OFFICE OF ENERGY INFRASTRUCTURE SAFETY

SB 254 RESILIENCY STUDY SUBMISSION TO THE CALIFORNIA EARTHQUAKE AUTHORITY

February 2026

Introduction

In 2025, the California Legislature passed and Governor Gavin Newsom signed Senate Bill 254 which, among other things, directed the state's wildfire fund administrator to prepare a report by April 2026 analyzing new approaches for response to catastrophes, including wildfires. On September 30, 2025, Governor Newsom issued Executive Order N-34-25 directing specific departments to provide information and recommendations for the report. The Executive Order directed the Office of Energy Infrastructure Safety (Energy Safety) to provide information and recommendations in four of these areas:

A. Additional mitigation measures and technology solutions to reduce the risk of ignition of wildfires and limit the spread of and damage from wildfires,
B. Measures to benefit ratepayers through reducing costs caused by fiscal uncertainty while holding electrical corporations accountable for improving safety and reducing the risk of catastrophic wildfires,
C. Enactment of programs to reduce the risk of wildfires spreading and becoming high-severity catastrophes, including improved state and local catastrophic event response capability, home fire risk reduction standards, vegetation management practices, and communitywide wildfire hardening requirements, and
D. New models to complement or replace the Wildfire Fund, such as state-supported property insurance, or reinsurance, or both insurance and reinsurance, for wildfires and potential catastrophic natural disasters; a mutual wildfire insurance fund; a publicly supported financial safety net to enhance long-term resilience and utility and insurance rate affordability; and improvements to the fund to enhance its durability.

Since the creation of the department in 2021, Energy Safety has developed, implemented, and iterated on utility wildfire mitigation plan contents and process, safety culture assessments, executive incentive compensation structures, and more. Building upon this experience and expertise, Energy Safety provides the following seven recommendations for the SB 254 Natural Catastrophe Resiliency Study.

A. Directive: Energy Safety… shall… provide information and recommendations… on additional mitigation measures and technology solutions to reduce the risk of ignition of wildfires and limit the spread of and damage from wildfires.

Recommendation #1: Modernize electrical corporation safety standards based on lessons learned from analyzing wildfire mitigation plans.

Energy Safety has analyzed electrical corporations' wildfire mitigation plans for more than six years. Since 2020, electrical corporations have developed enhanced capabilities and programs to address wildfire risk and, specifically, ignition reduction. Many of these new capabilities are above and beyond existing minimum safety requirements, including the use of new technologies and approaches to advance traditional operational activities. Given these new capabilities and approaches, and in comparing individual corporations' plans year-over-year, Energy Safety has identified opportunities to modernize standards to solidify these new approaches as standard practice and more effectively reduce wildfire risk across California's electrical grid. Examples of such opportunities include standardizing:

- More efficient and effective inspections:
  - Risk-prioritized inspections instead of frequency-based inspections in targeted areas and
  - Aerial inspections as part of existing detailed inspections;
- Stronger minimum standards in High Fire Threat Districts:
  - Installation of protective devices such as automatic reclosers,
  - Installation of weather stations,
  - Maximum intervals for vegetation inspections, and
  - Requirements to perform multiple maintenance and/or mitigation activities during a single inspection at a given point;
- Quality assurance and quality control assessments for critical operational areas, such as inspections, repairs, and vegetation management prescriptions;
- Stronger minimum standards for vegetation clearance:
  - Minimum radial clearance distances for covered conductors and service and supply conductors and
  - Minimum qualifications for vegetation management personnel to ensure safety and program effectiveness;
- Rigorous data governance:
  - Standardized geospatial asset and vegetation inventories,
  - Inspection record-keeping standards, and
  - Standardized geospatial fire threat assessments; and
- Conversion from run-to-failure asset management to asset lifecycle management for critical assets—monitoring asset health to ensure replacement before failure.

B. Directive: Energy Safety shall… provide information and recommendations… on measures to benefit ratepayers through reducing costs caused by fiscal uncertainty while holding electrical corporations accountable for improving safety and reducing the risk of catastrophic wildfires.

Recommendation #2: Create a non-punitive hazard and safety reporting system regarding wildfire safety for electrical corporations.

Electric power transmission and distribution through high-risk areas of the West is a high-hazard industry, and like other high-hazard industries such as aviation and nuclear power, its employees and organizations must create an atmosphere of trust where people are encouraged to come forward to provide safety-related information.[1]

Safety reporting, however, always involves a tension between providing reporters assurance that they will not be punished and ensuring that the information reported can be made widely available to everyone who could benefit. The FAA's Aviation Safety Reporting System, administered by NASA at its Ames Research Center in Mountain View, is the most sophisticated in managing this tension. It does so by accepting safety reports from aviation employees, contacting them about the concern to learn more, creating de-identified reports, and destroying the originals to preserve the reporter's anonymity.[2]

A high-hazard industry must foster, protect—and sometimes enforce—safety communication on three levels: 1) from employees to management, 2) between companies, and 3) from both employees and companies to public and regulatory stakeholders. Energy Safety is participating in the CPUC's Safety Culture Rulemaking (R.21-10-001) to explore and promote non-punitive reporting systems. Different high-hazard industries have promoted the above three forms of communication in different ways, and depending on the approach California takes, it may require targeted liability and public disclosure carve-outs from statutes and regulations.[3]

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[1] Karl Weick and Kathleen Sutcliff, "*Managing the Unexpected: Assuring High Performance in an Age of Complexity,*" 1st Ed, pages 129-134.

[2] "NASA Aviation Safety Reporting System (ASRS)," Linda O'Connell, October 17-19, 2017, https://ntrs.nasa.gov/api/citations/20170010289/downloads/20170010289.pdf.

[3] See, for instance, the statutes and regulations supporting the Aviation Safety Reporting System limiting retaliation (14 CFR § 91.1021), administrative sanction (14 CFR § 91.25), and public disclosure (49 USC § 40123).

Recommendation #3: Strengthen electrical corporations' executive incentive compensation structure requirements to better promote safety as a priority.

The current utility executive incentive compensation structure statute has made significant strides to ensure that the state, utility customers, and long-term debt holders and equity participants are well-aligned in their desire to ensure that company management is committed to and effective at improving safety and reducing the risk of catastrophic wildfire. AB 1054 took foundational steps to ensure executive incentive compensation structures are consistent with this alignment, but improvement can still be made.

The AB 1054 alignment allows electrical corporations to receive a certificate (which affects the amount, if any, they must repay the Wildfire Fund for covered wildfires) only if they have an executive incentive compensation structure approved by Energy Safety. Public Utilities Code section 8389 includes a variety of principles electrical corporations' compensation structures must be based on. Specifically, compensation structures must be structured to promote safety as a priority. (Pub. Util. Code § 8389(a)(4)). As a result, electrical corporations have added a safety weighting to executives' short-term incentive programs. However, only Pacific Gas & Electric has added a safety weighting to executives' long-term incentive programs. Without a safety weighting for long-term incentive programs, overall executive compensation skews towards financial measures and away from safety measures. For example, in 2025 the safety weighting of Southern California Edison's executive officers' total compensation structures was 7.3%-8.1% and the safety weighting of San Diego Gas and Electric's executive officers' total compensation structures was 9.5%-11.1%. Electrical corporations should modify long-term incentive compensation structures to include safety, increase short-term compensation targets for safety components, or both to increase the safety components of their executive incentive compensation programs. Strengthening the requirements for an approved executive compensation structure will better promote safety as a priority in executive decision-making.

Recommendation #4: Develop a data commons and common wildfire risk framework.

The current wildfire mitigation ecosystem is challenged by systemic data fragmentation and the absence of standardized interoperability across utilities, state agencies, and federal partners. Instead, data should be findable, accessible, interoperable, and reusable (FAIR). As stated above, this is an initial step to require rigorous data governance by utilities. Standardized data will ensure it is interoperable and reusable. This standardized data can then be uploaded to a data commons, which will make the data accessible and interoperable. This data commons could be the Wildland Urban Interface Data Commons proposed by other stakeholders. Depending upon scope, there may need to be additional data commons to collect other information. Finally, with standardized data in an accessible data commons, efforts could be made to create a common wildfire risk framework that includes a modeling

standard, live climate data, and more, creating a common understanding of wildfire risk across the state.

Recommendation #5: Evaluate the use of performance-based regulation to lower costs and align incentives for utility wildfire mitigation spending.

Cost of service regulation presupposes a benefit to the investor-owned utility that it can cover its costs with its revenue requirement and that the revenue is stable. The benefit to customers is rate stability with a minimum of unexpected changes seriously adverse to existing customers.[4] With neither side currently seeing their end of benefits, the cost of service model may merit modification, such as has already been done with the creation of the Wildfire Fund and the Continuing Account as well as the state's existing performance-based ratemaking mechanisms of energy efficiency incentives and natural gas procurement.

AB 1054 and SB 254 have already identified other methods of financing wildfire mitigation expenditures,[5] and it may be appropriate to extend these financing approaches for wildfire investments in conjunction with subjecting a portion of an electrical corporation's revenue to incentives to meeting certain safety performance standards.

C. Directive: Energy Safety shall… provide options and recommendations… for enactment of programs to reduce the risk of wildfires spreading and becoming high-severity catastrophes, including improved state and local catastrophic event response capability, home fire risk reduction standards, vegetation management practices, and communitywide wildfire hardening requirements.

Recommendation #6: Continue to address landscape-scale wildfire risk.

The newly formed Utility Wildfire Resiliency Partnership Program, led by Energy Safety and CAL FIRE, should identify high-priority areas where coordinated vegetation management and land treatments among utilities, public and private land managers, tribes, community organizations, and local governments can most effectively reduce wildfire risk and avoid high-consequence fire events. In addition, the state and local governments can continue expediting project review and approvals for coordinated efforts in high fire threat districts and fire-prone areas. By aligning planning, permitting, and implementation across partners, duplicative work is reduced and the cost-effectiveness of both utility and landscape-scale

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[4] James C. Bonbright, *Principles of Public Utility Rates*, Columbia UP, 1961, page 291.

[5] Public Utilities Code §§ 8386.3 (e), 8386.10.

investments is increased, thus improving community protection, power reliability, and infrastructure resilience.

Moving forward, it's essential that wildfire resilience partnerships attract a broad and diverse set of partners to achieve landscape-scale risk reduction with measurable cost and risk-avoidance benefits. Leveraging private, philanthropic, and public funding using innovative financing tools will reduce long-term wildfire suppression, disaster recovery, and utility liability costs, while also protecting communities, timber, biodiversity, and delivering co-benefits such as improved carbon storage and water quality. An example is the forest resilience bond used to invest in up-front project costs to accelerate planning and help secure additional funding.

D. Directive: Energy Safety shall… provide… options and recommendations for… new models to complement or replace the fund, such as state-supported property insurance, or reinsurance, or both insurance and reinsurance, for wildfires and potential catastrophic natural disasters; a mutual wildfire insurance fund; a publicly supported financial safety net to enhance long-term resilience and utility and insurance rate affordability; and improvements to the fund to enhance its durability.

Recommendation #7: Any new models to replace the Wildfire Fund must maintain incentives for electrical corporations to invest in safety.

The AB 1054 wildfire mitigation plan and Public Utilities Code section8389 certificate programs create forward-looking accountability for electrical corporations and encourage electrical corporations to invest in safety and improve safety culture to limit wildfire risks and reduce costs. AB 1054 created the California Wildfire Fund (Fund) which operates as an insurance fund for California's three largest investor-owned electric corporations, reimbursing them after they pay damage claims of victims of utility-caused wildfires.

To encourage electrical corporations to invest in safety and make changes to limit wildfire risks and reduce costs, the statute also provides for electrical corporations to seek a "certificate." To be eligible for a certificate, an electrical corporation must document completion of the following specific actions related to safety (Pub. Util. Code § 8389[e][1-7]):

1. It must have an Energy Safety-approved wildfire mitigation plan.
2. It must be in "good standing," meaning it has agreed to implement the findings of its most recent safety culture assessment.
3. It must have an established safety committee of its board of directors composed of members with relevant safety experience.

4. It must have an Energy Safety-approved executive compensation structure. This may include tying 100 percent of incentive compensation to safety performance and denying all incentive compensation if the utility causes a catastrophic wildfire that results in one or more fatalities.
5. It must have a board-of-director-level safety reporting structure to Energy Safety and the California Public Utilities Commission.
6. It must have an established compensation structure for any new or amended contracts for executive officers.
7. It must demonstrate implementation of its approved wildfire mitigation plan, based on quarterly reporting and implementation is evaluated based on actions taken by a utility, not the outcome of those actions.

Having a certificate affects the amount, if any, the electrical corporation must repay the Fund for costs and expenses associated with a covered wildfire. Electrical corporations that are found to have acted reasonably by the California Public Utilities Commission do not have to repay the Fund. In general, the electrical corporation must prove that its conduct was "reasonable."

However, an electrical corporation that received a certificate for the period in which the covered wildfire ignited is presumed to have acted reasonably unless demonstrated otherwise (Pub. Util. Code § 451.1[c]). A certificate also may limit the amount the electrical corporation will be required to repay the fund if it is found to have acted unreasonably (Pub. Util. Code § 3292[h]).

While changes to the Wildfire Fund may be necessary, any new models must maintain an incentive—such as the current certificate structure--to encourage electrical corporations to invest in safety and improve safety culture to limit wildfire risks and reduce costs. For example, electrical corporations must be incentivized to continue to complete the specific actions necessary to be eligible for a certificate such as an Energy Safety-approved wildfire mitigation plan, an Energy Safety-approved executive compensation structure, and a board-of-director-level safety reporting structure to Energy Safety.

E. Additional Comments

In addition to Energy Safety's specific recommendations regarding these areas, Energy Safety is supportive of a variety of recommendations from other stakeholders. Such recommendations include:

- Building upon the success of Governor Newsom's March 1, 2025, executive order, extended to May 1, 2026, to expedite critical fuels reduction projects in California,
- Incentivizing communitywide wildfire risk reduction through home and parcel hardening, defensible space, community-scale fuel breaks, and prescribed fire, and

- Providing mechanisms similar to a Wildfire Fund for small and multi-jurisdictional electrical corporations and publicly-owned electrical utilities that include analogous programs to encourage these entities to invest in safety and improve safety culture to limit wildfire risks and reduce costs.

Energy Safety appreciates the opportunity to provide these recommendations and looks forward to further collaboration to advance the state's goals of providing Californians with safe, affordable, and reliable energy.