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PG&E Rescue Fund Bond Sale Delayed by Drop in Power Demand.

- **California can't sell new bonds until existing ones retire**
- **Virus-related shutdown means less collected to defease bonds**

The coronavirus-related economic shutdowns have led to one arcane consequence: delaying California's sale of $10.5 billion in bonds to finance future wildfire costs.

Power customers are using less electricity with shops and businesses closed, and that has slowed the efforts to pay down bonds sold in the last energy crisis that must be defeased before the new debt is offered.

The delay means the state can't take advantage of the current rally in the $3.9 trillion municipal market. While investors in need of tax-havens generally seek California bonds, the market now is seeing even greater demand for such securities. Bondholders are set to receive a wall of debt payments this summer that's expected to exceed the amount of new securities on tap.

"It's hard to anticipate what the fall is going to look like," said James Dearborn, director of municipal credit research at DWS. "If they were issuing bonds today, I think they would be well received."

Last year, California Governor Gavin Newsom and state legislators agreed to establish a $21 billion fund to help utility giants including PG&E Corp. and Edison International cover future liabilities when their equipment ignites catastrophic blazes. Such exposure led to PG&E Corp.'s bankruptcy last year, and its incipient exit will allow it to tap the fund.

The fund was part of legislation needed to keep investor-owned power companies operating as wildfires increase in number and severity. An unusual California doctrine holds utilities liable for wildfires that their equipment sparks, even if they aren't proven negligent, leaving officials worried about the reliability of power in the most-populous U.S. state.

Helping finance the fund is $10.5 billion to be raised through the sale of municipal revenue bonds. The bonds will be backed by a charge customers are already seeing on their bills from the $11.2 billion in bonds the state sold starting in 2002. That issuance reimbursed California from buying electricity for insolvent utilities hobbled by rising prices and manipulation by Enron Corp. and other companies in the deregulated market.

The catch: California officials have to wait until they can defease those bonds, of which $1.5 billion is outstanding. The amount collected by the $.005 per kilowatt hour charge depends on usage. With the state mandating residents to shelter in place at the end of March, electricity demand dropped. Since the first full week of the statewide stay-at-home order through June 7, homes, businesses and manufacturers used 3.7% less in electricity on an average weekday, according to California ISO, which manages the state's power grid.

Originally, the bonds were to be retired around the third week of August. Due to lower than projected revenue, the estimate is now mid- to late-September, with the new bonds potentially being sold in October, according to the state treasurer's office. It's likely the new bonds would pay back the $2 billion in loans to the fund from the state's general fund, said H.D. Palmer, a spokesman for Newsom's finance department.

Contributions from the utilities make up the rest of the fund. PG&E's share is $4.8 billion. Southern California Edison made its initial contribution to the fund of $2.4 billion in September 2019 and made the first of its 10 annual payments of $95 million in December. SDG&E made its first initial contribution of $322.5 million and its first of its ten annual payments of $12.9 million.

Bloomberg Law

June 22, 2020, 10:33 AM

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