

Memorandum

Date: October 3, 2023

To: Alice Busching Reynolds, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

From: Department of Water Resources

Subject: Rulemaking 23-03-007 – 60-day Notice Regarding 2024 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) - pertaining to Section 5.1 of the Wildfire Rate Agreement approved in D.19-10-056 that the CPUC shall calculate, revise, and impose the Wildfire Nonbypassable Charge (NBC) to always be sufficient to fund the \$902.4 million annual Revenue Requirement - to direct 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 NBC as defined below of \$5.61 per megawatt-hour (MWh) (\$0.00561 per kilowatt-hour [kWh]) beginning on January 1, 2024.

The projected 2024 NBC of \$5.61/MWh is expected to produce \$889 million along with the projected \$13.4 million carry over from 2023, resulting in the \$902.4 million Revenue Requirement for 2024. Variances between projected NBC revenues and actual NBC collections are also affected by factors such as non-exempt load variances, collection curves, and uncollectible 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). Through the addition of Division 28 - Wildfire Prevention and Recovery Act of 2019 (Act) to the California Water Code, the legislation authorized DWR to issue revenue bonds to help capitalize the Wildfire Fund (Wildfire Revenue Bonds).

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 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 at the outset of the program and the annual \$902.4 million Revenue Requirement throughout the life of the program. Accordingly, CPUC Decision 19-10-056, effective 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 always be 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) 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) administrative costs incurred by the Department in administering Division 28 of the Water Code. The monthly 2024 DWR Charge Fund Account projections are attached in Appendix A of this 60-day Notice.

In the event of the issuance of Wildfire Revenue Bonds, an indenture will establish DWR's obligations concerning the issuance and security of certain Wildfire Revenue

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

Bonds.³ Under an 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 an indenture as security for payment of the Wildfire Revenue Bonds and Parity Obligations. Importantly, an indenture would identify certain charge accounts primarily used 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.

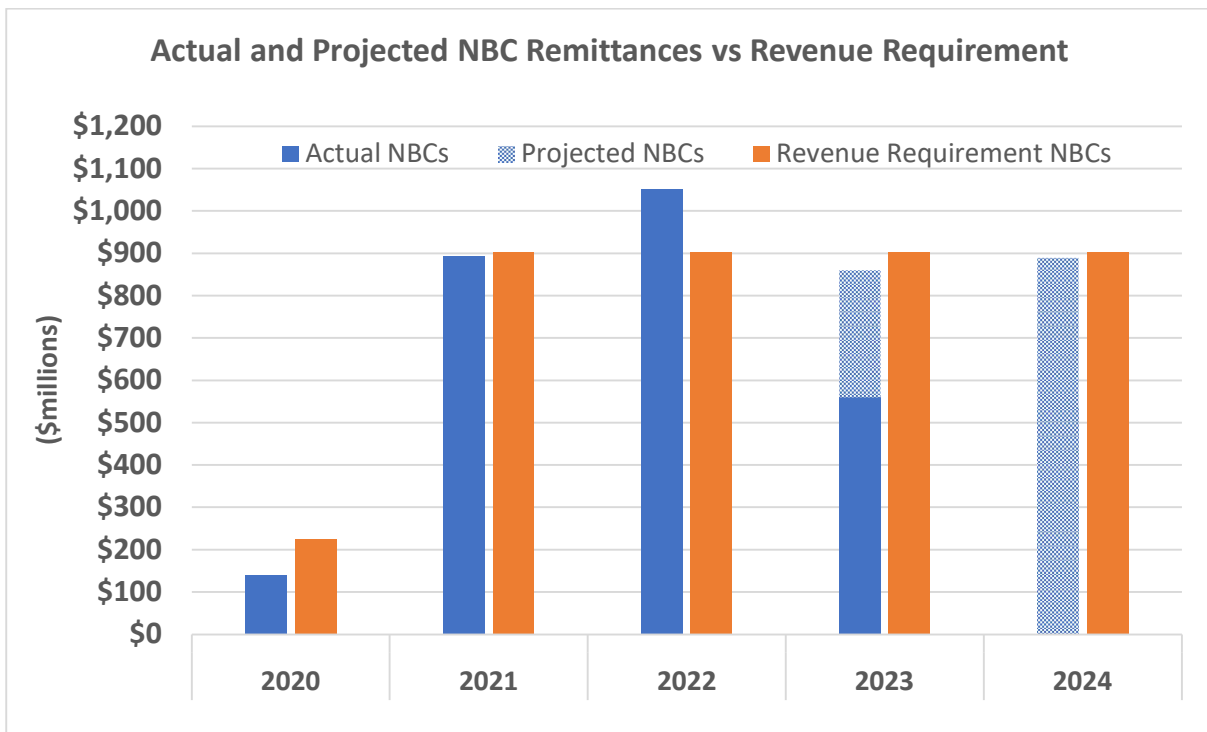
The Wildfire Rate Agreement obligates DWR, at least annually, and more frequently as deemed necessary or appropriate by DWR or the CPUC, to conduct a review and determine if the amount collected by the Wildfire NBCs is forecasted to be sufficient to meet the Revenue Requirement. If any annual or more 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 its record, that Wildfire NBCs are not sufficient to meet the Revenue Requirement. DWR will pledge in an indenture to conduct such reviews and determinations as mandated by the Wildfire Rate Agreement.

By November 1st each year, DWR shall notify the CPUC of the annual collections expected to be received by DWR with respect to the Revenue Requirement and the amount of collections above or below the Revenue Requirement. The CPUC will ensure the Wildfire NBC in the subsequent year is adjusted within 60 days to reflect any excess or deficiency.

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.

If within any Revenue Requirement Period, DWR forecasts that the CPUC’s Revenue Requirement will not be met and 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



| Year | Projected and Actuals NBCs (\$millions) | Revenue Requirement NBCs (\$millions) | Over/Under Collections (\$millions) | NBC rates |
|-------------------|---|---------------------------------------|-------------------------------------|----------------|
| 2020 | 140.6 | 225.6 | (85.0) | \$5.80 per MWh |
| 2021 ⁵ | 894.7 | 902.4 | (7.7) | \$5.80 per MWh |
| 2022 | 1,051.2 | 902.4 | 148.8 | \$6.52 per MWh |
| 2023 | 859.6 | 902.4 | (42.8) | \$5.30 per MWh |
| 2024 | 889.0 | 902.4 | (13.4) | \$5.61 per MWh |
| Total | 3,835.2 | 3,835.2 | | |

Note: totals may not sum due to rounding

⁴ The data for 2023 represents the receipt of the actual information through August 2023 and projected data for the remainder of 2023.

⁵ After internal DWR review, 2021 actual NBCs have been adjusted in this table from prior filings.

Calculation of Wildfire NBC

In this 60-Day Notice, DWR is conveying to the CPUC its calculation of the Wildfire NBC for 2024 with the following estimated information: (1) the projected 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 2023 and 2024, 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 the 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, 2024, through December 31, 2024, DWR notices the CPUC to direct the IOUs to initiate, on all non-exempt load delivered to ratepayers in the IOU service areas, the Wildfire NBC of \$5.61/MWh (\$0.00561/kWh) beginning on January 1, 2024, 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 19-10-056.⁶

Assumptions Used in Calculating the Wildfire NBC

DWR sent data requests to the IOUs on July 5, 2023, and received responses to its data requests on or about July 26, 2023. 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 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 past actual loads.

The table below provides the projected aggregate Total Load and Non-Exempt Load for the forecast period for PG&E, SCE, and SDG&E service areas combined.

| Estimated Energy Requirements for the 2024 Revenue Requirement Period | | | |
|--|----------------------|--|--------------------|
| Load Type | Bundled (MWh) | Direct Access, CCA and Other Departing Load (MWh) | Total (MWh) |
| Non-Exempt Load | 75,095,458 | 84,580,930 | 159,676,388 |
| Total Load | 89,206,571 | 119,601,805 | 208,808,376 |

⁶ The 2024 NBC is projected to collect \$889 million, which is \$13.4 million less than the \$902.4 million revenue requirement due to the net \$13.4 million over collection projected by year-end 2023.

To determine the 2024 Wildfire NBCs needed, DWR uses a collection curve which 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.

Summary

In this 60-day Notice, DWR is transmitting to the CPUC its calculation of the Determination of the Wildfire NBC for 2024 with the following estimated information: (1) a report of the actual collections through August 31, 2023, and projections thereafter through December 2023, (2) the 2024 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 2023 and 2024, and (4) DWR's calculation of the resulting Wildfire NBC for non-exempt customers for the period of January 1, 2024, through December 31, 2024, considering the over-collection (or under-collections) 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.

A handwritten signature in blue ink, appearing to read 'Jesse Cason, Jr.', with a stylized flourish at the end.

Jesse Cason, Jr,
Manager, California Energy Bond Office

Alice Busching Reynolds, President

October 3, 2023

Page 8

Cc: 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

Honorable John Reynolds, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Karen Douglas, 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

Christine Jun Hammond, General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Aaron Bloom, Assistant General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

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

Leuwam Tesfai, Deputy Executive Director for Energy and Climate Policy
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Alice Busching Reynolds, President

October 3, 2023

Page 9

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

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

Jesse Cason, Manager, 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- Projected Monthly Summary of DWR Charge Fund Accounts

| DWR Charge Fund Accounts (\$000s) | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 | Total |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Beginning Balance in DCFA | | | | | | | | | | | | | |
| Collection Account | 26,311 | 12,381 | 18,830 | 29,563 | 14,387 | 13,756 | 32,684 | 27,285 | 29,559 | 39,597 | 27,555 | 25,174 | |
| Admin. & Operating Cost Account | 1,864 | 1,864 | 1,864 | 1,745 | 1,761 | 1,731 | 1,702 | 1,791 | 1,746 | 1,746 | 1,746 | 1,746 | |
| Payment Account | - | - | - | - | - | - | - | - | - | - | - | - | |
| Liquidity Account | - | - | - | - | - | - | - | - | - | - | - | - | |
| Debt Service Reserve Account | - | - | - | - | - | - | - | - | - | - | - | - | |
| Wildfire Transfer Account | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total Beginning Balance in DCFA | 28,175 | 14,245 | 20,694 | 31,308 | 16,147 | 15,487 | 34,386 | 29,075 | 31,305 | 41,343 | 29,301 | 26,920 | |
| DCFA Revenues | | | | | | | | | | | | | |
| Nonbypassable Charges | 68,018 | 69,816 | 66,815 | 66,240 | 65,035 | 70,273 | 78,224 | 88,777 | 90,102 | 83,291 | 73,889 | 68,538 | 889,019 |
| Interest Earnings | 425 | - | - | 406 | - | - | 400 | - | - | 553 | - | - | 1,785 |
| Total DCFA Revenues | 68,443 | 69,816 | 66,815 | 66,646 | 65,035 | 70,273 | 78,625 | 88,777 | 90,102 | 83,845 | 73,889 | 68,538 | 890,804 |
| DCFA Expenses | | | | | | | | | | | | | |
| Admin. And Operating Costs | 444 | 444 | 533 | 444 | 444 | 444 | 414 | 459 | 414 | 414 | 503 | 414 | 5,371 |
| Transfers to Wildfire Fund | 81,930 | 62,924 | 55,668 | 81,363 | 65,252 | 50,930 | 83,521 | 86,088 | 79,650 | 95,472 | 75,766 | 68,956 | 887,520 |
| Total DCFA Expenses | 82,373 | 63,367 | 56,201 | 81,807 | 65,695 | 51,374 | 83,936 | 86,547 | 80,064 | 95,886 | 76,269 | 69,370 | 892,891 |
| Net DCFA Revenues | (13,930) | 6,449 | 10,615 | (15,161) | (660) | 18,899 | (5,311) | 2,229 | 10,038 | (12,042) | (2,381) | (832) | (2,087) |
| Ending Aggregate Balance in DCFA | 14,245 | 20,694 | 31,308 | 16,147 | 15,487 | 34,386 | 29,075 | 31,305 | 41,343 | 29,301 | 26,920 | 26,088 | |

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.