Response to Natural Catastrophes - New Models and Approaches

December 12, 2025

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Re: Affordable Energy Campaign's Contributions to Support Structural Reforms

Dear Chief Executive Officer Welsh and Dr. Johnson:

Over the last three decades, California and the world have experienced the accelerating impacts of a warming climate on human health, safety, and community well-being, especially in fire-prone regions where ordinary fires increasingly escalate into catastrophic events. Exploring new models and approaches to address systemic wildfire risk is an extraordinarily complex and technically demanding undertaking, touching climate science, insurance markets, utility regulation, public finance, land use, and community resilience all at once, and we laud the California Earthquake Authority for taking on this difficult task. Moreover, we appreciate the State's willingness to confront this issue with greater openness, as well as its recognition that existing approaches are no longer sufficient.

We write to you as a recently formed coalition of consumer, economic justice, environmental, and environmental justice organizations working directly with communities across California to bring their lived experience into policymaking spaces and to address the energy affordability crisis they face. Our coalition also recognizes the central role that skilled, unionized utility workers play in maintaining system safety, reliability, and emergency response, and we approach these issues with the goal of strengthening - not undermining - the workforce that Californians rely upon. Our coalition is focused on developing strategies to bring California's electricity rates down while ensuring a safe, reliable, and climate-aligned and people-centered energy system that takes care of California communities most in need.

As a collective, we see that electricity rates have been increasing at unprecedented levels and recognize that the overwhelming share of both wildfire prevention and wildfire disaster liability costs continue to fall on ratepayers. At a time where ratepayers and low-income communities cannot afford their bills, it is important to be both creative and courageous to provide relief to those struggling to pay their energy bills or suffering from an extreme weather catastrophe. Any reforms considered under this Study should improve energy affordability and community resilience without creating new or open-ended bailouts for investor-owned utilities.[1] We are on an unsustainable path.

In this context, we urge the following:

1. Ratepayers should no longer be the primary source of funding for utility wildfire liabilities.

2. It is inconsistent with the public interest for the state's investor-owned electric utilities to earn shareholder profits from wildfire-related capital expenditures. Reforms are needed to prohibit utilities from earning profits on wildfire spending.

3. If any policy reform shifts wildfire liability or wildfire costs away from utilities and toward the public, it should result in a commensurate increase in public oversight and public financial benefit.

4. Shifting wildfire liability away from utilities improves their financial risk profile. Any policy reform that transfers liability away from utilities should thus result in a

[1] While we remain laser-focused on energy affordability as a campaign, we also recognize that energy affordability cannot come up at the cost of grid reliability.

commensurate reduction in the utility cost of capital, producing measurable ratepayer savings.

5. If any policy reform shifts wildfire liability away from utilities, it should maintain strong financial incentives for utilities to continue mitigating wildfire risks through workforce-supported, safety-first mitigation strategies. We believe a reasonable approach, among other solutions the Study can explore, would be to tie a defined portion of each utility's already-approved return on equity to performance-based wildfire mitigation metrics that are independently verified and aligned with safety outcomes developed in consultation with frontline workers, safety experts, and regulators.

Both wildfire-mitigation investments and the costs associated with catastrophic wildfire events are now major drivers of rising electricity bills[2]. If California is serious about addressing its affordability crisis, we must recognize how tightly these cost pressures are linked to the structure of utility incentives offered under our current cost-of-service regulation model, as well as the design of our wildfire liability regime. Under this framework, the current regulatory model encourages high capital spending and offers limited incentives for fiscal discipline or cost-effective wildfire mitigation. Evaluating wildfire liability reform in isolation of utility business model incentives - which are biased towards the highest possible amount of capital expenditure - risks missing the deeper drivers of recent electric rate escalations.

Today, the investor-owned utilities face limited incentives to pursue the most cost-effective mitigation strategies. The rapid growth of planned undergrounding, often undertaken without transparent analysis of avoided ignitions per dollar spent, and the ballooning, unchecked spending via wildfire-related memorandum accounts illustrate a broader issue: the current utility business model does not reliably reward fiscal discipline or efficient risk reduction when it comes to wildfires. Recognizing that the Office of Energy Infrastructure Safety (OEIS) has begun to examine the risk-adjusted cost effectiveness of wildfire mitigation measures, the current authorities granted to them are insufficient to effectively compel better outcomes. These structural misalignments and insufficient oversight authorities are directly contributing to electric bills that are becoming unsustainable for Californians. For this reason, any reforms that shift wildfire liability away from utilities must be paired with reforms that realign utility incentives toward cost-effective safety outcomes.

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[2] Q3 2025 Electric Rates Report, The Public Advocates Offices, Public Utilities Commission, presentation, pg. 11

Attached are recommended concepts for further study and deliberation to help inform your ultimate recommendations to the Legislature and the Governor.

We wish you success in what will no doubt be a complex and demanding undertaking, and we look forward to continuing our constructive engagement with the California Earthquake Authority, the Legislature, and the Governor throughout this process.

Addendum - Study Recommendations from the Affordable Energy Campaign

1. Linking Liability Reform to Required Adjustments of Utility Cost of Capital

Ratepayers have borne the overwhelming majority of utility wildfire-liability costs through legislatively mandated surcharges for the California Wildfire Fund and CPUC-approved wildfire-related expenditures. Given this history, any consideration of modifying California's wildfire-liability framework must be approached with caution and with clear, explicit, and enforceable safeguards to prevent additional cost shifts onto customers.

Should the Study evaluate liability reform options, one element of the evaluation should focus on whether any proposed changes would materially reduce the utility financial risk profile and to what extent a corresponding reduction in the utility's authorized returns would be merited. Under standard cost-of-service principles, reductions in operational or legal risk must translate into reductions in allowed returns. Accordingly, the Study should determine what proportional reduction in the overall rate of return would be appropriate under different liability reform scenarios. This step will be critically important to delivering tangible affordability results for ratepayers.

The Study should also evaluate mechanisms to ensure that liability reforms strengthen financial incentives for investor-owned utilities to mitigate ignition risks. One option the Study can explore is tying a defined portion of each utility's approved return on equity to wildfire-safety performance metrics that are independently verified and aligned with measurable risk reduction. Another option could be to define and levy meaningful penalties on allowed utility profits for non-achievement of various performance metrics.

Finally, if the policy reforms being evaluated shift liability away from utilities and ratepayers and toward taxpayers, the Study should examine models that provide a commensurate increase in public oversight and public benefit. This could include governance reforms, additional conditions on utility cost recovery, hybrid public–private structures that safeguard ratepayer interests, or public ownership of certain assets. Any assumption of risk by the public should be matched by proportionate protections and benefits for the public.

Study Questions for Evaluation:

- What is the appropriate reduction in utility cost of capital under varying liability reform scenarios to ensure ratepayer benefits are realized?

- What structures can ensure that utilities maintain and are rewarded for strong wildfire mitigation performance under any revised liability framework without weakening existing safety obligations?

- If liability is increasingly socialized outside of ratepayers, what forms of public oversight, ratepayer benefits, or public benefits or authorities should be required to accompany that shift?

2. State as Insurer of Last Resort for Utilities

We support TURN's view that ratepayers should not continue to bear the majority of residual wildfire liability costs. As the Study examines new models to allocate natural catastrophe risk, it should evaluate whether the California Wildfire Fund could evolve into a more equitably financed mechanism supported by a broader set of revenue sources, including potential state-funded contributions. Such an approach could socialize the most extreme and catastrophic risks across a wider base, improving affordability and equity while preserving the financial viability of both utilities and private insurers.

However, any exploration of alternative financing models must also ensure that wildfire victims are quickly and fairly compensated, with protections for households that are most economically vulnerable, while recognizing that catastrophic costs should not be shifted onto ratepayers who had no role in causing the ignition. Any shift in residual risk must preserve accountability for preventable utility failures and should be paired with commensurate increases in public oversight and public benefit.

Study Questions for Evaluation:

- How should the California Wildfire Fund evolve to more equitably distribute residual catastrophic wildfire risk across utilities, insurers, state-supported sources, property owners, and local governments while preserving strong mitigation incentives for all parties and improving long-term energy affordability?

- Should the California Wildfire Fund and the California FAIR Plan be better integrated, coordinated, or consolidated, and what structural options would

reduce duplication and create a more coherent statewide framework for catastrophic wildfire-risk financing?

3. Public Fire Safety Infrastructure and Community Wildfire Resilience Districts

Building wildfire-resilient communities will require financial participation beyond utility ratepayers alone. As the Study evaluates long-term reforms, it should examine models in which communities in Very High and High State Responsibility Area Fire Hazard Severity Zones are supported to form joint powers authorities or special public districts to plan, fund, and maintain household and community-wide wildfire risk reduction measures consistent with California Department of Insurance regulations and state wildfire-resilience frameworks.

The Study should also evaluate options for shifting a portion of approved utility wildfire capital spending out of the traditional investor-owned utility (IOU) model and into public or shared ownership structures. One concept for evaluation is a state or regional public fire safety infrastructure authority that would issue low-cost public bonds to finance the highest priority undergrounding, grid hardening, and resilience infrastructure in high-risk areas, as identified through the Office of Energy Infrastructure Safety (OEIS) and related processes. These assets could then be leased to utilities or local entities for operation. This approach would move a defined category of wildfire safety infrastructure outside the IOU profit model, align financing with the long-lived public nature of the assets, and potentially improve the viability of community microgrids and other local resilience solutions.

To ensure that costs and benefits are equitably shared, the Study should consider cost-share formulas in which utility infrastructure investments within designated Severity Zones are funded through a combination of local property assessments, state contributions, and utility revenue, supported where appropriate by public financing tools. This type of shared-risk, shared-investment model could lessen pressure on electricity rates while strengthening local ownership and accountability for resilience outcomes.

Study Questions for Evaluation:

- What governance and implementation models (e.g., joint powers authorities, special districts, or a statewide fire-safety infrastructure authority) are most suitable for supporting community-level wildfire-resilience investments in Very High and High Fire Hazard Severity Zones, and how can these be coordinated

with existing entities such as OEIS and the California Department of Insurance?

- What is the feasibility and potential impact of creating a public fire safety infrastructure authority that issues low-c1ost public bonds to finance undergrounding, hardening, and resilience upgrades in the highest-risk zones, with utilities or local entities operating the assets under long-term leases?

- How should ownership and cost-share models for wildfire safety infrastructure in high-risk areas be designed, including the appropriate balance of costs and liability risks among (a) local government, (b) state government, and (c) utility revenues?

- What are the legal, regulatory, and financial considerations associated with moving defined wildfire-safety infrastructure investments out of the for-profit IOU model and into public or community ownership?

- How might public ownership or shared-ownership models for wildfire-safety infrastructure affect the long-term affordability of electricity rates, community resilience, and the viability of innovative solutions such as community microgrids?

4. Profiting From Wildfires is Inconsistent With the Public Interest

While we recognize the need to raise capital for wildfire investments, we also believe it is inconsistent with both the public interest and public sentiments for anyone to profit from wildfires. Safety is a public necessity and not an optional investment that should be subject to market forces. In this context, we encourage the Study to explore pathways to unlocking alternative sources of capital that save ratepayers and taxpayers money while keeping our communities safe.

This should include, but not be limited to, an evaluation of whether utility capital expenditures for undergrounding, hardening, and other wildfire mitigation work should or should not be included in rate base for the purpose of calculating allowable profits. While Sections 8386.3 and 8386.10 of the Public Utilities Code currently limit profit exclusions to the first $5 billion and $6 billion of wildfire-risk capital spending across all IOUs, the Study should assess the pros and cons of a permanent exclusion for all wildfire-resiliency capital expenditures moving forward.

In addition, the Study should evaluate the legal and financial feasibility of removing existing wildfire-related capital assets from the IOU rate base, as well as the rate impact of doing so. One concept to examine is whether the wildfire hardening portion of IOU rate base could be bought out and refinanced through low-cost public bonds, restructured under public ownership, or otherwise transitioned out of the traditional cost-of-service profit model. Such a shift could potentially provide highly significant, immediate-term rate relief to ratepayers.

Study Questions for Evaluation

- What are the potential ratepayer benefits of alternative models for financing wildfire-related utility capital expenditures, including (a) utility ownership with equity rate base exclusions; and (b) public financing and public ownership of the assets?

- What is the legal and practical feasibility of buying out existing wildfire-related IOU capital assets and refinancing them with public debt or ownership structures to remove them from rates? What would the near-term rate impact be associated with moving existing wildfire-related IOU capital assets completely out of rates?

- How would public ownership or bond-financed models for wildfire-safety infrastructure compare to IOU ownership in terms of affordability, safety outcomes, and long-term system resilience?

5. Community Microgrids to Reduce Ignition Risk and Mitigate PSPS Impacts

Communities located in Very High and High Fire Hazard Severity Zones require reliable, distributed sources of power to protect public health, maintain essential services, and reduce the disproportionate impacts associated with PSPS utilization.

In this context, the Study should evaluate systematic approaches for identifying where community microgrids would provide the ratepayer savings and low-income and environmental justice community benefits relative to conventional wildfire hardening grid investments.[3] The Study should also examine options for non-ratepayer funding sources that could support deployment of microgrids in the communities most impacted by

[3] Although the CPUC has ordered IOUs to explore and implement microgrids for this purpose, the pace of progress has been insufficient, and often polluting sources of back-up are being used, presenting additional reliability issues.

wildfire and PSPS risk while preserving utility workforce roles in operations, maintenance, and emergency coordination.

A specific concept for evaluation would be requiring the Office of Energy Infrastructure Safety (OEIS) to analyze all distribution circuits with the highest incidences of ignitions and PSPS events over the past five years. Based on this assessment, OEIS could make recommendations on which lines should be de-energized or decommissioned to eliminate the most hazardous segments of the system. Those recommendations could then be taken by the CEC to evaluate, fund, and deploy microgrids that enhance local resilience, localize clean generation, and mitigate ignition risk. The Study should include a delineation of any statutes or regulations that may require amendment to allow for these community resiliency microgrids. The study should also review the pros and cons of various microgrid financing and ownership models, including community-owned and hybrid structures to determine which models maximize public benefit.

Study Questions for Evaluation

1. What criteria should determine which lines in Very High and High Fire Hazard Severity Zones are candidates for de-energization or decommissioning and replacement with community microgrids?

2. What is the optimal scale, siting strategy, and ownership model (utility, community, or joint) for microgrid development to maximize resilience, reduce ignition risk, and minimize PSPS impacts?

3. Do the relevant state institutions have the tools necessary to undertake microgrid planning and site selection exercises in a manner which prioritizes low-income, vulnerable, and environmental justice communities? If not, what is needed?

4. What statutes or regulations would need to be amended to allow for the deployment of community resiliency microgrids in lieu of conventional wildfire grid hardening investments under different microgrid financing and ownership models?

5. What non-ratepayer funding mechanisms - such as state grants, federal programs, public bonds, or local partnerships - could support deployment of community microgrids in high-risk areas in addition to ratepayer funds? What cost-sharing structures between ratepayers and non-ratepayer sources are most appropriate to deploy microgrids that reduce systemic wildfire and PSPS risk?

6. Strengthening Oversight and Enforcement of Utility Wildfire Mitigation Plans

The effectiveness of OEIS's review of Wildfire Mitigation Plans (WMPs) is limited because, under the current framework, the only formal consequence for non-performance is the extreme measure of denying a utility's safety certification, leaving few practical tools for ensuring timely implementation of required actions. It is evident that there must be stronger and more direct enforcement authority for OEIS to ensure utilities meet their WMP commitments. At present, OEIS notices of non-performance carry limited practical consequences. If OEIS conducts an audit and finds imprudent spending, it has extremely limited recourse. Furthermore, the executive compensation structures reviewed by OEIS are evaluated in a largely binary manner. The Study should assess whether OEIS should be granted additional authority to modify or condition these incentives to better align with safety performance and risk reduction outcomes.

The Study should evaluate mechanisms that create clear, proportionate repercussions for repeated or serious performance failures in order to create meaningful accountability and reinforce the importance of meeting WMP milestones. Options could include return-on-equity reductions, profit reductions through fines or penalties, or reductions or elimination of the safety-related components of executive compensation. The Study should also examine what controls would need to be put in place to ensure that any financial repercussions impacting utilities or their shareholders are ringfenced from affecting reductions in staffing or safety resources and protect union workers and other critical utility staff.

Study Questions for Evaluation:

1. What additional enforcement authorities or tools should OEIS be granted to ensure timely and effective implementation of Wildfire Mitigation Plan requirements, and how should these tools be calibrated to the severity or frequency of performance failures?

2. How could OEIS's oversight of utility executive compensation structures be strengthened, including potential authority to modify or condition compensation elements to better incentivize safety performance and risk reduction?

3. What additional accountability mechanisms - such as adjustments in shareholder profits, targeted administrative penalties, or other proportionate measures - would most effectively reinforce utility compliance with WMP milestones while improving wildfire-resilience outcomes for the public?

7. Interim Ratepayer Protections, Transparency, and Regulatory Integration

As the Study evaluates long-term reforms to California's natural catastrophe and wildfire liability framework, we recommend that the Study examine interim regulatory or legislative mechanisms to protect ratepayers while the Legislature and Administration consider structural changes. This could include various disconnection protections or arrears management strategies, or other ideas to protect ratepayers.

Additionally, the Study should evaluate options to improve transparency and regulatory coordination, including by consolidating all wildfire-related revenue requirements into the General Rate Case (GRC) process. As TURN has recommended, integrating these costs into a single proceeding would support comprehensive review, reduce duplicative cost recovery, and enable a holistic assessment of utility financials and wildfire-mitigation expenditures.

Together, these concepts represent practical tools the Study could evaluate to prevent additional near-term financial impacts on customers while the State pursues long-term, systemic reform.

Study Questions for Evaluation:

- What duration of interim rate-protection mechanisms should be implemented while long-term wildfire-liability reforms are under consideration, and what criteria should guide when a pause on wildfire-related rate increases is lifted?

- What benefits, costs, and implementation considerations arise from consolidating all wildfire-related revenue requirements into the General Rate Case (GRC) process?