

PG&E HEARING EXHIBIT PGE-08

A.20-04-023

PG&E'S SECURITIZATION 2020

Chapter 8 Ratemaking Mechanisms (Bruce Smith)
Exhibit 8.1 Proposed Preliminary Statements

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 8

RATEMAKING MECHANISMS

WITNESS: BRUCE SMITH

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 8
RATEMAKING MECHANISMS

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1 **PACIFIC GAS AND ELECTRIC COMPANY**
2 **CHAPTER 8**
3 **RATEMAKING MECHANISMS**
4 **WITNESS: BRUCE SMITH**

5 **A. Introduction**

6 This chapter describes Pacific Gas & Electric Company’s (PG&E) proposed
7 ratemaking for the costs associated with the Recovery Bonds described in
8 Chapter 3, Transaction Overview (M. Becker), the Fixed Recovery Charge
9 (FRC), the Customer Credit described in Chapter 6, Customer Credit
10 Mechanism and Investment Returns (D. Thomason; G. Allen), the FRC
11 Balancing Account, and the Recovery Bond Tracking Account. PG&E proposes
12 these mechanisms to: (1) assure repayment of the Recovery Bonds; (2) provide
13 the opportunity for the recovery of other costs associated with Recovery
14 Bond-related transactions; and (3) track the cumulative amounts of the FRC
15 charged to customers (as defined in Chapter 1, Introduction (D. Thomason)) and
16 the Customer Credit provided to customers.

17 In this chapter, PG&E:

- 18 • Describes the ratemaking treatment associated with the recovery of the
19 financing costs, as described in Public Utilities Code Section 850(b)(4),
20 through the FRC;
- 21 • Describes the FRC Balancing Account, which will accumulate costs and
22 credits that are not included in the FRC; and
- 23 • Describes the Recovery Bond Tracking Account, which PG&E is proposing
24 to track the total amounts charged to and credited to customers through the
25 FRC and the Customer Credit.

26 **B. Ratemaking Treatment of the FRC and the Customer Credit**

27 The proposed ratemaking mechanisms are necessary to assure repayment
28 of the Recovery Bonds and accurate accounting for Recovery Bond-related
29 transactions and the Customer Credit.

30 1) FRC

31 PG&E may issue one or more series of Recovery Bonds up to a
32 combined total of \$7.5 billion. Each series of Recovery Bonds would have
33 its own FRC. Repayment of each series of Recovery Bonds would be

1 accomplished through the FRC associated with that series. The revenues
2 received from the FRC would be transferred to the Bond Trustee for the
3 benefit of the Special Purpose Entity (SPE) to be applied against the
4 financing costs for that series of Recovery Bonds. Financing costs include:

- 5 • Principal and interest on the Recovery Bonds;
- 6 • Bond Trustee fees;
- 7 • Administration and servicing fees;¹
- 8 • Replenishing the capital subaccount;
- 9 • Other financing costs;
- 10 • Any taxes imposed on, or resulting from, the FRCs;
- 11 • Credit enhancements to the extent required by the rating agencies; and
- 12 • Other costs as specifically authorized by a financing order.

13 These financing costs and an allowance for uncollectibles are
14 components of the FRC. A description of the computation of the FRC rate is
15 provided in Chapter 9, Rate Proposal (D. Pease).

16 2) FRC Balancing Account

17 As a result of the issuance of the Recovery Bonds, various
18 miscellaneous costs and savings will accrue to customers. Similar to the
19 Energy Recovery Bond Balancing Account maintained by PG&E pursuant to
20 the 2005 issuance of Energy Recovery Bonds, the FRC Balancing Account
21 (FRCBA) will record those costs and benefits for subsequent recovery from
22 or credit to customers. Among the items to be recorded in the FRCBA are
23 the Revenue Fees and Uncollectible (RF&U) accounts expense associated
24 with the FRC, the RF&U credit associated with the Customer Credit, and the
25 amounts needed to pay any taxes imposed on the net revenue (i.e., the
26 FRC minus the Customer Credit) resulting from the FRC and the Customer
27 Credit. Disposition of the annual balance in the FRCBA would be included
28 in the Annual Electric True-up Advice Letter.

29 3) Customer Credit

30 As described in Chapter 6, Customer Credit Mechanism and Investment
31 Returns (D. Thomason; G. Allen), PG&E proposes to provide a Customer

¹ The Bond Trustee uses the servicing fee component incorporated into the FRC to pay the servicing fee for that series of Recovery Bonds to the servicer, PG&E.

1 Credit to customers.² PG&E will establish a Customer Credit Trust (as
2 defined in Chapter 6, Customer Credit Mechanism and Investment Returns
3 (D. Thomason; G. Allen)), initially funded with \$1.8 billion. There will then be
4 continuing infusions related to (1) certain Shareholder Tax Benefits up to a
5 cap of \$7.59 billion, and (2) Customer Credit Trust Returns. Neither PG&E
6 nor PG&E Corporation will be required to make other contributions to the
7 Customer Credit Trust. The Customer Credit will be reflected on customers'
8 bills and reimbursed to PG&E through periodic withdrawals from the
9 Customer Credit Trust and by the servicing and administrative fees paid to
10 PG&E by the SPE. The Customer Credit is projected to be sufficient to
11 equal the FRC such that customers should incur no net rate increase. If,
12 however, the total amount of the Customer Credit is subsequently limited by
13 the available balance in the Customer Credit Trust such that an adjustment
14 to the Customer Credit is necessary, PG&E would file a Tier 1 Advice Letter
15 at least 15 days before the beginning of the month to implement the
16 adjustment.

17 4) Recovery Bond Tracking Account

18 The Recovery Bond Tracking Account will track the amounts charged to
19 customers through the FRC and the amounts credited to customers' bills
20 through the Customer Credit.

21 5) Pro Forma Tariffs

22 Pro forma tariff language for the FRC Preliminary Statement, the FRC
23 Balancing Account, and the Recovery Bond Tracking Account are presented
24 in Exhibit 8.1.

25 **C. Establishing the FRC**

26 As noted above, PG&E may issue one or more series of Recovery Bonds.
27 Initially, an "Issuance" Advice Letter filing would be used to set rates for the FRC
28 associated with each series of Recovery Bonds. A pro forma Issuance Advice
29 Letter is attached as Appendix B to the Financing Order. The Issuance Advice
30 Letter would use the securitized bond revenue requirement calculations,
31 presented in Chapter 7, Comparison of Traditional Financing and Securitization
32 (D. Thomason), for each series of Recovery Bonds, along with the most recent

² Customers is as defined in Chapter 1, Introduction (D. Thomason).

1 PG&E sales forecast for the relevant time period, to develop the initial FRC for
2 that series of Recovery Bonds.

3 PG&E expects to file the Issuance Advice Letter within one day after the
4 Recovery Bonds are priced. Unless the CPUC issues an order or notifies PG&E
5 before noon on the fourth business day after pricing that the initial FRC does not
6 comply with Article 5.8, the Financing Order or the requirements for the Issuance
7 Advice Letter, such initial FRC will be deemed effective at noon on the
8 fourth business day after pricing, and the initial FRC rate would go into effect as
9 specified in the Issuance Advice Letter.

10 As discussed in Chapter 3, Transaction Overview (M. Becker), PG&E
11 requests that the Commission adopt in this Application a procedure to allow
12 PG&E to file Routine True-Up Mechanism Advice Letters annually to adjust the
13 FRC. These filings are intended to ensure that the actual revenues collected
14 under the FRC are neither more nor less than those required to repay the
15 Recovery Bonds and pay other allowed costs as scheduled. PG&E also
16 proposes to file Interim Routine True-Up Mechanism Advice Letters
17 semi-annually or more frequently, if necessary, to adjust the FRC if the SPE
18 experiences an undercollection, and Non-Routine True-Up Mechanism Advice
19 Letters to reflect revisions to the logic, structure, and components of the cash
20 flow model.

21 The revised FRC would reflect the following:

- 22 1) The Periodic Payment Requirement (as defined in Chapter 3, Transaction
23 Overview (M. Becker)) for the next year would be (i) increased or decreased
24 by the amount by which actual remittances of FRC revenues to the Bond
25 Trustee collection account through the end of the month preceding the
26 month of calculation was less than or exceeded the Periodic Payment
27 Requirement for the prior period; and (ii) to the extent not included in
28 (i), decreased by the amount projected to be held in the excess funds
29 subaccount at the beginning of the next payment period.
- 30 2) Forecasted sales for the remainder of the current year and of the
31 subsequent year, if applicable, of the transaction would be revised to reflect
32 PG&E's latest estimate of sales.
- 33 3) Estimated ongoing Financing Costs will be modified to reflect changed
34 circumstances.

- 1 4) Assumed uncollectibles will be modified to equal the percentage of losses
2 actually experienced during the most recent 12-month billing period for
3 which such information is available.
- 4 5) An adjustment will be made to reflect collections that will be received at the
5 existing tariff rate from the end of the month preceding the date of
6 calculation through the end of the month in which the calculation is done.

7 **D. Determining the Customer Credit**

8 As described in Chapter 6, Customer Credit Mechanism and Investment
9 Returns (D. Thomason; G. Allen), PG&E will forecast the amount that may be
10 transferred from the Customer Credit Trust, plus the servicing and administrative
11 fees paid to PG&E by the SPE, plus uncollectibles, and divide that amount by
12 the forecast sales for the year to determine the Customer Credit rate.

13 **E. Conclusion**

14 The proposed ratemaking mechanisms described in this chapter are
15 necessary to assure repayment of the Recovery Bonds and assure accurate
16 accounting for the Recovery Bond-related transactions and the Customer Credit
17 to be funded from shareholder assets.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 8

EXHIBIT 8.1

**PROPOSED PRELIMINARY STATEMENTS FOR FIXED
RECOVERY CHARGE, FIXED RECOVERY CHARGE
BALANCING ACCOUNT & RECOVERY BOND TRACKING
ACCOUNT (FORMERLY APPENDIX C)**



**ELECTRIC PRELIMINARY STATEMENT PART XX
FIXED RECOVERY CHARGE**

Sheet 1

XX. FIXED RECOVERY CHARGE

1. PURPOSE:

The purpose of this section is to establish a Fixed Recovery Charge, as mandated by Article 5.8, Chapter 4, Part 1, Division 1 of the California Public Utilities Code (Article 5.8). Article 5.8 authorizes PG&E to recover a portion of its costs associated with catastrophic wildfires ignited in 2017 (Catastrophic Wildfire Amounts) through the issuance of Recovery Bonds. The Fixed Recovery Charge is defined by Article 5.8 as a nonbypassable, separate charge that is authorized by the Commission in a Financing Order to recover the Catastrophic Wildfire Amounts and financing costs associated with the Recovery Bonds. The Fixed Recovery Charge will be composed of the following components: (1) interest and principal on the Recovery Bonds, (2) administration and servicing fees, (3) Bond Trustee fees and other expenses, (4) any credit enhancements, (5) allowance for uncollectibles, (6) replenishing the capital subaccount, (7) any taxes imposed on, or resulting from, the Fixed Recovery Charges, and (8) other financing costs. A separate Fixed Recovery Charge will apply to each series of Recovery Bonds issued.

The rights in and to the Fixed Recovery Charge established pursuant to the Financing Order constitute "recovery property" as defined in the legislation and have been established pursuant to a Financing Order (Decision (D.) xx-xx xxx) issued by the California Public Utilities Commission. Concurrently with the effectiveness of the Fixed Recovery Charge, PG&E has sold all of its rights with respect to such recovery property to [(Special Purpose Entity (SPE)), a Delaware Limited Liability Company (SPE)]. The recovery property includes the right, title, and interest of PG&E 1) in and to the Fixed Recovery Charges, including all rights to obtain adjustments to the Fixed Recovery Charges as provided in the Financing Order, and 2) to be paid the amount that is determined in the Financing Order that PG&E is lawfully entitled to receive pursuant to the provisions of Article 5.8 and the proceeds thereof, and all revenues, collections, claims, payments, money, or proceeds of or arising from Fixed Recovery Charges that are subject of the Financing Order. PG&E has no rights to the recovery property, Fixed Recovery Charge or any amounts payable thereunder.

2. APPLICABILITY:

This Fixed Recovery Charge shall apply to all customers¹ except for those customers participating in the California Alternate Rates for Energy or Family Electric Rate Assistance programs pursuant to Section 850.1(i).

3. ISSUANCE ADVICE LETTER:

PG&E shall file an Issuance Advice Letter no later than one day after the Recovery Bonds are priced. The Issuance Advice Letter will include the final issuance details and a request that the Fixed Recovery Charge be set based on the actual amount, price, and other terms of the Recovery Bonds. Unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with (i) Article 5.8, (ii) the Financing Order or (iii) the requirements of the Issuance Advice Letter, the Fixed Recovery Charges established by an Issuance Advice Letter will be effective automatically at noon on the fourth business day after pricing - and the Recovery Property, established pursuant to Section 850.1(h) and the Financing Order, will come into being simultaneously with the sale of the Recovery Property to the SPE.

¹ References to "customer" include the term "consumer" as defined in Section 850(b)(3) and as used in Section 850.1(b). See Pub. Util. Code § 850(b)(3) ("Consumer" means any individual, governmental body, trust, business entity, or nonprofit organization that consumes electricity that has been transmitted or distributed by means of electric transmission or distribution facilities, whether those electric transmission or distribution facilities are owned by the consumer, the electrical corporation, or any other party.")

Advice	XXXX-E	Issued by	Date Filed	_____
Decision	D.XX-XX-XXX	Robert S. Kenney	Effective	_____
		Vice President, Regulatory Affairs	Resolution	_____



**ELECTRIC PRELIMINARY STATEMENT PART XX
FIXED RECOVERY CHARGE**

Sheet 1

XX. FIXED RECOVERY CHARGE (Cont'd)

4. FIXED RECOVERY CHARGE ADJUSTMENTS:

PG&E will file a Routine True-Up Mechanism Advice Letter at least annually, or more often if necessary, as described in the Financing Order to adjust the Fixed Recovery Charge to ensure timely recovery of Recovery Bond principal, interest, and other Financing Costs. All true-up adjustments to the Fixed Recovery Charges shall ensure that the Fixed Recovery Charges generate sufficient revenues to timely pay all scheduled (or legally due) payments of principal (including, if any, prior scheduled but unpaid principal payments), interest, and other recovery costs to be paid with Fixed Recovery Charge revenues. The adjustment will be based on the following: (1) the most recent sales forecast; (2) the projected amortization schedule; (3) estimated ongoing financing costs; (4) an adjustment to reflect collections from the prior period; and (5) changes to projected uncollectibles. The advice letter will adjust the Fixed Recovery Charge for each series of Fixed Recovery Bonds issued and become effective on 1) March 1, in the case of an annual Routine True-Up, 2) September 1, in the case of a semi-annual Routine True-Up, and 3) the first day of the month after the filing of an interim Routine True-Up.

In addition to the Routine True-Up Mechanism, PG&E may also make changes to the Fixed Recovery Charge based on changes to the logic, structure, and components of the cash flow model not specified above. In this case, PG&E will file a Non-Routine True-Up Mechanism Advice Letter at least 90 days before the date when the proposed changes would become effective.

5. FIXED RECOVERY CHARGE (cents/kWh):

FIXED RECOVERY BOND Series 1.....0.XXXX

Advice XXXX-E
Decision D.XX-XX-XXX

Issued by
Robert S. Kenney
Vice President, Regulatory Affairs

Date Filed _____
Effective _____
Resolution _____



**ELECTRIC PRELIMINARY STATEMENT PART XZ
FIXED RECOVERY CHARGE BALANCING ACCOUNT (FRCBA)**

Sheet 1

XY. FIXED RECOVERY CHARGE BALANCING ACCOUNT (FRCBA)

1. PURPOSE:

The purpose of the FRCBA is to record the benefits and costs associated with Recovery Bonds that are not recovered from or provided to customers through the Fixed Recovery Charge or Customer Credit to charge those costs to or return those benefits to customers. Recovery Bonds are authorized by the Commission in D.[xx-xx-xxx] to provide the funds necessary to allow for the recovery of costs in accordance with Senate Bill 901.

2. REVISION DATE:

Disposition of the amounts in the FRCBA shall be determined in the Annual Electric True-up (AET) Advice Letter, or any other proceeding as authorized by the Commission. Any balance in the FRCBA shall be transferred to the Distribution Revenue Adjustment Mechanism (DRAM).

3. FRCBA Rates:

The FRCBA does not have a rate component.

4. TIME PERIOD:

The FRCBA will become effective with the issuance of the first Recovery Bonds and will expire after the Recovery Bonds are fully repaid and any remaining balance is returned to or recovered from customers.

5. ACCOUNTING Procedures: PG&E shall maintain the FRCBA by making entries at the end of each month as follows:

- a. A debit entry equal to federal income and state franchise tax accruals on net revenues (i.e., the Fixed Recovery Charge minus the Customer Credit) received to fund the Recovery Bond repayment and the Customer Credit.
- b. A debit entry equal to the estimated Revenue Fees and Uncollectibles (RF&U) requirements on the Fixed Recovery Charge revenues received from customers.
- c. A credit entry equal to the estimated RF&U requirements on the Customer Credit returned to customers.
- d. An entry equal to interest on the average balance in the FRCBA at the beginning of the month and the balance after the above entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release H.15 or its successor.
- e. A debit or credit entry, as applicable, to transfer the December 31 balance in the FRCBA to DRAM in conjunction with the AET filing.

Advice
Decision XXXX-E
D.XX-XX-XXX

Issued by
Robert S. Kenney
Vice President, Regulatory Affairs

Date Filed
Effective
Resolution _____



**ELECTRIC PRELIMINARY STATEMENT PART XZ
RECOVERY BOND TRACKING ACCOUNT**

Sheet 1

XZ. RECOVERY BOND TRACKING ACCOUNT

1. PURPOSE:

The purpose of the Recovery Bond Tracking Account is to accumulate over time the total amount of the Fixed Recovery Charge collected from customers and the total amount of the Customer Credit provided to customers. This account is for tracking purposes only and will not have a rate component.

2. ACCOUNTING Procedures: At the end of each month PG&E will:

- a. Debit the tracking account with an amount equal to the total of the revenue credit provided to customers through the Customer Credit that month, and
- b. Credit the tracking account with an amount equal to the total of the revenue billed to customers through the Fixed Recovery Charge for that month.