

PG&E HEARING EXHIBIT PGE-39

A.20-04-023

PG&E'S SECURITIZATION 2020

Direct Testimony of Aaron L. Rothschild on behalf of Wild Tree Foundation in
Proceeding A.20-07-008 (Sept. 18, 2020)

Docket:	A.20-07-008
Exhibit Number:	_____
Commissioner:	Marybel Batjer
ALJ:	Jason Jungreis
Witness:	Aaron L. Rothschild

**DIRECT TESTIMONY OF AARON L. ROTHSCHILD
ON BEHALF OF WILD TREE FOUNDATION**

**Application of Southern California Edison Company (U338E) for Authority to Securitize
Certain Costs and Expenses Pursuant to Public Utilities Code Section 850 et seq.**

April Rose Maurath Sommer
Executive and Legal Director

Wild Tree Foundation
1547 Palos Verdes Mall #196
Walnut Creek, CA 94597
April@WildTree.org
(925) 310-6070

Dated: September 18, 2020

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1 I. STATEMENT OF QUALIFICATIONS

2 **Q. Please state your name and business address.**

3 **A.** My name is Aaron L. Rothschild. My business address is 15 Lake Road, Ridgefield, CT.

4 **Q. By whom are you employed and what is your position?**

5 **A.** I am President of Rothschild Financial Consulting

6 **Q. Please describe your duties and responsibilities.**

7 **A.** I am responsible for preparing expert witness testimony, capital market research, business
8 development, and building consulting teams.

9 **Q. Please describe your educational background and professional experience.**

10 **A.** I have a B.A. (1994) degree from Clark University in mathematics and an M.B.A. (1996)
11 from Vanderbilt University. I provided financial analysis in the telecom industry in the
12 United States and Asia Pacific from 1996 to 2001, investment banking in New York,
13 complex systems science research regarding the power sector at an independent research
14 institute, and I have prepared financial testimonies in utility rate case proceedings since
15 2002. See Appendix A for my resume and Appendix B for my testifying experience.

16 II. PURPOSE OF TESTIMONY

17 **Q. What is the purpose of your testimony?**

18 **A.** Southern California Edison (SCE) has filed an application for authority to securitize
19 certain wildfire related costs as Recovery Bonds under AB 1054, Public Utilities Code
20 section 850 et seq (the Recovery Bonds). The focus of my testimony is on whether any

1 Recovery Bonds issued under the terms of SCE's proposal “would reduce, *to the*
2 *maximum extent possible*, the rates on a present value basis that consumers within the
3 electric corporation's service territory would pay as compared to the use of traditional
4 utility financing mechanisms”¹

5 My testimony demonstrates that the Commission would not have sufficient,
6 accurate and non-biased information to determine whether SCE has complied with all
7 legislative requirements and the terms of the financing order if the Commission gives up
8 all future regulatory review of SCE following a decision in this proceeding, as proposed
9 by SCE. Based upon a review of Commission precedent and best practices in the
10 structuring, marketing and pricing of utility securitization bonds and established precedents
11 around the country, as well as SCE's answers to the Wild Tree Foundation’s data requests,²
12 I recommend a pre-bond issuance review process whereby the financing order is written
13 so that the Commissions can retain jurisdiction over these aspects of the bond to ensure
14 that bond costs are minimized, and other legislative requirements are met before the bonds
15 sold.

16 **Q. Please summarize your conclusions and recommendations.**

17 **A.** In my opinion, there is a material risk that SCE's plan for structuring, marketing and
18 pricing their securitization bonds would not “reduce, to the maximum extent possible, the
19 rates on a present value basis that consumers within the electric corporation's service
20 territory would pay as compared to the use of traditional utility financing mechanisms.”

¹ Pub. Util. Code, §850.1, subd. (a)(1)(A)(iii). The statute contains two other requirements – that the terms of the Recovery Bonds be “just and reasonable” and “consistent with the public interest” -- that the applicant must also meet.

² Attachment A is a compilation of SCEs' responses to the Wild Tree data quests relevant to my analysis and conclusions.

1 As I explain below, the Commission can take the necessary steps within the 120-day
2 timeframe to ensure these bonds fulfill the statutory requirements.

3 From a thorough review of Commission precedent and precedents from other
4 state utility commissions³ across the country regarding the approval of utility
5 securitization bonds, certain “best practices” have emerged. Fundamentally, the best way
6 to ensure that the consumers rates are reduced “to the maximum extent possible” on its
7 one shot is for the utility to agree to a cooperative and collaborative process in which the
8 Commission is on equal footing with the utility after the approval of the financing order
9 and before the issuance of the bonds. This means the Commission will form a “financing
10 team” composed of Commission staff and the utility advised by independent experts in
11 utility securitizations. The financing team will play a proactive role in the negotiation
12 process with the utility and underwriters to identify issues and necessary conditions and
13 to advise on the drafting of the related financial instruments. The financing team and pre-
14 issuance review process can be established through a properly worded financing order.

15 My principal concern with SCE’s proposal is that it would not provide sufficient
16 information or allow for appropriate due diligence by the Commission to be able to
17 determine if SCE’s proposed structure marketing and pricing reduces costs to the
18 “maximum extent possible.” Without the Commission’s active involvement following the
19 issuance of the financing order, consumers will likely overpay because their interests will
20 not be represented during the structure, marketing and pricing of the bonds. SCE only

³ For this testimony, I reviewed the publicly available financing orders of all investor-owned utility securitizations from 2001 to present. Attached as exhibits are best practice financing orders from Texas (Reliant Energy and CPL), West Virginia (MP, Monongahela and Potomac Edison), New Jersey (PSE&G) and Florida (FPL and Duke Energy). In addition, I reviewed testimony presented by staff witnesses in Florida and by witnesses presented by California Community Choice Associate on securitization before the CPUC in 2018. Also attached as exhibits are the referenced testimony.

1 proposes to keep the Commission informed of decisions it has made with the underwriters.
2 SCE's proposal places express reliance on "the advice of the underwriters" to determine
3 how "[t]he final terms and structure [of the bonds] would be designed" to meet the statutory
4 "objective of reducing, to the maximum extent possible, the total cost of borrowing."⁴ This
5 is problematic because there is an inherent conflict of interest between underwriters and
6 consumers. Moreover, in securitization bonds, unlike the utility's traditional bonds, the
7 law completely insulates SCE from any financial risk and regulatory risk of a mispricing
8 or inefficient or sub-optimal structuring of the bonds. All the costs are passed directly onto
9 consumers through a nonbypassable charge and the utility thus has no financial incentive
10 to seek the lowest costs bonds.

11 III. BEST PRACTICES OF OTHER STATE PUBLIC UTILITY COMMISSIONS

12 **Q. How are Recovery Bonds different from traditional utility debt instruments?**

13 **A.** Securitization is the process of issuing highly-rated securities through special purpose,
14 bankruptcy-remote or ring-fenced entities, a Special Purpose Entity ("SPE"). In a
15 securitization of costs by an investor owned utility ("IOU"), as in this case, pursuant to
16 the enabling legislation, a utility regulatory commission issues an irrevocable Financing
17 Order and authorizes a specific dedicated rate component to be imposed on all sales of
18 electricity within a given utility's service territory to support the payment of principal and
19 interest on securitized bonds sold to private investors. That dedicated rate component is
20 periodically adjusted, up or down, through a true-up mechanism to whatever level is
21 necessary to create a stable cash flow to pay off the bonds. Combined, these factors

⁴ See Exhibit SCE-03, Transaction Overview (B. Pang) page 26.

1 should enable these securitized bonds to receive the highest credit rating score from the
2 nationally recognized bond rating agencies and therefore the potential of getting the
3 lowest interest rate available.

4 Since 1997, all utility securitization debt has been rated AAA by major credit
5 rating agency except for one transaction.⁵ However, it is important to remember that a
6 high rating does not ensure the lowest interest rates and therefore the lowest customer
7 charges possible at the time of pricing. There are no “standard” rates in the market for
8 different credit ratings. As SCE admits, “not all AAA rated bonds with a similar
9 weighted average life have the same credit spread to benchmark rate securities, i.e. U.S.
10 Treasuries.”⁶ If there were standard rates there would be no need for underwriters or a
11 “negotiated” transaction. This fact alone suggests that the commission cannot make a
12 final determination on November 5, 2020 when the bonds will not be sold by SCE’s
13 estimate until First quarter 2021.

14 A securitization, while lower in cost than traditional utility financing mechanisms,
15 will not necessarily produce the *lowest* costs to the consumer when the bonds are priced
16 or the maximum present value savings. Substantial amounts of consumer dollars will be
17 “left on the table” in interest costs, fees and more without proactive oversight by
18 someone with a direct duty to the real obligor in this transaction, the consumer.

19 **Q. Does SCE have an interest in striking the best deal for consumers in this case?**

20 In the case of a conventional financing, a utility has an incentive to issue bonds at
21 the lowest possible interest rate because a lower cost of debt reduces the utility’s financial

⁵ Entergy New Orleans securitization bonds received an Aa1 rating from Moody’s.

⁶ Attach A, WTF-SCE DR#1Q006m.

1 risk and, other things being equal, can result in lower interest rates, higher earnings and
2 ultimately the possibility of a higher stock price. SCE admits that between cost of capital
3 proceedings its earnings increase as the interest rate and underwriting fees of traditional
4 utility debt securities decrease.⁷

5 But in a Recovery Bond securitization like that at issue, the utility's ordinary
6 incentives are not present because the entire risk falls on the consumer and the state. The
7 interest paid on securitization bonds is collected directly from ratepayers by SCE for the
8 SPE. In the case of under collection, the securitization bond holders can require ratepayers
9 to make up the shortfall through the true-up mechanism; the utility company's earnings,
10 dividends and therefore its stock price will not be affected.

11 Because the utility has no financial risk for the Recovery Bonds, the utility does not have
12 the incentive to strike the best deal in the marketplace in negotiations with underwriters
13 and investors. SCE's principal financial objective in this transaction is to get the money
14 from the bonds as quickly as possible. Regarding Florida Power & Light's application to
15 issue storm-bonds in 2001, Michael L. Noel, the former CFO of SCE, stated the following:
16 "FPL's highest priority in this transaction likely will be to get the issuance done quickly,
17 with cost taking a lower priority."⁸

18 SCE would not have the Commission retain any oversight over bond terms other
19 than to make a "yes/no" determination on the bond offering within 4 business days of the
20 pricing of the bonds with only "updates" on what it has decided. SCE would not have
21 the Commission participate directly in the negotiating process as other commissions

⁷ Attachment A, SCE-WTF DR#1Q004.

⁸ Attachment A, Direct Testimony of Michael L. Noel, Florida Power & Light Company's proposed storm-recovery bond issue, Docket No. 060038-EI, March 31, 2006, p7, lines 7-8.

1 have and this proceeding will not result in an accountable record regarding bond terms.

2 Obviously, no record can be developed during the 4 days after pricing and the
3 Commission will not, therefore, have the evidence upon which to make an informed
4 decision regarding bond terms. The Commission cannot ensure that the statutory
5 mandate to minimize ratepayer costs will be met, under SCE's plan. If the Commission
6 does not think the SCE bond offering fulfills California statutory requirements it has
7 only one option: stop the entire transaction after it has been structured, marketed and
8 priced. This is a classic "Hobson's Choice" - the illusion of a choice with two bad
9 outcomes.

10 Ensuring that the bond is structured correctly, at the outset, is therefore, critical.
11 Once the bonds are sold the Commission gives up all further review of the Recovery
12 Bonds charge and cannot alter SCE's other rates for any reasons related to the financing
13 order. This situation "represents an extraordinary relinquishment of future regulatory
14 authority and a shifting of all economic burdens in connection with [these] Recovery
15 Bonds from [the utility] to its customers."⁹ Thus, because the financing order will be
16 irrevocable it is necessary "to ensure from the outset that clear standards and effective
17 measures are in place to safeguard the interests of consumers."¹⁰

⁹ Florida Public Service Commission, *Florida Power and Light*, *supra*, FPSC Order No. PSC-06-0464-FOF-EI at p. 6.

¹⁰ Florida Public Service Commission, *Florida Power and Light*, *supra*, FPSC Order No. PSC-06-0464-FOF-EI at p. 6.

1 **Q. Do you agree with SCE that reliance on underwriters to minimize costs to**
2 **consumers is sufficient to meet the statutory requirement?**

3 No, I do not agree with SCE’s proposal to rely on underwriters. Underwriters have an
4 inherent conflict of interest in determining the cost of the bonds. SCE’s proposal to rely
5 entirely on “the advice of the underwriters” to meet cost minimization requirement is
6 insufficient because of this conflict of interest between underwrites and consumers. Mr.
7 Noel stated the following regarding the conflict of interest between consumers and
8 underwriters regarding Florida Power & Light’s application to issue securitized bonds: “the
9 interests of underwriters are fundamentally adverse to the interests of ratepayers” and
10 “underwriters will want to negotiate for relatively high rates of interest so that their sales
11 forces will be able to sell the storm-recovery bonds with the least effort, satisfying the
12 desires of their investor clients for high interest rates.”¹¹

13 Underwriters are the initial purchasers of the bonds at a discount from the issuer
14 (their fee) and typically resell the bonds to investors at or close to face value. The higher
15 the interest rate, the easier it is for the underwriters to resell the bonds, earn their full fee
16 and move on to the next deal. Therefore, it is in the underwriters’ economic interest to
17 get a higher cost to make the sale easier to their customers, the ultimate investors.

18 Investors also want as high an interest rate as possible. And often investors – who
19 are the main customers of the underwriter – are willing to write big checks and buy the
20 bonds with as high a yield as possible from the underwriter. They use their large orders
21 to drive the pricing to their desired levels. Underwriters are often happy to accommodate

¹¹ Attachment A, Direct Testimony of Michael L. Noel, Florida Power & Light Company’s proposed storm-recovery bond issue, Docket No. 060038-EI, March 31, 2006

1 this because they need those same large investors to buy other deals from them and trade
2 securities.

3 Even underwriters with a track record of integrity and transparency must be
4 expected to act in their own economic interests. Like the real estate agent who acts on
5 behalf of the seller not the buyer, the underwriter's interest is in obtaining the *highest*
6 yield for the bonds and in structuring a transaction for the quickest and easiest sale in the
7 market at the lowest possible risk to their capital. Indeed, they would prefer never to
8 have to actually “underwrite” any portion of the bonds but instead sell all the bonds at the
9 yield that is attractive to their customers not the utility’s consumers.

10 This conflict of interest is well known. Under Dodd-Frank, an underwriter cannot
11 lawfully be both the advisor to a state or local government on the structure, marketing
12 and pricing of government bonds and also serve as the underwriter of those bonds. While
13 underwriters of private bonds are not subject to this prohibition, the inherent conflict is
14 the same.

15 Indeed, underwriters make clear in all written engagement agreements that they
16 have no fiduciary duty to act in the best interests of those responsible for paying back the
17 bonds. For example, a recent SCE underwriting agreement included the following
18 acknowledgments: “The Company. . . shall be responsible for making its own independent
19 investigation and appraisal of the transactions contemplated hereby, and the Underwriters
20 shall have no responsibility or liability to the Company with respect thereto. Any review
21 by the Underwriters of the Company, the transactions contemplated hereby or other matters
22 relating to such transactions will be performed solely for the benefit of the Underwriters

1 and shall not be on behalf of the Company.”¹² SCE, in fact, admits that these
2 acknowledgements are the “market standard and will appear in the underwriting
3 agreements with the selected underwriters.”¹³ Underwriters require the issuer who is
4 responsible for repaying the bonds to explicitly acknowledge and accept what this means.

5 Other state utility commissions have found this single fact of the underwriter’s
6 conflict of interest with ratepayers to warrant a pre-issuance review process that is vastly
7 different from the “we’ll tell you what we’ve decided” that SCE has proposed. The
8 overwhelming choice of state utility commissions since 2005 is for proactive oversight and
9 involvement in structuring, marketing and pricing of ratepayer -backed bonds to protect
10 consumer interests.¹⁴

11 The absence of a fiduciary responsibility for underwriters has also led commissions
12 to conclude that the advice they receive should not be from financial advisors who also
13 underwrite the utility’s debt and equity with conflicting loyalties but from those solely with
14 a duty of loyalty and care to the commission and its ratepayers.¹⁵

15 In this case, it appears that SCE has already selected Barclays to be both an advisor
16 and underwriter. SCE states, “Barclays, as structuring advisor, will also assist in the
17 preparation of expert testimony on proposed securitization and the analysis of the cost
18 savings and cash flow modeling. As part of the group of underwriters to be chosen,
19 Barclays will offer advice on marketing and pricing of the recovery bonds as one of a team
20 of underwriters and it is in this capacity that the acknowledgement applies.”¹⁶

¹²Attachment A, WTF-SCE DR#1Q007a.

¹³ Attachment A, WTF-SCE DR#1Q007a.

¹⁴ Attachment **for** a chart of all investor owned-utility securitization financing orders from 2005 to present.

¹⁵ See, e.g., Florida PSC Duke Energy Order, *supra*, Ordering Par. 59. See also Monongahela Power Company and The Potomac Edison Company, both doing business as Allegheny Power “Second Joint Stipulation and Agreement to Modify Financing Order”, *supra* at page 80.

¹⁶ Attachment A, WTF-SCE 007a

1 SCE actually acknowledges the inherent conflict of interest of underwriters,
2 maintains this is not an issue in this case because, “[a] structuring advisor, Barclays’
3 responsibilities include *reviewing* the relevant provisions of AB 1054” and that the
4 underwriters “will be made *aware* of the statutory standard¹⁷.” These promises are utterly
5 meaningless, when the underwriter says “I am aware of your responsibilities. However,
6 they are not my responsibilities as we have agreed in the Underwriting Agreement.”

7 The obligor needs to create a competitive process among underwriters and
8 investors to achieve the greatest leverage in negotiations and therefore the lowest possible
9 cost. But the nominal obligor in the securitization – the SPE owned by the utility – has
10 the unfettered ability to pass all costs directly onto consumers. The real obligor – the
11 consumer – doesn’t get a say in that process under the SCE proposal unless the
12 Commission provides the oversight and involvement in the process like so many other
13 commissions have done to protect the consumer. The traditional regulatory incentives
14 that produce lower costs do not apply to Recovery Bonds.

15 Some underwriters will be more competitive on a specific bond issue if they
16 anticipate economic gain from future transactions or related business if they perform
17 successfully and please the decision-makers. Others may seek to maximize their income
18 solely from the transaction. Still other underwriters may have lower compensation
19 hurdles and be willing to be more aggressive in distribution and pricing. These are
20 elements of the public capital markets. Everyone can be expected to act in their own
21 economic interest. It is important for any issuer to have experience with market
22 participants and negotiate hard to achieve the best deal possible.

¹⁷ Attachment A, WTF-SCE-007a

1 **Q. Do you believe the securitization structures presented by SCE’s witnesses will reduce,**
2 **to the maximize extent possible, the rates consumers will pay on a present value (PV)**
3 **basis?**

4 **A.** No. SCE witness Pang presented what was referred to as four structures and stated that
5 they examined both shorter and longer maturities but, in essence, only two structures were
6 examined. One structure had a weighted average life of about 6 years and the other three
7 structures had a weighted average life of about 10 years. The longest final scheduled
8 maturity data Barclays examined was 18 years.¹⁸ I would not consider this a “maturity
9 scenario analysis.” SCE application and testimony do not include any conducted any
10 sensitivity analysis as to present value savings. Rather, it appears that because Barclays
11 insists on considering the bonds asset backed securities (“ABS”) – and there are few ABS
12 bonds with maturities longer than 5-10 years they only altered the “classes” to have
13 different weighted average lives but still had the same maturity.

14 **Q. How can present value savings to consumers for SCE’s proposed recovery bond be**
15 **materially increased?**

16 The present value savings can be materially increased if SCE issues bonds with longer
17 maturities than 18 years. This is a critical sensitivity that SCE should have spent
18 considerable time addressing in their testimony because of the large potential present value
19 savings to consumers. I estimate consumers would receive an incremental present value
20 savings of at least \$30 million and possibly up to \$50 million if the SCE’s securitized bonds

¹⁸ See TURN – SCE A. 003 – PAO-SCE-001-LMW Q. 002 – Attachment 2, Structure 2, 3 and 4. The furthest maturity date provided was 11/15/2038.

1 are issued with a maturity of 30 years instead of 18 years.¹⁹ The present value savings to
2 consumers for the entire planned issuance of over \$1.5 billion would likely be hundreds of
3 millions. It is SCE’s responsibility to fully explore the benefits of issuing bonds with
4 significantly longer time periods that proposed by Barclays.

5 IV. BEST PRACTICES OF OTHER STATE PUBLIC UTILITY COMMISSIONS

6 **Q. How did you determine what could be considered best practices for utility Recovery**
7 **Bonds securitizations?**

8 **A.** I have reviewed materials from all state commission proceedings that involved similar
9 utility applications for orders authorizing the use of ratepayer-backed bonds similar to
10 Recovery Bonds from 1997 to present.²⁰ I reviewed the legislation authorizing
11 securitizations and the standards embodied in them; the language of and approval process
12 for financing orders for securitization transactions in California and other states for
13 investor-owned electric utilities²¹; and legal and economic analyses of pricing and other
14 items affecting customers in those utility service territories.²²

15 In reviewing financing orders from other states, I looked for terms and conditions
16 that gave the greatest protections to ratepayers throughout the process. I looked for key
17 terms and conditions in the irrevocable Financing Orders, and for practices in the
18 structuring, marketing, and pricing of the securities.

¹⁹ I estimated the market rate for SCE’s securitized bonds with 18 and 30 years maturity by extrapolating the yield spread over the corresponding U.S. Treasury rates. I did this by running a regression analysis on the interest rates used by Barclays presented structures provided in response to PAO – SCE-001-LMW and the U.S. Treasury Yield curve on June 25, 2020 (the date of the Barclays analysis). For the purposes of this analysis I assume Barclays interest rate estimates are accurate.

²⁰ See Attachment (relevant testimonies filed before this Commission.)

²¹ See Attachment My review, in particular, includes documents from approval processes for financing orders for securitization transactions included as Attachment

²² See Attachment My review, in particular, includes the analyses included as Attachment .

1 I also did a general review of the terms and conditions of the various transactions'
2 implementation agreements -- servicing agreements, administration agreements,
3 amendment provisions and other arrangements or contracts that could affect ratepayer
4 costs or liabilities available as exhibits on the SEC website for public registered
5 transactions.

6 I also reviewed "Issuance Advice Letters" (IALs) submitted by the utility to their
7 regulator after the recovery bond transaction. These IALs listed costs and often described
8 actions taken by the utility and the commission, the commission's advisor, if any, and
9 any certifications presented to the Commission upon which they could evaluate and make
10 a "yes/no" decision as proposed by SCE in this transaction.²³

11 I reviewed the dockets of proceedings before this Commission including public
12 testimony submitted by experts on the topic of securitization before this Commission.
13 Finally, I looked at the credit spreads (difference between the interest rates and a
14 corresponding benchmark security for a similar maturity). To take into account differing
15 market conditions (overall level of benchmark interest rates), I also looked at these credit
16 spreads versus an index published by Bloomberg of securities credit spreads.²⁴

17 **Q. What did you find?**

18 **A.** Public utility securitizations are relatively infrequent; there have been only 16 such
19 transactions nationwide over the past 10 years, SCE has not structured, marketed or sold
20 a securitization bond in 23 years,²⁵ and the Commission has not issued a financing order

²³ See Attachment

²⁴ Bloomberg website, available at: <https://www.bloomberg.com/markets/rates-bonds/government-bonds/us> .

²⁵ See SCE prospectus 12-08-1997 at <https://www.sec.gov/Archives/edgar/data/1041856/0000898430-97-005206.txt>.

1 in about 16 years.²⁶ However, of the 16 transactions in the past 10 years, the vast
2 majority - 14 transactions or 87.5% - have had active commission oversight, utilizing a
3 financing team supported by independent financial advisors, with a pre-issuance review
4 process for approving final upfront and most importantly to ratepayers ongoing costs
5 primarily the interest rates and credit spreads on the bonds.

6 **Q. What best practices did you identify that are applicable to the SCE financing order?**

7 The key best practices are exemplified by financing orders issued by the Florida
8 Public Services Commission's in 2006 and 2015. The Florida Commission utilized a
9 financing team, termed a “bond team,” that advised the commission on structuring the
10 financing order, participated in the negotiation process with potential underwriters, and
11 participated in the negotiation and drafting of agreements related to the securitization.
12 Florida’s financing order process was developed as part of a fully contested proceeding
13 that involved review of the practices of other states at the time to evaluate and determine
14 best practices.²⁷ Notably, Florida had expert testimony on the market practices and
15 examined issues in Texas, New Jersey and West Virginia.²⁸

16 The Florida commission concluded that to “achieve a lowest cost to the
17 consumer” and the “greatest customer protections” the commission should be “actively
18 and integrally involved in the bond issuance [process]” and should secure the advice of
19 experts who are independent of the underwriters and are able to evaluate proposals and

²⁶ See Utility Application 04-07-032 at http://docs.cpuc.ca.gov/publishedDocs/published/Final_Ddecision/41515.htm.

²⁷

²⁸

1 structure the safeguards that will “ensure that the processes are competitive.”²⁹ The
2 "bond team" concept utilized in Florida included active involvement in the bond issuance
3 by the Commission and its staff, the Commission’s independent financial advisor and
4 outside legal counsel as joint decision makers with the utility.

5 Other states have utilized similar bond or financing teams. For example, the
6 Texas Commission included a similar provision as Florida establishing a bond team in
7 2001, 2002, 2004 and 2005 financing orders as it sought to establish the Texas program
8 in the marketplace³⁰ and the New Jersey Board of Public Utilities utilized a negotiating
9 team as part of the process to authorize securitized bonds related to stranded cost
10 recovery by Public Service Electric and Gas Co. in 2005.³¹

11 **Q. Has the Commission utilized a financing team in the past?**

12 **A.** Yes. In 2004, the Commission utilized a financing team, advised by an outside expert, in
13 the securitization of costs related to PG&E’s first bankruptcy.³² The Commission
14 established the financing team in D.04-11-015 through the following language in the
15 financing order: “Prior to the issuance of each series of Energy Recovery Bonds, the
16 Bonds and the associated Bond transaction shall be reviewed and approved by the
17 Commission's Financing Team consisting of the Commission's General Counsel, the
18 Director of the Energy Division, other Commission staff, outside bond counsel, and any
19 other outside experts that the Financing Team deems necessary. The other outside

²⁹ Id. at ¶¶ 92-93. Since 2005, the public service commissions in multiple states – Florida, New Jersey, Texas, West Virginia, Ohio, Maryland and Louisiana -- have issued securitization financing orders with similar provisions ensuring expert, independent oversight of the process.

³⁰ See n. 10 *supra*.

³¹ See, e.g., *In the Matter of the Petition of Public Service Electric and Gas Co. for a Bondable Stranded Costs Rate Order*, [BPU Docket No. EF3070523, Ordering Pars. 17 and 18C](#).

³² A.04-07-032.

1 expertise may include, for example, an independent financial advisor to assist the
2 Financing Team in overseeing and reviewing the issuance of each series of Bonds. The
3 Financing Team's approval of each series of Bonds shall be evidenced by a letter from the
4 Financing Team to PG&E. Any costs incurred by the Financing Team in connection with
5 its review and approval of each series of Bonds shall be treated as a Bond issuance
6 cost.”³³ The financing order permitted the bond issuance only following the issuance of
7 “a certificate that states the Commission's Financing Team has reviewed and approved
8 each series of Energy Recovery Bonds in accordance with this Financing Order.”³⁴

9 D.04-11-015 was based upon a less stringent standard than that as issue here. In
10 2004, the standard for limitations on the Recovery Bonds costs was pursuant to the 2004
11 version of Public Utilities Commission section 848.1(a) that states that the Commission
12 may issue a financing order for Recovery Bonds if doing so “would reduce the rates on a
13 present value basis that consumers within the recovery corporation’s service territory
14 would pay if the financing order were not adopted.”³⁵

15 It is even more important now that the Commission follow best practices and
16 establish a financing team supported by independent experts because AB 1054 materially
17 increased requirements for protecting consumers and because this application will likely
18 serve as precedent for many future Recovery Bonds securitizations to come from all the
19 IOUs. The legislative standard applicable to this securitization and others to come is
20 much clearer and more favorable to consumers than that applied in 2004. The AB 1054
21 standard that present value savings to customers must “reduce rates to the maximum

³³ D.04-11-015 at Financing Order, ordering paragraph 33.

³⁴ D.04-11-015 at Financing Order, ordering paragraph 73.

³⁵

1 extent possible”³⁶ is the toughest standard ever applied by this or any other state utility
2 commission.

3 **Q. What are some of the best practices key elements of a financing order that can best**
4 **serve to minimize costs to ratepayers?**

5 **A.** In a complex legal arrangement such as a utility securitization, terms, conditions,
6 representations and warranties concerning all contracts need to be evaluated from an
7 arm’s-length, dispassionate perspective. The risks, costs and liabilities should be
8 independently evaluated, and policies should be independently developed.

9 From the Commission’s and ratepayers’ perspective, the securitized utility bonds
10 will be issued under an irrevocable financing order that cannot be changed by the
11 Commission after the bonds have been issued. The term of the bonds could be as long as
12 30 years or longer. The financing order must then preserve the right to pre-issuance
13 review by a financing team.

14 In addition, the sponsoring utility and the special purpose entity (SPE) will enter
15 into a servicing agreement under which the sponsoring utility will bill, collect and remit
16 the securitized charge to a bond trustee for the account of the SPE. Like any other contracts
17 for services, that servicing agreement will have provisions concerning performance, care,
18 liabilities, and indemnities. Pursuant to best practices, the utility should indemnify
19 ratepayers for any negligent acts. All these could affect ratepayers during the life of the
20 securitized utility bonds. Yet, the servicing agreement is essentially between affiliated

³⁶ Ca. P.U. Code Div. 1, Ch. 4, Art 5.6 (Senate Bill 772) bonds to refinance PG&E’s bankruptcy-related regulatory asset. See also CPUC D. 04-11-015 (2011).

1 parties with all the liabilities associated with the agreements falling to ratepayers under the
2 securitized charge and the true-up mechanism.

3 The financing order should not allow SCE to receive an economic windfall as a
4 result of the time lag in assessing and collecting the charges, the SPE could have
5 collected in excess of the bonds after the bonds have been paid off. This consumer
6 protection can be achieved by crediting ratepayers after the last bonds are repaid.

7 Regulatory oversight should be preserved concerning the servicing agreement and
8 other transaction documents for the life of the securitized utility bonds. Ever-changing
9 corporate structures need scrutiny by the Commission because capital markets are likely
10 to change over the life of the bond. Other commission have retained this authority
11 consistent with similar statutes.

12 **Q. Discuss examples of how consumers could save or have saved money as a result of**
13 **state commission adoption of the type of conditions you are recommending.**

14 **A.** That financing terms make a difference is illustrated by the experience of the West
15 Virginia commission. In 2009, underwriters in West Virginia advised the local utility
16 seeking securitization authorization from the state's utility commission that, in the
17 aftermath of the 2008 financial crisis it should enter into securitized bonds with a
18 weighted average life of ten years. But acting on the advice and recommendation of its
19 own independent experts, the state commission approved, as part of a joint stipulation a
20 19-year bond. That bond sold for the lowest credit spreads ever for a securitized utility
21 bond of that duration. And it maximized net present value savings to West Virginia
22 consumers was far greater than the ten-year bonds recommended by the underwriter.³⁷

³⁷ See *Monongahela Power Company and The Potomac Edison Company, supra*.

1 The purpose of the conditions I have discussed, as highlighted by West Virginia's
2 experience, is self-evident. Those conditions address both (1) the inherent conflict in
3 having the utility rely on the same entity to advise it on the transaction and to serve as
4 underwriter and (2) the inadequate incentive of the utility – given its insulation from risk
5 – to drive the hardest bargain with the underwriter and maximize present value savings to
6 customers. The conditions I've recommended as best practices tackle those concerns
7 directly.

8 **Q. In what other way will the involvement of a financing team benefit consumers?**

9 **A.** There will be a number of agreements that need to be developed associated with
10 underwriting the bonds - legal, advisory, administrative. The primary agreement is the
11 servicing agreement.

12 Without the use of a financing team, SCE could also receive a windfall from the
13 annual servicing fee it will be permitted to collect. SCE proposes a Finding of Fact “SCE
14 should be authorized to charge an annual servicing fee of 0.05 percent of the initial Bond
15 principal amount, plus out-of-pocket expenses (e.g., legal, accounting fees), which is a
16 level estimated to cover the servicer’s incremental costs and expenses in servicing the
17 Recovery Bonds.”

18 Based on SCE’s \$1.575 billion share of the Commission-approved fire risk
19 mitigation capex, this is approximately \$787,500 per year (plus other expenses) for a total
20 of \$14.2 million (plus other expenses), or about \$7.5 million on a net present value
21 bases³⁸, over the 18-year scheduled amortization. However, SCE has yet to provide the
22 commission evidence that it has any incremental ongoing costs and the activities

³⁸ Discount rate = 7.68%, SCE’s overall rate of return.

1 associated with the annual fee for ongoing services – billing and collecting, remitting
2 funds to the SPE, and developing charges - “are tightly bound with operations already
3 performed by [the utility] in the normal course of business.”³⁹ The best practice in this
4 regard is to include a true up provision requiring the utility to treat any excess amounts
5 recovered from servicing fees above its actual costs by crediting other customer rates i.e.
6 not the recovery bond charge but other customer rates charged to the consumer.⁴⁰

7 V. COMMENTS ON BARCLAYS/SCE’S PROPOSED APPROACH

8 **Q. Is there anything in SCE Witness Chang’s proposed marketing plan that should be**
9 **questioned as to whether it would be in the best interests of consumers?**

10 Yes. First, Mr. Chang’s proposed marketing process could result in higher interest rates
11 than necessary because he places too much emphasis on asset-backed security investors
12 which require higher yields than traditional corporate bond investors. If SCE’s proposed
13 Recovery Bonds are structured as asset-backed securities they could not benefit (e.g. lower
14 interest rates) from being added to the Bloomberg/Barclays U.S. Corporate Bond Index
15 because asset-backed securities are not allowed.

16 Especially for tranches of SCE’s proposed Recovery Bonds that have scheduled
17 final maturity dates longer than 15 years, it might significantly help the marketing and
18 pricing of those proposed Recovery Bonds to structure them to avoid being characterized
19 as “asset-backed securities” within the meaning of SEC Regulation AB to help justify

³⁹ See ORDER NO. PSC-06-0464-FOF-E DOCKET NO. 060038-EI PAGE 38 FOF 114 (b)

⁴⁰ See West Virginia Public Service Commission Case No. 05-0402-E-CN, *Monongahela Power Company and The Potomac Edison Company, both doing business as Allegheny Power* “Commission Order.” (2006), p86;

1 marketing and pricing them using U.S. Treasury notes and bonds as the benchmark
2 securities.

3 Other utilities used a very different marketing strategy than Mr. Chang in that they
4 have chosen to structure and market their bonds as not an asset-backed security. For
5 example, in 2016, Duke Energy Florida Project Finance LLC issued \$1.294 billion of
6 Series A Senior Secured Bonds with maturity dates ranging from 13.2 years to 20.2 years.
7 The cover page of the prospectus for this issuance states “not asset-backed securities.”
8 One reason to make it clear to investors that their securitization bonds are not asset-backed
9 securities, as Duke chose to do, is that charters of many mutual funds limit the portion of
10 their portfolio that may be invested in asset-backed securities.

11 Market participants recognize that Duke’s transaction is an important evolution in
12 the market. The marketing of this bonds as corporate bonds, instead of asset backed
13 securities was recognized by market participants in the financial press as an important
14 precedent: “Duke Energy Florida marketed its \$1.3 billion securitization of utility fees as
15 a corporate bond, and the strategy appears to have paid off. The deal was priced last week
16 at interest rates in line with those of some the highest rated U.S. companies and government
17 agencies. The securities have unusually long durations for this sector; over \$500 million
18 had maturities from 15 to almost 19 years. By comparison, most other deals in the utility
19 sector have original terms under 10 years. The tranche with the longest duration pays a
20 spread over Treasuries similar to those of triple-A rated bonds issued by Johnson &
21 Johnson and the Tennessee Valley Authority. The all-in duration adjust cost of the \$1.297
22 billion offering was 2.72%, an all-time low for a bond offering with such long maturities,

1 according to Andrew Maurey, director of the division of accounting and finance at the
2 Florida Public Service Commission.”⁴¹

3 **Q. Are there other issues with SCE’s proposed marketing plan?**

4 **A.** Yes. Mr. Chang believes, without presenting any corroborating evidence, that “Utility bond
5 securitizations are a well-established asset class that are broadly understood in capital
6 markets.”⁴² Although \$50 billion of investor-owned utility securitized bonds have been
7 issued in the United States, they have been sold infrequently and only about \$5 billion are
8 outstanding.⁴³ And, as Mr. Chang acknowledged in his data response, these securitization
9 bonds are distributed across about only 20 transactions. He describes the significance of
10 this as showing that utility securitizations occur with "*some* frequency." ⁴⁴

11 In contrast, about \$75 billion of U.S. asset-based securities (ABS) were issued in
12 the first 8-months of 2020 alone over \$1.5 trillion are outstanding as of Q1 2020.⁴⁵
13 Traditional ABS investors and corporate investors must be educated by the issuer and
14 underwriter that SCE’s securitization bonds are less risky than ABS and are more like top-
15 rated corporate bonds. As SCE acknowledges, corporate AAA bonds generally would have
16 a lower spread than securitizations marketed as ABS. Ex. ____, WTF-SCE-012.

17 ABS are riskier than utility securitized bonds for many reasons and underwriters
18 and investors demand higher credit spreads to benchmarks securities to be compensated
19 for these risks. An ABS is collateralized by a pool of assets, such as car loans, mortgages

⁴¹ See *Asset Securitization Report*, June 21, 2016

⁴² *Ibid.* at p5, lines 10-11.

⁴³ Source: SEC Prospectuses for Investor-Owned Utility Securitizations amortization schedules, Bloomberg

⁴⁴ Source: SEC Prospectuses for Investor-Owned Utility Securitizations amortization schedules, Bloomberg See also Attachment A, SCE Response to WTF Question 0001-a-d.

⁴⁵ Securities Industry and Financial Markets Association (SIFMA).

1 and credit card debt. The owner of an ABS faces credit risk because the principal amount
2 of the asset pool is reduced when assets defaults.

3 In stark contrast, SCE's securitized utility bonds will be backed by "Recovery
4 Property", which is the right to receive payments from a nonbypassable electric rate
5 component. The owner of SCE's securitized bonds will not face the credit risk that owners
6 of ABS must bear because a true-up mechanism will increase the Fixed Recovery Charge
7 on SCE's customers' bills to make up for deficiencies caused by those who do not pay their
8 bill. There is nothing like this in any asset backed security on the market.

9 Moreover, SCE Witness Chang omits any investor concerns that may exist in the
10 market as a result of the contentious PG&E bankruptcy and the various legislative
11 proposals since the last time California utilities sold securitization bonds in 2005. Rating
12 agencies and other have expressed concerns about these issues and there is no doubt
13 investors will have questions and concerns as well which could affect the interest rate on
14 the bonds if not properly addressed when structuring, marketing and pricing the bonds.

15 Without proper education, risk adverse corporate and utility bond investors will not
16 accept lower credit spreads that therefore result in lower FRC charges on consumers. If
17 SCE's bonds are marketed solely as asset-backed securities it is likely that consumers will
18 pay more than necessary.

19 **Q. Can a top rating from the rating agencies address the problems with marketing the**
20 **bond as asset backed securities?**

21 **A.** Securitized utility bonds will likely be top rated by the major bond credit rating agencies -
22 all AAA because of the broad-based, nonbypassable charge on all consumers, the
23 commitments of the commission to adjust the charge to whatever is necessary to repay the

1 bonds and the state's explicit pledge never to interfere with the rights to the bondholders
2 to that charge.

3 But the savings for ratepayers from selling AAA-rated bonds are not automatic.
4 Not all AAA-rated bonds sell or trade at the same interest rate/yield. Moreover, there is an
5 additional condition in the SCE transaction and that involves achieving maximum "present
6 value" savings to the consumer. This is the strongest legislative standards for
7 securitization that has been enacted nationwide. Maximizing present value savings to
8 customers involves the time value of money, but SCE does not say how it maximizes the
9 "present value" savings from a AAA rated bond in asserting a structure that will be "no
10 longer than 18 years" in scheduled maturity.

11 The basics of "present value savings" is that a dollar today is more expensive to
12 consumers than a dollar a year from now. Even with higher interest rate and nominal costs,
13 the longer the time to repay the bonds the less expensive it is to the consumer. SCE
14 supporting testimony has not considered this in their proposal.⁴⁶ There are no alternative
15 bond structures and maturities presented for consideration. There is no sensitivity analysis
16 to interest rates and bond structure. But significantly, SCE now states that it is "amenable
17 to consider adding additional consumer protection rights into the transaction documents, if
18 the Commission so requests of us."⁴⁷

⁴⁶ See Exhibit SCE-04: Customer Benefits (S. Deana, SCE) in which only the bond structure with an 18 year scheduled maturity is analyzed without any sensitivity analysis for maturity or interest rates. No evidence is presented that this is the optimal bond structure.

⁴⁷ Attachment A, SCE response to WTF Data Request No. 001e.

1 In a pre-issuance financing team review process, these alternatives can be
2 considered in a timely and efficient manner. This process will not add significant time to
3 complete the transaction.

4 **Q. Has SCE demonstrated that bonds issued with a scheduled maturity of no longer than**
5 **18 years will minimize ratepayer costs?**

6 **A.** No. SCE’s proposed securitized recovery bonds will finance capital expenditures for costs
7 of new electric transmission and distribution facilities with useful lives generally assumed
8 to be 30 years for Commission ratemaking purposes. Issuing securitized recovery bonds
9 with different maturities than proposed by SCE could both promote inter-generational
10 ratepayer equity, and maximize present value ratepayer savings. It would also be more
11 consistent with market precedents.

12 In the SCE case, the alternative to issuing Recovery Bonds would likely be for SCE
13 to issue approximately \$763.5 million of debt with a final maturity of approximately 30
14 years and approximately \$763.5 million of equity. The final scheduled maturities of
15 securitizations that financed storm recovery costs (generally current expenses, resulting in
16 no capital asset) have ranged from 9.9 years to 13.7 years.⁴⁸ Similarly, securitized bonds
17 issued in 2005 to refinance PG&E’s bankruptcy-related regulatory asset had scheduled
18 final maturities of 7.9 years and 7.1 years. In contrast, electric utility securitizations
19 with the longest final scheduled maturities have financed or refinanced capital assets with
20 long expected useful lives. Examples include:

- 21 • 20.2-year final scheduled maturity for the Duke Energy Florida 2016 transaction
22 which refinanced unrecovered costs of a nuclear generating plant which was shut
23 down long before the end of its expected useful life.

⁴⁸ See Attachment A for examples

- 20-year final scheduled maturity for the Potomac Edison and Monongahela Power 2007 and 2009 transactions which financed costs of acquiring and constructing air pollution control retrofits to a coal-fired power plant.

SCE's proposal seems to ignore these precedents and the benefits that could accrue to consumers from longer maturities.

Q. Are you saying that a securitized bond with a triple A rating would not produce a "just and reasonable" result for consumers?

A. While it is virtually certain securitization financing will result in lower rates than would occur from conventional financing, there is no reason for consumers to pay anything more for a bond issue than is necessary. With a statutory requirement to "reduce, to the maximum extent possible, the rates on a present value basis", the emphasis is on eliminating waste and inefficiency instead of accepting it because the interest rate and fees are in a range of so-called "reasonableness." Ratepayer costs are at financial risk throughout the financing process and need specific protections that can best be provided by a financing team, pre-issuance review process.

Q. Does SCE's application address this difference?

A. Not really. SCE's witnesses offer the *non-sequitur* that the costs to consumers would be lower with securitization than in the "scenario in which these costs are recovered from customers in the normal-course, absent securitization."⁴⁹ But the issue isn't whether securitization will be more cost effective than recovery "in the normal course." AB 1054 is predicated on the savings that securitization will produce compared to the "normal course." SCE hasn't specified how it would finance these long-life assets in the "normal

⁴⁹ SCE Testimony, Introduction, p. 1.

1 course” in any event. But, unlike previous California utility securitization legislations AB
2 1054 also expressly demands that the securitization take place at the lowest possible cost
3 to consumers and all costs discounted at the utility’s cost of capital – a requirement that
4 did not apply when the earlier CPUC securitization orders were issued. The Commission
5 is now obligated to apply - and SCE is obligated to meet -- the much more stringent
6 standards of AB1054 – standards closer to those found in more recent legislation or
7 financing orders governing utility securitizations in a number of other states and that
8 California Advocates have cited above.⁵⁰ In fact, while SCE acknowledges its awareness
9 that independent financial advisors were used by a majority of state commissions in utility
10 securitizations since 2010, it simply ducked the question of whether there were
11 demonstrable differences in the credit spreads between various utility securitizations.⁵¹

12 While SCE admits that its securitization application must meet a "lowest cost"
13 standard not applicable under the pre-AB 1054 securitizations, it offers to meet this
14 standard by having the underwriter "certify" that it has structured the bonds to produce the
15 lowest yield to investors.⁵² But this is a toothless condition. How, after the fact can SCE
16 prove otherwise? And while SCE acknowledges that the Commission employed an
17 independent bond team in PG&E's last securitization, it says only that such protection isn't
18 necessary because states now have experience with securitizations.⁵³ But it was the

⁵⁰ The inclusion of the "lowest possible cost" standard was neither duplicative of the "just and reasonable" or "public interest" standards, nor mere surplusage. As this Commission noted in a brief it recently filed with the Ninth Circuit, "the Legislature does not engage idle acts." Brief of the California Public Utilities Commission, *California Public Utilities Comm'n v. FERC*, No. 20-71335, pp. 51-52 (filed Aug. 13, 2020) (quoting *Mendoza v. Nordstom, Inc.*, 2 Cal. 5th 1074, 1087 (2017)).

⁵¹ See Ex ___, responses to WTF data request 001 f and g.

⁵² Ex. ___, response to WTF-SCE-002a.

⁵³ ATTACHMENT A, WTF-SCE-002b

1 experience of prior securitizations that led other state commissions to *use*, not eschew the
2 financing team approach.

3 **Q. Do you have any other concerns about SCE's approach as described by Witnesses**
4 **Chang and Pang?**

5 **A.** Yes. Mr. Chang has failed to consider the importance of keeping the advisor separate
6 from the underwriter. But Barclays previously recognized the importance of this
7 separation. Barclays undertook an analysis in 2005 that showed Texas “best practice” deals
8 with Saber as an independent financial advisor to the Texas commission produced lower
9 costs to ratepayers than all other deals. I'm attaching a copy of that analysis as Exhibit__
10 to my testimony."

11 **Q. Q. Wasn't Mr. Chang aware of that study?**

12 **A.** I do not know. In response to a Wild Tree data request, Mr. Chang states that "Barclays
13 has not produced any research reports specifically for investors on utility securitizations."⁵⁴
14 I do not know whether he was narrowly answering the question to address only reports for
15 "investors" on the subject and knew of the 2005 analysis, or was unaware of it.

16

17 VI. CONCLUSION

18 **Q. Please summarize your recommendations.**

19 **A.** In my opinion, there is a material risk that SCE's plan for structuring, marketing and
20 pricing their securitization bonds would not “reduce, to the maximum extent possible, the

⁵⁴ Attachment A, WTF-SCE-005e.

1 rates on a present value basis that consumers within the electric corporation's service
2 territory would pay as compared to the use of traditional utility financing mechanisms."
3 My principal concern is that SCE's plan would not provide sufficient information or
4 allow for appropriate due diligence by the Commission to be able to determine if SCE's
5 proposed structure reduces costs to the "maximum extent possible" through the issuance
6 advice letter (IAL) process that SCE's application has proposed. SCE's proposal places
7 express reliance on "the advice of the underwriters" to determine how "[t]he final terms
8 and structure [of the bonds] would be designed" to meet the statutory "objective of
9 reducing, to the maximum extent possible, the total cost of borrowing."⁵⁵ This is
10 problematic because there is an inherent conflict of interest between underwrites and
11 consumers. SCE admits that under its proposal "Barclays is not precluded from being
12 selected as an underwriter on the securitization." But its assertion that it is "not obligated
13 to choose Barclays as the underwriter is meaningless, given its stated intent to rely on the
14 underwriter's advice and its admission that the structuring advisor "does not have a
15 fiduciary duty to consumers" and "underwriters do not have a fiduciary duty to the
16 issuer."⁵⁶

17 The Commission should implement the "best practices" procedures summarized
18 in this testimony, including making sure that independent resources are "at the table" for
19 all negotiations affecting ratepayers in advance of any decisions affecting ratepayers.
20 Implementing best practices will enable the Commission to work with SCE in a
21 collaborative process to ensure that the Recovery Bonds issued under the terms of SCE's
22 proposal "would reduce, *to the maximum extent possible*, the rates on a present value

⁵⁵ See Exhibit SCE-03, Transaction Overview (B. Pang) page 26.

⁵⁶ Attachment A, WTF-SCE-006a, b and j.

1 basis that consumers within the electric corporation's service territory would pay as
2 compared to the use of traditional utility financing mechanisms"⁵⁷.

3

4

⁵⁷ §850.1, subd. (a)(1)(A)(iii). The statute contains two other requirements – that the terms of the Recovery Bonds be “just and reasonable” and “consistent with the public interest” -- that the applicant must also meet.

APPENDIX A. RESUME OF AARON L. ROTHSCHILD

SUMMARY

Financial professional providing expert rate of return testimony in utility (water, electric and gas) rate case proceedings, applied mathematics research for utility industry as an affiliate of the New England Complex Systems Institute, and industry experience includes Head of Business Analysis for a major US telecom firm in Asia Pacific.

EXPERIENCE

Rothschild Financial Consulting, Ridgefield, CT **November 2001- present**

Independent consulting firm specializing in utility sector

President

- Provide financial testimony (e.g. rate of return, accounting, M&A, securitization) to state governments in utility rate cases, including the 2020 California energy cost of capital proceedings.
- Present at utility regulation conferences (NARUC/NASUCA and MARC) regarding rate of return, power purchase agreements, complex systems science, and subsidy auctions.
- Provided investment banking consulting services as an affiliate of Chapman,
- Spira & Carson, LLC.

360 Networks, Hong Kong **January 2001 - October 2001**

Pioneer of the fiber optic telecommunications industry

Senior Manager

- Business development and investment evaluation
- Negotiated landing rights and formed local partnerships in Korea, Japan, Singapore, and Hong Kong for \$1 billion undersea cable project
- Structured fiber optic bandwidth swapping agreement with Enron and Global Crossing
- Established relationships with Hong Kong based Investment Bankers to communicate Asia Pacific objectives and accomplishments to Wall Street

Dantis, Chicago, IL **July 2000- December 2000**

Start-up managed data-hosting services provider

Director

- Built capital raise valuation models and negotiated with potential investors
- Team raised \$100M from venture capital firm through valuation negotiations and internal strategic analysis

MFS, MCI-WorldCom, Chicago, Hong Kong, Tokyo **September 1996- July 2000**

American Telecommunications Company

Head of Business Analysis for Japan operations

- Managed staff of 5 business development analysts
- Raised \$80M internally for Japanese national fiber network expansion plan by conducting an investment evaluation and presenting findings to CEO of international operations in London, UK
- Built financial model for local fiber optic investment evaluation that was used by business development offices in Oak Brook, IL and Sydney, Australia

EDUCATION

Vanderbilt University, Nashville, TN

1994-1996

MBA, Finance

- Completed business plan for Nextlink Communications in support of their national fiber optic network expansion, including identifying opportunities from passage of Telecom Act of 1996
- Developed analytical framework to evaluate predictability of rare events
- Provided financial and accounting analysis to Chicago's consumer advocate, the Citizens Utility Board (CUB) as a summer intern

Clark University, Worcester, MA

1990 - 1994

BA, Mathematics

APPENDIX B. TESTIFYING EXPERIENCE OF AARON L. ROTHSCHILD

Filed Rate of Return Testimonies:

California

- San Diego Gas & Electric Company, Application 19-04-017, Rate of Return, August 2019
- Southern California Gas Company, Application 19-04-016, Rate of Return, August 2019
- Pacific Gas and Electric Company, Application 19-04-015, Rate of Return, August 2019
- Southern California Edison, Application 19-04-014, Rate of Return, August 2019
- Liberty Utilities, Application A.18-05-006, Rate of Return, August 2018
- San Gabriel Water Company, Application A.18-05-005, Rate of Return, August 2018
- Suburban Water Company, Application A.18-05-004, Rate of Return, August 2018
- Great Oaks Water Company, Application A.18-05-001, Rate of Return, August 2018
- California Water Service Company, Application A.17-04-006, Rate of Return, August 2017
- California American Water Company, Application A.17-04-003, Rate of Return, August 2017
- Golden State Water Company, Application A.17-04-002, Rate of Return, August 2017
- San Jose Water Company, Application A.17-04-001, Rate of Return, August 2017

Colorado

- Public Service Company of Colorado, Docket No. 11AL-947E, Rate of Return, March 2012

Connecticut

- United Water Connecticut, Docket No. 07-05-44, Rate of Return, November 2008
- Valley Water Systems, Docket No. 06-10-07, Rate of Return, May 2007

Delaware

- Tidewater Utilities, Inc., PSC Docket No. 11-397, Rate of Return, April 2012
- Delmarva Power & Light, PSC Docket No. 09-414, Rate of Return, February 2010
- Delmarva Power & Light, PSC Docket No. 09-276T, Rate of Return, February 2010

Florida

- Florida Power & Light (FPL), Docket No. 070001-EI, October 2007
- Florida Power Corp., Docket No. 060001 Fuel Clause, September 2007

New Jersey

- Aqua New Jersey, Inc., BPU Docket No. WR11120859, Rate of Return, April 2012

Maryland

- Delmarva Power & Light, Case No. 9317, Rate of Return, June 2013
- Columbia Gas of Maryland, Case No. 9316, Rate of Return, May 2013
- Potomac Electric Power Company, Case No. 9286, Rate of Return, March 2012
- Delmarva Power & Light, Case No. 9285, Rate of Return, March 2012

North Dakota

- Otter Tail Power Company, Case No. PU-17-398, Rate of Return, May 2018
- Montana-Dakota Utilities Co., Case No. PU-15-90, Rate of Return, August 2015
- Northern States Power, Case No. PU-400-04-578, Rate of Return, March 2005

Pennsylvania

- Pennsylvania American Water Company Docket No. R-2020-3019369 and R-2020-3019371, Rate of Return, September 2020
- Twin Lakes Utilities, Inc., Docket No. R-2019-3010958, Rate of Return, October 2019
- City of Lancaster Sewer Fund, Docket No. R-2019-3010955, Rate of Return, October 2019
- Community Utilities of Pennsylvania Inc. Wastewater Division, Docket No. R-2019-3008948, Rate of Return, July 2019
- Community Utilities of Pennsylvania Inc. Water Division, Docket No. R-2019-3008947, Rate of Return, July 2019
- Newtown Artesian Water Company, Docket No. R-20019-3006904, Rate of Return, May 2019
- Hidden Valley Utility Services, L.P. – Wastewater Division, Docket No. R-2018-3001307, Rate of Return, September 2018
- Hidden Valley Utility Services, L.P. – Water Division, Docket No. R-2018-3001306, Rate of Return, September 2018
- The York Water Company, Docket No. R-2018-3000019, Rate of Return, August 2018
- SUEZ PA Pennsylvania, Inc., Docket No. R-2018-000834, Rate of Return, July 2018
- UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058, Rate of Return, April 2018
- Wellsboro Electric Company, Docket No. R-2016-2531551, Rate of Return, December 2016
- Citizens’ Electric Company of Lewisburg, PA, Docket No. R-2016-2531550, Rate of Return, December 2016
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2016-2529660, Rate of Return, June 2016
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2015-2468056, Rate of Return, June 2015
- Pike County Light & Power Company, Docket No. R-2013-2397353 (gas), Rate of Return, April 2014
- Pike County Light & Power Company, Docket No. R-2013-2397237 (electric), Rate of Return, April 2014
- Columbia Water Company, Docket No. R-2013-2360798, Rate of Return, August 2013
- Peoples TWP LLC, Docket No. R-2013-2355886, Rate of Return, July 2013
- City of Dubois – Bureau of Water, Docket No. R-2013-2350509, Rate of Return, July 2013
- City of Lancaster – Sewer Fund, Docket No. R-2012-2310366, Rate of Return, December 2012
- Wellsboro Electric Company, Docket No. R-2010-2172665, Rate of Return, September 2010
- Citizens’ Electric Company of Lewisburg, PA, Docket No. R-2010-2172662, Rate of Return, September 2010
- T.W. Phillips Gas and Oil Company, Docket No. R-2010-2167797, Rate of Return, August 2010
- York Water Company, Docket No. R-2010-2157140, Rate of Return, August 2010
- Joint Application of The Peoples Natural Gas Company, Dominion Resources, Inc. and Peoples Hope Gas Company LLC, Docket No. A-2008-2063737, Financial Analysis, December 2008
- York Water Company, Docket No. R-2008-2023067, Rate of Return, August 2008

South Carolina

- Palmetto Utilities, Inc., Docket No. 2019-281-S, Rate of Return, May 2020
- Palmetto Utilities, Inc., Docket No. 2019-281-S, Accounting, May 2020
- Blue Granite Water Company, Docket No. 2019-290-WS, Rate of Return, January 2020

Vermont

- Central Vermont Public Service Corp., Docket No. 7321, Rate of Return, September 2007

Attachment A

The documents cited in the Direct Testimony Of Aaron L. Rothschild On Behalf Of Wild Tree Foundation this document can be found in a Google Drive folder, accessible at the following website:

https://drive.google.com/drive/folders/1WITwW3RTHaT4vDiBS92rIv7oWh7AaqQ_?usp=sharing