman Aceves, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Genevieve Shiroma, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Darcie L. Houck, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Rachel Peterson, Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Arocles Aguilar, General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Geoffrey Dryvynsyde, Assistant General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Candace Morey, Assistant General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Edward F. Randolph, Deputy Executive Director for Energy and Climate
Policy
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Katharine Killeen, Assistant Chief Counsel
Department of Water Resources
2033 Howe Ave, Suite 220
Sacramento, California 95825

Meghan Thomas, Counsel
Department of Water Resources
2033 Howe Ave, Suite 220
Sacramento, California 95825

Jesse Cason, Chief, California Energy Bond Office
Department of Water Resources
2033 Howe Ave, Suite 220
Sacramento, California 95825

John Pacheco, Executive Advisor, California Energy Bond Office
Department of Water Resources
2033 Howe Ave, Suite 220
Sacramento, California 95825

Appendix

Appendix A- Monthly Report of DWR Charge Accounts

DWR Charge Accounts (\$000s)	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Total
Beginning Balance in DCA													
Collection Account	68,534	75,237	78,992	71,185	76,380	74,104	79,857	87,871	99,495	103,390	94,301	83,105	
Admin. & Operating Cost Account	2,596	2,192	1,786	1,624	1,733	1,732	1,732	1,841	1,732	1,732	1,733	1,732	
Payment Account	-	-	-	-	-	-	-	-	-	-	-	-	
Liquidity Account	-	-	-	-	-	-	-	-	-	-	-	-	
Debt Service Reserve Account	-	-	-	-	-	-	-	-	-	-	-	-	
Wildfire Transfer Account	80,368	68,566	75,238	78,641	70,697	75,976	73,699	79,370	87,467	99,090	103,014	93,789	
Total Beginning Balance in DCA	151,498	145,995	156,016	151,449	148,810	151,813	155,288	169,082	188,694	204,212	199,048	178,626	
DCA Revenues													
Nonbypassable Charges	75,180	78,992	71,185	76,330	74,104	79,857	87,820	99,495	103,390	94,238	83,105	76,704	1,000,401
Interest Earnings	89	-	-	77	-	-	78	-	-	93	-	-	336
Total BCA Revenues	75,270	78,992	71,185	76,406	74,104	79,857	87,898	99,495	103,390	94,331	83,105	76,704	1,000,737
DCA Expenses													
Admin. and Operating Costs	360	360	468	360	360	360	360	468	360	360	468	360	4,646
IOU Startup & Maintenance Costs	46	46	46	46	46	46	46	46	46	46	46	46	550
Transfers to Wildfire Fund	80,367	68,565	75,237	78,640	70,696	75,975	73,698	79,369	87,466	99,089	103,013	93,788	985,903
Total BCA Expenses	80,773	68,971	75,751	79,046	71,102	76,381	74,104	79,883	87,872	99,495	103,527	94,194	991,099
Net BCA Revenues	(5,504)	10,021	(4,566)	(2,639)	3,002	3,476	13,794	19,612	15,518	(5,164)	(20,422)	(17,489)	9,638
Ending Aggregate Balance in BCA	145,995	156,016	151,449	148,810	151,813	155,288	169,082	188,694	204,212	199,048	178,626	161,136	

Note: Funds in Wildfire Transfer Account are used to pay back the SMIF loan

Note: This table does not depict internal transfers between sub-accounts

Note: DWR Charge Accounts (DCA)

Note: Bond Charge Accounts (BCA)