Re: Working Concepts in Transmission Finance and Ownership

Pursuant to Assembly Bill 3264 (2024) and Public Utilities Code Section 913.10 (and in reference to Senate Bill 254 (2025))

March 25th, 2026

Net-Zero California commends CPUC staff for the thoughtful exploration of issues related to transmission financing and ownership expressed in the draft report, responsive to the directives of AB 3264 (Petrie-Norris, 2024). And we further commend staff for proactively extending the frame to include important subsequent legislative direction in SB 254 (Becker, 2025), in particular the detailed program referred to as the Transmission Infrastructure Accelerator (TIA).

In response to the prompt from Commission staff, we organize our comments around what we consider to be high-priority statements and questions contained in the text. We also provide references to external analyses that further substantiate our observations and address priority issues in the draft report. We conclude with specific responses to certain of the Questions for Discussion posed in the draft report.

"The cost of debt is typically cheaper than the cost of equity, and a higher proportion of debt would reduce the overall cost of financing. However, the use of a high proportion of debt in the capital structure may introduce more risk to cashflow and may increase the probability of default. As a result, to compensate equity holders for the increase in potential volatility to cash flow, a higher return may be required."

- While this observation is sound from the standpoint of financial theory, it is significantly less applicable in a context defined by regulated infrastructure investment and associated cost recovery through rates. Regulation provides for

highly certain cost recovery, which instills confidence in investors that higher leverage will not negatively impact equity returns. In short, the entire premise of regulated investment and recovery works against the concern expressed in this section – allowing for significantly higher leverage before stress emerges. See this analysis from the Center for Public Enterprise for further exploration of these points.

"The CPUC reviewed causes of transmission delays in response to SB 1174 (Hertzberg, 2022), and reported that the most frequently cited issues include: challenges with obtaining land rights or right-of-way (ROW), long lead times for procurement of necessary equipment, permitting at all levels of government, project design changes, and workforce shortages. Whatever the cause, development delays lead to higher costs as project overhead and financing costs accumulate and compound."

- The broad category of "project delays" clearly drives significant cost overruns in transmission development, as noted in every analysis Net Zero California has reviewed. To truly address this large category of cost overruns, however, requires a much greater degree of specificity in assessing underlying causes, and a committed focus from the public sector in addressing those specific drivers of delay. We note that this is significant portion of the mandate of the TIA, building as it does from the work of GO-Biz in accelerating progress in other areas of infrastructure deployment. While not an issue solely within the CPUC's mandate, real progress on transmission cost containment is likely only feasible with significant new focus across multiple agencies on proactively alleviating project delays. The efforts of the TIA should be focused in large measure on addressing these challenges, in addition to the flexible financing to be provided by IBank.

"Public entities can be investment constrained based on their authorizing entity (a municipality, JPA, state or federal organization), such as statutory or constitutional debt limits."

- We would strongly encourage the Commission to evaluate in detail the cost structure and performance against projected budgets of publicly-financed and developed transmission projects in California, to allow for a fully-informed assessment of the relative merits of each approach. The analysis provided in the draft report does not provide sufficient depth to enable further policy deliberation in detail.

- Regarding lease-type P3 models referenced in the draft report: it is not the case that the public sector must be represented by the state itself in order to utilize these structures. JPAs (including CCAs) could potentially play this role for specific lines;

this was an explicit consideration in the drafting of the TIA, so additional legislation may not be needed to pursue this option.

"While certain California entities can issue revenue bonds, they would need new authority to own projects. Granting this authority to an existing entity, rather than creating a new entity like RETA, may limit the need for new public infrastructure and appropriations, allowing financing to flow more quickly."

- This is an important observation that should be carried forward in further analyses and into the implementation of the TIA. We offer two additional points that are material to this issue area:

    - Consider that the conduit issuer does not need to be the owner of the asset; IBank can issue bonds on behalf of third party-owners, insofar as the financed project is consistent with state policy.
    - JPAs can themselves play the public ownership role; as noted above, the financed entity need not be a state-level actor.

"Reduce the share of equity in the capital structure: Debt is usually lower cost than equity, so higher financial leverage reduces all-in cost of capital (as long as the cash flows are predictable). But consider relative costs and benefits: New financing structures may not yield meaningful net benefits, given the price of these projects and other factors that can be more significant in driving project costs."

- This statement is difficult to evaluate on its face, given the ambiguity expressed as "other factors," but we note that it is empirically demonstrable that capital costs play a large role in final transmission project costs (see the DH Infrastructure study linked below for modeled results). Regardless of what is being financed, greater use of lower-cost debt - at the expense of high-cost equity - yields ratepayer savings, as an immutable mathematical reality. SB 254 embraces this logic in establishing the TIA framework and setting its mandate, and gives explicit guidance to the CPUC to consider adjusting the capital structure employed to finance transmission assets, for the benefit of California ratepayers.

"Tax savings could reduce transmission costs, in part shifting the burden from ratepayers to taxpayers."

- This is a faulty assumption. Taxpayers do not pay for transmission when tax credits are utilized; there is a marginal loss to the tax base, but there is no fixed "tax level" that is achieved annually on a statewide basis that would trigger commensurate tax increases elsewhere in the California economy. State budget expenditures fluctuate around income to the state; tax credits should not be viewed as amounting to a specific loss in revenue that must be compensated for elsewhere.

"Efforts are ongoing to streamline existing permitting processes, such as CPUC's revisions to General Order 131-E in compliance with SB 529 (Hertzberg, 2022), 21 imposing greater oversight of adherence to project timelines (ongoing informally through the TPR Process), increasing use and/or streamline acquisition of existing ROWs, CAISO's use of incentive agreements to encourage more rapid project completion, can all contribute to lower costs."

- Our analysis indicates that land use/ROW issues are both hugely impactful to project timelines and economics, and a significant area of potentially increased state involvement to deliver improved outcomes. We strongly encourage the Commission, via the TIA, to actively promote new collaborative methods of ROW acquisition that can align incentives between local interests and project developers (e.g. revenue sharing/community benefits agreements), as well as advanced land use assessments and permitting processes that can precede a competitive development process administered by the CaISO.

"Further, SB 254 expands the California Consumer Power and Conservation Financing Authority "to sponsor, finance, purchase, lease, own, operate, acquire, or construct new transmission projects, as defined. The measure authorized the authority to seek financing assistance from any entity eligible to access the California Transmission Accelerator Revolving Fund."

- This is a misinterpretation of SB 254 and the TIA structure – funds contemplated are not for use by CAEATFA, but for IBank as the financing partner to GO-Biz and the TIA agencies. The STO simply holds the fund from which IBank can draw, per established state practice across multiple financing programs.

"While FERC generally allows a return commensurate with a 50/50 debt to equity ratio, multiple transmission projects in California have been financed with much higher debt shares, demonstrating the willingness of investors to fund projects with greater leverage."

- This is a critical observation, and it is important to understand the nature of FERC's allowance here. The "50% equity allowance" was established by FERC as **an optional incentive to induce transmission competition and compensate for risk**, (FERC order 679, 2006) – **not as a permanent reward to transmission development of all types.**
- In order to receive this incentive, applicants at FERC must demonstrate a "nexus" between material project risk and the requested incentive.
- To the extent that the TIA is *reducing project risk for developers,* the nexus cannot be established, and so the optional equity incentive should not be applied.
- This is a critical area of policy intervention that can materially improve affordability in the transmission sector; California should not blindly endorse unjustified equity premiums when it is working elsewhere to reduce those same risks in project development.

"One option for public participation would be to make public financing and ownership options available to all interested companies prior to submitting their bids"

- This is an important structuring observation – and one that is embedded in the bidding process developed in SB 254 and within the remit of the TIA to effectuate. Public financing and development support is designed to be an option in the CaISO process, open to all bidders public and private.

Questions for Discussion:

1. Are there publicly available studies that provide insights on overall cost savings for ratepayers attributable to the various ownership models?

Please see the following:

- Net Zero California & Clean Air Task Force: "Wired for Savings"[1]

- DH Infrastructure: "Public Sector Financing of Electricity Transmission Lines in California[2]"

[1] https://www.netzerocalifornia.org/alternative-financing-and-development-of-transmission-in-california
[2] https://www.netzerocalifornia.org/alternative-financing-and-development-of-transmission-in-california

- U.C. Berkeley Center for Law, Energy and the Environment (CLEE): "Reducing Financing Costs for New Transmission in California[3]"

Regarding the impacts of increased leverage on IOU financial performance, please see the following:

- Center for Public Enterprise: "Evaluating the Impacts from Reducing Equity in Investor-Owned Capital Stacks in California[4]".

2. Are there public sources that provide evidence of savings related to competitively bid projects versus projects that default to incumbent investor-owned utilities?

Please see the following:

- Brattle Group: "Cost Savings Offered by Competition in Electric Transmission[5]"

3. Are there publicly available case studies of a government entity financing and building electric infrastructure at lower cost compared to a private entity? Are there publicly available data about the scope of the project and its costs?

While direct comparisons are inherently challenging – there can be no like-for-like comparison, unless two identical projects are constructed – we would suggest the Commission consider supportive public financing programs that can lower costs for both public and private developers. In addition to the citations above, we would recommendation examination of the Western Power Administration's Transmission Infrastructure Program[6], as an example of low-cost lending programs that can result in significant savings.

4. Are there publicly available case studies of a government entity financing an infrastructure project with the participation of private equity or other private sector financing, with public data about how the project financing costs were reduced because of the public-private partnership?

There are numerous examples of public-private partnerships that save consumers money in the transportation sector, lessons from which California could creatively apply to its affordability challenges given sufficient political will.

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[3] https://www.law.berkeley.edu/research/clee/research/climate/renewable-energy/financing-transmission/

[4] https://publicenterprise.org/report/research-note-evaluating-the-impacts-from-reducing-equity-in-investor-owned-utility-capital-stacks-in-california/

[5] https://www.brattle.com/insights-events/publications/report-by-brattle-economists-discusses-the-benefits-of-competitive-transmission/

[6] https://www.wapa.gov/transmission/transmission-infrastructure-program-tip/

Please reference the following:

- U.S. Department of Transportation Build America program[7].

6. How does tax liability for government entities differ from that of investor-owned utilities?

Government entities typically do not pay taxes, whereas IOUs are taxed at multiple levels across a range of mechanisms.

9. Please comment on feasibility of either of these models for California. Please specify barriers and the structural elements that would have to exist for the model to develop transmission at lower costs.

The Least-Type PPP model, as demonstrated in New Mexico, holds promise for California, particularly as it relates to tax efficiency (e.g. the minimization of taxes where appropriate). In short, this approach is one element of a fully-developed model for timely and cost-effective development of transmission, utilizing the range of tools and resources available to the state. We outline below multiple structural elements that should be considered by the Commission going forward:

- **Nature of the Public Partner:** while the role of a NM RETA-type entity should be further explored, and may prove optimal over time, the role of public owner for tax purposes could very likely be played by a well-structured JPA involving local governments and/or CCAs.
- **Capital Provision from the State to the Public Partner:** TIA financing from IBank could be structured to flow through the PPP to support the activities of the private development partner. As stressed above, adjusting the capital structure (increasing leverage) to reflect the de-risked nature of PPP projects is a critical cost-savings strategy.
- **Development Assistance from the Interagency TIA Team:** Low-cost and flexible capital is only one portion of affordability solution; focused state support to expedite projects is the other critical task for the TIA, as articulated in enabling legislation, and should be a central component of any PPP model.

Thank you again for the opportunity to comment on this critical effort. We encourage the Commission, and the joint TIA agencies, to continue to be aggressive and think creatively in pursuit of affordability solutions – this approach represents the only plausible route forward for California.

[7] https://www.transportation.gov/buildamerica/