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INFORMATIONAL HEARING

Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report

Focusing on Electric Utility-Related Policy Recommendations

1020 O Street, Room 1200
Tuesday, May 12, 2026
9:00 a.m.

BACKGROUND

“As long as no one is standing in its way, a wildfire is a natural event.
Put people in front of it and it becomes the stuff of tragedy.”
---John MacLean, *Fire and Ashes: On the Front Lines of American Wildfire*

After several catastrophic wildfires were ignited by electric utility infrastructure and one utility entering bankruptcy to address liability claims from fires, in 2019, the Legislature and Governor established a Wildfire Fund to serve as additional insurance to help address the liabilities of wildfire claims stemming from electric utility equipment ignited wildfires. The Legislature and Governor intended for the Wildfire Fund to serve as additional insurance for a limited time, specifically 10 years, while electric investor-owned utilities (electric IOUs) invested in wildfire mitigation to reduce the risk their equipment would ignite fires. However, the scale and scope of the deadly and catastrophic Southern California fires in January 2025, particularly the Eaton Fire in Altadena which is speculated to have been ignited by an electrical transmission line, with tens of billions of dollars in estimated costs have raised concerns about the durability of Wildfire Fund as an adequate insurance mechanism. SB 254 (Becker, Chapter 119, Statutes of 2025) included

several provisions related to electric IOUs, including authorizing a continuation of the Wildfire Fund for an additional 10 years and requires a study by April 2026 by the administrator of the Wildfire Fund to recommend additional approaches to socializing the costs of utility equipment ignited wildfires and related disasters. On April 7th, the Wildfire Fund administrator released the report, *Enhancing California's Resiliency to Natural Catastrophes*¹, which includes a myriad of recommendations concerning community mitigation, changes to property insurance markets, and changes to policies requiring electric utilities (and their customers) to absorb costs from catastrophic fires.

Today's informational hearing is intended to provide the members of this committee and public with the opportunity to receive a presentation on the report and its recommendations from the Wildfire Fund administrator, which is the California Earthquake Authority (CEA). Recognizing that many areas of the report relate to issues outside the scope of this committee (e.g., property insurance and community wildfire mitigation), the hearing is intended to have a specific focus on policy recommendations related to electric IOUs, with an understanding that in some cases these are overlapping issues that cannot be easily separated. Members will first hear from the Wildfire Fund Administrator, Tom Welsh, chief executive officer of the CEA, joined by Dr. Laurie A. Johnson, SB 254 research study director at the CEA, and Andy Neal, senior management director of public partnership at AON contributing actuarial expertise. They will explain the seven month process to solicit stakeholder input and research that has culminated in the SB 254 Study report. While they will touch on the various recommendations, they have been asked to focus on the those related to electric utilities noted in the table below.

Strategy 1.3: Continue to Prioritize Electric Utility Safety and Accountability
Option 1.3.1: Develop a risk tolerance standard with binding application
Option 1.3.2: Preserve safety Certificate accountability and financial stabilization benefits.
Option 1.3.3: Establish a statutory minimum safety weighing in electric utility executive compensation.
Option 1.3.4: Establish a confidential reporting system with statutory safe-harbor protection.

¹ California Earthquake Authority: Administrator of the Wildfire Fund. SB 254 Study Report, *Enhancing California's Resiliency to Natural Catastrophes Senate Bill 254 (2025) Study Report*, April 7, 2026. <https://www.cawildfirefund.com/sites/wildfire/files/documents/2026/sb254-natcatresiliencyreport-locked-4-7-26.pdf>

Strategy 2.2: Reform Utility Liability
Option 2.2.1: Eliminate inverse condemnation for electric and gas utility-caused wildfires.
Option 2.2.2: Modify the damages for which electric and gas utilities are liable outside of inverse condemnation.
Option 2.3.3[2.2.3]: Eliminate insurance subrogation.
Strategy 2.3: Efficiency and Compensation Improvements for Utility-caused Wildfires to Accelerate Recovery and Reduce Legal Costs
Option 2.3.1: Create a “fast pay” facility for survivors of utility-caused wildfires.
Strategy 2.4: Make a More Durable, Permanent Wildfire Fund
Option 2.4.1: Create a more durable Wildfire Fund with potential to use risk transfer.
Option 2.4.2: Create a more durable Wildfire Fund with diversified funding sources
Option 2.4.3: Establish a more durable Wildfire Fund along with liability reforms.
Strategy 3.1: State Roles to Finance Catastrophe Risk
Option 3.1.1: Establish a State-administered wildfire liability insurance program for electric utilities.
Option 3.1.2: Establish a State-backstop for electric utility wildfire liability with a residual utility self-insurance pool.

After the presentation on the SB 254 Study Report, we have asked the California Public Utilities Commission (CPUC) to present their contributions to the study, as directed by the statute and Governor’s Executive Order (N-34-25). The CPUC published their recommendations earlier this year and they are included in the hearing material. The CPUC is not an author of the SB 254 Study Report, however, they are an important contributing agency given their significant role as the economic regulator of IOUs. Additionally, members will hear from the Office of Energy Infrastructure and Safety (OEIS) who were also created at the same time as the Wildfire Fund, to oversee electric IOUs’ wildfire mitigation plans. OEIS has also contributed their recommendations to the SB 254 Study Report, as required by the statute and the Governor’s executive order. The inclusion of the CPUC and OEIS is intended to help provide additional context to the issues and challenges of the existing paradigm and their respective recommendations. Following these presentations, members of this committee can ask questions about the study and the agency recommendations. The next panel will be a spectrum of stakeholders on

these issues, including perspectives from wildfire survivors, electric IOUs, electric publicly owned utilities (POUs), ratepayers, and local governments.

Members will hear from the Wildfire Fund Administrator that the cost of inaction is unsustainable, therefore, policy changes are needed. The authors of the study will speak to the varied spectrum of actions that may be considered, along with some of the tradeoffs, given there is no simple solution to address the growing risks of catastrophic wildfires and the need to address their related costs. As members learn about these policy options, they may wish to consider the tradeoffs of each policy recommendation and its effects on stakeholders, including fairness to victims of wildfires and their ability to recover from these disasters; fairness to electric utility customers and the need to maintain safe, affordable, and reliable utility service; electric IOU shareholders desire for predictable dividends and fair returns; local governments need to address wildfire damage and provide essential services; and many others.

Members may wish to explore:

- *What additional changes may be needed to improve economic regulation of electric IOUs in relation to addressing wildfire liabilities? For example, is electric IOU executive compensation adequately addressing the need for safety?*
- *The IOU model rests on the ability to attract private investment. How does the need of IOUs to attract private investment balance with the need to ensure wildfire victims are compensated fairly, utility ratepayers have safe and affordable service, and IOUs have adequate incentives to minimize the risk of their equipment igniting fires?*
- *Does the state need a broader policy to address wildfire liabilities for other utilities, including POUs and the small multi-jurisdictional utilities (these are smaller electric IOUs in California, such as those served by PacificCorp and Liberty Utilities)? If so, how should such a broader fund be funded and how should liabilities be absorbed by the fund to ensure fairness for all who are participating?*
- *Does creating a broader catastrophe fund simply continue to expand opportunities to absorb more costs related to liability claims? How can costs be minimized while still ensuring fairness to victims?*

- *What additional information would be helpful to advance the discussions during the legislative session?*

Inverse condemnation. The California Constitution provides the basis for recovery against government entities and public utilities via the theory of inverse condemnation. Section 19 of Article 1, requires that “just compensation” be paid when private property is taken for public use. This is commonly understood as eminent domain. In the case where a property is damaged by a public improvement project, the application is known as inverse condemnation. Unlike in cases of negligence, the responsible entity is held strictly liable where a public improvement causes property damage. The California Supreme Court and appellate courts have held that inverse condemnation is applicable to privately owned public utilities when the improvement is for public use (*Gay Law Students Association v. Pacific Telephone & Telegraph Co. (1979) 23 Cal.3d 458, 469*), and (*Barham v. Southern California Edison Company (1999) 74 Cal. App 4th 744*).

Wildfire Fund established. After several catastrophic wildfires ignited or suspected to have been ignited by electric utility infrastructure, including the deadly 2018 Camp Fire, a CPUC decision to disallow costs requested by San Diego Gas & Electric (SDG&E) from fires in 2007, and Pacific Gas & Electric’s (PG&E’s) 2019 decision to file for bankruptcy in part to address claims from several fires (and also affected by the criminal probation from the 2010 San Bruno gas pipeline explosion), the Legislature passed AB 1054 (Holden, Chapter 79, Statutes of 2019) which in addition to the numerous provisions related to addressing wildfires caused by electric utility infrastructure, also included the authorization for an electrical corporation and ratepayer jointly funded Wildfire Fund to address future damages from future fires ignited by electric IOU infrastructure and subject to inverse condemnation. AB 1054 established the formula for contributions for the fund, including half paid by shareholders and the other collected from ratepayers via a volumetric charge on their utility bills (roughly \$0.005/kilowatt-hour) to capitalize up to \$21 billion in claims paying capacity if the large electrical corporations elected to participate. The authorizing statute included a sunset date of 2035 on the Wildfire Fund, with the idea that the Fund would not be needed long-term, only as a limited-time additional insurance policy while electric IOUs reduced their wildfire risks by investing in and implementing wildfire mitigation measures.

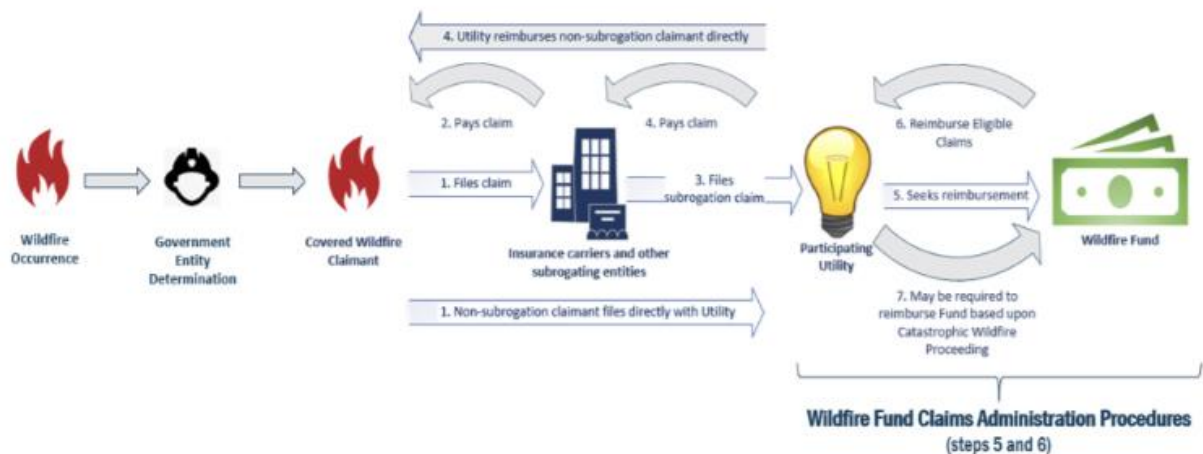


Figure 1. Illustration of the process of handling claims arising from Covered Wildfires

The Wildfire Fund is currently capitalized at just over \$14 billion with contributions from shareholders of the state’s three large electric IOUs (PG&E, SDG&E, and Southern California Edison (SCE)) and electric IOU customers. The Wildfire Fund administrator, via the California Earthquake Authority, is currently tracking reported losses from three fires – the October 2019 Kinkade Fire (roughly estimated at \$1.325 billion in aggregate liabilities), July 2021 Dixie Fire (roughly estimated at \$2.150 billion in aggregate liabilities), and the Eaton Fire in Altadena. As of July 2025, PG&E had recorded a potential recovery of \$925 million from the fund for the Dixie Fire and been reimbursed for \$404 million. SCE has reported in its December 31, 2025, Securities and Exchange Commission 10-Q quarterly report there are approximately 1,500 lawsuits pending, representing 20,000 individual plaintiffs, subrogation lawsuits, and lawsuits filed by public entity plaintiffs. On September 12, 2025, SCE reported to the Wildfire Fund Administrator that it had settled a claim that alleged damage arising out of the Eaton Fire, which resulted in a court-approved dismissal, and SCE believes that because of this action the Eaton Fire is now a Covered Wildfire. Public Utilities Code § 1701.8(a)(1) provides that a “covered wildfire” for purposes of accessing the Wildfire Fund is a fire after July 12, 2019 and where (1) the governmental agency responsible for determining causation or a court of competent jurisdiction determines the wildfire was caused by an electric IOU that participates in the Fund; or (2) a court-approved dismissal resulting for the settlement of third-party damage claims when a fire is asserted to have been caused by an electric IOU participating in the Wildfire Fund. It should also be noted that SCE has filed a lawsuit in Los Angeles County Superior Court as a cross-complaint against public and private entities in relation to the Eaton Fire, including Los Angeles County (LAC), LAC

Fire Department, LAC Sheriffs, LAC Office of Emergency Management, City of Pasadena and the local water mutual companies. SCE's cross-complaint seeks equitable indemnity and contribution for the damage from the fires stating that a significant portion of the damage from the Eaton Fire was caused by the negligent acts and omissions of the parties.

Authorizing the extension of the Wildfire Fund for another 10 years. SB 254 also authorized an extension of the Wildfire Fund for an additional 10 years to address utility wildfire-related liabilities. SB 254 created a Continuation Account of the Wildfire Fund for an additional 10 years (to 2045). If all three large electrical corporations elect to participate, the new account would be capitalized using the existing nonbypassable charge on ratepayers to issue additional recovery bonds, but extended through 2045 (up to an additional \$9 billion), and another \$9 billion from electrical corporation shareholders (paid in different installments and allocations than the original fund, with the allocations adjusted to address risk and agreed to by the electrical corporations). Since its inception there have been questions about the durability of the Wildfire Fund, but as noted above the theory was that the utilities have a 10-year limited time insurance while they made the necessary investments to reduce the risk of their equipment igniting wildfires. However, the level of damage from the Eaton Fire, a conflagration in urbanized area, has further raised concerns about the durability of the fund as an adequate insurance mechanism. In this regard, this bill also requires a study by the administrator and others to consider additional approaches to socializing the costs of these and related disasters.

Insurance subrogation claims. SB 254 incorporated a right of first refusal mechanism concerning insurance company's subrogation claims. At the meetings Wildfire Fund Catastrophe Council overseeing the Wildfire Fund there have been discussion about the impacts of insurance subrogation claims being sold to third parties which increases costs of settled claims seeking reimbursement from the Fund. News reports have also reported that hedge funds have been purchasing these claims from insurers often at a discount, as insurers seek to shore up their reserves after a disaster, and with the intent to profit from the settled claims amount with the electrical corporation. While the sale of these claims to third parties can provide insurance companies with additional liquidity, they can also increase the costs of reimbursements, further depleting the Wildfire Fund. AB 1054 recommended, but did not require, a cap of 40% on insurance subrogation claims settled by electrical corporations. The bill does not cap the settled amount of the subrogation claims and instead requires insurers to offer the respective electrical corporation of the service territory affected by the claim with the

opportunity to purchase the claim before it is sold to a third-party. The electrical corporations would be offered 30 days to agree to settle on the terms offered to the third-party, thereby encouraging direct settlements with the electrical corporations and potentially reducing additional costs on the fund. However, it is not clear whether electrical corporations intend to pursue these options or whether they would result in the intended savings.

Wildfire Mitigation Plan (WMP). As a result of SB 1028 (Hill, Chapter 598, Statutes of 2016), and further expanded by SB 901 (Dodd, Chapter 626, Statutes of 2018) and AB 1054 (Holden, Chapter 79, Statutes of 2019), electric IOUs are required to file WMPs with guidance by OEIS (as of 2021). OEIS reviews and determines whether to approve these plans and ensures compliance with guidance and statute. The electric IOUs' WMPs detail, describe and summarize electric IOU responsibilities, actions, and resources to mitigate wildfires. These actions include plans to harden their system to prevent wildfire ignitions caused by utility infrastructure, such as widespread electric line replacement with covered conductors designed to lower wildfire ignition, pole replacement, and other actions. The plans also include information regarding the electric IOUs' efforts to conduct extensive vegetation management to reduce the risk of tree branches, grasses, and other vegetation from contacting utility infrastructure. Pursuant to the recent changes made by SB 254 (Becker, Chapter 119, Statutes of 2025), electrical corporations must submit a WMP to the OEIS at least once every four years and require the WMP to cover the same period as the electrical corporation's general rate case (GRC). SB 254 also required the electrical corporations to consider the cost and time required of each measure proposed in the WMP to achieve the safety, reliability, and resiliency benefits. The OEIS also has the responsibility of issuing 12-month Certificate (formerly safety certificate) to electric IOUs who are in compliance with numerous wildfire related safety requirements, including approved WMP, safety culture assessment implementation, and others. OEIS also reviews the electric IOUs' executive compensation structures to ensure safety is appropriately weighted. OEIS has found that not all electric IOUs are appropriately addressing safety as part of their executive compensation structure.

Wildfire costs on electric utility bills. Utility wildfire ignitions account for about 6% of statewide wildfire ignitions. From 2011-2020, electric IOU powerlines ignited approximately 9% of California's yearly wildfires and 36% of California's most destructive fires, according to CPUC's analysis of California Department of Forestry and Fire Protection (CAL FIRE) statistics. There are nearly 50,000 miles of electric utility powerlines in the high-fire threat districts. According to the CPUC, total wildfire mitigation and wildfire liability costs authorized for ratepayer

recovery for IOU customers between 2019 and 2024 were approximately \$40 billion. Wildfire costs have driven increases in electric IOU customer bills, outpacing inflation and contributing to affordability challenges. In 2024, about 27% of PG&E's total revenue requirement was wildfire related, and about 17% of SCE's and SDG&E's total revenue requirement was wildfire related. According to the CPUC, wildfire liability is about \$10 of the average monthly residential non-California Alternate Rates for Energy (CARE) customer bill for bundled PG&E, SCE, and SDG&E customers (roughly 4.7-6.5% of their monthly bill). Wildfire mitigation costs represent about 15% of an average PG&E non-CARE residential customers' monthly bill, roughly 11% for SCE customers, and 7% for SDG&E customers. These costs are likely to continue to grow in the near-term.

Prohibition on equity rate base of \$6 billion in capital infrastructure related to wildfire mitigation. SB 254 mimics an approach included in AB 1054, which prohibits electrical corporations from \$5 billion in the equity rate base of wildfire mitigation investments on their respective systems. The bill expanded that effort by prohibiting an additional \$6 billion from the equity rate base in the electrical corporations' aggregated expenses for capital investments in wildfire mitigation. By excluding capital expenditures from equity rate base, the capital-related shareholder rate of equity (ROE), (and associated income taxes) is removed from the utility's revenue requirement and replaced with less costly debt financing. As a result, implementing the capital exclusion from equity rate base is intended to save utility ratepayers money by reducing financing costs in rates. As the CPUC has noted, financing capital expenditures with debt is less expensive than financing with equity, because debt is viewed as less risky by investors and thus a lower risk premium is required by investors. The utilities have previously raised concerns with related proposals stating that these types of efforts could result in more expensive capital costs overall to operate the utility, as investors could be rattled by the prohibition to earn a rate of return on their investments. While AB 1054 included similar provisions, it was packaged with other wildfire-related proposals, including the optional Wildfire Fund to help pay claims from covered wildfires ignited by utility infrastructure that utilities and their investors likely viewed favorably.

CPUC Role in Setting IOU Rates

Investor-owned utilities (IOUs). Privately owned utilities, commonly referred to as IOUs are afforded an exclusive license to provide service in a specific geographic area (known as a utility service territory) in exchange, the IOUs' rates are regulated by the regulatory agency – the CPUC. In California, the CPUC reviews

and approves rates for IOUs to ensure they are “just and reasonable.” Most Californians, about 75% of the population, receive electricity services from electric IOUs; POUs, including a few rural cooperatives, whose rates are set by local governing boards, provide service to the remaining 25%. IOUs, as private companies, can earn a rate of return (authorized profit from rate base) on utility-owned and capitalized assets and equipment. The regulatory construct is intended to limit the ability of the monopoly entity to charge unfettered rates by serving as a proxy for competition. In general, utilities operate on access to long-term financing with the interest rates determined by their credit ratings.

Bundled and unbundled customers. Electric IOU customers may be both bundled (meaning they receive distribution, transmission, and generation service from the utility) and unbundled (meaning they only receive distribution and transmission services from the utility and receive generation services from another provider). In the case of electric IOUs, customers may receive generation service from a community choice aggregator (CCA) or electric service provider (ESP). CCAs and ESPs set their own rates for electricity, though many CCAs, which are overseen by local government entities, seem to index their rates to those of the incumbent electric IOU. When a local government (or multiple governments together) launches a CCA within their geographic jurisdiction, they file an implementation plan and schedule with the CPUC that details the schedule for automatically enrolling IOU bundled customers to the CCA (usually in phases), unless customers proactively opt out. ESPs are third party entities who like CCA’s use IOUs’ distribution and transmission services but procure their own generation resources. ESPs are limited by statute to serve a capped amount of the overall load (roughly 13-15%) due to the experience during the energy crisis where some ESPs abruptly went out of business and returned customers to the incumbent IOU which further exacerbated the crisis for the IOUs and their customers.

Cost-of-Service – Cost Recovery Proceedings and Processes

Cost-of-Service Rate Regulation. Under cost-of-service regulation, the CPUC, as the economic regulator determines the total amount of revenue that must be collected in rates (revenue requirement) for the utility to recover its costs and earn a reasonable return. The cost-of-service regulatory model is a standard model that is utilized across the country, including by the federal government. At its core, the IOU submits an application to the regulator to recover costs from their customers, plus an opportunity for a reasonable return (profit), which if approved are then recovered in rates. The regulator can disallow costs.

The General Rate Case (GRC). The CPUC reviews and approves IOU costs and revenues through various applications submitted by the IOUs – most notably the GRC. GRCs are forward-looking, as IOUs forecast and estimate their anticipated costs to operate their respective utility and conducted on four-year cycles (previously three-year cycles). The GRC proceedings at the CPUC can last 18 months to two years, or more, whereby all aspects of the IOUs’ costs of operating and maintaining the utility system are reviewed. More recently, per statutory requirements adopted following the 2010 San Bruno pipeline explosion, IOUs must also ensure their forecasted expenses associated with investments on their systems are informed by safety and other risks to the system. The GRC has two main components: Phase I determines the total amount the IOU is authorized to collect, known as the “revenue requirement” (the size of the pie), and Phase II determines the share of the costs attributed to each customer class (e.g. residential, small commercial, industrial, etc.) and the corresponding rate schedules (the slicing of the pie). Importantly, the CPUC provides economic regulation of distribution services, whereas the federal government serves as the economic regulator for interstate transmission (see below). Stakeholders often complain about delayed CPUC decisions, including IOU GRCs. This regulatory lag is considered by some an important feature of the regulatory model to best reward IOU efficiency and performance by placing the risk on the IOU. However, the regulatory lag can also limit the ability of the IOU to deliver the many demanded services and contribute to utility bill shocks when the new GRC is approved.

Cost of Capital proceeding. Separate from the GRC, but informing the GRC, is the cost of capital proceeding at the CPUC. An IOUs rate of return, or cost of capital, is the weighted average cost of debt, preferred equity, and common stock the IOU has issued to finance its capital investments. Cost of debt is determined by weighted average interest rates on long-term debt issuances. The cost of common stock, expressed as the ROE, represents the financial return to shareholders that invest in common stock and is expressed as a percentage. The CPUC says it “attempts to set the authorized ROE at a level that is adequate to enable the IOU to attract investors to finance the replacement and expansion of its facilities so it can fulfill its public utility service obligation.” The CPUC determines the ROE through the cost of capital proceedings which they undergo every three years to examine various financial models and estimate market returns on investments for other companies with similar levels of risk.

Other cost recovery processes at the CPUC. In addition to GRCs, IOUs submit other applications (or advice letters) for cost recovery. In the case of electric IOUs, Energy Resource Recovery Account proceedings are used to reconcile estimated

versus actual fuel and purchased power costs. The CPUC annually reviews these costs, and to the extent they are deemed reasonable, approves passing through those costs to customers without any mark-up or profit to the utility. The costs are forecasted for the year ahead. If the actual costs are lower or higher than forecasted, then the electric IOU credits or charges customers for the difference. Beyond these proceedings, if authorized, IOUs also utilizes other mechanisms which may allow for recovery of costs outside the GRC. These mechanisms include memorandum and balancing accounts. These cost recovery mechanisms can be for costs that are unexpected and difficult to forecast or costs that may change due to exogenous factors. Some of these applications can be for substantial amounts of cost recovery, such as electric vehicle charging infrastructure investments or wildfire-related expenses, which when approved by the CPUC get rolled into customer rates.

Transmission-related costs. Lastly, in addition to CPUC cost recovery processes, IOUs also undergo similar reviews at the Federal Energy Regulatory Commission for costs associated with operating transmission systems (generally high voltage electric lines many that traverse the state and across to other states). The CPUC represents California ratepayers' interests in these proceedings. These costs have also been contributing to increasing costs on electricity utility bills.