

Decision 25-08-033 August 28, 2025

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California  
Edison company (U338E) for Thomas  
Fire and Montecito Debris Flow  
Recovery Bond Financing Order  
Pursuant to Public Utilities Code  
section 850 *et seq.*

Application 25-04-021

**DECISION APPROVING FINANCING ORDER AUTHORIZING SOUTHERN  
CALIFORNIA EDISON COMPANY'S ISSUANCE OF RECOVERY BONDS FOR  
THOMAS FIRE AND MONTECITO DEBRIS FLOW**

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**ATTACHMENT 1 - 5 – Description of Cash Flow Model**

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**DECISION APPROVING FINANCING ORDER AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY'S ISSUANCE OF RECOVERY BONDS FOR THOMAS FIRE AND MONTECITO DEBRIS FLOW**

**Summary**

This Financing Order grants the request by Southern California Edison Company (SCE) for authority under Senate Bill (SB) 901, and Public Utilities Code (Pub. Util. Code) §§ 850 and 850.1 to issue Recovery Bonds.

Specifically, and as discussed herein, this Financing Order authorizes SCE to issue Recovery Bonds to recover approximately \$1.629 billion of Wildfire Expense Memorandum Account (WEMA) costs, resulting in a ratepayer savings of approximately \$606 million compared to traditional utility financing mechanisms on a net present value basis. The precise amount of savings will depend on several factors that are not known at this time, such as the term and interest rate on the Recovery Bonds. The Recovery Bonds will be issued by a legally separate Special Purpose Entity, which will use the proceeds from the sale of the Recovery Bonds' proceeds to purchase from SCE the current property right in and to the Recovery Property (which includes the rights, title, and interest in the Fixed Recovery Charge), the revenues of which will be used to repay the Recovery Bonds' principal, interest, and related costs.

The Recovery Bonds' principal, interest, and related costs will be recovered via a surcharge called the Fixed Recovery Charge. All existing and future consumers of electricity in SCE's service territory (as described in Pub. Util. Code Sections 850(b)(3) and 850.1(a)(2)) will be required to pay the Fixed Recovery Charge, except for those consumers that are exempt pursuant to Pub. Util. Code Section 850.1(i) (Exempt Fixed Recovery Charge Customer Classes)). Pursuant to Pub. Util. Code Section 850.1(e), the provisions in this Financing Order authorizing the issuance of the Recovery Bonds and the recovery of Recovery Bond principal,

interest, and certain other Recovery Bond-related costs from consumers are irrevocable.

This proceeding is closed.

## **1. Procedural Background**

### **1.1. Statutory Scheme and SCE's Application**

SB 901, which was signed into law on September 21, 2018, provides authorization for the Commission to permit recovery, including through issuance of recovery bonds, of 2017 catastrophic wildfire costs and expenses. Specifically, Section 451.2(a) provides that “[i]n an application by an electrical corporation to recover costs and expenses arising from, or incurred as a result of, a catastrophic wildfire with an ignition date in the 2017 calendar year, the commission shall determine whether those costs and expenses are just and reasonable in accordance with Section 451.” Just and reasonable costs shall be allocated to ratepayers pursuant to Section 451. Section 451.2(c) provides further that “[a]n electrical corporation may apply for a financing order pursuant to Article 5.8 (commencing of Section 850) of Chapter 4 for the amount of costs and expenses allocated to the ratepayer as just and reasonable. . . .”

Section 850.1(a) likewise empowers the Commission to issue a financing order to authorize the recovery, through a “Fixed Recovery Charge”<sup>1</sup> if, “an electrical corporation files for recovery of recovery costs and the commission finds some or all of those costs and expenses to be just and reasonable pursuant to Section 451.” Pursuant to Section 850.1(a), the Commission shall issue a financing order authorizing recovery of these costs and expenses, if the Recovery Bonds and the imposition and collection of FRCs: (i) are just and reasonable; (ii) are consistent with the public interest; and (iii) the recovery of recovery costs through the

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<sup>1</sup> Section 850(b)(7).

designation of Fixed Recovery Charges, and the issuance of Recovery Bonds will reduce, to the maximum extent possible, the rates on a present value basis that consumers will pay as compared to the use of traditional utility financing mechanisms.

On July 12, 2019, Governor Newsom signed into law Assembly Bill (AB) 1054 (AB 1054) (Stats. 2019, Ch.79), which amended Public Utilities Code Division 1, Part 1, Chapter 4, Article 5.8, commencing with Section 850.<sup>2</sup> AB 1054 and SB 901 can each authorize the issuance of Recovery Bonds, primarily through Sections 850 and 850.1.

These specific costs and expenses can be funded by Recovery Bonds that are backed by nonbypassable ratepayer charges (except for those enrolled in the California Alternate Rates for Energy (CARE) or Family Electric Rate Assistance (FERA) programs<sup>3</sup>). In this way, the costs are not part of the utilities' ratebase. Instead, more favorable financing terms are available through the sale of Recovery Bonds in the financial market, which is intended to reduce, to the maximum extent possible, on a net present value basis, the rates that Consumers<sup>4</sup> would pay for such costs as compared to traditional utility finance mechanisms.

Section 850(a)(1) allows these utilities to request authorization to finance such costs and expenses related to a catastrophic wildfire, through a financing order

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<sup>2</sup> All statutes referred to herein are from the Public Utilities Code unless otherwise noted.

<sup>3</sup> Section 850.1(i) expressly provides that fixed recovery charges must not be imposed on CARE or FERA Consumers.

<sup>4</sup> Section 850(b)(3) states: "'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." For purposes of this Financing Order, Consumer refers to those in Southern California Edison Company's Service Territory as of the date of this Financing Order.

brought pursuant to § 850.1.<sup>5</sup> This statute identifies the requirements for the substance, criteria and timing for processing a utility application for such a financing order, which is then subject to the § 850.1 criteria (in the same manner as AB 1054).<sup>6</sup> This statute is then subject to the § 850.1 criteria (in the same manner as AB 1054). This statutory scheme also directs the Commission to establish procedures for further such financing orders.<sup>7</sup>

In this proceeding, SCE seeks a total recovery of Authorized Amount of approximately \$1.629 billion, and related costs, comprised of the following elements:

1. \$1.398 billion of WEMA costs approved in D.25-01-042 (the Thomas Settlement Decision), representing approximately 60% of the total amounts recorded in SCE's WEMA through May 21, 2024, which were net of about \$1 billion received from insurance or other third parties, for the payments to satisfy claims (including any co-insurance, deductibles, and other insurance expenses paid by SCE), and outside legal expenses and costs;
2. \$231.4 million in related costs, comprised of \$219.8 million in estimated Pre-Securitization Debt Financing Costs (this is the estimated cost of the debt that SCE is incurring on the authorized Claims-Related Costs until the Recovery Bonds are sold on the financial market); and
3. \$11.6 million in estimated securitization bond Upfront Financing Costs (the cost of everything related to issuing the Recovery Bonds).<sup>8,9</sup>

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<sup>5</sup> Section 850(a)(2) authorizes "recovery of costs and expenses related to catastrophic wildfires, including fire risk mitigation capital expenditures identified in subdivision (e) of Section 8386.3... by means of a financing order."

<sup>6</sup> Section 850.1(a)(1)(A).

<sup>7</sup> Section 850.1(a)(1)(B).

<sup>8</sup> The complete list of all possible costs that may be applicable in the sale of bonds is codified in Section 850(b)(4).

<sup>9</sup> SCE's Application proposes that the final amount of Upfront Financing Costs will be submitted for approval by the Commission pursuant to an Issuance Advice Letter.

To enable such securitization, SCE seeks permission to create a wholly-owned yet legally separate subsidiary, designated as a Special Purpose Entity (SPE), as described below, or to use the SPE created to finance the Initial AB 1054 CapEx (the Existing SPE), whichever course is determined to be the most appropriate approach for the Recovery Bonds. SPE's sole purpose is to hold Recovery Property and to issue Recovery Bonds.

The Recovery Bonds would be secured by the Recovery Property, which is a statutory property right in the right, title, and interest in and to the Fixed Recovery Charge, all rights to obtain adjustments to the Fixed Recovery Charges and all revenues, collections, claims, payments, moneys, or proceeds of arising from the Fixed recovery Charges. Payments of principal of, interest on, and other financing costs in connection with the recovery Bonds will be funded by the Fixed Recovery Charges. The Recovery Property would be sold by SCE to the SPE. The Recovery Property would also include rights to a true-up advice letter mechanism, which would allow for a periodic adjustment of the Fixed Recovery Charge at least annually, and as otherwise required, to ensure that the SPE would have sufficient funds to be able to pay debt service on the Recovery Bonds and ongoing financing costs.

Pursuant to Public Utilities Code Section 850.1(g), SCE also requested an expedited 120-day approval of this Application.

## **1.2. Party Responses**

On May 15, 2025, both The Utility Reform Network (TURN) and the Public Advocates Office (Cal Advocates) filed protests to the Application.

On May 22, 2025, SCE filed its reply to the protests.

On May 28, 2025, the parties appeared for the Prehearing Conference.

On June 6, 2025, TURN filed a Motion to Withdraw from the Proceeding. TURN asserts that it is unable to produce meaningful testimony within the proceeding's expedited time frame.



### **1.3. The Scoping Memo Ruling**

On June 12, 2025, the Scoping Memo Ruling was issued which granted TURN's Motion to Withdraw. The Scoping Memo Ruling also identified the following issues for resolution:

1. Have the recovery costs sought to be reimbursed been found to be just and reasonable, in compliance with Pub. Util. Code Section 850.1(a)(1)(A)(i)?
2. Are the proposed Recovery Bonds just and reasonable, in compliance with Pub. Util. Code Section 850.1(a)(1)(A)(ii)(I)?
3. Are the proposed Recovery Bonds consistent with the public interest, in compliance with Pub. Util. Code Section 850.1(a)(1)(A)(ii)(II)?
4. Would the proposed Recovery Bonds reduce consumer rates to the maximum extent possible compared to traditional utility financing mechanisms, in compliance with Pub. Util. Code Section 850.1(a)(1)(A)(ii)(III)?
5. What is the appropriate customer allocation for implementing a fixed recovery charge?
6. What are the required contents of a financing order?
7. What continued reporting compliance is required?

### **1.4. Party Motions and Stipulation**

The assigned Administrative Law Judge (ALJ) took the evidentiary hearing off calendar after the parties advised him and the assigned Commissioner that they were working out a proposed resolution of the Application.

On June 30, 2025, SCE and Cal Advocates filed the following documents:

- Joint Motion to Seal the Evidentiary Record;
- Joint Motion to Admit Testimony and Exhibits into Evidence;  
and
- Joint Stipulation addressing the structure and tenor for the proposed transaction as well as all of the issues identified in the Scoping Memo Ruling, which are set forth above in Section 1.3.

## **2. Jurisdiction**

In its application, SCE seeks authority to issue bonds to securitize catastrophic wildfire claims payments and associated expenses. Sections 850 and 850.1 provide that utilities may seek approval from the Commission to securitize cost and expenses related to a catastrophic wildfire that are just and reasonable, in the public interest, and reduce, to the maximum extent possible, the rates that ratepayers would pay as compared to traditional utility financing mechanisms.<sup>10</sup>

To securitize eligible costs and expenses, the utility must receive authority to issue Recovery Bonds, a security whose purpose is for the utility to recover certain costs from issuing bonds.<sup>11</sup> The Recovery Bonds are secured by Recovery

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<sup>10</sup> Section 850(a)(1) This article applies in any of the following circumstances: (1) If an electrical corporation applies to the commission for recovery of costs and expenses related to a catastrophic wildfire and the commission finds some or all of the costs and expenses to be reasonable pursuant to Section 451.1, or for the amount of costs and expenses determined pursuant to subdivision (c) of Section 451.2, then the electrical corporation may file an application requesting the commission to issue a financing order to authorize these costs and expenses to be recovered through fixed recovery charges pursuant to this article; *see also*, Section 850.1(a)(1)(A).

<sup>11</sup> Section 850 (b)(9) provides that “Recovery bonds” means bonds, notes, certificates of participation or beneficial interest, or other evidences of indebtedness or ownership, issued pursuant to an executed indenture or other agreement of a financing entity, the proceeds of which are used, directly or indirectly, to recover, finance, or refinance recovery costs, and that are directly or indirectly secured by, or payable from, recovery property.

Property,<sup>12</sup> which, among other things, consists of a Fixed Recovery Charge<sup>13</sup> (*i.e.*, nonbypassable fee) that is approved in a Financing Order (instant decision).<sup>14</sup> The nonbypassable fee is assessed on customers within the utilities' distribution service territory, except for Exempt Fixed Recovery Charge Customer Classes.

The Fixed Recovery Charge is irrevocable<sup>15</sup> and funds payments to bond holders and the costs to service the bond (together, Bond Servicing Payment), among other expenses related to the securitization transaction. To ensure that the Fixed Recovery Charge is sufficient to cover the Bond Servicing Payment, Section 850 provides that a true-up adjustment should be performed periodically.<sup>16</sup>

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<sup>12</sup> Section 850(b) (11)(A) provides that "Recovery property" means the property right created pursuant to this article, including, without limitation, the right, title, and interest of the electrical corporation or its transferee: (i) In and to the fixed recovery charges established pursuant to a financing order, including all rights to obtain adjustments to the fixed recovery charges in accordance with Section 850.1 and the financing order. . . (C) "Recovery property" shall constitute a current property right, notwithstanding the fact that the value of the property right will depend on consumers using electricity or, in those instances where consumers are customers of the electrical corporation, the electrical corporation performing certain services.

<sup>13</sup> Section 850(b)(7) provides that "'Fixed recovery charges' means those nonbypassable rates and other charges, including, but not limited to, distribution, connection, disconnection, and termination rates and charges, that are authorized by the commission in a financing order . . ."

<sup>14</sup> Section 850(b) (6) provides that "Financing order" means an order of the commission adopted in accordance with this article, which shall include, without limitation, a procedure to require the expeditious approval by the commission of periodic adjustments to fixed recovery charges and to any associated fixed recovery tax amounts included in that financing order to ensure recovery of all recovery costs and the costs associated with the proposed recovery, financing, or refinancing thereof, including the costs of servicing and retiring the recovery bonds contemplated by the financing order.

<sup>15</sup> Section 850.1(b) provides that [t]he commission may establish in a financing order an effective mechanism that ensures recovery of recovery costs through nonbypassable fixed recovery charges . . . Fixed recovery charges shall be irrevocable, notwithstanding the true-up adjustment pursuant to subdivision (g).

<sup>16</sup> Section 850(b)(14) provides that "True-up adjustment" means an adjustment to the fixed recovery charges as they appear on customer bills that is necessary to correct for any overcollection or undercollection of the fixed recovery charges authorized by a financing order and to otherwise ensure the timely and complete payment and recovery of recovery costs over the authorized repayment term; see also (g) The commission shall establish procedures for the expeditious processing of an application for a financing order . . . . The commission shall, in any

With respect to the Commission's standard of review, Section 850.1 permits the Commission to issue a Financing Order when 1) the costs that the utility seeks to recover are just and reasonable and 2) the issuance of the Recovery Bonds, including all material terms and conditions of the Recovery Bonds, including, without limitation, interest rates, ratings, amortization redemption and maturity, and the imposition and collection of fixed charges:

- a. Are just and reasonable;
- b. Are consistent with the public interest; and
- c. The recovery of recovery costs through the designation of fixed recovery charges, and the issuance of recovery bonds in connection with the fixed recovery charges, would reduce, to the maximum extent possible, the rates on a present value basis that consumers would pay as compared to the use of traditional utility financing mechanisms.<sup>17</sup>

### **3. SCE's Proposed Financing Order**

#### **3.1. SCE's Proposed Financing Order -- Overview**

Pursuant to SCE's proposed financing order, two structural requirements would apply to the issuance of the Recovery Bonds. First, property must be created

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financing order, provide for a procedure for periodic true-up adjustments to fixed recovery charges, which shall be made at least annually and may be made more frequently. . .

<sup>17</sup> Section 850.1 (a)(1)(A) provides that "[f]ollowing application by an electrical corporation, the commission shall issue a financing order if the commission determines that the following conditions are satisfied:(i) The recovery cost to be reimbursed from the recovery bonds have been found to be just and reasonable pursuant to Section 451.1 or are allocated to the ratepayers pursuant to subdivision (c) of Section 451.2. (ii) The issuance of the recovery bonds, including all material terms and conditions of the recovery bonds, including, without limitation, interest rates, rating, amortization redemption, and maturity, and the imposition and collection of fixed recovery charges as set forth in an application satisfy all of the following conditions: (I) They are just and reasonable. (II) They are consistent with the public interest. (III) The recovery of recovery costs through the designation of the fixed recovery charges and any associated fixed recovery tax amounts, and the issuance of recovery bonds in connection with the fixed recovery charges, would reduce, to the maximum extent possible, the rates on a present value basis that consumers within the electrical corporation's service territory would pay as compared to the use of traditional utility financing mechanisms, which shall be calculated using the electrical corporation's corporate debt and equity in the ratio approved by the commission at the time of the financing order."

that can be pledged to support the Recovery Bonds. Section 850.1 authorizes the establishment of Recovery Property, which principally consists of the right to receive revenues from a nonbypassable electric rate component called the Fixed Recovery Charge. Sections 850 and 850.1 provide that a financing order shall provide for a procedure for periodic true-up adjustments to the Fixed Recovery Charges, at least annually via a Commission-approved True Up Mechanism, so that they are consistently adjusted at a level that ensures timely recovery of amounts sufficient to pay the debt service on the Recovery Bonds and other Ongoing Financing Costs.

Second, the Recovery Property must be transferred to an entity that is bankruptcy remote from SCE, i.e., an SPE that is legally separate from SCE. This ensures that, in the event of a future SCE bankruptcy, the rights to the Recovery Property, including the rights to receive the revenues from the Fixed Recovery Charges would not be included in SCE's bankruptcy estate, but rather would continue to be available to pay the Recovery Bonds. In other words, the transfer of the Recovery Property must be a "true sale" for bankruptcy law purposes.

In its testimony, SCE proposes the issuance of the Recovery Bonds in the authorized amount by a Financing Order, to occur as soon as practicable in the third quarter of 2025. SCE attached its proposed securitization Financing Order as Exhibit D-1 to its Application. SCE also provided Exhibit D-2, which shows a redline to SCE's Third AB 1054 CapEx Financing Order upon which its Application was based.<sup>18</sup>

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<sup>18</sup> SCE includes a summary of SCE's Third AB 1054 CapEx Transaction in Exhibit SCE-01. SCE's Third AB 1054 CapEx Application requested a total securitized amount of \$772.4 million, which was approved as part of SCE's 2021 GRC Track 1 and Track 3. When compared to traditional utility financing mechanisms, the proposed securitization estimated NPV savings of \$493.1 million under market conditions in September 2022 and assuming a 25-year final scheduled maturity. In the final offering SCE achieved NPV savings of \$465.2 million under market conditions in April 2023 compared to traditional utility financing mechanisms.

The securitization was described more fully in SCE's Exhibits SCE-02 and SCE-03. To issue the Recovery Bonds, SCE proposed to use the Existing SPE, or to form another wholly owned but legally and fiscally independent SPE. In either case, the SPE would issue the Recovery Bonds in an amount equal to the Claims-Related Costs plus the Pre-Securitization Debt Financing Costs, plus the Upfront Financing Costs (Authorized Amount). The Recovery Bonds would be secured by Recovery Property, which would include the rights to the nonbypassable Fixed Recovery Charges, the periodic true-up adjustments, and the revenues and proceeds thereof.

SCE contended that because the Recovery Property would be transferred to the legally separate and "bankruptcy-remote" SPE, the transfer of the Recovery Property would be a "true sale" for bankruptcy law purposes, in the event of a future SCE bankruptcy, and the Fixed Recovery Property would not be included in SCE's bankruptcy estate (in this regard, a legal counsel opinion would be created for the rating agencies to rely upon). SCE also contended that, as per Section 850 *et seq.*, the Fixed Recovery Charges would be adjusted at least annually via a Commission approved True-Up Mechanism, and that this would ensure timely recovery of sufficient debt service to repay the Recovery Bonds and ongoing financing costs.

To obtain the highest possible credit rating and thereby lower consumer costs, SCE stated that the nature of the transaction provides confidence to the market while making funds available to SCE for the Authorized Amount. SCE proposes to contribute equity (or additional equity in the event the Existing SPE is utilized) to the SPE in an amount equal to at least 0.50 percent of the initial aggregate principal amount of the Recovery Bonds. The SPE then would issue the Recovery Bonds and the sale proceeds (net of Upfront Financing Costs) would be transferred from the SPE to SCE in payment for the Recovery Property, which would be used to secure the Recovery Bonds.

Regarding how the Fixed Recovery Charge would be allocated to SCE's Customers, SCE's proposal includes a specific set of calculations.<sup>19</sup> SCE seeks to impose Fixed Recovery Charges on all non-exempt customers based on the allocation methodology set forth in the Marginal Cost and Revenue Allocation Settlement Agreement.<sup>20</sup> That settlement provides for a specific allocation methodology to be applied to existing and future Commission-authorized wildfire-related revenue requirements (WRR), including wildfire-related costs to be securitized and recovered through a Fixed Recovery Charge.<sup>21</sup> Under this revenue allocation methodology, a special methodology and formula are applied to determine a composite weighted average allocator (Special Allocator) that combines the distribution allocator and System Average Percent (SAP) allocator to be applied to allocate the WRR among customer groups.<sup>22</sup> Furthermore, SCE proposed that once set at the time of issuance, the allocation methodology for the Recovery Bonds should remain the same for the life of the Recovery Bonds, with adjustments for sales changes to collect the revenue requirement.<sup>23</sup> Once the Recovery Bonds are paid in full, to the extent excess costs were collected, as well as any interest earnings

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<sup>19</sup> Exhibit SCE-06.

<sup>20</sup> D.22-08-001 at 45 (Ordering Paragraph 1) (ordering SCE to implement terms of Marginal Cost and Revenue Allocation Settlement Agreement). *See also* Application (A.) 20-10-012, Joint Motion of SCE and Settling Parties for Adoption of Marginal Cost and Revenue Allocation Settlement Agreement, Attachment A (Marginal Cost and Revenue Allocation Settlement Agreement) at 23-24 (Section B(5)(j)(2)) (providing that "Special Allocator shall be used to establish the allocation of the securitized amount" for future wildfire-related securitizations).

<sup>21</sup> *See id.*; *see also* D.22-08-001 at 13-15 (describing methodology for allocation of WRR).

<sup>22</sup> The Marginal Cost and Revenue Allocation Settlement Agreement explicitly affirms that the existing revenue allocation methodologies adopted by the Commission in the Initial and Second AB 1054 CapEx Financing Orders shall be retained and unaffected by the Special Allocator methodology set forth in the settlement. *See* A.20-10-012, Joint Motion of SCE and Settling Parties for Adoption of Marginal Cost and Revenue Allocation Settlement Agreement, Attachment A (Marginal Cost and Revenue Allocation Settlement Agreement), at 23 (Section B(5)(j)(2))

<sup>23</sup> The potential intra-class impacts for customers that pay for distribution service through a demand charge were resolved through SCE's GRC Phase 2 proceeding and such impacts will be addressed consistent with that settlement.

on those amounts, these would be returned to Consumers through a credit in future rates.<sup>24</sup>

Regarding the handling of the Recovery Bond sale, Exhibit SCE-02 described the utility securitization market and explained that critical to obtaining the lowest possible interest rate for such securities sales is the credit rating assessed by rating agencies for its attendant risk.<sup>25</sup>

SCE also identifies the sources of the Ongoing Financing Costs associated with the servicing of the Recovery Bonds, including servicing fees, ongoing administrative fees, bond trust fees, legal and accounting fees, rating agency fees, and SPE operating expenses (or the allocable share thereof).<sup>26</sup>

SCE's Exhibits SCE-02 and SCE-03 explained that at this stage, certain features of the bond structure could not be finalized. For example, a preliminary bond structure is provided and is the basis of the customer benefit analysis, however, as noted, certain features, including maturity, the number and size of the tranches, and interest rates, would not be known until closer to the time of issuance and taking into account market conditions at that time. SCE and Cal Advocates agree that (i) the aggregate weighted average life among all tranches of recovery bonds for the transaction shall not exceed 20 years; and (ii) no individual tranche of recovery bonds shall have a maturity that exceeds 25 years (*i.e.* the transaction must have an expected maturity of 25 years or less).<sup>27</sup>

SCE proposed the highest possible credit rating for the Recovery Bonds is attained by including certain provisions in the Financing Order:

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<sup>24</sup> Exhibit SCE-03.

<sup>25</sup> Exhibit SCE-02 at 15-17.

<sup>26</sup> Exhibit SCE-02 at 17-20.

<sup>27</sup> Exhibit SCE-16, Joint Stipulation of SCE and Cal Advocates at Exhibit SCE-10.



1. Confirm that the transfer of the Recovery Property from SCE to the SPE constitutes a “true sale” for bankruptcy law purposes.
2. Confirm that the True-Up Mechanism will require the Fixed Recovery Charge to be adjusted at least annually, and more frequently if necessary, to correct for any overcollection or undercollection (in the manner described in Exhibit SCE-03 and Exhibit SCE-06).
3. Confirm that there is “flexibility in the Financing Order to provide credit enhancement should market conditions change,” which would functionally mean enabling SCE to over-collateralize the Recovery Bonds (*i.e.*, secure the Recovery Bonds with Recovery Property or other assets in an amount larger than required) based upon input from the rating agencies made at the time the Recovery Bonds are marketed.
4. Confirm that, regarding the servicer’s financial strength and billing and collecting experience, and anticipating an event requiring a third-party to replace SCE as the servicer, the Commission would not approve a third-party servicer without first “making a determination that the approval will not impair the credit rating of any outstanding Recovery Bonds.” More specifically, SCE requested that the Commission “maintain the current creditworthiness and other requirements set forth in SCE’s Electric Rules applicable to Third-Party Billers who bill and meter electric customers.”<sup>28</sup>
5. Confirm the nonbypassability of the Fixed Recovery Charge (as mandated Sections 850(b)(7) and 850.1(b)), certain steps would be required to ensure compliance with Article 5.8 and to assure Recovery Bond investors that Recovery Bond payments will continue. More specifically, SCE requested that the Fixed Recovery Charge must be paid by all non-exempt existing or future Customers in SCE’s Service Territory as it exists as of the date of the Financing Order, regardless of where the Consumer buys electricity. SCE requested that in the event of a future municipalization of

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<sup>28</sup> *Id.*, at 19.

SCE's facilities by an entity that does not set retail rates subject to the Commission's regulation, the Commission would ensure continued payment of Fixed Recovery Charge by placing such conditions on the Commission's approval of the transaction.<sup>29</sup>

### **3.2. SCE's Proposed Financing Order -- Details**

SCE's Application provided a complete description of the proposed Recovery Bonds and a proposed Recovery Bond transaction structure.

As discussed below, SCE acknowledged that the details of the proposed structure are subject to modification, depending upon the marketing of the Recovery Bonds and negotiations with the rating agencies that will be asked to rate the Recovery Bonds. SCE proposes that the final structure and terms of the Recovery Bonds will be determined by SCE after marketing and input from the rating agencies, the Finance Team, and the underwriters, and that the final structure and terms will be described in an Issuance Advice Letter<sup>30</sup> submitted to the Commission and subject to the Commission's review and ability to stop the sale for a failure to adhere to the terms of this Financing Order, *i.e.*, after notice and within four business days, the Commission may halt the sale through action of the Commission Staff.

Another element of the transaction is added by Section 850.1(f), stating that the Recovery Bonds authorized by this Financing Order do not constitute a debt or liability of the State of California or any political subdivision thereof, nor do the Recovery Bonds constitute a pledge of the full faith and credit of the State or any political subdivisions. In addition, pursuant to Section 850.1(f)(2), the issuance of the Recovery Bonds shall not directly, indirectly, or contingently obligate the State

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<sup>29</sup> SCE cites SB 550 (2019) and §§ 851(a), 851(b)(1), and 854.2(b)(1)(F), which, taken together, require the Commission's authorization for any sale or disposition of a utility's system or property (via a transaction greater than \$5 million), including for any "voluntary or involuntary change in ownership of assets from an electrical or gas corporation to ownership by a public entity."

<sup>30</sup> See Attachment 2, Form of Issuance Advice Letter.

of California or any political subdivision thereof to levy or to pledge any form of taxation to pay any obligations associated with the Recovery Bonds or to make any appropriations for their payment. As required by Section 850.1(f)(1), any Recovery Bond shall have written on it a statement to the following effect: “Neither the full faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of, or interest on, this bond.”

To attract a broad range of investors, SCE requests the flexibility to divide the Recovery Bonds authorized by this Financing Order into one or more series consisting of one or more tranches of bonds representing different maturities of which shall not in the aggregate exceed the Authorized Amount. Each tranche of each series may have a different scheduled final payment date and final legal maturity date.

The Recovery Bonds may have an initial payment period shorter or longer than other payment periods to accommodate the time period between the close of the transaction and the implementation of the Fixed Recovery Charge in bills.<sup>31</sup>

In accordance with Section 850 et seq., SCE proposed that the Recovery Bonds would be issued by one or more SPEs that are owned by SCE in a transactional structure described below.<sup>32</sup> The SPEs could include the Existing SPE, or newly formed SPEs, whichever course is determined to be the most appropriate. The Recovery Bonds will be secured by “Recovery Property” which Section 850(b)(11) defines as the property right created pursuant to Article 5.8, including, without limitation, the right, title and interest of SCE or its transferee: (i) in and to the Fixed Recovery Charges established pursuant to this Financing Order, including all rights to obtain adjustments to Fixed Recovery Charges in accordance with Section 850.1 and this Financing Order, and (ii) to be paid the amount that SCE or its

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<sup>31</sup> Exhibit SCE-03.

<sup>32</sup> *Ibid.*

transferee is lawfully entitled to receive pursuant to Section 850 and the proceeds thereof, and in and to all revenues, collections, claims, payments, moneys, or proceeds of or arising from the Fixed Recovery Charge. If the Recovery Bonds are issued by the Existing SPE for this Financing Order, the Recovery Bonds would only be secured by the Recovery Property created pursuant to this Financing Order and not the Recovery Property created by any prior or subsequent financing order (*i.e.*, D.20-11-007).

SCE proposes to sell the Recovery Property via a true sale and absolute transfer to an SPE that is legally separate and bankruptcy remote from SCE. This ensures that if SCE were to enter bankruptcy, the Recovery Property will not be included in SCE's bankruptcy estate. Rather, the revenues from the Recovery Property would continue to be available to pay the debt service on the Recovery Bonds and other Ongoing Financing Costs.

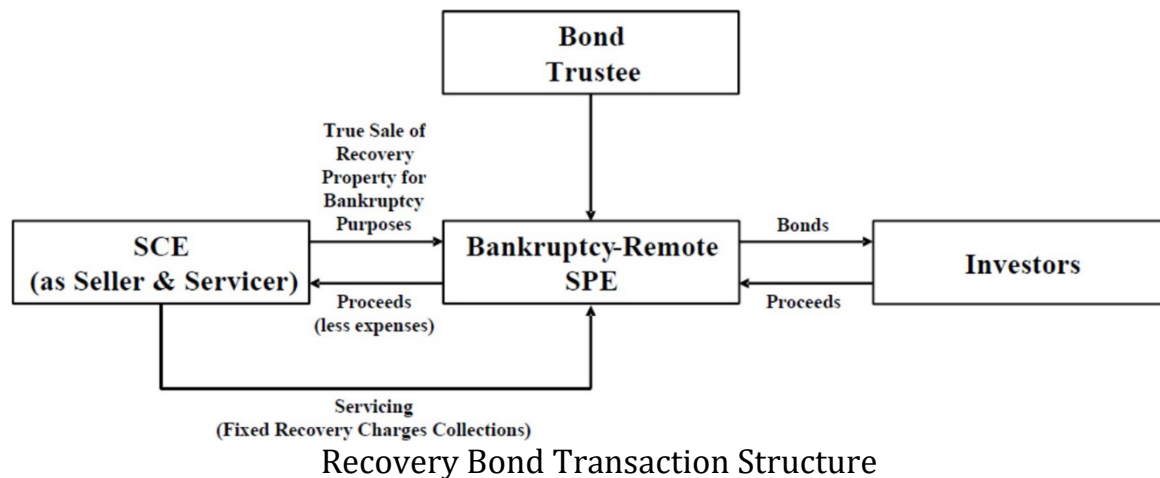
The Recovery Bonds would be issued under an indenture and administered by a Bond Trustee. The Recovery Property as well as all other rights and assets of the SPE (Bond Collateral) would be pledged to the Bond Trustee for the benefit of the holders of the Recovery Bonds and to secure payment of debt service on the Recovery Bonds and other Ongoing Financing Costs. If the Existing SPE is the issuer, none of the Bond Collateral would be available to pay any prior or subsequent recovery bonds. Holders of the Recovery Bonds secured by the Bond Collateral could exercise all remedies pursuant to the security interest in the event of a default.

SCE proposes to contribute equity (or in the case the Existing SPE is the issuer, additional equity) to the SPE equal to at least 0.50 percent of the initial aggregate principal amount of each series of Recovery Bonds. The SPE equity would be pledged as Bond Collateral to secure the Recovery Bonds and will be deposited into a capital subaccount (described below) held by the Bond Trustee. This equity contribution is a requirement of the Internal Revenue Service (IRS) in order to

characterize the Recovery Bonds as obligations of SCE for Federal income tax purposes.

To fund the acquisition of the Recovery Property, the SPE would issue the Recovery Bonds to investors. The proceeds (net of Upfront Financing Costs) from the Recovery Bonds will be transferred from the SPE to SCE as payment of the purchase price for the Recovery Property.

SCE requested the Commission approve a Financing Order with the Recovery Bond transaction structure shown in the following diagram:



The Bond Trustee would retain all Fixed Recovery Charge collections received from SCE in a collection account and distribute these funds to make scheduled principal and interest payments on the Recovery Bonds and to pay other Ongoing Financing Costs in accordance with the Recovery Bond indenture “waterfall” provisions. SCE anticipates that the collection account would include three subaccounts: (1) a general subaccount to hold revenues and investment earnings pending application under the indenture waterfall provisions; (2) a capital subaccount to hold the equity capital contribution made by SCE; and (3) an excess funds subaccount to hold revenues and investment earnings collected in excess of amounts necessary to pay principal, interest and other Ongoing Financing Costs. The collection account may also contain additional accounts to accommodate any

credit enhancements (including any over-collateralization subaccount) approved in an Issuance Advice Letter. The Bond Trustee would invest all Fixed Recovery Charge collections in investment grade short-term debt securities that mature on or before the next Recovery Bond payment date. Any investment earnings would be retained in the collection account to pay principal, interest, or other Ongoing Financing Costs. If any funds remain in the collection account after distributions are made on a Recovery Bond payment date, they would be credited to the excess funds subaccount. These amounts in the excess funds subaccount and the capital subaccount would be available to pay principal, interest, or other Ongoing Financing Costs as they come due. Any amounts in the excess funds subaccount would be used to offset and reduce the Fixed Recovery Charge on the next Fixed Recovery Charge true-up adjustment date.

Upon payment in full of the Recovery Bonds and the discharge of all Ongoing Financing Costs, amounts remaining with the Bond Trustee would be distributed in the following order of priority: first, an amount equal to SCE's initial equity contribution into the capital subaccount, together with any required rate of return, would be paid to SCE. Second, all other amounts held by the Bond Trustee in any fund or account including any over-collateralization account would be returned to SCE. The amounts in this second category, together with any Fixed Recovery Charge revenues thereafter received by SCE, would be credited to Consumers through normal ratemaking processes.

SCE proposed that the Commission would have full access to the books and records of the SPE. SCE stated that it would not make any profit from the SPE other than that it proposed to receive a return on its equity contribution to the SPE in an amount equal to the weighted average interest rate on the Recovery Bonds. (Exhibit SCE-03, pp. 10, 24.) That equity contribution would be deposited in the capital subaccount and the return owed to SCE would be payable as an Ongoing Financing

Cost from Fixed Recovery Charge revenues after payment of debt service on the Recovery Bonds and all other Ongoing Financing Costs.<sup>33</sup>

In Exhibit SCE-03, SCE testified that to obtain the highest possible credit ratings for the Recovery Bonds, the SPE and the assets backing the Recovery Bonds must be legally separate from SCE's bankruptcy estate.<sup>34</sup> To ensure that the SPE is legally separate and bankruptcy remote from SCE, the SPE should be authorized to: (i) include restrictions in its organizational documents limiting the activities of the SPE to the issuance of the Recovery Bonds (which could include additional Recovery Bonds issued pursuant to Article 5.8) and related activities and eliminating the SPE's ability to voluntarily file for bankruptcy; (ii) provide for the appointment of one or more independent directors to the SPE board; and (iii) provide for the payment of servicing and administration fees adequate to compensate the servicer and administrator for their costs of providing service and administration.

In connection with the transaction, SCE would provide the rating agencies an opinion from its legal counsel that: (1) the transfer of the Recovery Property from SCE to the SPE constitutes a "true sale" for bankruptcy purposes; and (2) the SPE is separate from SCE and could not be substantively consolidated with SCE for bankruptcy purposes. This legal opinion would provide assurance to the rating agencies that the SPE's assets (including the Recovery Property) will not be part of SCE's bankruptcy assets, and thus not be available to SCE creditors, should SCE subsequently commence bankruptcy.

SCE further requested the Commission to authorize the SPE to obtain additional credit enhancements to ensure repayment of the Recovery Bonds, which could include an over-collateralization subaccount if required by the Rating Agencies to receive the highest possible credit rating on the Recovery Bonds, or if

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<sup>33</sup> Exhibit SCE-03, p. 10.

<sup>34</sup> *Id.*, pp. 17-29.

the all-in cost of the Recovery Bonds with the over-collateralization would be less than without the over-collateralization. Over-collateralization is a credit enhancement technique where the value of the collateral exceeds the value of the bonds, to help ensure timely payment of investors.

The required amount of over-collateralization, if any, would be collected as an ongoing financing cost payable from the Fixed Recovery Charges. Any over-collateralization costs that could be collected from Consumers in excess of total debt service on the Recovery Bonds and other Ongoing Financing Costs would be the property of the SPE. Upon payment in full of the principal and interest on all Recovery Bonds and the discharge of all Financing Costs, the increase in the value of SCE's equity interest in the SPE related to the balance in any over-collateralization subaccount or any other subaccount maintained by the SPE (other than the capital subaccount) would be returned to SCE and then credited to the Consumers through the normal ratemaking processes.

SCE also requested that the SPE be authorized to obtain Recovery Bond insurance, letters of credit, and similar credit-enhancing instruments, but only if required by the rating agencies to achieve the highest possible credit rating on the Recovery Bonds, or if the all-in cost of the Recovery Bonds with these other credit enhancements would be less than without the enhancements. In addition, Bond Collateral held by the Bond Trustee would be available as a credit enhancement.

SCE claimed that it does not anticipate requiring any external credit enhancements described in the preceding paragraph.<sup>35</sup> Further, based upon current market conditions, SCE does not anticipate being required by the Rating Agencies to establish an over-collateralization subaccount. However, if an account is required, the exact amount and timing of the Fixed Recovery Charge collection necessary to fund the over-collateralization account would be determined in consultation with

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<sup>35</sup> Exhibit SCE-03, p. 24.



the Finance Team before the Recovery Bonds are issued and approved through the Issuance Advice Letter process.

As provided in Section 850.1(b)(4), Financing Costs associated with the issuance and credit support of the Recovery Bonds, including without limitation, underwriting fees and expenses, legal fees and expenses (including those associated with SCE's financing application), rating agency fees, accounting fees and expenses, SCE's financial advisory fee, servicer set-up costs, SEC registration fees, Section 1904(b) fees, printing and EDGARizing expenses,<sup>36</sup> trustee / trustee counsel fees and expenses, original issue discount, any Commission costs and expenses (including the costs and expenses of the Finance team), and other miscellaneous costs approved in this Financing Order (collectively, Upfront Financing Costs). Upfront Financing Costs include reimbursement to SCE for amounts advanced for payment of such costs. Upfront Financing Costs may also include the costs of credit enhancements including the cost of purchasing a letter of credit or bond insurance policy, if required.

SCE requested to recover the Upfront Financing Costs from the proceeds of the Recovery Bonds. SCE estimates the Upfront Financing Costs will total approximately \$11.6 million.<sup>37</sup>

SCE estimates of the Upfront Financing Costs are subject to change, as the costs are dependent on the timing of issuance, market conditions at the time of issuance, the number of series issued and other events outside SCE's control, such as possible litigation, incremental legal fees resulting from protracted resolution of issues, possible review by the Commission, delays in the SEC registration process, and changes to their-party fee schedules or requirements. When each series of the

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<sup>36</sup> EDGARization is the process of converting original documents -- Microsoft Word, Microsoft Excel, PDF, etc. -- into acceptable Securities and Exchange Commission (SEC) format for the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

<sup>37</sup> Exhibit SCE-03.

Recovery Bonds are sized and priced, Upfront Financing Costs would be updated and included in the related Issuance Advice Letter.

SCE proposed that if the estimated Upfront Financing Costs included in any issuance Advice Letter exceed actual Upfront Financing Costs, any excess amounts would be credited to the excess funds subaccount and used to offset the revenue requirement in the next routine Fixed Recovery Charge true-up calculation. In the event that the actual Upfront Financing Costs exceed the estimated amount included in the Issuance Advice Letter, the shortfall amount may be recovered in the next routine true-up adjustment for the Fixed Recovery Charge.

SCE testified that the Recovery Bonds transaction will be structured to be a “Qualifying Securitization” pursuant to IRS Rev. Proc. 2005-62 to achieve two important tax objectives.<sup>38</sup> First, to lower overall taxes, the SPE will be treated as part of SCE for Federal income tax purposes, and not as a separate entity responsible for paying its own taxes. Second, to avoid recognition of taxable income upon receipt of a financing order that creates Recovery Property. Third, to avoid an immediate taxable gain when SCE transfers the Recovery Property to the SPE, the transfer will not be treated as a sale for Federal income tax purposes, and instead the Recovery Bonds will be treated as SCE’s own debt for federal income tax purposes. As it relates to the Recovery Bond transaction, California income and franchise tax law currently conforms to U.S. federal income tax law, including but not limited to, IRS Rev. Proc. 2005-62.

SCE proposes that it be authorized to structure the Recovery Bond transaction to meet the elements of a “Qualifying Securitization” pursuant to IRS Rev. Proc. 2005-62 such that: (1) the SPE shall be a wholly-owned subsidiary of SCE and capitalized with an equity interest as deemed appropriate and legally necessary

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<sup>38</sup> Rev. Proc. 2005-62 was amended by Rev. Proc. 2024-15, though the amendment did not alter the provisions of Rev. Proc. 2005-62 in a manner material to this proceeding. Nevertheless, references to Rev. Proc. 2005-62 herein refer to Rev. Proc. 2005-62 as amended by Rev. Proc. 2024-15.

by the Finance Team; (2) the Recovery Bonds shall be secured by the Recovery Property; (3) the Fixed Recovery Charge shall be nonbypassable and payable by Consumers within SCE's Service Territory; and (4) payments on the Recovery Bonds shall be on a semi-annual basis except for the initial payment period which may be shorter or longer.

In accordance with Article 5.8, the Commission may allow fixed recovery tax amounts for any portion of the SCE's federal and State of California income and franchise taxes associated with the Fixed Recovery Charge, and not financed from proceeds of the Recovery Bonds.

SCE testified that it could receive a small accumulated deferred income tax savings.<sup>39</sup> Therefore, SCE does not contemplate the need for a separate fixed recovery tax amount (as defined in § 850(a)(8)). As in the AB 1054 CapEx Financing Orders, SCE proposes to track these tax implications outside of the securitization using standard ratemaking mechanisms. SCE proposed using a similar approach for other securitizations, with flexibility regarding implementation of incorporating taxes into future securitizations based on the facts and circumstances specific to those transactions.

SCE proposed an allocation methodology set forth in the Marginal Cost and Revenue Allocation Settlement Agreement with respect to all non-exempt customers.<sup>40</sup> The Special Allocator methodology applicable to the WRR shall apply

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<sup>39</sup> Exhibit SCE-05.

<sup>40</sup> Exhibit SCE-06, at 7-9, D.22-08-001 at 45 (Ordering Paragraph 1) (ordering SCE to implement terms of Marginal Cost and Revenue Allocation Settlement Agreement). *See also* A.20-10-012, Joint Motion of SCE and Settling Parties for Adoption of Marginal Cost and Revenue Allocation Settlement Agreement, Attachment A (Marginal Cost and Revenue Allocation Settlement Agreement), at 23-24 (Section B(5)(j)(2)) (providing that "Special Allocator shall be used to establish the allocation of the securitized amount" for future wildfire-related securitizations).

to allocate the Fixed Recovery Charge and shall remain the same for the life of the bonds, with adjustments for sales changes to collect the revenue requirement.<sup>41, 42</sup>

Article 5.8 authorizes SCE to recover the Authorized Amount (together with Ongoing Financing Costs) via collection of revenues on the Fixed Recovery Charge. As described in Exhibit SCE-06, SCE proposed a methodology to allocate Recovery Costs among Customer Classes, and to calculate and adjust the Fixed Recovery Charge. In addition to the ratemaking treatment described above, SCE would also periodically credit back to customers through SCE's Base Revenue Requirement Balancing Account (BRRBA) all periodic servicing and administration fees in excess of SCE's incremental cost of performing the servicing and administration functions until the next General Rate Case when costs and revenues associated with the servicing fees will be included in the cost of service.

Section 850.1(b) permits the Commission to create an "effective mechanism" to ensure the recovery of all Recovery Costs through the imposition of the Fixed Recovery Charge, which must be paid by all Consumers until the Recovery Bonds and all other Ongoing Financing Costs are paid in full by the SPE. Section 850.1(g) requires the Commission to establish a procedure for periodic true-up adjustments to Fixed recovery Charges at least annually, and may be made more frequently. SCE proposed a "True-Up Mechanism" that will allow the Fixed Recovery Charge to be adjusted (i) annually to correct any over-collection or under-collection of the Fixed Recovery Charge and (ii) more frequently, if necessary, to ensure that the Fixed

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<sup>41</sup> See *id.*; see also D.22-08-001 at 13-15 (describing methodology for allocation of wildfire-related revenue requirement).

<sup>42</sup> The Marginal Cost and Revenue Allocation Settlement Agreement explicitly affirms that the existing revenue allocation methodologies adopted by the Commission in the Initial and Second AB 1054 CapEx Financing Orders shall be retained and unaffected by the Special Allocator methodology set forth in the settlement. See A.20-10-012, Joint Motion of SCE and Settling Parties for Adoption of Marginal Cost and Revenue Allocation Settlement Agreement, Attachment A (Marginal Cost and Revenue Allocation Settlement Agreement), at 23 (Section B(5)(j)(2))

Recovery Charge provides sufficient funds to timely pay principal and interest on the Recovery Bonds and other Ongoing Financing Costs of the Recovery Bonds.

SCE requested Commission approval to use an advice letter process to implement these periodic true-up adjustments. This approach is well-established in connection with prior issuances of Recovery Bonds pursuant to the AB 1054 CapEx Financing Orders, as well as prior Energy Recovery Bonds and Rate Reduction Bonds. It also will create efficiencies for the Commission and its staff. The Commission's authority under Article 5.8 and § 850.1(g) to authorize periodic true-up adjustments persists until the Recovery Bonds and all Ongoing Financing Costs are fully paid and discharged.

Pursuant to SCE's proposed true-up mechanism, SCE, or any successor servicer, may submit annual, semi-annual and interim "Routine True-Up Mechanism Advice Letters" until the Recovery Bonds and all other Ongoing Financing Costs are paid in full. These adjustments will correct for any over-collection or under-collection of the Fixed Recovery Charge authorized by this Financing Order and to otherwise ensure that the revenues collected from the Fixed Recovery Charge will be sufficient for the timely provision and payment of all payments of principal (including, if any, prior scheduled but unpaid principal payments) and interest accrued and due on the Recovery Bonds, together with the timely provision and payment of all other Ongoing Financing Costs for each semi-annual payment period following the effective date of the initial or adjusted Fixed Recovery Charge. This revenue requirement is referred to as the "Periodic Payment Requirement."

True-up adjustment submissions will be based upon the cumulative differences between the Periodic Payment Requirement and the projected amount of kWh sales for each Customer Class for each payment period, with adjustments for projected write-offs. The servicer will compare the actual amount of Fixed Recovery Charge collections remitted to the Bond Trustee for the Recovery Bonds against the amount of expected Fixed Recovery Charge collections periodically during each

payment period and may submit an interim true-up adjustment advice letter if it is expected that there will not be sufficient collections from the Fixed Recovery Charge to meet the Periodic Payment Requirement. The routine and interim true-up adjustment submissions will result in adjustments to the Fixed Recovery Charges to correct for over-collections or under-collections.

SCE proposed to submit annual Routine True-Up Mechanism Advice Letters with a complete accounting of the historical over-collection and under-collection of the Fixed Recovery Charge at least 50 days before the annual adjustment date specified in the Issuance Advice Letter (the Fixed Recovery Charge Annual Adjustment Date) until the Recovery Bonds and all other Ongoing Financing Costs have been paid in full. These submissions are intended to ensure that the actual Fixed Recovery Charge collections are the accurate and correct amount required to meet the Periodic Payment requirement. Because the revised Fixed recovery Charges in the Routine True-Up Mechanism Advice Letters should be ministerial, SCE proposed they should be categorized as Tier 1 Advice Letters (ALs) to enable SCE's revision to the annual Routine True-Up to go into effect on the Fixed Recovery Charge annual adjustment date.

SCE requested that both Routine and Non-Routine True-Up Mechanism Advice Letters would be used to calculate a revised Fixed Recovery Charge for the Recovery Bonds. The cash flow model described in an attachment to the Application would be utilized (or a revised cash flow model as described in a Non-Routine True-Up Mechanism Advice Letter as may be applicable) that would reflect the following adjustments:

- An adjustment would be made for the amount of any funds held by the Trustee in the general subaccount or the excess funds subaccount as of date no earlier than fifteen business days prior to the calculation date (the "Calculation Cut-Off Date").

- Forecasted sales for the remainder of the current year and for the subsequent year, if applicable, to reflect SCE's most-recently approved sales forecast, as available, and SCE's pending sales forecast for any period not covered by the most recently- approved sales forecast.
- Estimated Ongoing Financing Costs would be modified to reflect actual costs.
- An adjustment would be made to reflect any change in the write-off policy.
- An adjustment would be made to reflect any anticipated delay or acceleration of the collection of Consumer bills.
- An adjustment would be made to reflect Fixed Recovery Charge collections that would be received at the existing tariff rate after the Calculation Cut-Off Date.

SCE's testimony described costs and benefits associated with the Recovery Bonds that will flow through to Consumers of electricity via other ratemaking processes (as discussed in detail further below).<sup>43</sup>

SCE proposed to remove the securitized debt from SCE's ratemaking capital structure as the SPE will have the legal obligation to repay the Recovery Bonds from Fixed Recovery Charge collections and because D.25-01-042 provides that SCE is authorized to permanently exclude from its ratemaking capital structure the debt issued to finance the WEMA costs.<sup>44</sup> However, for financial reporting purposes, the securitized debt will be consolidated and recorded as a liability on SCE's consolidated financial statements. Accordingly, SCE proposes to exclude from SCE's ratemaking capital structure the securitized debt.

Pursuant to Sections 850(b)(7) and 850.1(b), the Fixed Recovery Charge shall be nonbypassable and recovered from existing and future Consumers in SCE's Service Territory other than Consumers in Exempt Fixed Recovery Charge Customer

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<sup>43</sup> Exhibit SCE-03 and SCE-06.

<sup>44</sup> Exhibit SCE-01.

Classes. In addition, Consumers that reduce or cease to take transmission and distribution retail service from SCE after the date of this Financing Order, or that meet relevant criteria in applicable tariffs, should be treated as departing load (DL) Consumers using applicable tariffs for DL Consumers, including Customer Generation Departing Load Cost Responsibility Surcharge (CGDL-CRS), Transferred Municipal Departing Load (TMDL), and New Municipal Departing Load (NMDL). DL Consumers will be subject to pay the Fixed Recovery Charges. For the purpose of determining applicability of the Fixed Recovery Charges to DL customers, SCE proposed to calculate the Fixed Recovery Charges that would need to be paid using an approach that is consistent with the applicable tariff if the tariffs address the treatment of DL with respect to the fixed recovery charges relating to prior AB 1054 Financing Order(s).

In compliance with the requirements of Article 5.8 (§850.2), SCE proposes to act as the initial servicer for the Recovery Bonds.

The servicer would be responsible for determining Consumers' electricity usage, billing, collecting, and remitting the Fixed Recovery Charge collections to the Bond Trustee, and submitting Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters as described above. In the event that Consumers of electricity in SCE's Service Territory are billed by Electric Service Providers (ESP) or another utility or entity (collectively, Third-Party Billers), SCE proposes to bill these Third-Party Billers, as the case may be, for the Fixed Recovery Charge, and the Third-Party Billers will be obligated to remit Fixed Recovery Charge collections to SCE. The servicer will remit actual Fixed Recovery Charge collections, on behalf of the SPE, to the Bond Trustee.

The Bond Trustee will be responsible to make principal and interest payments to Recovery Bond holders and pay other Ongoing Financing Costs, and will hold and apply such amounts as described in the "Recovery Bond Transaction Structure" above. The servicer will remit Fixed Recovery Charge collections in



accordance with the servicing agreement to the Bond Trustee. The SPE would own legal title to, and all equitable interest in, the Recovery Property, including the Fixed Recovery Charges, and SCE will be legally obligated to remit all Fixed Recovery Charge collections to the Bond Trustee.

SCE anticipates that the rating agencies will require SCE to remit Fixed Recovery Charges collections to the Bond Trustee daily to avoid an adverse impact on the Recovery Bonds credit ratings. SCE expects to remit actual Fixed Recovery Charge collections to the Bond Trustee on a daily basis and within two business days of receipt to avoid an adverse impact on the Recovery Bonds credit ratings.

Over the life of the Recovery Bonds, SCE proposes that it will prepare a monthly servicing report for the Bond Trustee that shows the actual Fixed Recovery Charge collections by month. The SPE will only have a legal right to the actual amount of Fixed Recovery Charge collections.

SCE also proposed that the amounts collected that represent partial payments of a Consumer's bill will be allocated between the Bond Trustee and SCE based on the ratio of the billed amount for the Fixed Recovery Charge to the total billed amount. SCE stated that this reconciliation and allocation methodology is an important bankruptcy consideration in determining the true sale nature of the transaction. In the event of any default by the Servicer, the Bond Trustee (on behalf of the SPE) will be entitled to receive a reconciliation of collections and remittances (described above), including an allocation of partial payments based upon this pro-rata allocation methodology.

For as long as multiple series of Recovery Bonds are outstanding and unpaid, the Fixed Recovery Charges received should be allocated pro rata between the Bond Trustees for each series, consistent with the requirements of the AB 1054 CapEx Financing Orders.

SCE proposed to charge an annual servicing fee of 0.05 percent of the initial principal Recovery Bond amount, plus out-of-pocket expenses (*e.g.*, legal fees,

accounting fees), to cover SCE's incremental costs and expenses in servicing the Recovery Bonds.

In the event that SCE would fail to perform its servicing functions satisfactorily, as set forth in the Servicing Agreement, or is required to discontinue its billing and collecting functions, it would be replaced by a successor servicer acceptable to the Bond Trustee, acting on behalf of the Recovery Bond holders, and approved by the Commission. SCE highlighted that the credit quality and expertise in performing servicing functions will be important considerations when appointing a successor servicer to ensure the credit ratings for the Recovery Bonds are maintained. SCE's position is that the remedy of allowing the Commission to sequester the Fixed Recovery Charge in the cases of certain events of default under the Servicing Agreement upon the application of the Bond Trustee, as permitted by Section 850.3(e), will also enhance the credit quality of the Recovery Bonds. SCE will periodically credit back to customers through the BRRBA all periodic servicing and administration fees in excess of SCE's incremental cost of performing the servicer and administration functions until the next GRC when costs and revenues associated with the servicing fees will be included in the cost of service. In each base rate case, SCE will include a revenue credit of the administration and servicing fees that SCE collects as the servicer/administrator of the Recovery Bonds (to the extent not previously credited back through the BRRBA). In the base rate case, SCE will also request revenue for all costs of providing servicing and administration services. If SCE fails to provide any such credit to ratepayers will in no way affect the Recovery Property, the Fixed Recovery Charge or the rights of SCE, the Trustee and the Recovery Bondholders under the Financing Order, but could be addressed by the Commission through other proceedings.

Although SCE will act as initial servicer, it is possible that Third-Party Billers will bill and collect the Fixed Recovery Charges from some Consumers. If SCE's Consumers of electricity are billed by Third-Party Billers, SCE proposed to bill these

Third-Party Billers for the Fixed Recovery Charge, with the Third-Party Billers being obligated to remit Fixed Recovery Charge collections to SCE. SCE would remit Fixed Recovery Charge collections to date, on behalf of the applicable SPE, to the Bond Trustee. These Third-Party Billers must meet minimum billing and collection experience standards and creditworthiness criteria. Otherwise the rating agencies could impose additional credit enhancement requirements or assign lower credit ratings to the Recovery Bonds. Therefore, SCE requests that Third-Party Billers that bill and collect the Fixed Recovery Charge satisfy the creditworthiness and other requirements applicable to ESPs that meter and bill electric Consumers as set forth in SCE's Electric Rule 22.P. (Credit Requirements).

#### **4. Discussion**

##### **4.1. The Recovery Costs Sought to Reimbursed Are Just and Reasonable**

The first requirement for approval of SCE's Application is a finding that "[t]he recovery cost to be reimbursed from the recovery bonds have been found to be just and reasonable pursuant to Section 451..." This is a requirement set forth in § 850.1(a)(1)(A)(i). Here, that requirement is considered in light of the findings in D.25-01-042.

In D.25-01-042, the Commission approved SCE to recover 60% of the WEMA balance through May 31, 2024 (about \$1.627 billion of the approximately \$2.712 billion total requested), which represents all payments to satisfy claims, including any co-insurance, deductibles, and other insurance expenses paid by SCE net of \$1 billion received from insurance and other parties, outside legal expenses and costs and financing costs, judging them to be just and reasonable. The remaining 40% will be permanently disallowed (about \$1.085 billion).

The WEMA costs that SCE seeks to securitize in this proceeding are distinct from the O&M costs that Pacific Gas and Electric Company (PG&E) sought in its securitization application, A.24-06-013, wherein PG&E requested authority to

securitize forecast wildfire costs and expenses incurred in 2023-2024 and approved in PG&E's 2023 general rate case. The Commission found that PG&E's application involved costs previously recovered in rates. The Commission also found that PG&E's request presented novel and threshold questions of whether Section 850 *et seq*, applied to such a transaction.<sup>45</sup> On the other hand, the WEMA costs SCE seeks to securitize here are costs and expenses arising from, and related to, a catastrophic wildfire that have not been previously recovered by SCE. The WEMA costs have been found just and reasonable and approved for recovery in the Thomas Settlement Decision.

#### **4.2. The Proposed Recovery Bonds Are Just and Reasonable**

The second requirement for approval of SCE's Application is a finding that "[t]he issuance of the recovery bonds, including all material terms and conditions of the recovery bonds... and the imposition and collection of fixed recovery charges...are just and reasonable." This requirement is set forth in Section 850.1(a)(1)(A)(ii)(I). Here, that requirement is met through a general finding of the inherent value of Recovery Bonds in this context, and a discussion of the details of the Recovery Bonds at issue will be conducted below in Section 4.3 (so as to enable a complete review of all Recovery Bond details in a single discussion section in a thorough and organized manner).<sup>46</sup>

"Just and reasonable" is the criterion long familiar to the Commission in its application of the standard set forth by the Legislature in Section 451. In pertinent part, that statute reads as follows:

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<sup>45</sup> A.24-06-013, Assigned Commissioner's Scoping Memo and Ruling, Sep. 11, 2024, at 6.

<sup>46</sup> Section 850.1(a)(1)(A)(ii)(I) articulates some of the aspects of the Recovery Bonds to be reviewed and considered, including "interest rates, rating, amortization redemption, and maturity, and the imposition and collection of fixed recovery charges..." Because these, and other Recovery Bond aspects, must be effectively reviewed under the more encompassing umbrella of Section 850.1(a)(1)(A)(ii)(III), it is more logical to address all such financial issues in that section.

All charges demanded or received by any public utility... for any product or commodity furnished... or any service rendered... shall be just and reasonable...

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

All rules made by a public utility affecting or pertaining to its charges or service to the public shall be just and reasonable.

Here, the broader issue concerns the Legislature directing the Commission to address the value of Recovery Bonds as compared to “traditional utility financing mechanisms,” as that term is found in § 850.1(a)(1)(A)(ii)(III). While reserving the analysis of the Application’s details below, we can conclude that in concept, and in consideration of the legislative mandate to enable such Recovery Bonds, the issuance of the Recovery Bonds is just and reasonable, in that it clearly works to enhance utility safety and reliability, and SCE has made a showing that it will reduce rates compared to traditional utility financing mechanisms.

While we will adopt an appropriate mechanism to provide for review of the specifics of the Application’s proposed Recovery Bonds, we can find that the nature of the Application’s proposed Recovery Bonds is just and reasonable.

#### **4.3. The Proposed Recovery Bonds Are Consistent with the Public Interest**

The third requirement for approval of SCE’s Application is a finding that “The issuance of the recovery bonds, including all material terms and conditions of the recovery bonds...and the imposition and collection of fixed recovery charges... are consistent with the public interest.” This requirement is set forth in Section 850.1(a)(1)(A)(ii)(II). Here, that requirement is met through

D.25-01-042's determination that the Thomas Settlement Agreement is in the public interest<sup>47</sup> and a general finding of the inherent value of the Recovery Bonds in this context, and a discussion of the details of the Recovery Bonds at issue.

"Consistent with the public interest" is tantamount to a finding that a proposed transaction is in the public interest, and the Commission has considerable experience applying this test in furtherance of certain statutory provisions.<sup>48</sup> Applying the standards found in those provisions, the Commission can review whether proposed transactions "provide short-term and long-term economic benefits to ratepayers," "maintain the safe and reliable operation of the utility assets," "maintain or improve the financial condition of the... utility," and "maintain or improve the quality of service to public utility ratepayers."<sup>49</sup>

Here, the broader issue concerns the Legislature directing the Commission to address the value of Recovery Bonds as compared to "traditional utility financing mechanisms," as that term is found in § 850.1(a)(1)(A)(ii)(III). We can conclude that in concept, and in consideration of the legislative mandate to enable such Recovery Bonds, the Application is generally consistent with the public interest, in that it clearly works to provide economic benefit to ratepayers, maintain and improve the utility's safety and reliability, maintains or improves the financial condition of the utility, and maintains or improves the quality of service to the ratepayers, while reducing costs compared to traditional utility financing mechanisms, as demonstrated in the next section.

Therefore, while we will adopt an appropriate mechanism that will provide for a review of the specifics of the Application's proposed Recovery Bonds, we can

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<sup>47</sup> D.25-01-042, at 14.

<sup>48</sup> The phrase "public interest" is language that appears in Sections 852, 853(b), and 854(a), regarding proposed public utility transactions.

<sup>49</sup> Applying descriptions found in Sections 854(b)(1), 854(b)(4), 854(c)(1), and 854(c)(2), respectively.

find that the nature of the Application's proposed Recovery Bonds is consistent with the public interest.

**4.4. The Proposed Recovery Bonds Reduce Consumer Rates on a Present Value Basis to the Maximum Extent Possible Compared to Traditional Utility Financing Mechanisms, With the Modifications Adopted Herein**

The fourth requirement for approval of SCE's Application is a finding that "[t]he issuance of the recovery bonds, including all material terms and conditions of the recovery bonds...and the imposition and collection of fixed recovery charges... would reduce, to the maximum extent possible, the rates on a present value basis that consumers within the electrical corporation's service territory would pay as compared to the use of traditional utility financing mechanisms, which shall be calculated using the electrical corporation's corporate debt and equity in the ratio approved by the commission at the time of the financing order." This requirement is set forth in Section 850.1(a)(1)(A)(ii)(III).

SCE estimated that the savings to Consumers would total \$606 million in net present value when comparing the \$1.629 billion Recovery Bond financing costs to the cost to Consumers when using the traditional financing approach for SCE's rate-base financing, given SCE's current 7.66 percent Commission-authorized return on rate base. The present value of the net revenue requirement reductions as compared with five-year amortization is approximately \$215 million, using the same 7.66 percent discount rate. While there are some uncertainties of the precise amount to be saved by consumers, we accept that the issuance of the Recovery Bonds would reduce the rates on a present value basis that consumers would be as compared to a traditional utility financing mechanism.

Additionally, as described in more detail below, we are directing a Finance Team to be created and, at the appropriate time (necessarily after this Financing Order has issued), it will be responsible for review and approval of the structure of

the Recovery Bonds as described in this Financing Order. The Finance Team's approval of a series of Recovery Bonds would be evidenced by a letter from the Finance Team to SCE. The creation of a Finance Team to review the totality of the Recovery Bond processes, including costs associated with the Recovery Bonds' creation and optimization, *etc.*, as well as Recovery Bond terms, rates, and marketing, *etc.*, is an appropriate tool for the Commission to adopt in this Financing Order to ensure that that statutory requirement for Consumer rate reduction "to the maximum extent possible" is met. SCE has been transparent about the possible structures for the transaction and the marketing approaches it can use for the Recovery Bonds, and it submits that its approach will achieve the best combination of factors such as interest rate and term. We must acknowledge that not all variables can be known in this proceeding prior to the preparation and actual sale of the Recovery Bonds.

Accordingly, we find that SCE's proposal to issue Recovery Bonds to recover its Claims-Related Costs satisfies the net present value benefits requirement in Section 850.1.

## **5. Approval to Employ a Finance Team**

The task of ensuring the sale of Recovery Bonds issued pursuant to this Financing Order to reduce rates on a present value basis to the maximum extent possible, as compared to the use of traditional utility financing mechanisms requires a process that is optimized for transparency and in line with best practices. For these reasons, we approve the creation of a Finance Team.

Prior to the issuance of each series of Recovery Bonds, such Recovery Bond series and associated Recovery Bond transactions would be reviewed and approved by the Commission's Finance Team consisting of the Commission's General Counsel, the Deputy Executive Director for Energy and Climate Policy, other Commission Staff, and any other outside experts that the Finance Team deems necessary. The other outside expertise may include, for example, independent legal counsel and an



independent financial advisor to assist the Finance Team (including the fees and expenses of any outside experts) in overseeing and reviewing the issuance of a series of Recovery Bonds. Any costs incurred by the Finance Team in connection with its review and approval of a series of Recovery Bonds would be treated as an Upfront Financing Cost. The purpose of the Finance Team is to provide oversight over the structuring, marketing, pricing, and issuance of each Recovery Bond transaction and to review and approve the material terms of such transaction in light of the goal to reduce rates on a present value basis to the maximum extent possible pursuant to SB 901's directives and specifically to Section 850.1(a)(1)(A)(ii)(III).

In a pre-issuance review process, the Finance Team will have the right to review and approve of all material terms of each series of Recovery Bonds and other items the Finance Team determines are appropriate to perform its role, which may include, without limitation: (1) the selection process for the underwriters, including any requests for proposals, syndication group size, selection process, participants, diverse bank inclusion, allocations, and economics; (2) the structure of each series of Recovery Bonds; (3) such series of Recovery Bonds' credit rating agency application; (4) the underwriters' preparation, marketing, and syndication of such series of Recovery Bonds; (5) the pricing of such a series of Recovery Bonds and certifications provided by SCE and the lead underwriter(s) as described in this Financing Order; (6) all associated Recovery Bond costs (including Upfront Financing Costs and other Financing Costs), servicing and administrative fees and associated crediting; (7) maturities; (8) reporting templates; (9) the amount of SCE's equity contribution to the related SPE; (10) overcollateralization and other credit enhancements; and (11) the initial calculation of the related Fixed Recovery Charges. The foregoing and other items requested by the Finance Team may be reviewed during the entire course of the Finance Team's process.

We expect SCE will resolve material terms and structuring issues with the Finance Team prior to commencing marketing (subject to any modifications required as a result of such marketing process). This pre-issuance review process is intended to create Recovery Bonds with material terms that can meet the statutory requirements; in particular, that each series of Recovery Bonds reduce on a present value basis, to the maximum extent possible, the rates that Consumers would pay as compared to the use of traditional utility financing mechanisms. The Finance Team's review will continue until the related Issuance Advice Letter becomes effective as described below. The Finance Team has the ability to be included and participate in all calls, meetings, e-mails, and other communications relating to the structuring, marketing, pricing, and issuance of each series of Recovery Bonds.

The Finance Team's pre-issuance review and approval of the material terms and structure of each series of Recovery Bonds will be evidenced by a letter from the Finance Team to SCE delivered on or before the date of the pricing of the relevant Recovery Bonds. SCE should also be required to include such letter as an attachment to the Issuance Advice Letter relating to such series of Recovery Bonds. Such approval letter should be a condition precedent to the issuance of such series of the Recovery Bonds.

However, this approach does not obviate the requirement for SCE to describe the final structure and terms of each series of Recovery Bonds in an Issuance Advice Letter submitted to the Commission and subject to the Commission Staff's review and ability to reject the Issuance Advice Letter, *i.e.*, with four business days' notice and the Commission Staff's opportunity to halt the sale. While the Finance Team will review the process by which SCE determines the final structure and terms of each series of Recovery Bonds preceding and during its marketing efforts and consultations with rating agencies, the final structure and Recovery Bonds should be described in detail in the respective Issuance Advice Letter submitted to the

Commission and subject to the Commission Staff's review and ability to reject such Issuance Advice Letter, and otherwise the sale would automatically proceed.

**6. Description and Approval of Specific Elements of the SCE Proposal, Subject to Changes**

**6.1. Over-Collateralization and Credit Enhancement**

In its testimony, SCE has requested that the SPE be authorized to obtain additional credit enhancements to ensure repayment of the Recovery Bonds in the form of an over-collateralization subaccount if the rating agencies require over-collateralization to receive the highest possible credit rating on the Recovery Bonds, or if the all-in cost of the Recovery Bonds with the over-collateralization would be less than without the over-collateralization.<sup>50</sup>

Over-collateralization is a credit enhancement technique in which amounts collectible in relation to a financial asset exceed the required payments on the security, ensuring timely payment. The required amount of over-collateralization, if any, would be collected as an Ongoing Financing Cost payable from the Fixed Recovery Charges.

The over-collateralization requirement, if any, would be sized based upon input from the rating agencies indicating the amount necessary to achieve the highest-possible credit ratings. Any over-collateralization that would be collected from Consumers in excess of total debt service and other Ongoing Financing Costs, and would be the property of the SPE, subject to the discussion below. Upon payment of the principal amount of all Recovery Bonds and the discharge of all Financing Costs, the increase in the value of SCE's equity interest in the SPE related to the balance in any over-collateralization subaccount, or any other subaccount maintained by the SPE (other than the capital subaccount) shall be returned to SCE and then credited to Consumers through normal ratemaking processes.

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<sup>50</sup> Exhibit SCE-03, at 23-24.

In addition, SCE testified that the equity contribution held in the capital subaccount by the Bond Trustee would be available as a credit enhancement. SCE also requested that the SPE be authorized to obtain bond insurance, letters of credit, and similar credit-enhancing instruments, but only if required by the rating agencies to achieve the highest possible credit ratings on the Recovery Bonds, or if the all-in cost of the Recovery Bonds with these other credit enhancements would be less than without these enhancements.

SCE has testified that it does not anticipate requiring any external credit enhancements described in the preceding paragraph. Further, based upon current market conditions, SCE does not anticipate being required by the rating agencies to establish an over-collateralization subaccount, but to the extent such an account is required, the exact amount and timing of the Fixed Recovery Charge collection necessary to fund the over-collateralization account would be determined in consultation with the Finance Team before the Recovery Bonds are issued and approved through the Issuance Advice Letter process.

In addition, SCE asserts that the Bond Collateral held by the Bond Trustee would be available as a credit enhancement. This Bond Collateral would include, as mentioned above, an equity contribution in an amount required to obtain favorable IRS tax treatment for the transaction (for example, 0.50 percent of the initial aggregate principal amount of the Recovery Bonds issued, or some analogous amount as might be approved by the Finance Team). If the equity capital is drawn upon, it will be replenished from future Fixed Recovery Charges. SCE has also requested that it be entitled to receive a return on its equity contribution, equal to the weighted average interest rate on the Recovery Bonds. This equity return is requested to be paid as an Ongoing Financing Cost from the Fixed Recovery Charge collections and would be distributed to SCE on an annual basis, after payment of debt service on the Recovery Bonds and other Ongoing Financing Costs.

We find that granting the SPE the flexibility to obtain credit enhancements as described by SCE is both appropriate and in the public interest and should be approved subject to Finance Team review and Commission review of the Issuance Advice Letter.

## **6.2. Upfront Financing Costs**

As provided in Section 850(b)(4), Financing Costs include costs associated with the issuance and credit support of the Recovery Bonds, including without limitation, underwriting fees and expenses, legal fees and expenses (including those associated with this financing application), rating agency fees, accounting fees and expenses, company's advisory fee, servicer set-up costs, SEC registration fees, § 1904 fees, printing and EDGARizing expenses, trustee / trustee counsel fees and expenses, original issue discount, any Commission costs and expenses (including the costs and expenses of the Finance team), and other costs approved in this Financing Order (collectively, Upfront Financing Costs). Upfront Financing Costs include reimbursement to SCE for amounts advanced for payment of such costs. Upfront Financing Costs may also include the costs of credit enhancements including the cost of purchasing a letter of credit or bond insurance policy; however, SCE does not anticipate that any such credit enhancement will be cost effective or required.

SCE has proposed to recover the Upfront Financing Costs from the proceeds of the Recovery Bonds. In Exhibit SCE-03, SCE estimates the Upfront Financing Costs to be approximately \$11.6 million. A list of the Estimated Upfront Financing Costs is provided in Attachment 5 to this Financing Order.

SCE testified that its estimates of the Upfront Financing Costs are subject to change, as the costs are dependent on the timing of the issuance, market conditions at the time of issuance, the number of series issued and other events outside of SCE's control, such as possible litigation, incremental legal fees resulting from protracted resolution of issues, possible review by the Commission, delays in the SEC registration process, the identity of the bond issuer and changes to their-party

fee schedules or requirements. When each series of the Recovery Bonds are sized and priced, Upfront Financing Costs would be updated and included in the related Issuance Advice Letter. There would be a financial propriety safeguard, in that for each proposed Recovery Bond issuance, the Finance Team would analyze the Upfront Financing Costs and all other elements of the proposed Recovery Bond issuance through its review of the transaction, and the Commission would have the authority to deny SCE and/or the SPE the authority to proceed to Recovery Bond issuance if any element of the Issuance Advice Letter is not compliant with the terms of this financing order.

In its testimony, SCE proposed that if the estimated Upfront Financing Costs included in any Issuance Advice Letter exceed actual Upfront Financing Costs, any excess amounts would be credited to the excess funds subaccount and used to offset the revenue requirement in the next routine Fixed Recovery Charge true-up calculation. Further, in the event that the actual Upfront Financing Costs exceed the estimated amount included in any Issuance Advice Letter, the shortfall amount may be recovered in the next routine true-up adjustment for the Fixed Recovery Charges. We find the Upfront Financing Costs estimates reasonable and appropriate, and subject to Finance Team review and the Commission review of the Issuance Advice Letter.

### **6.3. Tax Questions**

In its testimony, SCE asserts that the Recovery Bond transaction will be structured to be a “Qualifying Securitization” pursuant to IRS Rev. Proc. 2005-62 to achieve three important tax objectives.<sup>51</sup> First, to lower overall taxes, the SPE will be treated as part of SCE for Federal income tax purposes, and not as a separate entity responsible for paying its own taxes. Second, this transaction structure will allow avoidance of recognition of taxable income upon the receipt of the financing

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<sup>51</sup> Exhibit SCE-03, at 28.

order that creates the Recovery Property. Third, to avoid an immediate taxable gain when SCE transfers the Recovery Property to the SPE, the transfer will not be treated as a sale for Federal income tax purposes. Instead, SCE contends that the Recovery Bonds will be treated as SCE's own debt for Federal income tax purposes, because as materially relevant to the Recovery Bond transaction, California income and franchise tax law currently conforms to U.S. federal income tax law, including but not limited to, IRS Rev. Proc. 2005-62.

We will authorize SCE to structure the Recovery Bond transaction to meet the elements of a "Qualifying Securitization" pursuant to IRS Rev. Proc. 2005-62 such that: (1) the SPE will be a wholly owned subsidiary of SCE and capitalized with an equity interest; (2) the Recovery Bonds shall be secured by the Recovery Property; (3) the Fixed Recovery Charges shall be nonbypassable and payable by Consumers within SCE's Service Territory; and (4) payments on the Recovery Bonds shall be on a semi-annual basis except for the initial payment period which may be shorter or longer.

Article 5.8 provides that this Commission may allow FRTAs for any portion of the SCE's federal and State of California income and franchise taxes associated with the Fixed Recovery Charge and not financed from proceeds of the Recovery Bonds. SCE testified that it anticipates receiving a small accumulated deferred income tax savings.<sup>52</sup> Therefore, SCE does not contemplate the need for a separate fixed recovery tax amount (as defined in § 850(a)(8)). Moreover, because this accumulated deferred income tax savings will be small and may be eliminated by net cash flow deficits in later years, SCE proposes to track these tax implications outside of the securitization using standard ratemaking mechanisms. This approach was approved in the AB 1054 CapEx Financing Orders.

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<sup>52</sup> Exhibit SCE-05, at 3.

We also approve SCE's proposal to address tax implications, if any, outside of the securitization using standard ratemaking mechanisms, as addressed herein. In Exhibit SCE-03, SCE proposes to use the proceeds from the sale of the Recovery Bonds to offset the Claims-Related Costs, which are currently being tracked in the WEMA. We find such use consistent with Article 5.8 and approve such use.

#### **6.4. Underwriters**

SCE has proposed that the Recovery Bonds be sold pursuant to an underwriting agreement with one or more underwriters in a negotiated offering.<sup>53</sup> We find that authorizing negotiated sales with additional flexibility is consistent with achieving the lowest long-term cost to Consumers and thus consistent with Article 5.8, and approve these negotiated offering and sale mechanisms, subject to this Financing Order's discussions regarding the Finance Team and Issuance Advice Letter.

In connection with the submission of each Issuance Advice Letter and the letter to be delivered by the Finance Team, SCE and the lead underwriter(s) for each series of Recovery Bonds shall provide a written certificate to the Finance Team and the Commission on or before the date of the pricing of the Recovery Bonds (and shall be required to provide a bring down certificate dated as of the pricing date if such certificate is provided earlier) confirming that the issuance of the Recovery Bonds complies with: (i) this Financing Order; and (ii) all other applicable legal requirements (including all requirements of Article 5.8), and that the issuance of Recovery Bonds, would reduce, to the maximum extent possible, the rates on a present value basis that Consumers within SCE's Service Territory would pay as compared with the use of traditional utility financing mechanisms. Such certificates shall be a condition precedent to the issuance of such Recovery Bonds and all

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<sup>53</sup> Exhibit SCE-01, pp. 12-18 (describing SCE's Third AB 1054 Securitization); Exhibit SCE-02, at 39-43; and Exhibit SCE-03, at 12, 36, 38, and 39.



associated Commission Staff approvals. SCE may request that such certificates be provided on a confidential basis.

#### **6.5. Status of Recovery Property**

The recovery of all Upfront Financing Costs and Ongoing Financing Costs, as well as the initial Fixed Recovery Charges, shall automatically be approved and become effective at noon on the fourth business day after pricing unless before noon on the fourth business day after pricing the Commission rejects the Issuance Advice Letter. In this this Financing Order, the Commission approves SCE's proposal to approve the final terms and structure of each series of Recovery Bonds, including recovery of the Upfront Financing Costs and all Ongoing Financing Costs for the life of such Recovery Bonds, as well as the initial Fixed Recovery Charges, through an Issuance Advice Letter process.

Article 5.8 authorizes SCE to recover the Authorized Amount (together with Ongoing Financing Costs) via collection of revenues on the Fixed Recovery Charges. As described in its testimony, SCE proposed a methodology to allocate Recovery Costs among Customer Classes.

In this Financing Order, we must assign a methodology to allocate costs and to calculate the Fixed Recovery Charge in a manner consistent with Article 5.8. We must authorize SCE to impose and collect the Fixed Recovery Charges in accordance with this Financing Order. We do so in accordance with SCE's proposal.

The Fixed Recovery Charges authorized here must be calculated and adjusted from time to time in a manner sufficient to ensure the timely and complete payment of principal and interest on the Recovery Bonds, together with other Ongoing Financing Costs associated with the servicing of the Recovery Bonds and supporting the operations of the SPE. Ongoing Financing Costs are defined as amounts payable to SCE as initial servicer, or any successor servicer, to service the Recovery Property; the amounts (or allocable amounts) payable to SCE as administrator of the SPE; bond trustee fees and expenses; allocated independent director fees, legal

fees and expenses; accounting fees; rating agency surveillance fees; a return on SCE's equity contribution to the SPE; and, other costs and expenses associated with servicing of the Recovery Bonds and approved in this Financing Order. Ongoing Financing Costs also include any amount required to fund or replenish any reserve or over-collateralization supporting the credit of the Recovery Bonds, as well as any amounts required to replenish any drawdown of the SPE's equity contribution held in the capital subaccount.

Except for those Consumers exempt pursuant to Section 850.1(i), the Fixed Recovery Charges will be paid by existing and future electric Consumers in SCE's Service Territory as of the date of this Financing Order. Pursuant to Article 5.8, the Fixed Recovery Charges will be both irrevocable and nonbypassable, which assures Recovery Bond investors that the Fixed Recovery Charges will not be interrupted, eliminated, or avoided by Consumers in SCE's Service Territory.

To establish the initial Fixed Recovery Charges, SCE will submit an Issuance Advice Letter which should use the Cash Flow Model described in Attachment 1 (and as it may need to be revised from time to time in connection with the submission of a Non Routine Mechanism Advice Letter), along with the most recent SCE sales forecast available prior to the pricing date for the Recovery Bonds, all in accordance with direction approved in this Financing Order.

In connection with the submission of the Issuance Advice Letter and the letter to be delivered by the Finance Team, on the date of the pricing of each series of the Recovery Bonds (x) SCE shall provide a written certificate to the Finance Team and the Commission certifying that the issuance of the Recovery Bonds (i) complies with this Financing Order; (ii) complies with all other applicable legal requirements (including the requirements of Article 5.8; and (iii) would reduce, to the maximum extent possible, the rates on a present value basis that consumers within SCE's Service territory would pay as compared with the traditional utility financing mechanisms and (y) the lead underwriter(s) for the Recovery Bond shall provide

written certificates to the finance Team and the Commission certifying that the structuring, marketing, and pricing of the Recovery Bonds, as proposed in the Issuance Advice Letter, would reduce, to the maximum extent possible, the rates on a present value basis that consumers within SCE's Service territory would pay as compared with the traditional utility financing mechanisms. Such certificates shall be a condition precedent to the issuance of such Recovery Bonds and all associated Commission staff approvals. SCE may request that such certificates be provided on a confidential basis.

As described in Exhibit SCE-06, the Authorized Amount represents distribution-related costs and expenses that would, but for securitization, be allocated to Consumers based on the methodology described by SCE. SCE will provide the Finance Team a pre-issuance proposal presented by SCE that forecasts the described Consumer allocation basis consistent with this Financing Order, based upon forecasted sales for the remainder of the then-current year and of the subsequent year, if applicable, and as available, a pending forecast for any period not covered by the most recently-approved sales forecast. The Commission will review SCE's initial Fixed Recovery Charges through the Issuance Advice Letter process.

#### **6.6. True-Up Mechanism**

Section 850.1(g) requires that a financing order "provide for periodic true-up adjustments to fixed recovery charges, which shall be made at least annually and may be made more frequently. The electrical corporation shall submit an application with the commission to implement any true-up adjustment."

Article 5.8 permits the Commission to create an "effective mechanism" to ensure the recovery of all Recovery Costs through the imposition of the Fixed Recovery Charges, which must be paid by all Consumers until the Recovery Bonds and all other Financing Costs are paid in full by the SPE. To create this "effective mechanism," SCE proposed a "True-Up Mechanism" that will allow the Fixed

Recovery Charge to be adjusted (i) annually to correct any overcollection or undercollection of the Fixed Recovery Charge and (ii) more frequently, if necessary, to ensure that the Fixed Recovery Charge provides sufficient funds to timely pay principal and interest on the Recovery Bonds and other Ongoing Financing Costs of the Recovery Bonds.

To satisfy these statutory requirements for a periodic true-up adjustment of the Fixed Recovery Charges, this Financing Order adopts the True-Up Mechanism proposed by SCE.

SCE requested that the Commission approve the use of an Advice Letter process to implement these periodic true-up adjustments. This well-established approach has been used in connection with prior issuances of Energy Recovery Bonds, Rate Reduction Bonds, and in the AB 1054 CapEx Financing Orders.

We approve and authorize the True-Up Mechanism as described in SCE's testimony and summarized below, provided that SCE's advice letters provide a complete accounting of the historical over-collection and under-collection of the Fixed Recovery Charges. For the avoidance of doubt, the Commission's authority under Article 5.8 and pursuant to Section 850.1(g) to authorize periodic true-up adjustments persists until the Recovery Bonds and all Financing Costs are fully paid and discharged and does not expire like the Commission's authority to issue financing orders in the first instance under Section 850.6.

SCE, or any successor servicer, may submit annual, semi-annual, and interim Routine True-Up Mechanism Advice Letters until the Recovery Bonds and all other Ongoing Financing Costs are paid in full. All true-up adjustments to the Fixed Recovery Charges will ensure the billing of Fixed Recovery Charges necessary to correct for any over-collection or under-collection of the Fixed Recovery Charges authorized by this Financing Order and to ensure that the revenues collected from the Fixed Recovery Charges will be sufficient for the timely provision and payment of all payments of principal (including, if any, prior scheduled but unpaid principal

payments), interest and other Ongoing Financing Costs for each semi-annual payment period following the effective date of the initial or adjusted Fixed Recovery Charge. Such amounts are referred to as the Periodic Payment Requirement. - A Periodic Payment should be based on the pro forma example identified as the Periodic Payment Requirement Form in Exhibit 2 of Attachment 2 (Form of Issuance Advice Letter) of this Financing Order.

True-up adjustment submissions will be based upon the cumulative differences between the Periodic Payment Requirement and projected amount of kWh sales for each Customer Class for each payment period, with adjustments for projected write-offs. The servicer will compare the actual amount of Fixed Recovery Charge collections remitted to the Bond Trustee for the series of Recovery Bonds against the amount of expected Fixed Recovery Charge collections periodically during each payment period and may submit a semi-annual or an interim true-up adjustment advice letter if it is expected that there will not be sufficient collections from the Fixed Recovery Charge to meet the Periodic Payment Requirement. The routine and interim true-up adjustment submissions will result in adjustments to the Fixed Recovery Charges to correct for over-collections or under-collections. SCE or any successor servicer will submit annual, semi-annual, and interim Routine True-Up Mechanism Advice Letters until the Recovery Bonds and all other Ongoing Financing Costs are paid in full.

SCE, or any successor servicer, should submit annual Routine True-Up Mechanism Advice Letters with a complete accounting of the historical over collection and under-collection of the Fixed Recovery Charges at least 50 days before the annual adjustment date specified in the Issuance Advice Letter (the Fixed Recovery Charge Annual Adjustment Date) until the Recovery Bonds and all other Ongoing Financing Costs have been paid in full. These submissions are intended to ensure that the actual Fixed Recovery Charge collections are the accurate and correct amount required to meet the Period Payment Requirement for each

payment period until the recovery Bonds and all other Financing Costs have been paid in full.

Because the revised Fixed Recovery Charges in the annual Routine True Up Mechanism Advice Letters should be ministerial, they may be Tier 1 Advice Letters. These annual Routine True-Up Mechanism Advice Letters should be based on the pro forma example in Attachment 3 of this Financing Order. These advice letters are meant to ensure that the actual Fixed Recovery Charge collections are neither more nor less than required to pay the Periodic Payment requirements for each payment period.

These Tier 1 Advice Letters are to receive a Commission Energy Division negative or affirmative response within 20 days of submission. In the absence of a Commission Energy Division negative response, SCE's, or any successor servicer's, timely revision to the Fixed Recovery Charges should automatically go into effect in accordance with the Advice Letter's proposed schedule.

SCE, or any successor servicer must also submit semi-annual Routine True-Up Mechanism Advice Letters with a complete accounting of the historical over-collection and under-collection of the Fixed Recovery Charges. The semi-annual true-up adjustments should be used if SCE, or any successor servicer, forecasts that Fixed Recovery Charge collections will be insufficient to pay the Periodic Payment Requirement on a timely basis during the current or next succeeding payment period or to replenish any draws upon the capital subaccount. If SCE, or any successor servicer, determines a semi-annual true-up is required, SCE, or any successor servicer, should submit a semi-annual Routine True-Up Mechanism Advice Letter at least 50 days before the semi-annual adjustment date which should be six months after the Fixed Recovery Charge Annual Adjustment Date.

Because the revised Fixed Recovery Charges in the semi-annual Routine True-Up Mechanism Advice Letters should be ministerial, they may be Tier 1 Advice Letters. These semi-annual Routine True-Up Mechanism Advice Letters should be

based on the pro forma example in Attachment 3 of this Financing Order. These advice letters are meant to ensure that the actual Fixed Recovery Charge collections are neither more nor less than required to pay the Periodic Payment Requirement for each payment period. These Tier 1 Advice Letters are to receive a Commission Energy Division negative or affirmative response within 20 days of submission. In the absence of a Commission Energy Division negative response, SCE's, or any successor servicer's, timely revision to the Fixed Recovery Charges should automatically go into effect in accordance with the Advice Letter's proposed schedule.

SCE or any successor servicer may also submit interim Routine True-Up Mechanism Advice Letters at such other times as SCE, or any successor servicer, deems necessary. The interim true-up adjustment would be used if SCE, or any successor servicer, forecasts that Fixed Recovery Charge collections may be insufficient to pay the Periodic Payment Requirement on a timely basis during the current or next succeeding payment period.

Because the revised Fixed Recovery Charges in the interim Routine True-Up Mechanism Advice Letters should be ministerial, they may be Tier 1 Advice Letters. These interim Routine True-Up Mechanism Advice Letters should be based on the pro forma example in Attachment 3 of this Financing Order. These advice letters are intended to ensure that the actual Fixed Recovery Charge collections are neither more nor less than required to pay the Periodic Payment Requirement. These Tier 1 Advice Letters are to receive a Commission Energy Division negative or affirmative response within 20 days of submission. In the absence of a Commission Energy Division negative response, SCE's, or any successor servicer's, timely revision to the Fixed Recovery Charges should automatically go into effect in accordance with the interim Routine True-Up Mechanism Advice Letter's proposed schedule

All Fixed Recovery Charge-related annual, semi-annual, and interim

Routine True-Up Mechanism Advice Letters would be subject to protest, review, and correction to the fullest extent allowed by § 850.1(e). However, any protest, review, and correction will be limited to the correction of mathematical errors in the Routine True-Up Mechanism Advice Letters. No protest, review or required modification to correct an error in a Routine True-Up Mechanism Advice Letter would delay its effective date, and any correction or modification which could not be made prior to the effective date would be made in the next Routine True-Up Mechanism Advice Letter.

SCE, or any successor servicer, may also submit Non-Routine True-Up Mechanism Advice Letters to propose revisions to the logic, structure and components of the Cash Flow Model described in Attachment 1 or as adjusted in a subsequent Non-Routine True-Up Mechanism Advice Letter. Non-Routine True-Up Mechanism Advice Letters should be Tier 2 Advice Letters and submitted at least 90 days before the date when the proposed changes would become effective, with the resulting changes effective on the effective date identified in the Non-Routine True-Up Mechanism Advice Letter. The Energy Division should prepare for the Commission's consideration a resolution that adopts, modifies, or rejects the proposed revisions to the Cash Flow Model. The public will have an opportunity to review and protest a Non-Routine True-Up Mechanism Advice Letter in accordance with Commission procedures to the fullest extent allowed by Section 850.1(e). Absent a Commission resolution that adopts, modifies, or rejects the Non-Routine True-Up Mechanism Advice Letter, SCE, or any successor servicer, may implement the Fixed Recovery Charge adjustments proposed in a Non-Routine True-Up Mechanism Advice Letter on the effective date identified in the letter. The Non-Routine True-Up Mechanism Advice Letters should be based on the pro forma example in Attachment 4 of this Financing Order.

The Routine True-Up Mechanism Advice Letters and Non-Routine



True-Up Mechanism Advice Letters should calculate a revised Fixed Recovery Charge for each series of Recovery Bonds using the initial allocation factors that will be updated to reflect any changes in sales and the Cash Flow Model described in Attachment 1 of this Financing Order or as subsequently modified in a Non-Routine True-Up Mechanism Advice Letter, as applicable.

We find the True-Up Mechanism proposed by SCE, including the Cash Flow Model, as discussed and integrated here, to be consistent with and to satisfy the requirement of Article 5.8 for an effective adjustment mechanism to ensure payment of all Recovery Costs and approve its use. In this Financing Order, we also find that the Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters described above constitute “applications” within the meaning of Section 850.1(g) and authorize SCE to submit these Advice Letters to implement true-up adjustments to the Fixed Recovery Charges.

#### **6.7. Flow Through of Benefits**

As set forth in SCE’s testimony, SCE has described numerous costs and benefits associated with the Recovery Bonds that will be flowed through to Consumers of electricity via other ratemaking processes.<sup>54</sup> The specific costs and benefits that will be addressed in other ratemaking proceedings will be:

1. The cost of franchise fees assessed by the cities and counties.  
The Fixed Recovery Charges will be subject to franchise fees levied by cities and counties associated with the Fixed Recovery Charges. SCE proposes to record these amounts in the distribution sub-account of SCE’s BRRBA for recovery from or credit to Consumers. These franchise fees will be recorded as costs of service by SCE through normal ratemaking processes.
2. The benefit of servicing and administration fees paid to SCE.  
SCE will be the initial servicer for the Recovery Bonds. That means that SCE will bill and collect the Fixed recovery Charges from consumers and remit the Fixed Recovery

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<sup>54</sup> Exhibit SCE-01, at 6-7; Exhibit SCE-03, at 4 and at 30-37; and Exhibit SCE-04.

Charge collections to the Bond Trustee. In addition, SCE will be the administrator for the SPE. The SPE will pay SCE for these servicing and administration services. The servicing and administration fees collected by SCE, as the servicer under the Servicing Agreement or administrator under the Administration Agreement, will be reflected in SCE's ongoing cost of such service such that any amounts in excess of SCE's incremental costs of servicing and administering the Recovery Bonds should be returned to SCE's retail Consumers through normal ratemaking processes. The expenses incurred by SCE or such affiliate to perform obligations under the Servicing Agreement and Administration Agreement not otherwise recovered through the Fixed Recovery Charges will likewise be included in SCE's cost of service to be recovered by SCE through normal ratemaking processes.

3. The benefit of any surplus funds held by the Bond Trustee. The Bond Trustee will hold the Fixed Recovery Charge collections used to repay the Recovery Bonds and all Financing Costs. To the extent the amounts held by the Bond Trustee earns interest in excess of the payment obligations of the SPE under the transaction documents, that interest will be held in the excess funds subaccount and used to reduce future Fixed Recovery Charge requirements. Upon repayment of the Recovery Bonds and all Ongoing Financing Costs, if a balance remains in the collection account, or any subaccount (other than the capital subaccount), that balance will be returned to Consumers by SCE through normal ratemaking processes.

## **6.8. Capital Structure Adjustments**

Consistent with the Commission's past decisions concerning Article 5.8 electric utility securitized bonds and D.25-01-042, SCE proposes to remove all Recovery Bond securitized debt from SCE's ratemaking capital structure, as the SPE will have the legal obligation to repay the Recovery Bonds from Fixed Recovery Charge collections. In this way, the securitized debt is not to be considered SCE debt as part of its ratemaking capital structure. However, for financial reporting

purposes and federal tax purposes, the securitized debt may be recorded as a liability on SCE's consolidated financial statements.

Consistent with such past decisions, these adjustments are approved as necessary for both SCE's capital structure and for these reporting and tax purposes.<sup>55</sup>

### **6.9. Implications of Nonbypassable Charges for Departing Load**

As required by Article 5.8, the Fixed Recovery Charges shall be nonbypassable and recovered from existing and future Consumers (other than Consumers in Exempt Fixed Recovery Charge Customer Classes) in SCE's Service Territory as of the date of this Financing Order.

In addition, Consumers in SCE's Service Territory that no longer take transmission and distribution retail service, or that depart or reduce SCE service after the date of this Financing Order, or that meet relevant criteria in the applicable tariff after the date of this Financing Order, should be treated as DL customers using applicable tariffs for DL Consumers, including CGDL-CRS. DL Consumers will be subject to pay the Fixed Recovery Charges. The Fixed Recovery Charge is applicable to current SCE Consumers that become DL Consumers after the date of the Financing Order. For these DL Consumers on TMDL or NMDL schedules, SCE proposes to calculate the Fixed Recovery Charge amounts that would need to be paid, using an approach that is consistent with the method currently in place for calculation of TMDL and NMDL obligations.

The Commission notes that Section 850.1(b) states "[t]he commission may establish... an effective mechanism that ensures recovery of recovery costs through nonbypassable fixed recovery charges and any associated fixed recovery tax amounts from existing and future consumers in the service territory..." The

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<sup>55</sup> See D.20-11-007, at 68 and 126 (Ordering Paragraph 51); D.21-10-025, at 54 and 108 (Ordering Paragraph 44); and D.23-02-023, at 64 and 118 (Ordering Paragraph 44).

Commission has clearly applied these nonbypassable charges to all departing load customers in all such financing orders.<sup>56</sup>

We make it clear that, in accordance with the statute, we direct the nonbypassable fixed recovery charges to apply to existing and future customers in the service territory, regardless of possible future municipalization or possible future asset transfers, other than those in Exempt Fixed Recovery Charge Customer Classes. We do this to properly apply the plain language of the statute. We also do this to ensure the confidence of potential Recovery Bond purchasers who understandably need to expect that there is an effective mechanism to ensure recovery of recovery costs through fixed recovery charges to repay the Recovery Bonds.

#### **6.10. Billing**

As provided by Section 850.1(g), the Fixed Recovery Charge must appear on the Consumer's bill. That billing information must be provided as described below in this Financing Order. The Billing Commencement Date will be identified in the Issuance Advice Letter. SCE may structure a shorter or longer first interest payment period due to limitations in its billing system.

SCE proposes to include the Fixed Recovery Charge as a single line item for billing and accounting purposes. This line item would include the Fixed Recovery Charge relating to the Recovery Bonds issued pursuant to the AB 1054 CapEx Financing Orders, the current Application, and any future securitization charges.

SCE proposes to provide Customers the following explanation of the Fixed Recovery Charge in the "Things You Should Know" section of each Consumer's bill:

Fixed Recovery Charge: SCE has been permitted to issue bonds that enable it to recover more quickly certain costs related to preventing and mitigating catastrophic wildfires. Your bill for electric service includes a Fixed Recovery Charge that has been

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<sup>56</sup> See D.20-04-030; D.20-11-007; D.21-05-015; and D.21-10-025.

approved by the CPUC to repay those bonds. The right to recover the Fixed Recovery Charge has been transferred to a separate entity (called the Special Purpose Entity) that issued the bonds and does not belong to SCE. SCE is collecting the Fixed Recovery Charge on behalf of the Special Purpose Entity.

The Commission approves the bill presentation and implementation of the Fixed Recovery Charge on Consumer Bills, as described herein.

#### **6.11. Billing, Collecting, and Remitting the Fixed Recovery Charges**

SCE, or any successor servicer, would be responsible for determining Consumers' electricity usage, billing, collecting, and remitting the Fixed Recovery Charge to the Bond Trustee, and submitting Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters as described above. To the extent Consumers of electricity in SCE's Service Territory are billed by ESPs or another utility or entity (collectively, Third-Party Billers), SCE, or any successor servicer, will bill these Third-Party Billers, as the case may be, for the Fixed Recovery Charge, and the Third-Party Billers will be obligated to remit Fixed Recovery Charge collections to SCE.

Given billing system enhancements made by SCE providing for a dedicated line-item for the Fixed Recovery Charge, SCE will remit actual Fixed Recovery Charge collections, on behalf of the SPE, to the Bond Trustee. The Bond Trustee will be responsible for making principal and interest payments to Recovery Bond holders and paying other Ongoing Financing Costs, and will hold and apply such amounts as described under "Bond Transaction Structure" in Section 3.2 above. SCE, or any successor servicer, will remit Fixed Recovery Charge collections in accordance with the servicing agreement to the Bond Trustee. The SPE will own legal title to, and all equitable interest in, the Recovery Property, including the Fixed Recovery Charge, and SCE will be legally obligated to remit all Fixed Recovery

Charge collections to the Bond Trustee for the benefit of the holders of Recovery Bonds secured by such Recovery Property.

SCE expects the rating agencies to require SCE, or any successor servicer, to remit the Fixed Recovery Charge collections to the Bond Trustee on a daily basis to avoid an adverse impact on the Recovery Bond credit ratings. Using a dedicated Fixed Recovery Charge line item on Consumers bills, SCE expects to remit actual Fixed Recovery Charge collections to the Bond Trustee on a daily basis and within two business days of receipt to satisfy rating agency requirements.

Over the life of the Recovery Bonds, SCE, or any successor servicer, will prepare a monthly servicing report for the Bond Trustee that shows the actual Fixed Recovery Charge collections by month. The SPE will have a legal right to only the amount of actual Fixed Recovery Charge collections.

SCE has also proposed that amounts collected that represent partial payments of a Consumer's bill will be allocated between the Bond Trustee and SCE based on the ratio of the billed amount for the Fixed Recovery Charge to the total billed amount. SCE states that this reconciliation and allocation methodology is an important bankruptcy consideration in determining the true sale nature of the transaction.

Consistent with the AB 1054 CapEx Financing Orders, so long as multiple series of Recovery Bonds issued pursuant to Article 5.8 are outstanding and unpaid, the Fixed Recovery Charge should be allocated pro rata between the Bond Trustees for each series of Recovery Bonds. As contemplated by Article 5.8 (Sections 850.1(b), 850.1(e), and 850.2), SCE will act as the initial servicer for the Recovery Bonds, and the Recovery Property (including the rights and interest in and to the Fixed Recovery Charge) will be pledged to secure the Recovery Bonds. We find these servicing arrangements as well as the billing, collecting and remittance procedures described above to be consistent with Article 5.8 and consistent with

seeking to achieve the lowest cost on the Recovery Bonds, and we approve these arrangements and procedures.

SCE has represented that in order to obtain the necessary true sale and bankruptcy opinions, the SPE must pay a servicing fee to SCE that is set at a level that constitutes fair and adequate consideration sufficient to obtain the true sale and bankruptcy opinions required for the Securitization. SCE proposes to charge an annual servicing fee of 0.05 percent of the initial principal amount of the Recovery Bond, plus out-of-pocket expenses (*e.g.*, legal fees, accounting fees), to cover SCE's incremental costs and expenses in servicing the Recovery Bonds.

In this Financing Order, the Commission finds the proposed servicing fee to be reasonable subject to review by the Finance Team to examine the support and logic of this SCE charge as an annual servicing fee that is set at a level that constitutes fair and adequate consideration sufficient to obtain the true sale and bankruptcy opinions required for the Securitization.

In the event that SCE fails to perform its servicing functions satisfactorily, as set forth in the Servicing Agreement, or is required to discontinue its billing and collecting functions, a successor servicer acceptable to the Bond Trustee, acting on behalf of the Recovery Bond holders, and approved by the Commission will replace SCE. SCE is prohibited from rejecting any of the duties, obligations, or responsibilities directed by the Financing Order. In the event SCE fails to perform its servicing functions satisfactorily, we task the Commission's Energy Division with determining the appropriate annual fees to be paid to the new servicer, and any such fee agreement with the new servicer must be approved by the Commission through a resolution.

In the case of certain types of events resulting in default under the Servicing Agreement upon the application of the Bond Trustee, as permitted by Section 850.3(e), the Commission may sequester Fixed Recovery Charges necessary to enhance the credit quality of the Recovery Bonds.

The credit quality and expertise in performing servicing functions will be important considerations when appointing a successor servicer to ensure the credit ratings for the Recovery Bonds are maintained. Therefore, the Commission does not intend to approve a new servicer without first determining that the appointment of the selected servicer will not cause the then-current rating of any then outstanding Recovery Bonds to be withdrawn or downgraded. This will provide assurance to the rating agencies that the credit quality and expertise in performing servicing functions of the servicer with respect to the Recovery Bond will not be undermined in the future because of a successor servicer.

Although SCE will act as initial servicer, it is possible that Third-Party Billers will bill and collect the Fixed Recovery Charges from some Consumers. To the extent SCE's Consumers of electricity are billed by Third-Party Billers, SCE proposes to bill these Third-Party Billers for the Fixed Recovery Charge, with the Third-Party Billers being obligated to remit Fixed Recovery Charge collections to SCE. SCE would remit Fixed Recovery Charge collections to date, on behalf of the applicable SPE, to the Bond Trustee. These Third-Party Billers should meet minimum billing and collection experience standards and creditworthiness criteria (to seek to prevent the rating agencies from imposing additional credit enhancement requirements or assigning lower credit ratings to the Recovery Bonds). Therefore, SCE requests that Third-Party Billers that bill and collect the Fixed Recovery Charge satisfy the creditworthiness and other requirements applicable to ESPs that meter and bill electric Consumers as set forth in SCE's Electric Rule 22.P., "Credit Requirements."

#### **6.12. Periodic Reporting**

General Order 24-C requires utilities to submit a periodic report to the Commission that contains, among other things, the following information: (1) the amount of debt issued by the utility at the end of the period; (2) the total amount of debt outstanding at the end of the prior period; and (3) the Commission's paid and



total proceeds received from debt issued during the prior period. The Commission's Financing Rule adopted in D.12-06-015 (as amended in D.12-07-003) likewise imposes certain requirements and reporting obligations in connection with the issuance of debt securities and use of swaps and hedges. SCE states that it will comply with the Financing Rule and GO 24-C with respect to the Recovery Bonds and we authorize SCE, on behalf of the SPE, to provide periodic reports pursuant to GO 24-C and the Financing Rule regarding the Recovery Bonds to the Commission Staff. Failure of SCE to comply with any such reporting requirement will not adversely affect or impair the Fixed Recovery Charges, the Recovery Property, or the payment of the Recovery Bonds and all Ongoing Financing Costs.

## **7. Fixed Recovery Charge Allocation**

This Financing Order must determine the allocation of the Fixed Recovery Charge among SCE's customers. There is no statutory provision that directs the Commission's determination regarding the Customer Class allocation of the nonbypassable Fixed Recovery Charges. Therefore, we must review the relevant facts and party positions to determine the appropriate Fixed Recovery Charge allocation. We approve three aspects of the allocation.

First, as required by Article 5.8, the Fixed Recovery Charges shall be nonbypassable and recovered from existing and future Consumers (other than Consumer in Exempt Fixed Recovery Charge Customer classes) in SCE's Service Territory.

Second, for the Authorized Amount, SCE proposes the allocation methodology set forth in the Marginal Cost and Revenue Allocation Settlement Agreement adopted by the Commission in D.22-08-001. Consistent with that settlement, the Special Allocator methodology applicable to WRR shall apply to allocate the Fixed Recovery Charge for the Recovery Bonds and shall remain the same for the life of the bonds, with adjustments for sales changes to collect the revenue requirement.

Third, the treatment of Exempt Fixed Recovery Charge Customer Classes shall be in accord with Sections 739.1(c) and 739.12(b).<sup>57</sup>

## **8. The Required Contents of the Financing Order**

The required contents of the Financing Order must encompass direction for SCE to follow in executing all steps to implement the Recovery Bonds sale with all reasonable transparency and safeguards and optimal Consumer results. The Commission has previously directed similar Financing Orders. Here, the Financing Order must be effected so as to enable a Finance Team (as determined above). Therefore, this Financing Order is directing the formation of a Finance Team, and such other conditions as are imposed herein.

## **9. Continued Reporting Compliance**

The requirement for SCE to provide continued reporting compliance to the Commission can be implemented by instructing SCE to provide the Commission with information regarding the results of the sale of the Recovery Bonds, and by SCE's Fixed Recovery Charge true-up efforts to inform Commission Staff, and by such additional reporting direction as is found in this Financing Order. SCE

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<sup>57</sup> Section 739.1(c)(1) states that "[t]he average effective CARE discount shall not be less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE program customers", and § 739.12(b) states that "[t]he FERA program discount shall be an 18 percent line-item discount applied to an eligible customer's bill calculated at the applicable rate for the billing period." Assembly Bill 205 (AB 205), among other things, amended Section 739.1(c) with respect to determination of the average effective CARE discount. AB 205 does not directly impact implementation of the Fixed Recovery Charges because customers enrolled in the CARE program are exempt from the Fixed Recovery Charges. AB 205 impacts the determination of the average effective CARE discount. Specifically, Section 739.1(c) now provides that "[t]he average effective discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance pursuant to subdivision (c) of Section 739." The methodology for calculating the average effective CARE discount is set forth in D.24-05-028 of the Demand Flexibility OIR proceeding. For CARE and FERA, SCE proposes to remove the Fixed Recovery Charges from the otherwise applicable bill before applying the statutory line item CARE and FERA discounts, in accordance with this decision.

acknowledges that it must continue to provide the Commission with GO 24-C Reporting relevant to this Financing Order. To the extent necessary, the Finance Team may review and participate in the development of information to be reported.

## 10. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with Section 1904(b), which states, in relevant part, as follows:

For a certificate authorizing an issue of bonds, or other evidences of indebtedness, two dollars (\$2) for each one thousand dollars (\$1,000) of the face value of the authorized issue or fraction thereof up to one million dollars (\$1,000,000), one dollar (\$1) for each one thousand dollars (\$1,000) over one million dollars (\$1,000,000) and up to ten million dollars (\$10,000,000), and fifty cents (\$0.50) for each one thousand dollars (\$1,000) over ten million dollars (\$10,000,000), with a minimum fee in any case of fifty dollars (\$50). **No fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has theretofore been paid to the commission.** (emphasis added)

We conclude that Section 1904(b) applies to the Recovery Bonds, as there is nothing in Article 5.8 that exempts the Recovery Bonds from Section 1904(b). The following table shows the calculation of the fee required by Section 1904(b):

**Computation of Fee (\$)**

|                                   |                |
|-----------------------------------|----------------|
| Recovery Bonds Authorized         | 1,629,247,243  |
| Fee on First \$1 Million          | 2,000          |
| Fee on \$1 Million - \$10 Million | 9,000          |
| Fee on Amount over \$10 Million   | 809,624        |
| <b>Total Fee</b>                  | <b>820,624</b> |

SCE should remit the required fee of \$820,624, which amount is subject to change based on the final principal amount of Recovery Bonds to be issued pursuant to this Financing Order as set forth in the Issuance Advice Letter, to the Commission's Fiscal Office no later than 10 days after all conditions precedent for the issuance of the Recovery Bonds have been satisfied and, in any event, prior to the first issuance of the Recovery Bonds. SCE is permitted to pay its application fees through wire transfer, notwithstanding Rule 1.16 of the Commission's Rules of Practice and Procedure. The SPE should reimburse SCE for this fee. This fee will be an Upfront Financing Cost.

**11. Irrevocable Financing Order**

This Financing Order is irrevocable to the extent set forth in Section 850.1(e). Pursuant to Section 850.1(e), the State of California through this Financing Order pledges and agrees with SCE, owners of Recovery Property, the SPE(s), and holders of the Recovery Bonds, that the State shall neither limit nor alter, except with respect to the True-Up Mechanism, the Fixed Recovery Charges, the Recovery Property, this Financing Order, or any rights thereunder until the Recovery Bonds, together with the interest thereon and associated Financing Costs, are fully paid and discharged, and any associated taxes have been satisfied or, in the alternative, have been refinanced through an additional issue of Recovery Bonds. However, nothing shall preclude the limitation or alteration if and when adequate provision shall be made by law for the protection of SCE and the owners and holders of Recovery

Bonds. The SPE is authorized to include this pledge and undertaking for the State in such Recovery Bonds.

**12. SCE's Written Consent to Be Bound by Financing Order**

In accordance with Section 850.1(d), the Financing Order adopted herein shall become effective only after SCE files its written consent to all the terms and conditions of this Financing Order. Within 10 days from the issuance date of this Financing Order, SCE should file and serve a written statement that provides notice of whether or not SCE consents to all terms and conditions of this Financing Order. If SCE declines to provide its consent, SCE's written statement should identify the specific terms and conditions it finds objectionable and explain why it does not consent to these terms and conditions.

**13. Rehearing and Judicial Review**

This Financing Order construes, applies, implements, and interprets the provisions of Article 5.8. Therefore, applications for rehearing and judicial review of this Financing Order are subject to Sections 1731 and 1756. These laws provide that any application for rehearing of this Financing Order must be filed within 10 days after the date of issuance of this Financing Order. The Commission must issue its decision on any application for rehearing within 210 days of the filing of the application for rehearing. Within 30 days after the Commission issues its decision denying the application for a rehearing, or, if the application was granted, then within 30 days after the Commission issues its decision on rehearing, or at least 120 days after the application for rehearing is granted if no decision on rehearing has been issued, any aggrieved party may petition for a writ of review in the court of appeal or the Supreme Court for the purpose of having the lawfulness of the Financing Order or decision on rehearing inquired into and determined. If the writ issues, it shall be made returnable at a time and place specified by court order and

shall direct the Commission to certify its record in the case to the court within the time specified.

#### **14. Disposition of Motions and Stipulation**

##### **14.1. Joint Motion to Admit Testimony and Exhibits into Evidence**

Pursuant to Rule 13.8(c) of the Commission's Rules of Practice and Procedure (Rules), SCE and the Cal Advocates (collectively the Parties) filed their Joint Motion to admit exhibits into evidence. Attachment A to the Joint Motion contains the list of the Parties' proposed exhibits, which are identified by party, exhibit number, title, and date served.

The Joint Motion is granted, and the Joint Exhibit List attached to this decision as Attachment 6.

##### **14.2. Joint Motion to Seal the Evidentiary Record**

Pursuant to Rule 11.5(b), the Parties filed their Motion to Seal the Evidentiary Record in order to protect the claimed confidential exhibit listed on the Joint Exhibit List.<sup>58</sup> The confidentiality claim is based on one of SCE's data request responses, which includes a model that details bundled sales and revenues for each of the 14 rate groups SCE serves. The Parties assert that this information is part of SCE's procurement plan and is protected by law pursuant to Government Code Section 7927.705 (erroneously referred to in the Joint Motion as Pub. Util. Code Section 7927.705).

The Parties' Joint Motion will be granted. Government Code Section 7927.705 states that "this division does not require disclosure of records, the disclosure of which is exempted or prohibited pursuant to federal or state law, including, but not limited to, provisions of the Evidence Code relating to privilege." Historically, there have been instances where parties have asserted, and the Commission has

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<sup>58</sup> Exhibit SCE-09C.

recognized that procurement information can be classified as market-sensitive in nature as it can be a form of trade secret information. A trade secret has three basic elements: (1) information (such as a formula, pattern, compilation, program, device, method, technique, or process); (2) that derives independent economic value from not being generally known to the public or to other persons who can obtain economic value; and (3) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. (*See Civil Code Section 3426.1(d).*) Because utilities do not publicly disclose their procurement out of concern that competitors may utilize this information to the utilities' disadvantage, we agree with Joint Parties that Exhibit SCE-09C should be considered confidential.

#### **14.3. The Joint Stipulation**

The Parties' Joint Stipulation, filed on Jun 30, 2025, addresses the issues identified in the Scoping Memo Ruling and explains how the Joint Parties agree that (1) the recovery costs sought to be reimbursed have been found to be just and reasonable; (2) the proposed Recovery Bonds are just and reasonable; (3) the proposed Recovery Bonds are consistent with the public interest; (4) the proposed recovery Bonds would reduce consumer rates to the maximum extent possible; (5) that the customer allocation is appropriate for implementing the fixed recovery charge; (6) the required contents of the financing order are set forth in the proposed decision; and (7) the continued reporting compliance is set forth in the proposed decision.

As the content of this decision tracks the terms of the Joint Stipulation, it is adopted.

#### **15. Mailing of Proposed Decision**

This proposed Financing Order was mailed to the parties in accordance with Pub. Util. Code Section 311(d).

## **16. Reduction of Comment Period**

By e-mail dated July 11, 2025, the parties informed the assigned ALJ that they stipulated to the reduction in the period for public review and comment to seven days. As such, pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, the time to comment on this decision is reduced to seven days from the decision's publication. After they have reviewed the decision, and prior to the expiration of the seven-day deadline, the parties will advise the Commission if they intend to file comments.

On August 1, 2025, SCE provided opening comments to the proposed Financing Order and proposed the following nonsubstantive edits and clarifications.

First, SCE proposes to add the words "together with Ongoing Financing Costs" on pages 28 and 51 to clarify the amounts that will be collected.

Second, SCE suggests that footnote 18 on page 12 related to the summary of SCE's Third AB 1054 Cap.Ex Financing Order should be moved to the end of the following paragraph after the sentence "SCE also provided Exhibit D-2 which shows a redline to SCE's third AB 1054 CapEx Financing Order upon which its Application was based."

Third, SCE proposes that the following phrase be added on page 53 with respect to the written certificate so that it is consistent with past written certificates delivered: "the structuring, marketing and pricing of the Recovery Bonds, as proposed in the Issuance Advice Letter," and that the phrase "the issuance of Recovery Bonds" be deleted.

Fourth, SCE proposes that on pages 43 and 105, respectively, the following language be added regarding the Finance Team's pre-issuance review process: "regarding pricing" and "regarding pricing meeting the statutory requirement."

We will accept and make the first three proposed edits, but not the fourth. The certificates cover more than just pricing on the bonds, particularly the SCE certificate, so to add "regarding pricing" would not be accurate or necessary. We



note that a description of what is required in the certificates is included elsewhere in Ordering Paragraph 1a of the decision, so we will add the words “as described in this Financing Order” on pages 43 and 105.

## **17. Assignment of Proceeding**

Commissioner Matthew Baker is the assigned Commissioner and Robert M. Mason III is the assigned Administrative Law Judge in this proceeding.

### **Findings of Fact**

1. The Recovery Bonds proposed by SCE possess all of the characteristics required or authorized by Article 5.8 including:

- a. The Recovery Bonds will be secured by the Recovery Property, which includes the right to receive revenues from irrevocable and nonbypassable Fixed Recovery Charges designed to provide timely and sufficient funds to pay for Recovery Bond principal, interest, and all other Financing Costs.
- b. The SPE will use the proceeds of the Recovery Bonds to purchase the Recovery Property from SCE and SCE will use the proceeds of the sale of the Recovery Property to pay or reimburse SCE for the cost of paying Recovery Costs, which includes the Claims Related Costs, the Pre-Securitization Debt Financing Costs, and Upfront Financing Costs.
- c. SCE will not issue the Recovery Bonds. The Recovery Bonds will be issued by one or more bankruptcy remote SPEs that are (a) formed and wholly owned by SCE, and (b) legally separate from SCE. The SPE will purchase the Recovery Property in an absolute transfer and true sale and own the Recovery Property, including the right to receive Fixed Recovery Charge collections.
- d. The issuance of the Recovery Bonds will result in savings to Consumers, when compared to traditional recovery methods for the Authorized Amount.
- e. The Recovery Bonds will be issued pursuant to enacted legislation (i.e., Article 5.8) that is satisfactory to SCE and to the Commission, and the proposed transaction structure for

issuing the Recovery Bonds is consistent with structure generally used in the utility sector.

2. SCE has demonstrated, using SCE's current authorized rate of return of 7.66%, that issuance of the Recovery Bonds will reduce Consumer rates by approximately \$606 million on a present value basis as compared to the recovery of the approximately \$1.629 billion Authorized Amount approved in this Financing Order through traditional utility financing mechanism of that amount.

3. SCE has demonstrated that the recovery of the Authorized Amount through the designation of Fixed Recovery Charges and the issuance of the Recovery Bonds employing the review and approval of the Finance Team, and in conformance with the requirements set forth in this Financing Order, is expected to reduce, to the maximum extent possible, the rates to Consumers on a present value basis compared to traditional utility financing mechanisms, and the proposed recovery bond term is consistent with the estimated useful life of SCE's distribution assets.

4. The Recovery Bonds will be issued by an SPE, and not by SCE, and the SPE will be a wholly-owned separate subsidiary of SCE, either the existing SPE or one or more SPEs that will be established for the purpose of carrying out this Financing Order.

5. The purpose of the Finance Team is to provide oversight over the structuring, marketing, and pricing and issuance of the transaction and to review and approve the material terms of the transaction in light of the goal to reduce rates on a present value basis to the maximum extent possible pursuant to statutory directives.

6. The Finance Team's pre-issuance review and approval of the material terms and structure of a series of Recovery Bonds will be evidenced by a letter from the Finance Team to SCE delivered on or before the date of the pricing of each series of Recovery Bonds. SCE will be required to include such approval

letter as an attachment to the Issuance Advice Letter relating to such series of Recovery Bonds, or as a supplement to such Issuance Advice Letter. Such approval letter from the Finance Team to SCE will be a condition precedent to the issuance of such series of Recovery Bonds, as will be the certification to the Finance Team from SCE and from the lead underwriter(s), of each Recovery Bond's final Authorized Amount, including the final calculation of the Upfront Financing Costs, for approval by the Finance Team.

7. The Commission will, through its Staff, review and approve the final terms and structure of each series of Recovery Bonds through the Issuance Advice Letter process to ensure the terms and structure are consistent with the Financing Order.

8. As provided in Section 850(b)(11), the Recovery Property, which will be established by this Financing Order and further identified in the Issuance Advice Letter, includes (i) the right, title and interest in and to the Fixed Recovery Charges, including the right to obtain adjustments of such charges as authorized in this Financing Order, and (ii) the right to be paid the Fixed Recovery Charges, as well as all revenues, collections, claims, payments, moneys, or proceeds of or arising from the Fixed Recovery Charges.

9. Pursuant to Section 850.2(d), the Recovery Property established by this Financing Order will continue to exist until the date on which the Recovery Bonds and all of its associated Ongoing Financing Costs are paid in full.

10. The owners of Recovery Property are entitled to recover Fixed Recovery Charges in the aggregate amount sufficient to pay on a timely basis the principal and interest on the Recovery Bonds together with all other Financing Costs associated with the Recovery Bonds until all such costs are paid in full.

11. Fixing the interest rate of the Recovery Bonds and the full amortization term is reasonably expected to ensure the maximum possible Consumer savings.

12. Dividing the Recovery Bonds into one or two series consisting of one or more tranches of bonds representing different legal maturities, with the final number,

type, and size of Recovery Bond tranches to be approved by the Finance Team, will support reducing, to the maximum extent possible, the rates on a present value basis that Consumers will pay compared to traditional utility financing mechanisms.

13. The credit quality of the Recovery Bonds will be enhanced by ordering the sequestration and payment of the Fixed Recovery Charges to the Bond Trustee for the benefit of the SPE in the event that SCE defaults on its role as servicer of the Recovery Bonds.

14. To achieve the highest possible credit ratings for the Recovery Bonds, rating agencies may require over-collateralization by the SPE.

15. The SPE will have the legal obligation to repay the Recovery Bonds from Fixed Recovery Charge collections.

16. It is reasonable for the SPE, as the owner of the Recovery Property, to pledge the Recovery Property as collateral to the Bond Trustee to secure payments of the principal and interest on the Recovery Bond and all other Ongoing Financing Costs.

17. We accept SCE's estimates that total Upfront Financing Costs (assuming one issuance and no credit enhancements) would be approximately \$11.6 million.

18. An equity contribution toward the initial principal amount of the Recovery Bonds is required in order to assure that the issuance of the Recovery Bonds will be treated as a Qualifying Securitization and obtain favorable debt-for-tax treatment for Federal income tax purposes.

19. Establishment, and adjustment from time to time, of the Fixed Recovery Charges is required to ensure the collection of sufficient revenue to pay, on a timely basis and in full, the principal and interest on the Recovery Bonds as scheduled, together with all other Financing Costs.

20. Recovery of the Ongoing Financing Costs associated with servicing the Recovery Bonds and supporting the operations of the SPE, including without limitation, servicing fees, administration fees, and Bond Trustee fees, and credit enhancement costs, if required, through the Fixed Recovery Charges, is necessary in

order to ensure the bankruptcy remoteness of the SPE and obtain the highest possible rating on the Recovery Bonds.

21. It is reasonable for SCE to recover the cost or credit amounts that are needed to address any federal and State of California income and franchise taxes associated with the Fixed Recovery Charges but not approved as Financing Costs to be financed from the proceeds of the Recovery Bonds, and for SCE to record these amounts in the distribution sub-account of SCE's BRRBA for recovery from or credit to Consumers.

22. The ratemaking mechanisms described in this Financing Order to determine the Fixed Recovery Charges, including the allocation of the Recovery Costs through the Fixed Recovery Charges, the True-Up Mechanism, and submission of the Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters pursuant thereto, are reasonable and ensure the timely payment of the Recovery Bonds and all other Ongoing Financing Costs and secure for the Recovery Bonds the highest possible credit ratings resulting in the lowest cost to Consumers.

23. Subject to the Finance Team's review and approval, it is reasonable for the Recovery Bonds to be issued using an offering through a negotiated sale with underwriters because of the complex nature of the highly structured transaction and to minimize its annual debt service costs, principal, and interest costs.

24. In its capacity as servicer, it is reasonable for SCE to be responsible for determining Consumers' electricity usage and billing, collecting, and remitting the Fixed Recovery Charges to the Bond Trustee, and submitting Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters.

25. Subject to the review and approval of the Finance Team of the servicing fee through the Issuance Advice Letter process, it is reasonable for the SPE to pay an annual servicing fee charged by SCE, together with out-of-pocket expenses (*e.g.*, legal fees, accounting fees). Furthermore, subject to review and approval of the Commission, it is reasonable for the SPE to pay a servicing fee at a level sufficient to induce another entity to take over the servicing function from SCE should this

become necessary. In the event that an unaffiliated third-party servicer takes over the servicing function from SCE, it is reasonable, subject to the review and approval of the Finance Team and the Commission, that the unaffiliated third-party servicer receives a reasonable servicing fee from the SPE. The fees and expenses received by SCE or such affiliate to perform obligations under the Servicing Agreement in excess of the incremental cost of billing and collecting the Fixed Recovery Charges and servicing the Recovery Bonds will be returned to Consumers by SCE through normal ratemaking processes.

26. Subject to the review and approval of the Finance Team of the administration fee through the Issuance Advice Letter process, it is reasonable for the SPE to pay an administration fee to support the operations of the SPE, which will have no staff. The fees and expenses received by SCE to perform obligations under the Administration Agreement in excess of the incremental cost of administering the SPE should be returned to Consumers by SCE through normal ratemaking processes using the BRRBA.

27. The credit quality and expertise in performing servicing functions will be important considerations should it be necessary to approve the appointment of a successor servicer in order to ensure the credit ratings for the Recovery Bonds are maintained.

28. It is reasonable that the Bond Trustee's collection account has at least three subaccounts: (i) the general subaccount to hold Fixed Recovery Charge collections; (ii) the capital subaccount to hold the capital contribution made by SCE; and (iii) the excess funds subaccount to hold investment earnings and funds collected in excess of amounts necessary to pay principal, interest, and other Ongoing Financing Costs on a periodic payment date.

29. Establishment of an over-collateralization sub-account is reasonable if required by the rating agencies to provide credit enhancement for the Recovery

Bonds and lower costs to Consumers and if such account is approved by the Finance Team pre-issuance and the Commission through the Issuance Advice Letter process.

30. Sections 850.1(e) and 850.1(g) require the Commission to establish procedures to adjust the Fixed Recovery Charges at least annually, and more frequently, if necessary, to ensure timely recovery of the amounts identified in Finding of Fact 41. The Commission's authority under Article 5.8 and pursuant to Section 850.1(g) to authorize periodic true-up adjustments persists until the Recovery Bonds and all other Financing Costs are fully paid and discharged, and does not expire like the Commission's authority to issue financing orders in the first instance under Section 850.6. It is therefore appropriate for SCE to submit Routine True-Up Mechanism Advice Letters and Non-Routine True-Up Mechanism Advice Letters and use an advice letter process to implement the periodic true-up adjustment described in the Application and this Financing Order, all subject to the review and approval by the Commission as set forth in this Financing Order, as these Advice Letters constitute "application[s] . . . to implement a true-up adjustment" pursuant to Section 850.1(g).

31. It is possible that Third-Party Billers will bill and collect the Fixed Recovery Charges from some Consumers.

32. It is reasonable that Consumers in SCE's Service Territory that no longer take transmission or distribution retail service, or that depart or reduce SCE service after the date of this Financing Order, be treated as DL Consumers, using applicable tariffs for DL Consumers, and will be subject to pay the Fixed Recovery Charges. DL Consumers are obligated to pay Fixed Recovery Charges using applicable language under existing tariffs for DL Consumers based on an approach that is consistent with the method currently in place for recovery of nonbypassable charges.

33. Sections 851 and 854 empower the Commission to review for authorization any possible future voluntary or involuntary change in ownership of assets from an

electrical or gas corporation to a public entity (pursuant to Sections 851(a), (b)(1) and 854.2(b)(1)(F)).

34. If a Third-Party Biller meters and bills for the Fixed Recovery Charges, SCE requires access to information on kWh billing and usage by Consumers to provide for proper reporting to the SPE and to perform its obligations as servicer.

35. The Fixed Recovery Charges will be nonbypassable and payable by all existing and future Consumers in SCE's Service Territory as of the date of this Financing Order, except for those Consumers participating in the California Alternate Rates for Energy or Family Electric Rate Assistance programs pursuant to Section 850.1(i). The Fixed Recovery Charges will appear on the electric bill of each such Consumer in SCE's Service Territory as electric charges as soon as practicable following the issuance of the first series of Recovery Bonds, but in all events no later than necessary to bill and collect funds sufficient to pay principal, interest, and Ongoing Financing Costs payable on the first payment date of the Recovery Bonds.

36. It is reasonable that, if electric Consumers in SCE's Service Territory fail to pay their electric utility bills in full, any partial payments of a Consumer's bill be allocated on a pro rata basis between the Bond Trustee and SCE based on the ratio of the billed amount for the Fixed Recovery Charges, and other rates and charges to the total billed amount, including charges relating to the AB 1054 CapEx Financing Orders and any future securitization charges, to avoid SCE favoring its own interests and to support the "bankruptcy remote" status of the SPE.

37. The SPE will have a legal right to only the amount of actual Fixed Recovery Charge cash collections. As servicer, SCE will be legally obligated to remit Fixed Recovery Charge collections, on behalf of the SPE, to the Bond Trustee.

38. It is reasonable for SCE to request the issuance of additional Recovery Bonds through the Existing SPE or additional SPEs by submitting an application showing that the relevant amounts or costs are recovery costs within the meaning of Section 850(a)(10) and identifying the Commission decision(s) or determination(s)



regarding the reasonableness of those amounts or costs, consistent with Section 850(a)(1)(A)(i).

39. The Recovery Bonds approved by this Financing Order comply with Sections 817(b), (c), (g) and (h), even if those provisions did apply.

40. It is reasonable to establish a Finance Team, as set forth in this Financing Order, for this issuance of the Recovery Bonds at issue here and for additional Recovery Bond applications.

41. The Authorized Amount has previously been determined to be just and reasonable under Section 451 and in the public interest and therefore are Recovery Costs pursuant to Section 850(b)(10). It is reasonable for SCE to be permitted to pay its Application fees through wire transfer, notwithstanding Rule 1.16 of the Commission's Rules of Practice and Procedure.

### **Conclusions of Law**

1. The Recovery Bonds and the imposition and collection of the Fixed Recovery Charge in this Financing Order satisfy all the conditions established by Public Utilities Code Article 5.8. The issuance of the Recovery Bonds is just and reasonable and consistent with the public interest, because the material terms and conditions of the Recovery Bonds, as set forth in this Financing Order and with the oversight of the Finance Team, are designed in conformance with industry standards to ensure the lowest-cost, highest-rated bonds, and to provide substantial benefits to Consumers. Further, SCE has demonstrated that the recovery of the Claims-Related Costs, their related Pre-Securitization Debt Financing Costs, and Upfront Financing Costs relating to the Recovery Bonds through the designation of Fixed Recovery Charges and the issuance of the Recovery Bonds employing the review and approval of the Finance Team, and in conformance with the requirements set forth in this Financing Order, should reduce, to the maximum extent possible, the rates to Consumers on a present value basis as compared to the use of traditional utility financing mechanisms.

2. Prior to the issuance of each series of Recovery Bonds, each Recovery Bond series and the associated Recovery Bond transaction should be reviewed and approved by the Commission's Finance Team consisting of the Commission's General Counsel, the Deputy Executive Director for Energy and Climate Policy, other Commission Staff, and any other outside experts that the Finance Team deems necessary. The other outside expertise may include, for example, independent legal counsel and an independent financial advisor to assist the Finance Team in overseeing and reviewing the issuance of a series of Recovery Bonds. Any costs incurred by the Finance Team in connection with its review and approval of a series of Recovery Bonds should be treated as an Upfront Financing Cost.

3. The Upfront Financing Costs and the estimated Ongoing Financing Costs should be reviewed and approved by the Finance Team to help ensure the Fixed Recovery Charges reduce, to the maximum extent possible, Consumer rates on a present value basis as compared to the use of traditional utility financing mechanisms.

4. As provided in Section 850(b)(11), the Recovery Property, which should be established by this Financing Order and further identified in the Issuance Advice Letter, includes (i) the right, title and interest in and to the Fixed Recovery Charges, including the right to obtain adjustments of such charges as authorized in this Financing Order, and (ii) the right to be paid the Fixed Recovery Charges, as well as all revenues, collections, claims, payments, moneys, or proceeds of or arising from the Fixed Recovery Charges.

5. Pursuant to Section 850.1(h), the Recovery Property established by this Financing Order should be created simultaneously with the sale of such Recovery Property to the SPE and should constitute a current property right and will thereafter continuously exist as property for all purposes.

6. The Ongoing Financing Costs described in SCE's testimony and in this Financing Order constitute "financing costs" under Section 850(b)(4) and as

reviewed and approved by the Finance Team should be recoverable from the Fixed Recovery Charges.

7. The Recovery Bonds authorized by this Financing Order should not:

(i) constitute a debt or liability of the State of California or any political subdivision thereof; (ii) constitute a pledge of the full faith and credit of the State or any political subdivision; or (iii) directly, indirectly, or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation to pay any obligations associated with the Recovery Bonds or to make any appropriations for their payment.

8. The Recovery Bonds should not require the Commission's approval pursuant to Section 701.5 because SCE will not "issue any bond, note, lien, guarantee, or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate" under that provision.

9. The Recovery Bonds should not require approval pursuant to Sections 817 and 818 since the SPE, not SCE as a public utility, will be the issuer. Even if Sections 817 and 818 were to apply, issuance of the Recovery Bonds is consistent with those provisions.

10. The Commission should have full access to the books and records of the SPE. SCE should not make any profit from the SPE, except for an authorized return on SCE's capital contribution to the SPE, in an amount equal to the weighted average interest rate on the Recovery Bonds.

11. Upon the issuance of the Recovery Bonds, SCE should contribute equity to the SPE, as necessary, to satisfy the conditions for a Qualifying Securitization under IRS Rev. Proc. 2005-62; provided, however, that SCE has no obligation to pay the amounts owed by the SPE on the Recovery Bonds or to make any additional equity contributions to the SPE to facilitate the SPE's repayment of the Recovery Bonds and all other Ongoing Financing Costs.

12. SCE should sell the Recovery Property identified in the Issuance Advice Letter to the SPE identified in such Issuance Advice Letter. The SPE identified in the Issuance Advice Letter should constitute a financing entity for all purposes of Article 5.8.

13. The transfer of the Recovery Property by SCE to an SPE should be in accordance with Section 850.4, and should be treated as an absolute transfer of all of SCE's right, title, and interest, as in a true sale, and not as a pledge or other financing, of the Recovery Property, other than for federal and state income tax and franchise tax purposes.

14. Once the Recovery Property is established as provided in this Financing Order, any protest, review, or correction should be limited as provided in the description of the True-Up Mechanism in this Financing Order.

15. The Recovery Bonds should be secured by the Recovery Property, SPE equity held by the Bond Trustee, and other Bond Collateral held by the Bond Trustee.

16. The SPE should transfer the Recovery Bond proceeds (net of Upfront Financing Costs) to SCE to purchase the Recovery Property.

17. The following should occur or exist as a matter of law upon the sale by SCE of Recovery Property to the SPE: (i) the SPE should have all of the rights originally held by SCE with respect to the Recovery Property, including the right to exercise any and all rights and remedies to collect any amounts payable by any Consumer in respect of the Recovery Property, including the Fixed Recovery Charges, notwithstanding any objection or direction to the contrary by SCE; (ii) any payment by any Consumer of owed Fixed Recovery Charges should discharge such Consumer's obligations in respect of the Recovery Property to the extent of such payment, notwithstanding any objection or direction to the contrary by SCE; and (iii) SCE should not be entitled to collect the Fixed Recovery Charge associated with the Recovery Property other than for the benefit of the SPE or of holders of the

associated Recovery Bonds in accordance with SCE's duties as servicer with respect to such Recovery Bonds.

18. A separate and distinct statutory lien described in § 850.3(g) should exist on the Recovery Property then existing or thereafter arising that is described in an Issuance Advice Letter and should secure all obligations, then existing or subsequently arising, to the holders of the Recovery Bond described in such Issuance Advice Letter and the Bond Trustee for such holders. There should be no statutory liens of the type described in Section 850.3(g) except as provided in this Conclusion of Law section.

19. To ensure that the SPE is legally separate and bankruptcy remote from SCE the SPE should be authorized to: (i) include restrictions in its organizational documents limiting the activities of the SPE to the issuance of the Recovery Bonds and related activities and eliminating the SPE's ability to voluntarily file for bankruptcy; (ii) provide for the appointment of one or more independent directors to the SPE board; and (iii) provide for the payment of servicing and administration fees adequate to compensate SCE or any successor servicer for their costs of providing service.

20. Any default under the documents relating to the Recovery Bonds will entitle the holders of Recovery Bonds, or the Bond Trustees on behalf of such holders or representatives for such holders, to exercise the rights or remedies such holders or such Bond Trustee on behalf of such holders or representatives therefore may have pursuant to any statutory or other lien on the Recovery Property.

21. The SPE should be authorized to provide credit enhancements for the Recovery Bonds as reviewed and approved by the Finance Team in addition to the True-Up Mechanism, but only if such credit enhancements are required by the rating agencies to receive the highest investment-grade rating or the all-in cost of the Recovery Bonds with the credit enhancements is less than without the credit

enhancements. Such credit enhancements, if any, should be described in the Issuance Advice Letter.

22. Any revenue for credit enhancements that is collected as part of the Fixed Recovery Charges, in excess of total debt service on the Recovery Bonds and other Recovery Costs, should be the property of the SPE.

23. After the Recovery Bonds and all Ongoing Financing Costs are repaid, if a balance remains in the collection account, or any subaccount, that balance should be returned in the following order of priority: first, an amount equal to SCE's initial equity contribution into the capital subaccount, together with the rate of return in Conclusion of Law 10 should be paid to SCE, and second, all other amounts held by the Bond Trustee in any fund or account (including any over-collateralization account) should be returned to SCE, and such amounts, together with any Fixed Recovery Charges revenues thereafter received by SCE, should be credited to Consumers, as defined in Section 850(b)(3), through normal ratemaking processes.

24. The Upfront Financing Costs described in the Application, including, inter alia, underwriters' fees and expenses, rating agency fees, Section 1904 fees, accounting fees and expenses, SEC registration fees, printing/EDGARizing costs expenses, legal fees and expenses, Bond Trustee's fees and expenses, original issue discount, costs and expenses of the Commission (including costs and expenses of the Finance team), and other Upfront Financing Costs, as reviewed and approved by the Finance Team, are "financing costs" as defined in Section 850(b)(4) and should be treated as Recovery Costs for purposes of Section 850(b)(10) and recoverable from Recovery Bond proceeds or the Fixed Recovery Charges.

25. When the SPE issues the Recovery Bonds, the SPE should estimate the Upfront Financing Costs and provide that information to the Finance Team for its review and approval. After all Upfront Financing Costs are paid by the SPE, any Recovery Bond proceeds not used to purchase the Recovery Property or for the payment of Upfront Financing Costs should be used to offset the revenue

requirement in the next Fixed Recovery Charge true-up calculation. In the event that the actual Upfront Financing Costs exceed the estimated amount, the short-fall amount may be recovered in the next Fixed Recovery Charge true-up calculation.

26. The SPE, not SCE, should “issue any bond, note, lien, guarantee, or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate” under Section 701.5.

27. All Recovery Bonds should contain a legend to the following effect: “Neither the full faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of, or interest on, this bond.”

28. SCE should be authorized to use the proceeds from its sale of the Recovery Property to the SPE to reimburse itself for Claims-Related Costs, Pre-Securitization Debt Financing Costs, and Upfront Financing Costs paid by, or on behalf of, SCE, as reviewed and approved by the Finance Team.

29. SCE should be authorized pursuant to Article 5.8 to bill and collect Fixed Recovery Charges that are designed to ensure the recovery of sufficient revenue to pay, on a timely basis, the principal and interest on the Recovery Bonds (as scheduled) together with all other Ongoing Financing Costs until all such costs are paid in full.

30. To implement the Fixed Recovery Charges for the Recovery Bonds, SCE should submit an Issuance Advice Letter based on the pro forma example contained in Attachment 2 to this Financing Order not later than one business day after the Recovery Bonds are priced. The Issuance Advice Letter should use the Cash Flow Model, described in Attachment 1 to this Financing Order along with the most-recent SCE sales forecast, to develop the initial Fixed Recovery Charges for the Recovery Bonds.

31. The initial Fixed Recovery Charges, as well as the Upfront Financing Costs and all Ongoing Financing Costs for the life of the Recovery Bonds, and the final terms of the Recovery Bonds set forth in the applicable Issuance Advice Letter should

automatically be approved and become effective at noon on the fourth business day after pricing unless before noon on the fourth business day after pricing the Commission rejects the Issuance Advice Letter. Once established, the Fixed Recovery Charge will constitute Fixed Recovery Charges subject to Section 850.1(e).

32. The characterization of the sale, assignment, or transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the SPE should not be affected or impaired by, among other things: (i) commingling of Fixed Recovery Charge collections with other amounts; (ii) the retention by SCE of either of the following: (a) a partial or residual interest, including an equity interest, in the SPE or the Recovery Property, whether direct or indirect, subordinate or otherwise or (b) the right to Recovery Costs associated with taxes, franchise fees, or license fees imposed on the collection of Fixed Recovery Charges; (iii) any recourse the SPE may have against SCE; (iv) any indemnification rights, obligations, or repurchase rights made or provided by SCE; (v) the obligation of SCE to collect Fixed Recovery Charges, as servicer, on behalf of the SPE; (vi) the treatment of the sale, assignment or transfer for tax, financial reporting, or other purposes; or (vii) the True-Up Mechanism as provided in this Financing Order.

33. The True-Up Mechanism to be used to establish and adjust the Fixed Recovery Charges, as described in SCE's testimony and as set forth in this Financing Order as required by Section 850.1(b), is an "effective mechanism" that should help ensure the timely payment of the principal and interest on the Recovery Bonds and all associated Financing Costs.

34. The advice letters submitted as part of the True-Up Mechanism to adjust the Fixed Recovery Charges, as described in the body of this Financing Order, constitute "application[s] . . . to implement a true-up adjustment" pursuant to Section 850.1(g).

35. The adjustments to the Fixed Recovery Charges in annual Routine True-Mechanism Advice Letters, semi-annual Routine True-Up Mechanism Advice Letters



and more frequent interim Routine True-Up Mechanism Advice Letters should be acted upon within 20 days of submission provided that such Advice Letters should be submitted no later than 50 days before the Fixed Recovery Charge Annual Adjustment Date, in the case of annual Routine True-Up Mechanism Advice Letters and no later than 50 days before the proposed effective date, in the case of semi-annual Routine True-Up Mechanism Advice Letters and interim Routine True-Up Mechanism Advice Letters. These advice letters should be based on the pro forma example contained in Attachment 3 to this Financing Order.

36. The Routine True-Up Mechanism Advice Letters should calculate a revised Fixed Recovery Charge using (i) the Cash Flow Model described in Attachment 1 of this Financing Order, as may be modified as described in the body of this Financing Order, (ii) the adjustments to the Cash Flow Model as may be listed in the body of this Financing Order and (iii) the sales adjustments to the initial allocation factors. Protests, review, or correction to a Routine True-Up Mechanism Advice Letter or a Non-Routine True-Up Mechanism Advice Letter should only address mathematical errors.

37. SCE should be allowed to submit Non-Routine True-Up Mechanism Advice Letters based on the pro forma example contained in Attachment 4 to this Financing Order to revise the Cash Flow Model most recently approved by this Commission, subject to the terms found in the body of this Financing Order, to meet payments of principal and interest on the Recovery Bonds and all other Ongoing Costs. Such Non-Routine True-Up Mechanism Advice Letter should be Tier 2 Advice Letters submitted no less than 90 days before the proposed effective date and will be acted upon within 60 days. Absent a Commission resolution modifying or rejecting proposed changes to the Cash Flow Model, SCE or a successor servicer may implement Fixed Recovery Charge Adjustments proposed in a Non-Routine True-Up Mechanism Advice Letter on the effective date identified in the Non-Routine True-

Up Mechanism Advice Letter if that date is at least 90 days after the date of submission.

38. Subject to the review and approval of the Finance Team, SCE's proposed mechanisms for establishing and adjusting the Fixed Recovery Charges, including the True-Up Mechanism, the Routine True-Up Mechanism Advice Letters, and the Non-Routine True-Up Mechanism Advice Letters, all as presented in the Application and as may be modified in this Financing Order, should be accepted.

39. SCE's proposal to address any potential tax implications through the recovery of the cost or credit as presented in the Application and as may be modified in this Financing Order, should be accepted.

40. The Fixed Recovery Charges should be: (i) nonbypassable; (ii) set for each Fixed Recovery Charge Consumer Class in accordance with the Cash Flow Model and in accordance with this Financing Order and (iii) recovered from all existing and future Consumers in SCE's Service Territory as of the date of this Financing Order, except for those Consumers participating in the California Alternate Rates for Energy or Family Electric Rate Assistance programs pursuant to Section 850.1(i). The Commission continues to have sole authority over Fixed Recovery Charge Consumer Class allocation issues and reserves the opportunity and intention to revisit the allocation methodology for future Fixed Recovery Charges related to additional recovery bonds that may be reviewed and approved in future proceedings.

41. SCE's monthly Consumer electric bill should disclose the amount of the Fixed Recovery Charges in a single line item identified on each Consumers' monthly bill as electric charges. A description of the Fixed Recovery Charge should contain the billing language found in the body of this Financing Order, and this description should appear in the "Things You Should Know" section at the bottom of each Consumer's bill. If the descriptions are not on the bill itself, SCE should also include the descriptions in an annual bill insert. Such bill presentation as described here is

consistent with the requirement of Section 850.1(g) that the Fixed Recovery Charge “appear on the Consumer bills” and should be approved, all in accordance with the provisions found in this Financing Order.

42. SCE and the SPE should account for Fixed Recovery Charges in the manner described in the body of this Financing Order.

43. SCE should act as the initial servicer for Fixed Recovery Charges on behalf of the SPE.

44. To the extent Consumers of electricity in SCE’s Service Territory are billed by Third-Party Billers, SCE (as servicer for the Recovery Property) should bill such Consumers directly or may require these Third-Party Billers to bill for the Fixed Recovery Charges and to remit the Fixed Recovery Charge collections to SCE on behalf of such Consumers.

45. Third-Party Billers that bill and collect the Fixed Recovery Charges from SCE’s Consumers should satisfy the requirements set forth in applicable SCE tariffs.

46. In the event that the Commission authorizes any future voluntary or involuntary change in ownership of assets from an electrical or gas corporation to a public entity (pursuant to Sections 851(a), (b)(1) and 854.2(b)(1)(F)) and such an ownership change affects the payment of rates to SCE by any Consumers in SCE’s Service Territory, the new asset owner should either (a) continue to bill and collect Fixed Recovery Charges from Consumers and remit such collections to SCE or a new servicer for the Recovery Bonds or (b) ensure the upfront funding of the Fixed Recovery Charges that would otherwise be paid by Consumers where rate payment would be affected by the ownership change. The Commission’s authorization of ownership terms will effectuate the State’s pledge and agreement that the State should not limit nor alter the Fixed Recovery Charges, the Recovery Property, this Financing Order, or any rights under a financing order until the Recovery Bonds are fully paid and discharged (pursuant to Section 850.1(e)).

47. SCE should remit the Fixed Recovery Charge collections in accordance with the procedures described in the body of this Financing Order and the following two Conclusions of Law.

48. The servicer should remit actual Fixed Recovery Charge collections to the Bond Trustee on a daily basis to avoid an adverse impact on the Recovery Bond credit ratings. Over the life of the Recovery Bond, SCE should prepare a monthly servicing report for the Bond Trustee that shows the actual Fixed Recovery Charge collections by month over the life of the Recovery Bond.

49. Amounts collected that represent partial payments of a Consumer's bill should be allocated on a pro rata basis between the Bond Trustee and SCE based on the ratio of the billed amount for the Fixed Recovery Charges to the total billed amount (including fixed recovery charges relating to the AB 1054 CapEx Financing Orders and similar charges relating to any future securitization charges). This allocation is an important bankruptcy consideration in determining the true sale nature of the transaction.

50. In the event of any default by the Servicer, the Bond Trustee should be entitled to receive a reconciliation of collections and remittances to the Bond Trustee (described above) and actual collections of the Fixed Recovery Charges, including an allocation of partial payments based upon this pro rata allocation methodology.

51. In the event additional recovery bonds or other similar bonds are issued by the SPE or additional SPEs for recovery of costs or expenses under Section 850(a)(2), the Fixed Recovery Charges or other similar charges should be allocated pro rata between the Bond Trustees for each additional series and any existing series.

52. The Bond Trustee should hold all Fixed Recovery Charge collections received from SCE in a collection account. The Bond Trustee should use the funds held in the

collection account to pay the principal and interest on the Recovery Bonds and all other Financing Costs on a timely basis.

53. The Bond Trustee should invest all funds held in the collection account in investment-grade short-term securities that mature on or before the next Recovery Bond payment date. Investment earnings should be retained in the collection account to pay debt service and all other Financing Costs on a timely basis.

54. Subject to the review and approval of the Finance Team, SCE should be permitted to receive a rate of return on its equity contribution equal to the weighted average interest rate on the Recovery Bonds, which should be payable as an Ongoing Financing Cost from the Fixed Recovery Charge collections and be distributed to SCE on an annual basis, after payment of debt service on the Recovery Bonds and all other Financing Costs.

55. If funds remain in the collection account on any periodic payment date, they should be credited to the excess funds subaccount. All subaccount funds should be available to pay debt service on the Recovery Bonds or other Recovery Costs. At the time of the submission of the next Routine True-Up Mechanism Advice Letter, the excess funds subaccount balance should be used to offset the revenue requirement for the Fixed Recovery Charges, including but not limited to replenishing the balance of the capital subaccount.

56. Upon payment in full of the principal and interest on the Recovery Bonds and the payment and discharge of all other Financing Costs, all remaining monies held by the Bond Trustee should be returned to Consumers in the following order of priority: first, an amount equal to SCE's initial equity contribution into the capital subaccount, together with any required rate of return should be paid to SCE, and second, all other amounts held by the Bond Trustee in any fund or account (including any over-collateralization account) would be returned to SCE, and such amounts, together with any Fixed Recovery Charge collections thereafter received by SCE, should be credited to Consumers through normal ratemaking processes.

57. Subject to the review and approval of the Finance Team of the servicing fee in the Issuance Advice Letter, SCE should be authorized to charge an annual servicing fee.

58. Subject to the review and approval of the Finance Team of the administration fee in the Issuance Advice Letter, SCE should be authorized to charge an annual administration fee.

59. SCE should not resign as servicer without prior Commission approval.

60. If SCE fails to perform its servicing functions satisfactorily, as set forth in the Servicing Agreement, or is required to discontinue its billing and collecting functions, an alternate servicer nominated by the Bond Trustee and approved by the Commission should replace SCE. The new servicer should bill and collect only the Fixed Recovery Charges. The fees paid to the new servicer should be subject to the approval of the Finance Team and the Commission.

61. An alternative third-party servicer should not cause the then-current rating of any then outstanding Recovery Bonds to be withdrawn or downgraded.

62. SCE should serve a copy of the advice letters authorized by this Financing Order on this proceeding's Service List and on any entity that requests service.

63. SCE should remit to the Commission's Fiscal Office the required Section 1904(b) fee of \$820,624, which amount is subject to change based on the final principal amount of Recovery Bonds to be issued pursuant to this Financing Order as set forth in the Issuance Advice Letter, at the time and in the manner described in Ordering Paragraph 53. The SPE should reimburse SCE for this fee as an Upfront Financing Costs.

64. Notwithstanding § 1708 or any other provision of law, any requirement under Article 5.8 or this Financing Order that the Commission take action with respect to the subject matter of this Financing Order should be binding on any successor agency exercising functions similar to the Commission, and the

Commission should have no authority to rescind, alter or amend that requirement in this Financing Order.

65. The Recovery Bonds should be excluded from SCE's ratemaking capital structure as the SPE will have the legal obligation to repay the Recovery Bonds from Fixed Recovery Charge collections.

66. This Financing Order should be irrevocable to the extent specified in Section 850.1(e).

67. This Financing Order should be able to be supplemented upon the Commission's own motion or a petition by a party to this proceeding, so long as such supplements are not inconsistent with the terms and provisions herein.

68. SCE should be allowed to set its electric rates and charges excluding the Fixed Recovery Charges, at levels designed to allow SCE to recover franchise fees associated with, or imposed on the Fixed Recovery Charges, and SCE should pay such franchise fees.

69. GO 24-C and the Commission's Financing Rule should be applied to the Recovery Bonds.

70. SCE should be authorized to report, on behalf of the SPE, all information required by GO 24-C and the Commission's Financing Rule regarding the Recovery Bonds.

71. Pursuant to Section 824 and GO 24-C, SCE should maintain records that:  
(i) identify the specific Recovery Bonds issued pursuant to this Financing Order, and  
(ii) demonstrate that the proceeds from the Recovery Bonds have been used only for the purposes authorized by this Financing Order.

72. Pursuant to Section 850.1(d), this Financing Order should become effective in accordance with its terms only after SCE provides the Commission with SCE's written consent to all the terms and conditions of this Financing Order.

73. There is no need for an evidentiary hearing in this proceeding.

74. This Financing Order complies with the provisions of Article 5.8 that was enacted by SB 901, as amended by AB 1054 and AB 1513.

75. This Financing Order construes, applies, implements, and interprets the provisions of Article 5.8. Therefore, applications for rehearing and judicial review of this Financing Order are subject to Sections 1731 and 1756. These laws provide that any application for rehearing of this Financing Order must be filed within 10 days after the date of issuance of this Financing Order. The Commission must issue its decision on any application for rehearing within 210 days of the filing for rehearing.

76. The following order should be effective immediately in order to comply with statutory deadlines mandated by Article 5.8.

77. It is reasonable to conclude that the Joint Motion to Admit Testimony and Exhibits into Evidence should be granted.

78. It is reasonable to conclude that the Joint Motion to Seal the Evidentiary Record should be granted.

79. It is reasonable to conclude that the Joint Stipulation should be adopted.

80. It is reasonable to conclude that this proceeding should be closed.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is granted authority pursuant to Division 1, Part 1, Chapter 4, Article 5.8 of the Public Utilities (Pub. Util.) Code, subject to the terms and conditions in this Financing Order, to do the following:

- a. Arrange for the issuance of a Recovery Bonds as defined by Pub. Util. Code Section 850(b)(9) in up to two series. The total principal amount of the Recovery Bonds shall be equal to the sum of: (i) \$1,398 billion, which reflects Section 850(a)(1) costs and expenses related to the Thomas fire and Montecito debris flow included in the Issuance Advice Letter for such Recovery Bonds submitted in accordance with



- Ordering Paragraph 3, plus (ii) Pre-Securitization Debt Financing Costs in an amount estimated to be \$220 million, plus (iii) Upfront Financing Costs, in an estimated amount of \$11.6 million (in total, approximately \$1.629 billion, the Authorized Amount). The final Authorized Amount, including the final calculation of the Pre-Securitization Debt Financing Costs and of the Upfront Financing Costs, will be calculated by SCE and reviewed and approved by the Finance Team (described below), certified to by SCE and the lead underwriter(s) as described in this Financing Order, and approved by the Commission pursuant to the Issuance Advice Letter process as described in this Financing Order. Each series of Recovery Bonds will be subject to a separate Issuance Advice Letter, separate Finance Team review and approval process and separate SCE and lead underwriter(s) certification requirement.
- b. Arrange for the issuance of the Recovery Bonds through one or more Financing Entities, as that term is defined by Section 850(b)(5). The Financing Entity shall be a Special Purpose Entity (SPE) that is formed and wholly owned by SCE. The SPE may be the Existing SPE or one or more new SPEs as provided in this Financing Order.
  - d. Apply the Recovery Bond proceeds to recover, finance, or refinance Recovery Costs as that term is defined by Pub. Util. Code Section 850(b)(10) consisting of the Claims-Related Costs, the Pre-Securitization Debt Financing Costs, and the Upfront Financing Costs.
  - e. Arrange for the recovery, via nonbypassable rates and charges, of Fixed Recovery Charges as that term is defined by Section 850(b)(7), and in accordance with the Consumer allocation described in the body of this Financing Order.
  - f. Impose and collect amounts sufficient to pay federal and State of California income and franchise taxes associated with the Fixed Recovery Charges but not approved as Financing Costs financed from the proceeds of the Recovery Bonds, the Fixed Recovery Charge, and establish a distribution sub-account in its Base Revenue Requirement Balancing Account to record costs and benefits for subsequent recovery from or credit to Consumers related to amounts needed to pay any

taxes imposed on the Fixed Recovery Charges or the tax implications associated with the assets financed with the Recovery Bonds, as described in the body of this Financing Order.

2. Prior to the issuance of each series of Recovery Bonds, each Recovery Bond series and the associated Recovery Bond transactions shall be reviewed and approved by the Commission's Finance Team consisting of the Commission's General Counsel, the Deputy Executive Director for Energy and Climate Policy, other Commission Staff, and any outside experts that the Finance Team deems necessary. The other outside expertise may include, for example, independent legal counsel and an independent financial advisor to assist the Finance Team in overseeing and reviewing the issuance of a series of Recovery Bonds. Any costs incurred by the Finance Team in connection with its review and approval of a series of Recovery Bonds shall be treated as an Upfront Financing Cost. The purpose of the Finance Team is to provide oversight over the structuring, marketing, and pricing and issuance of each Recovery Bond transaction and to review and approve the material terms of such transaction in light of the goal to reduce rates on a present value basis to the maximum extent possible as compared to traditional utility financing mechanisms pursuant to statutory directives.

3. In a pre-issuance review process, the Finance Team shall have the right to review and approve all material terms of each series of Recovery Bonds and other items the Finance Team determines are appropriate to perform its role, which may include, without limitation: (1) the selection process for the underwriters, including any requests for proposals, syndication group size, participants, diverse bank inclusion, allocations, and economics; (2) the structure of each series of Recovery Bonds; (3) each series of Recovery Bonds' credit rating agency application; (4) the underwriters' preparation, marketing, and syndication of each series of Recovery Bonds; (5) the pricing of the Recovery Bonds and certifications provided by Southern California Edison Company (SCE) and the lead underwriter(s) as

described in this Financing Order; (6) all associated Recovery Bond costs (including Upfront Financing Costs and other Financing Costs), servicing and administrative fees and associated crediting; (7) maturities; (8) reporting templates; (9) the amount of SCE's equity contribution to the related Special Purpose Entity; (10) overcollateralization and other credit enhancements; and (11) the initial calculation of the related Fixed Recovery Charges. The foregoing and other items requested by the Finance Team may be reviewed during the entire course of the Finance Team's process. SCE shall resolve material terms and structuring issues with the Finance Team prior to commencing marketing (subject to any modifications required as a result of such marketing process). This pre-issuance review process is intended to create Recovery Bonds with material terms that can meet the statutory requirements; in particular, that each series of Recovery Bonds reduce on a present value basis to the maximum extent possible, the rates that Consumers would pay as compared to the use of traditional utility financing mechanisms. The Finance Team's review shall continue until the related Issuance Advice Letter becomes effective as described in Ordering Paragraph 14. The Finance Team shall have the ability to be included and invited to participate in all calls, meetings, e-mails, and other communications relating to the structuring, marketing, pricing, and issuance of each series of Recovery Bonds.

4. The Finance Team's pre-issuance review and approval of the material terms and structure of a series of Recovery Bonds shall be evidenced by an approval letter from the Finance Team to Southern California Edison Company (SCE) delivered on or before the date of the pricing of the relevant Recovery Bonds (subject to syndication and pricing). SCE shall be required to include such an approval letter as an attachment to the Issuance Advice Letter relating to such series of Recovery Bonds, or as a supplement to such Issuance Advice Letter. Such approval letter from the Finance Team to SCE shall be a condition precedent to the issuance of such a series of Recovery Bonds.

5. The Recovery Bonds may be amortized on a level, mortgage-style basis, while allowing for a reduction in first payment period principal amortization to reduce customer rate impacts, to be determined at the time of issuance in the Issuance Advice Letter. The scheduled final payment date of the latest maturing tranche of the Recovery Bonds shall be as reviewed and approved by the Finance Team as described in the body of this Financing Order.

6. Any offering of Recovery Bonds shall be structured to be a “Qualifying Securitization” under Internal Revenue Service (IRS) Rev. Proc. 2005-62.

7. The Recovery Bonds issued pursuant to this Financing Order shall contain a legend to the following effect: “Neither the full faith and credit nor the taxing power of the State of California is pledged to the payment of principal of, or interest on, this bond.”

8. In accordance with Public Utilities Code Section 850.1(h), Recovery Property established by this Financing Order and further identified in the Issuance Advice Letter shall be created simultaneously with the sale of such Recovery Property to the Special Purpose Entity, shall constitute a current property right, and shall thereafter continuously exist as property for all purposes.

9. Southern California Edison Company (SCE) shall sell the Recovery Property to the Special Purpose Entity, and upon such sale, the SPE shall have all of the rights originally held by SCE with respect to the Recovery Property, including the right to exercise any and all rights and remedies to collect any amounts payable by any Consumer in respect of the Recovery Property, including the Fixed Recovery Charges, and to obtain true-up adjustments to the Fixed Recovery Charges pursuant to the True-Up Mechanism, notwithstanding any objection or direction to the contrary by SCE.

10. Acting as initial servicer for the Recovery Property, Southern California Edison Company shall collect the Fixed Recovery Charges on behalf of the Special Purpose Entity.

11. The Fixed Recovery Charges shall be nonbypassable and recovered from existing and future Consumers, as defined in Public Utilities (Pub. Util.) Code Section 850(b)(3), in Southern California Edison Company's Service Territory as of the date of this Financing Order, except for those Consumers participating in the California Alternate Rates for Energy or Family Electric Rate Assistance programs pursuant to Pub. Util. Code Section 850.1(i). The Fixed Recovery Charges shall be imposed on all non-exempt Fixed Recovery Charge Customer Classes in accordance with the Cash Flow Model as set forth in the body of this Financing Order.

12. Consumers who no longer take transmission and distribution retail service or that depart or reduce Southern California Edison Company (SCE) service after the date of the issuance of this Financing Order, or that meet the relevant criteria in the applicable tariff, shall be treated as departing load (DL) Consumers using applicable tariffs for DL Consumers, and shall be subject to pay the Fixed Recovery Charges. The Fixed Recovery Charges shall be applicable to current SCE Consumers that become DL Consumers after the date of the issuance of this Financing Order. These DL Consumers shall pay the Fixed Recovery Charge based on an approach that is consistent with the method currently in place for recovery of nonbypassable charges for DL customers.

13. In the course of authorizing any future change in ownership of assets from Southern California Edison Company (SCE) to a public entity as described in Conclusion of Law 46, the California Public Utilities Commission shall establish conditions which either: (i) ensure the up-front funding of the Fixed Recovery Charges that would otherwise be paid by those Consumers whose rate payment would be affected by the ownership change; or (ii) establish procedures to ensure the continued billing and collection of Fixed Recovery Charges from Consumers and remittance of such collections to SCE on behalf of a Special Purpose Entity.

14. To implement the Fixed Recovery Charges for the Recovery Bonds, Southern California Edison Company shall submit an Issuance Advice Letter in the form,

timeframe, and manner described in the body of this Financing Order. The Issuance Advice Letter form identified in Attachment 2 to this Financing Order is approved. California Public Utilities Commission (Commission) Staff is given authority to reject the Issuance Advice Letter and stop the sale for a failure to adhere to the terms of this Financing Order. The Issuance Advice Letter and the Fixed Recovery Charges established by such Issuance Advice Letter shall become effective at noon on the fourth business day after pricing unless before noon on the fourth business day after pricing the Commission Staff rejects the Issuance Advice Letter. The Commission Staff's review of each Issuance Advice Letter shall include compliance with: (i) Public Utilities Code Article 5.8; (ii) this Financing Order; and (iii) the requirements of the Issuance Advice Letter (including the attached Finance Team approval letter).

15. The Special Purpose Entity identified in the Issuance Advice Letter shall constitute a Financing Entity for all purposes of Public Utilities Code Article 5.8.

16. Once Recovery Property is established pursuant to this Financing Order, the Recovery Property, Fixed Recovery Charges, and other terms and conditions as set in the Financing Order, shall not be adjusted in response to protests to the Issuance Advice Letter.

17. The Special Purpose Entity may obtain credit enhancement (including in the form of an over-collateralization account for the Recovery Bonds), but only if: (i) the credit enhancements are required by the rating agencies; or (ii) the all-in cost of the Recovery Bonds with the credit enhancements is expected to be less than without the credit enhancements. The over-collateralization amount, if required by the rating agencies, shall be decided in consultation with the Finance Team and: (i) set forth in the Issuance Advice Letter; and (ii) funded in equal amounts on each debt service payment date, or in other such amounts and in such a manner as required by the rating agencies. Any other credit enhancements shall be decided with the approval of the Finance Team.

18. Any credit enhancement costs collected through the Fixed Recovery Charges, in excess of total debt service on the Recovery Bonds and other Financing Costs, shall be the property of the Special Purpose Entity, subject to the terms set forth in the body of this Financing Order.

19. After the Recovery Bonds are repaid, if a balance remains in the collection account, or any subaccount, that balance shall be returned to Consumers in the following order of priority: first, an amount equal to Southern California Edison Company's (SCE) initial equity contribution into the capital subaccount, together with the required rate of return, would be paid to SCE, and second, all other amounts held by the Bond Trustee in any fund or account (including any over-collateralization account), would be returned to SCE, and such amounts, together with any Fixed Recovery Charge collections thereafter received by SCE, would be credited to Consumers through normal ratemaking processes.

20. Subject to compliance with the specific requirements of this Financing Order, including those requirements set forth in the body of this Financing Order and the accompanying Conclusions of Law, including Finance Team review and approval, and California Public Utilities Commission Staff review of the Issuance Advice Letter, Southern California Edison Company and the Special Purpose Entity may establish the terms and conditions of the Recovery Bonds, including repayment schedules, interest rates, number of tranches, scheduled and final maturity dates, payment dates, collateral, credit enhancement, and other Recovery Bond terms, and other Financing Costs.

21. The Special Purpose Entity shall transfer the Recovery Bond proceeds (net of Upfront Financing Costs) to Southern California Edison Company as payment of the purchase price of the Recovery Property.

22. The Special Purpose Entity, as the owner of the Recovery Property, shall pledge the Recovery Property as collateral to the Bond Trustee to secure payments of

principal and interest on the Recovery Bonds and all other Ongoing Financing Costs payable under an indenture pursuant to which the Recovery Bonds are issued.

23. The Special Purpose Entity (SPE) shall: (i) include restrictions in its organizational documents limiting the activities of the SPE to the issuance of the Recovery Bonds and related activities and eliminating the SPE's ability to voluntarily file for bankruptcy; (ii) provide for the appointment of one or more independent directors to the SPE board; and (iii) provide for the payment of servicing and administration fees adequate to compensate Southern California Edison Company or any successor servicer for their costs of providing service.

24. After Southern California Edison Company (SCE) has sold, assigned, or otherwise transferred its interest in Recovery Property to the Special Purpose Entity (SPE), SCE shall: (i) operate its system to provide service to its Consumers, (ii) act as initial servicer under the transaction documents associated with the related Recovery Bonds, and (iii) as initial servicer, bill and collect amounts in respect of the Fixed Recovery Charges for the benefit and account of the SPE and account for and remit these amounts to or for the account of the SPE.

25. Southern California Edison Company (SCE) may contribute equity to the Special Purpose Entity (SPE). The SPE equity shall be pledged to secure the Recovery Bonds and shall be deposited into an account held by the Bond Trustee. After payment of principal and interest on the Recovery Bonds and other Financing Costs for a particular payment period, SCE shall be permitted to receive a rate of return on its equity contribution equal to the weighted average interest rate on the Recovery Bonds.

26. The California Public Utilities Commission shall have full access to the books and records of the Special Purpose Entity (SPE). Southern California Edison Company (SCE) should not make any profit from the SPE, except for an authorized return on SCE's equity investment in the SPE in an amount equal to the weighted



average interest rate on the Recovery Bonds. If the equity capital is drawn upon, it may be replenished via the Fixed Recovery Charges.

27. Southern California Edison Company shall use the amounts that it derives from the net Recovery Bond proceeds to pay or reimburse itself for the Claims-Related Costs and the Pre-Securitization Debt Financing Costs.

28. Because the Recovery Bonds do not require the Commission's approval pursuant to Public Utilities Code Sections 701.5 or 817, as those provisions apply to the issuance of debt by a public utility, and the Special Purpose Entity, and not Southern California Edison Company (SCE), will issue the Recovery Bonds, therefore SCE need not file any application for Commission approval pursuant to those Code sections.

29. The Fixed Recovery Charges shall be presented on the electric bill of each Consumer in Southern California Edison Company's Service Territory as electric charges as soon as practicable following the issuance of the first series of Recovery Bonds, but in all events no later than necessary to collect funds sufficient to pay principal, interest, and Ongoing Financing Costs payable on the first payment date of the Recovery Bonds.

30. Southern California Edison Company's (SCE) monthly Consumer electric bill shall disclose the amount of the Fixed Recovery Charges (together with charges relating to the Recovery Bonds issued pursuant to the AB 1054 CapEx Financing Orders and any future securitization charges) in a single line item identified on each Consumers' monthly bill (except for those customers participating in the California Alternate Rates for Energy or Family Electric Rate Assistance programs pursuant to Public Utilities (Pub. Util.) Code Section 850.1(i)) as electric charges titled "Fixed Recovery Charge." A description of the Fixed Recovery Charges should reflect that the Fixed Recovery Charges, which do not belong to SCE, have been transferred to the Special Purpose Entity (SPE), which does not belong to SCE, and that SCE is collecting the Fixed Recovery Charges on behalf of the SPE, all in accordance with the

body of this Financing Order, and this description shall appear in the “Things You Should Know” section at the bottom of each Consumer’s bill. If the descriptions are not on the bill, SCE shall also include the descriptions in an annual insert. Such bill presentation as described here is consistent with the requirement of Pub. Util. Code Section 850.1(g) that the Fixed Recovery Charge “appear on the Consumer bills” as further described in the body of this Financing Order and Conclusion of Law 41.

31. In the event of any default by the servicer, the Trustee shall be entitled to receive a reconciliation of actual collections of the Fixed Recovery Charge, including an allocation of partial payments, which allocates any partial payments by Consumers based upon a pro rata allocation methodology among the Fixed Recovery Charges, and other rates and charges as described in Conclusion of Law 50.

32. If a Southern California Edison Company (SCE) Consumer fails to pay the Fixed Recovery Charge, SCE may shut-off power to such Consumer in accordance with shut-off policies approved by the California Public Utilities Commission; provided, that temporary changes in utility shut-off procedures due to emergencies shall be permitted in accordance with state law.

33. The True-Up Mechanism for adjusting the Fixed Recovery Charge that is described in the body of this Financing Order and the accompanying Conclusions of Law, including the use of an advice letter process, is approved. Southern California Edison Company is authorized to and shall submit annual Routine True-Up Mechanism Advice Letters (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Recovery Bonds) and more frequent, if necessary, semi-annual and interim Routine True-Up Mechanism Advice Letters in the form, timeframe, and manner described in the body of this Financing Order and the accompanying Conclusions of Law, until all Recovery Bonds and all associated Financings Costs are paid in full. The adjustments to the Fixed Recovery Charges specified in these advice letters shall go into effect

automatically in the timeframes addressed in this Financing Order and the advice letter(s).

34. Southern California Edison Company may submit Non-Routine True-Up Mechanism Advice Letters in the manner described in the body of this Financing Order and the accompanying Conclusions of Law based on the pro forma example contained in Attachment 4 to this Financing Order to reflect any revisions to be adopted in any future related proceeding.

35. Southern California Edison Company shall not resign as servicer without prior approval from the California Public Utilities Commission.

36. Subject to the review and approval of the Finance Team in the pre-issuance approval letter described in Ordering Paragraph 4, the Special Purpose Entity shall pay an annual servicing fee to Southern California Edison Company or any successor servicer.

37. Subject to the review and approval of the Finance Team in the pre-issuance approval letter described in Ordering Paragraph 4, the Special Purpose Entity shall pay an annual administration fee to Southern California Edison Company as administrator of the Special Purpose Entity.

38. If Consumers of electricity in Southern California Edison Company's (SCE) Service Territory are billed by Third-Party Billers, SCE or a successor servicer shall bill the Consumer directly or may require these Third-Party Billers to bill for the Fixed Recovery Charges and to remit the Fixed Recovery Charge collections on behalf of such Consumers.

39. Third-Party Billers that bill and collect the Fixed Recovery Charges from Southern California Edison Company's (SCE) Consumers shall satisfy the requirements set forth in SCE's applicable tariffs.

40. The appointment of any third-party servicer of Recovery Property shall not be approved without first determining that: (i) such approval will not cause any then-current credit rating of any then outstanding Recovery Bonds to be withdrawn

or downgraded; and (ii) the servicing fee paid to the third-party servicer is reasonable. A servicing fee payable to a third-party Servicer shall be as reviewed and approved by the Finance Team and the California Public Utilities Commission.

41. Southern California Edison Company shall remit Fixed Recovery Charge collections to the Bond Trustee, on behalf of the Special Purpose Entity, in accordance with the procedures described in the body of this Financing Order and the accompanying Conclusions of Law.

42. The Bond Trustee shall: (i) account for all funds as described in the body of this Financing Order and the associated Conclusions of Law; (ii) invest all funds in investment-grade short-term debt securities; and (iii) make principal and interest payments to Recovery Bond investors and pay other Financing Costs.

43. In the event of a default by Southern California Edison Company in transferring the Fixed Recovery Charge collections to the Bond Trustee, on behalf of the Special Purpose Entity (SPE), the following parties may petition the California Public Utilities Commission to order the sequestration and payment to the Bond Trustee for the benefit of the SPE of revenues arising from the Recovery Property: (a) the holders of the Recovery Bond(s) and the Bond Trustees or representatives thereof as beneficiaries of any statutory or other lien permitted by the Public Utilities Code; (b) the SPE or its assignees; and (c) pledgees or transferees, including transferees under Public Utilities Code Section 850.4, of the Recovery Property.

44. Recovery Bonds shall be excluded from Southern California Edison Company's ratemaking capital structure.

45. Southern California Edison Company shall establish the Fixed Recovery Charge and a distribution sub-account in its Base Revenue Requirement Balancing Account to record costs and benefits for subsequent recovery from or credit to Consumers as described in the body of this Financing Order and the accompanying Conclusions of Law.

46. All regulatory approvals within the jurisdiction of the California Public Utilities Commission that are necessary for the securitization of the Fixed Recovery Charges associated with Recovery Costs that are the subject of the Application, and the issuance of the Recovery Bonds and all related transactions contemplated in the Application, are hereby granted.

47. Pursuant to Public Utilities Code Section 824 and General Order 24-C, Southern California Edison Company shall maintain records that: (i) identify the specific Recovery Bonds issued pursuant to this Financing Order; and (ii) demonstrate that the proceeds from the Recovery Bonds have been used only for the purposes authorized by this Financing Order.

48. Southern California Edison Company shall report on behalf of the Special Purpose Entity, all information required by General Order 24-C and the California Public Utility Commission's Financing Rule regarding all Recovery Bonds.

49. This Financing Order shall become effective in accordance with its terms and conditions only when Southern California Edison Company (SCE) provides its written consent to all terms and conditions of this Financing Order. This Financing Order shall be void and of no force or effect if SCE does not provide its written consent to all terms and conditions of this Financing Order.

50. Southern California Edison Company (SCE) shall file and serve within 10 days from the date the Financing Order is mailed a written statement that either: (i) SCE consents to all terms and conditions of this Financing Order; or (ii) SCE does not consent to all terms and conditions of this Financing Order. If the latter, SCE's written statement shall identify the specific terms and conditions it does not consent to and explain why it does not consent to these terms and conditions.

51. Following Southern California Edison Company's (SCE) written consent, this Financing Order, together with the Fixed Recovery Charges authorized by this Financing Order, shall become irrevocable to the extent specified in Public Utilities Code Section 850.1(e) and binding upon SCE and any successor to SCE that provides

electric distribution service directly to Consumers of electricity within SCE's Service Territory.

52. On or after the effective date of this Financing Order, upon the request of Southern California Edison Company (SCE), the Special Purpose Entity (SPE), the Bond Trustee, or all of them, the California Public Utilities Commission's (Commission) General Counsel shall execute and deliver the following to SCE, the SPE, and/or the Bond Trustee: (i) a certificate that attaches a true, correct, and complete copy of this Financing Order and certifies such copy to be the act and deed of this Commission; (ii) a certificate that states this Financing Order has not been altered, rescinded, amended, modified, revoked, or supplemented as of the date of the closing of the Recovery Bonds authorized by the Financing Order; and (if timely) (iii) a certificate that states the California Public Utilities Commission has reviewed and approved the Recovery Bonds in accordance with the Financing Order.

53. Within 10 days from the date when all conditions precedent to the issuance of the Recovery Bonds have been satisfied, and in any event prior to the issuance of the first series of Recovery Bonds, Southern California Edison Company (SCE) shall remit by wire transfer to the Commission's Fiscal Office the Public Utilities Code Section 1904 fee amount of \$820,624, which amount is subject to change based on the final principal amount of Recovery Bonds to be issued pursuant to this Financing Order as set forth in the Issuance Advice Letter, and the Special Purpose Entity shall reimburse SCE for such payment. This Financing Order decision number shall be referenced in connection with the wire transfer.

54. Southern California Edison Company (SCE) will periodically credit back to customers through SCE's Base Revenue Requirement Balancing Account all periodic servicing and administration fees in excess of SCE's incremental cost of performing the servicing and administration functions until its next general rate case when the costs and revenues associated with the servicing and administrative fees will be included in the cost of service.

55. The Application is granted and denied to the extent set forth in the previous Ordering Paragraphs.

56. The Joint Motion of Southern California Edison Company and Public Advocates Office to Seal the Evidentiary Record is granted.

57. The Joint Motion of Southern California Edison Company and Public Advocates Office to Admit Testimony and Exhibits into Evidence is granted.

58. The Joint Stipulation of Southern California Edison Company and Public Advocates Office is adopted.

59. Application 25-04-021 is closed.

This order is effective today

Dated August 28, 2025, at San Francisco, California.

ALICE REYNOLDS  
President  
DARCIE L. HOUCK  
JOHN REYNOLDS  
KAREN DOUGLAS  
MATTHEW BAKER  
Commissioners

**ATTACHMENTS (1-6)**

#1: Cash Flow Model

#2: Form of Issuance Advice Letter

#3: Form of Routine True-Up Mechanism Advice Letter

#4: Form of Non-Routine True-Up Mechanism Advice Letter

#5: List of Estimated Upfront Financing Costs

#6: Joint Motion to Admit Testimony & Exhibit Into Evidence



## **GLOSSARY OF TERMS**

SB 901: Senate Bill No. 901, enacted in September 21, 2018, provides authorization for the Commission to permit recovery, including through issuance of recovery bonds, of 2017 catastrophic wildfire costs and expenses.

AB 1054: Assembly Bill No. 1054, enacted in 2019 to address fire risks.

Authorized Amount: The total of the Claims-Related Costs, the Pre-Securitization Debt Financing Costs, and the Upfront Financing Costs (i.e., the total amount of the Recovery Bonds).

Bond Collateral: The Recovery Property as well as all other rights and assets of the SPE.

CARE: California Alternate Rates for Energy program.

Claims-Related Costs: the amounts tracked in Wildfire Expense Memorandum Account (WEMA) that were approved as just and reasonable in the Thomas Settlement Decision, excluding the Pre-Securitization Debt Financing Costs.

CGDL-CRS: Customer Generation Departing Load Cost Responsibility Surcharge.

Consumers: Electricity customers in SCE's Service Territory.

DL Consumers: Departing Load Consumers.

EDGARization is the process of converting original documents -- MS Word, MS Excel, PDF, etc. -- into acceptable SEC format.

Exempt Fixed Recovery Charge Customer Classes: This collectively refers to customers enrolled in the CARE and FERA programs. § 850.1(i) expressly provides that fixed recovery charges shall not be imposed on customers that receive either the CARE or the FERA programs discount pursuant to § 739.1.

FERA: Family Electric Rate Assistance program.

Fixed Recovery Charge: The nonbypassable charge allocated to Consumers to pay for the Recovery Bonds' debt service and other Ongoing Financing Costs.

Initial AB 1054 CapEx: SCE's Application's initial tranche of its Total AB 1054 CapEx, which is \$326,981,000 in fire risk mitigation capital expenditures and wildfire-related costs and expenditures approved in D. 20-11-007.

Initial AB 1054 CapEx Financing Order: the financing order issued in D.20-11-007.

Issuance Advice Letter: Document detailing the final proposed terms for the Recovery Bonds.

NMDL: New Municipal Departing Load.

Ongoing Financing Costs: Financing Costs, defined in Section 850(b)(4), that are associated with servicing the Recovery Bonds and supporting the operations of the SPE.

Pre-Securitization Debt Financing Costs: The cost of the debt that SCE is incurring on the Claims-Related Costs, until the Recovery Bonds are sold on the financial market.

Recovery Bonds: Financial instrument approved in Public Utilities Code Section 850 for securitizing approved fire risk mitigation plan capital expenditures and wildfire-related costs and expenditures.

Recovery Property: The nonbypassable Fixed Recovery Charge.

Second AB1054 CapEx: SCE's Application's second tranche of its Total AB 1054 CapEx, which is \$517,581,000 in fire risk mitigation capital expenditures and wildfire-related costs and expenditures approved in D. 21-10-025.

Second AB1054 CapEx Financing Order: the financing order issued in D.21-10-025, as modified by D.21-12-020.

Special Purpose Entity (SPE): SCE's proposed wholly owned yet legally separate subsidiary, which would exist solely to issue Recovery Bonds.

Third-Party Billers: Electric Service Providers (ESPs) or other utilities in SCE's Service Territory.

Third AB1054 CapEx: SCE's Application's third tranche of its Total AB 1054 CapEx, which is \$772,432,000 million in fire risk mitigation capital expenditures and wildfire-related costs and expenditures approved in D.23-02-023.

Third AB1054 CapEx Financing Order: the financing order issued in D.23-02-023.

Thomas Settlement Decision: D.25-01-042, approving the Thomas Settlement.

TMDL: Transferred Municipal Departing Load.

Total AB 1054 CapEx: SCE's \$1.575 billion share of fire risk mitigation capital expenditures and wildfire-related costs and expenditures subject to Equity Rate Base Exclusion.

True-Up Mechanism: The various adjustments that can be made to the Fixed Recovery Charge to ensure adequate recovery to support the Recovery Bonds.

Upfront Financing Costs: The cost of all acts and services related to issuing the Bonds.

WEMA: Wildfire Expense Memorandum Account.