

Memorandum

Date: October 3, 2022

To: Alice Busching Reynolds, 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 2023 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), directing the Investor-Owned Utilities, Pacific Gas and Electric (PG&E), Southern California Edison (SCE) and San Diego Gas and Electric (SDG&E) (collectively referred to as IOUs),¹ to initiate, on all non-exempt load delivered to ratepayers in the IOU service areas, the Wildfire Nonbypassable Charge (NBC) (as defined below) of \$5.30/MWh (\$0.00530/kWh) beginning on January 1, 2023.

In the 60-day Notice sent to the CPUC on October 18, 2021, DWR provided information for the CPUC to adopt an NBC of \$6.52/MWh that provided a mechanism to recover prior-period under-collections 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 and the \$902.4 million Revenue Requirement for 2022.

The projected decrease in the 2023 NBC, compared to the 2022 NBC, is primarily due to the 2022 NBC projected collections being sufficient to collect all prior-period under-collections of the Revenue Requirement. Variances between projected NBC revenues compared to actual NBC collections are also affected by factors such as non-exempt load variances, collection curves, and non-collectable amounts.

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

Background on Assembly Bill 1054 (AB 1054)

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, created 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) through the addition of Division 28 - Wildfire Prevention and Recovery Act of 2019 (Act) to the California Water Code.

¹ PG&E, SCE and SDG&E are the only IOUs in California participating in the Wildfire Fund

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 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 year.²

AB 1054 directed the CPUC to make a just and reasonable determination regarding the issuance of DWR Wildfire Revenue Bonds and the annual \$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 administered by the California Earthquake Authority as the Wildfire Fund Administrator. Furthermore, DWR is authorized by AB 1054 to use a portion of the NBCs to cover DWR Charge Fund 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 determined by the Department, (4) repayment of the loan from the Surplus Money Investment Fund to the Wildfire Fund, and (5) the administrative costs incurred by the Department in administering Division 28 of the Water Code. The monthly 2023 DWR Charge Fund projections are attached in Appendix A of this 60-day Notice.

² The Revenue Requirement is based on collected amounts (cash rather than accrual).

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.³ 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 certain 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 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, DWR will notify 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 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. In this event, the CPUC is also required to determine, 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.

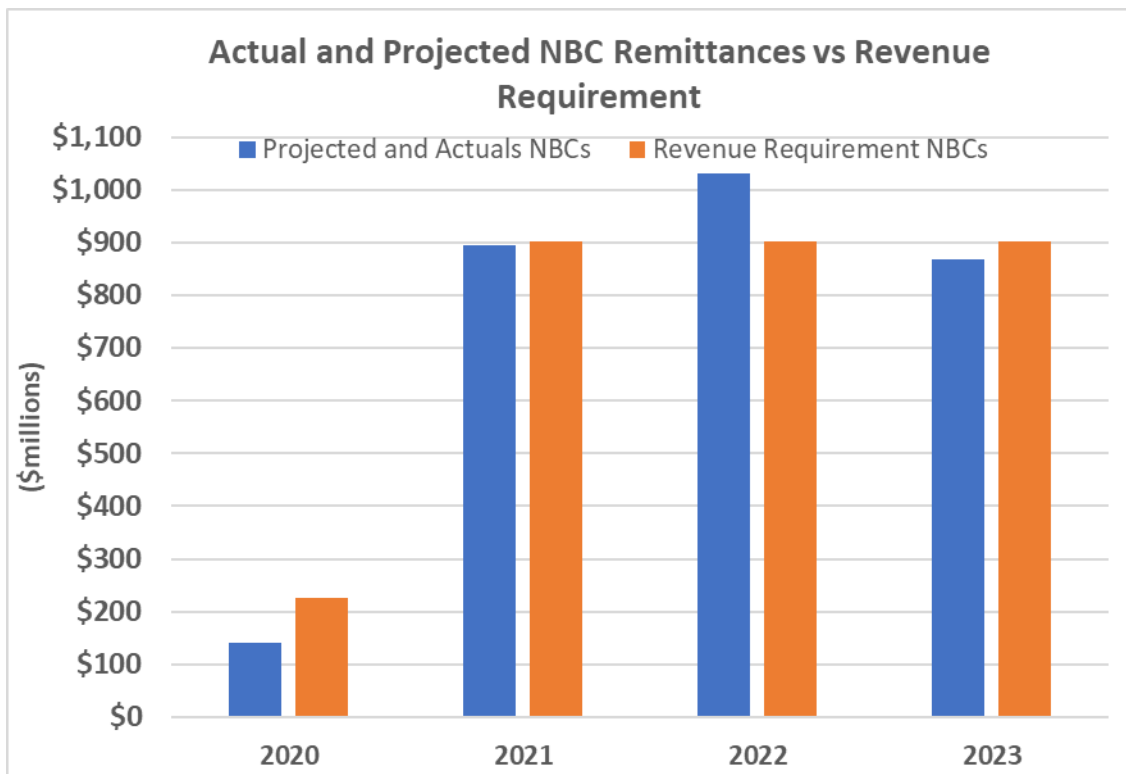
DWR shall notify the CPUC every year, by November 1st, the annual collections received by DWR with respect to the Revenue Requirement and the amount of excess

³ The Wildfire Fund Administrator, in conjunction with the State Treasurer's Office and Department of Finance, will decide when and if DWR issues bonds based on several factors focused on the durability of the Wildfire Fund.

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.

The revenue projections compared to actuals are illustrated in the chart and table below.⁴



⁴ The data for 2022 represents the receipt of the actual information through August 2022 and projected data for the remainder of 2022.

Year	Projected and Actuals NBCs (\$millions)	Revenue Requirement NBCs (\$millions)	NBC rates
2020	140.6	225.6	\$5.80 per MWh
2021	894.8	902.4	\$5.80 per MWh
2022	1,030.8	902.4	\$6.52 per MWh
2023	866.7 ⁵	902.4	\$5.30 per MWh
Total	2,932.8	2,932.8	

Note: totals may not sum due to rounding

Calculation of Wildfire NBC

In this 60-Day Notice, DWR is conveying to the CPUC its calculation of the Wildfire NBC for 2023 with the following estimated information: (1) the prior-period collection of the Revenue Requirement consistent with Decision 19-10-056, the Wildfire Rate Agreement, and AB 1054, (2) the electricity sales forecast for all IOUs for the remainder of 2022 and 2023, and (3) DWR’s calculation of the resulting Wildfire NBCs for customers subject to the Wildfire NBCs pursuant to Decision 19-10-056.

The calculation of Wildfire NBC 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 of the IOUs, in the IOU service areas, after excluding any electricity usage for certain specified exempt customers.

For the period beginning January 1, 2023, through December 31, 2023, DWR requests that the CPUC direct the IOUs to initiate, on all non-exempt load delivered to ratepayers in the IOU service areas, the Wildfire NBC of \$5.30/MWh (\$0.00530/kWh) beginning on January 1, 2023, to collect the \$902.4 million Revenue Requirement pursuant to Decision 19-10-056 reflecting the prior-period collection variance as required by the Act and described in Decision 19-10-056.⁵

Assumptions Used in Calculating the Wildfire NBC

DWR sent data requests to the IOUs on July 5, 2022 and received responses to their data requests on or about August 5, 2022. The responses provided 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 load: 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 past actual loads. The table below provides the projected aggregate Total Load and Non-Exempt Load

⁵ The 2023 NBC is projected to collect \$866.7 million, which is \$35.7 million less than the \$902.4 million requirement due to the projected over collection in 2022.

for the forecast period (in gigawatt-hours) for PG&E, SCE, and SDG&E service areas combined.

Estimated Energy Requirements for the 2023 Revenue Requirement Period			
Load Type	Bundled (MWh)	Direct Access, CCA and Other Departing Load (MWh)	Total (MWh)
Non-Exempt Load	76,151,739	85,437,903	161,589,642
Total Load	87,685,850	114,579,481	202,265,331

To determine the 2023 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

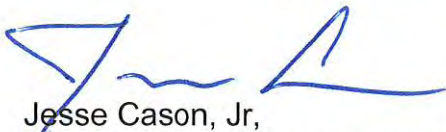
As previously noted, DWR concurs in the Wildfire Rate Agreement respective to the Wildfire NBCs, to cooperate with and assist the CPUC in its determination, at least annually, of the Wildfire NBC. Under Section 3289 of the Public Utilities Code, the CPUC is required to impose Wildfire NBCs in an amount 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.

Alice Busching Reynolds, President
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Summary

In this 60-Day Notice, DWR is transmitting to the CPUC its calculation of the Determination of the Wildfire NBC for 2023 with the following estimated information: (1) a report of the actual collections through August 31, 2022 and projections thereafter of the NBCs compared to the Revenue Requirements for the period of October 2020 through December 2022, (2) the 2023 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 the remainder of 2022 and 2023, and (4) DWR's calculation of the resulting Wildfire NBC for non-exempt customers for the period of January 1, 2023 through December 31, 2023 considering the over-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) 557-4631 or jesse.cason@water.ca.gov.



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Appendix

Appendix A- Projected Monthly Summary of DWR Charge Fund Accounts

DWR Charge Fund Accounts (\$000s)	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Total
Beginning Balance in DCFA													
Collection Account	78,327	81,806	65,309	60,420	62,798	63,504	67,935	76,090	85,001	86,761	80,321	71,674	
Admin. & Operating Cost Account	1,773	1,773	1,773	1,624	1,697	1,697	1,697	1,844	1,771	1,771	1,771	1,771	
Payment Account	-	-	-	-	-	-	-	-	-	-	-	-	
Liquidity Account	-	-	-	-	-	-	-	-	-	-	-	-	
Debt Service Reserve Account	-	-	-	-	-	-	-	-	-	-	-	-	
Wildfire Transfer Account	1	1	1	1	1	1	1	1	1	1	1	1	
Total Beginning Balance in DCFA	80,101	83,580	67,082	62,045	64,496	65,203	69,634	77,935	86,773	88,533	82,093	73,446	
DCFA Revenues													
Nonbypassable Charges	81,540	65,309	60,420	62,588	63,504	67,935	75,907	85,001	86,761	80,093	71,674	65,949	866,681
Interest Earnings	267	-	-	210	-	-	183	-	-	228	-	-	887
Total DCFA Revenues	81,806	65,309	60,420	62,798	63,504	67,935	76,090	85,001	86,761	80,321	71,674	65,949	867,568
DCFA Expenses													
Admin. And Operating Costs	406	406	555	406	406	406	406	479	406	406	553	406	5,241
Transfers to Wildfire Fund	77,921	81,400	64,903	59,940	62,392	63,098	67,382	75,684	84,595	86,355	79,768	71,268	874,707
Total DCFA Expenses	78,327	81,806	65,458	60,346	62,798	63,504	67,788	76,163	85,001	86,761	80,321	71,674	879,948
Net DCFA Revenues	3,479	(16,498)	(5,038)	2,451	707	4,431	8,301	8,838	1,761	(6,440)	(8,647)	(5,725)	(12,380)
Ending Aggregate Balance in DCFA	83,580	67,082	62,045	64,496	65,203	69,634	77,935	86,773	88,533	82,093	73,446	67,721	

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

Note: DWR Charge Fund Accounts (DCFA)

Note: Administrative and Operating Cost may change due to pro-rata allocation of expenses from the State

Note: Totals may not sum due to rounding.