



BANKING & FINANCE | California's AB913 Permits Securitization for Recovery of COVID-19 Electric Utility Undercollections

In what we understand to be the first state law to do so, California's [Assembly Bill 913](#) (AB913), which was enrolled on September 4, 2020, amends [Section 850](#) of the [Public Utilities Code](#) to allow electrical corporations to apply for a required financing order from the California Public Utility Commission (CPUC) to use securitization to recover verified incremental undercollections in calendar year 2020¹ through authorized fixed recovery charges.

AB913 notes that securitization is a "proven method of stabilizing rates by smoothing rate increases over a longer period of time" and finds that, as a result of the COVID-19 pandemic, many customers have been unable to pay their electrical utility bills and, further, that electricity consumption has decreased. Consequently, the amount of revenue the electrical corporations, regulated by the CPUC, will recover is expected to be below authorized forecasts, so—in order to avoid otherwise likely rate increases in a time of economic stress and uncertainty—AB913 notes that the CPUC should be authorized to approve the securitization of these revenue shortfalls.

AB913 requires verification of either or both of the following incremental undercollection amounts for calendar year 2020:

- (i) An incremental undercollection amount equal to the difference between the forecasted amount of billed revenues for that year, based on the authorized sales forecast, and the revenues actually billed by an electrical corporation with respect to all revenue balancing accounts if the incremental amount as a percentage of the forecasted amount of billed revenues for that year is at least 5 percent.
- (ii) An incremental undercollection amount equal to the residential and small business customer bad debt expense recorded for that year that exceeds the bad debt expense for that year that was

adopted by the CPUC in the general rate case if the incremental undercollection amount is otherwise eligible for recovery in rates.

AB913 defines a “revenue balancing account” to mean a balancing account reflecting the balance between the electrical corporation’s authorized revenue requirements relating to the volumetric sale of electricity and billed revenues associated with those sales. A revenue balancing account includes accounts reflecting the balance between the electrical corporation’s authorized distribution base revenue requirements and recorded billed revenues from authorized distribution rates, and accounts reflecting the difference between the amount of the discount provided to consumers enrolled in the California Alternative Rates for Energy (“CARE”) program and the CARE surcharge charged to non-CARE consumers, but shall not include amounts reflecting the balance between costs and expenses relating to fuel and purchased electricity by the electrical corporation.

AB913 also prohibits the recovery through any other cost recovery application, mechanism, or request by the electrical corporation of any incremental undercollection amounts subject to a CPUC-approved financing order and requires that the CPUC ensure that any costs included in incremental undercollections subject to a financing order are just and reasonable, consistent with the requirements of subdivision (a) of Section 850.1.

While, by focusing on revenue undercollections, AB913 may avoid some of the technical and other difficult issues² in determining COVID-19 “costs,” this law may raise issues regarding the qualification of a related securitization for the preferential treatment provided by the Internal Revenue Service in its related revenue procedure [2005-62](#).

Authors

- [J. Paul Forrester](#)

¹ We described the possibility of using securitization and utility tariff bonds in our March 31, 2020 Perspective “[Recovery of COVID-19 Costs by Utility Tariff Bonds?](#)”

² Some of which were highlighted in a May 2020 white paper by Chares River Associates (available at: <http://www.crai.com/sites/default/files/publications/A%20standardized%20cost%20recovery%20approach%20for%20utilities%20impacted%20by%20COVID-19-May2020.pdf>).