

## Joint Legislative Budget Committee

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March 20, 2024

Mr. Joe Stephenshaw, Director  
Department of Finance  
1021 O Street, Suite 3110  
Sacramento, California 95814

Dear Mr. Stephenshaw:

In a letter dated March 13, 2024, you provided responses to questions that the Joint Legislative Budget Committee (JLBC) raised about the Department of Water Resources (DWR) loan agreement with Pacific Gas & Electric (PG&E) for the extended operation of the Diablo Canyon Nuclear Power Plant (DCPP) and the approval of an additional \$400 million General Fund for the loan.

After reviewing the letter, we remain concerned about the terms of the loan and the use of the General Fund as the source of financing. We found the responses limited in specificity, and did not sufficiently address the questions.

First, we continue to believe that the terms of the loan agreement the Administration signed with PG&E in October 2022 and amended in July 2023, do not provide the state with sufficient access to information to ensure fiscal accountability. DWR has repeatedly said that it is not a party to PG&E's Civil Nuclear Credit award agreement with the U.S. Department of Energy (DOE). However, the terms of the award agreement are important in understanding if and when the state's General Fund will be repaid. As a condition of granting the no interest loan, DWR should have required PG&E to provide this critical financial information. It is troubling that the department continues to say details will be available when a public version is released, given the significant General Fund at stake.

Second, we requested a full accounting of the "performance-based disbursements" (PBDs) because SB 846 explicitly prohibits PBDs from benefitting shareholders. Unfortunately, the response letter only provided a broad summary, and did not provide a thorough and specific accounting of the PBDs. The Administration has said that PBDs can be used for a variety of expenses including those related to

Public Utilities Commission or Federal Energy Regulatory Commission rate cases and capital projects. State funds used for these activities will financially benefit PG&E and could lead to even higher profit margins. Ultimately, it appears that there is no mechanism to ensure that shareholders aren't indirectly benefitting from the PBDs.

Third, SB 846 authorized a loan of up to \$1.4 billion, but the DOE only awarded PG&E with \$1.1 billion as part of the Civil Nuclear Credit agreement. At this point, the Administration cannot say for certain how the remaining \$300 million will be repaid, leaving a potentially significant General Fund liability in the future. The Administration has said that there are "three potential sources for possible repayment: (1) US Department of Energy (DOE) Civil Nuclear Credit funds, (2) excess operating revenues in the final year of operations, and (3) other federal funds," but has not provided information about the magnitude or timing of these funds, particularly in the latter two categories. Given the condition of the General Fund, we believe it is poor financial judgment to provide a loan of this magnitude to an investor-owned utility without having basic loan repayment information.

Finally, we are very concerned with the lack of protection of state funds in the loan agreement with PG&E. According to DOF's responses, if a gap in funding renders PG&E unable to continue pursuing license renewal, then PG&E may be ineligible for the DOE award entirely, jeopardizing the recovery of the approximately \$600 million already approved for the loan. This ties the hands of the Administration and limits its ability to prioritize General Fund expenditures for other critical services at a time when the state is facing a significant budget deficit. Every effort needs to be made to prevent cuts to critical state programs that addresses key issues, including homelessness and housing, health care, climate change and other important priorities. Unfortunately, the terms of the loan agreement reduce flexibility in setting spending priorities at a time when it is most needed.

Due to these concerns we plan to rigorously review the Governor's proposal to appropriate another \$400 million General Fund as part of our deliberations on the 2024 Budget Act. As noted above, we question the need for this final General Fund loan of \$400 million at this time. The Administration will need to provide sufficient justification for this proposal throughout the budget process, in order for the Legislature to consider approving this proposal. At minimum, the Administration will need to provide adequate responses to the following:

- 1) Detailed information about the \$1.1 billion DOE credit award and specific dates when the funds will be available to repay the General Fund.
- 2) A verifiable repayment schedule for the entire \$1.4 billion loan.
- 3) Better accountability measures to ensure the "performance-based disbursements" are meeting the requirements of Public Resources Code section 25548.3.
- 4) Specific accounting for how PG&E has used and plans to use the fund.
- 5) A full and more detailed accounting of the "performance-based disbursements" and a demonstration that these funds do not constitute double recovery of cost for both taxpayer and ratepayers.

In addition, we find that any additional appropriation will need to include stringent accountability measures and reporting requirements. More specifically, any future appropriation will need to require JLBC approval of all funding disbursements to PG&E.

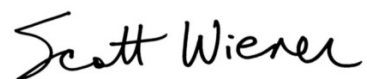
Mr. Joe Stephenshaw

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March 20, 2024

I look forward to working with you to make certain the loan meets the requirements of SB 846 and the General Fund is repaid as soon as possible.

Sincerely,

A handwritten signature in black ink that reads "Scott Wiener". The signature is written in a cursive, flowing style.

Scott Wiener  
Chair

cc: Members of the Joint Legislative Budget Committee