



**RECLAIM OUR POWER!**  
Utility Justice Campaign

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## **A Transformative Framework for Wildfire Risk, Utility Accountability, and Energy Affordability in California**

Prepared for the California Earthquake Authority in response to the Wildfire Fund Administrator's Call for Contributions in Support of Study on New Models and Approaches to Complement or Replace the Wildfire Fund

### **Executive Summary**

California faces a compounding crisis: skyrocketing wildfire risk, unaffordable energy bills, and a utility governance model that places investor profits ahead of public safety. SB 254 opens a rare opportunity to reshape the rules related to wildfire prevention and accountability.. This white paper argues that California must adopt a transformative approach that places the greatest responsibility on investor-owned utilities (IOUs), protects ratepayers and fire-prone communities, and in the case of the IOUs inability to cover their own liabilities, accelerates the transition to community owned and governed utilities.

### **I. How to Share Wildfire Costs Fairly**

A fair system assigns responsibility according to who has the power to prevent fires and who benefits from the current arrangement.

### **Principles of Fairness**

- **Those who control the risk must bear the cost.** IOUs control grid infrastructure and operational protocols; therefore they must shoulder liabilities for wildfires they spark through failure of their protocols.
- **Those who profit from the system must bear proportionate responsibility.** Shareholders capture upside returns and benefit from rate-based recovery mechanisms; they must therefore face proportionate downside. A system that guarantees investor returns (privatizes benefits) while socializing catastrophic downside is inherently unfair and unstable.
- **Ratepayers, who have no control, should not be financially liable for utility negligence.** Ratepayers are already paying premiums for utility failures in the form of higher insurance premiums. It is unreasonable and unjust to expect them to also pay for utility failures over which they have no control.

## Policy Mechanisms

- **Shift a larger share of wildfire liability to IOU shareholders through reduced distribution of dividends.**
- **Tie executive compensation more fully to the utilities' safety records.** Current provisions cut some executive bonuses for some utility-sparked wildfires. This provision should be changed so all executives are included and constitute all bonuses..
- **Utility bankruptcy due to an untenable amount of liabilities should lead to a state or ratepayer buyout that transitions the ownership of the utility.**
- **Create a public financing mechanism** funded by state bonds or federal grants to capitalize portions of the Wildfire Fund currently paid for by ratepayers through nonbypassable fees. Portions of this pool used to pay for utility liabilities should constitute equity purchases in the ownership of the utilities.

## II. Mitigation Strategies to Consider

Wildfire mitigation must prioritize strategies that reduce ignition risk *and* enable long-term bulk power system transformation.

### Decommissioning High-Risk Lines & Building Local Microgrids

California should identify circuits with chronic ignition risk, high maintenance costs, or low load density and evaluate planned de-energization and permanent retirement of those lines. In these regions, the State should prioritize:

- **Community or municipally owned microgrids** powered by solar, storage, and local backup generation;
- **Virtual Power Plants (VPPs)** and high-penetration DERs that reduce peak load and line stress;
- **Reducing PSPS events with islandable local energy systems**, improving reliability while removing ignition sources entirely.

Benefits include:

- Zero fire risk from retired lines (such as that which likely sparked the Eaton Fire);
- Significant reduction in PSPS dependence;
- Lower long-run CAPEX compared to perpetual hardening or undergrounding;
- Increased energy resilience and community self-determination.

## Operational Mitigation

- **Enhanced Powerline Safety Settings (EPSS)** that reduce fault currents during red-flag conditions;
- **Targeted PSPS**, used while local microgrids are built; Use longitudinal data collection on the spatial distribution and frequency of PSPS events to better inform priority designs for microgrid planning.
- **Operational discipline**: real-time monitoring, automatic circuit recloser disablement, higher staffing during high-risk periods.
- **Data-driven, targeted vegetation management** informed by data on species, fuels, microclimates, and wind patterns.
- **Rapid grid sectionalization and automation** to de-energize smaller segments.

## III. How to Improve Recovery for Victims

Wildfire victims suffer lengthy delays, unequal treatment, and are rarely made whole at 100% of their claims under the current IOU-managed recovery structure.

### Recommendations

- **Fund victim recovery through a shareholder-backed insurance pool** independent of IOU management.
- **Guarantee rapid compensation timelines** (e.g., 60 days) for verified claims.
- **Provide technical assistance for claimants** including multilingual support, legal aid, and simplified documentation.
- **Establish a publicly governed oversight board** to monitor payouts, prevent discrimination, and ensure transparency.
- **Require formal follow ups with claimants** to confirm that claims have been fully compensated as determined by net payouts after taxes and legal fees.

## IV. How to Hold Utilities Accountable While Protecting Ratepayers

Accountability has been minimal because current incentives reward capital spending and allow cost-shifting to households.

### Recommendations

- **Eliminate shareholder returns on safety-related CAPEX.** Safety is a baseline obligation for energy providers. Investments in safety should not be included in the rate base.
- **Strengthen penalties for safety violations**, scaling fines to company revenue rather than incident cost.
- **Require transparent utility risk modeling** to provide the data for longitudinal studies demonstrating which investments actually reduce ignition risk.
- **Establish clear criteria for public takeover** when an IOU repeatedly fails safety or affordability benchmarks.
- **Empower municipalities, counties, and/or community choice aggregate (CCA) authorities** to own or operate distribution assets when IOUs prove unreliable.

## V. Needed Reform to Liability Rules and the Wildfire Fund

There is an urgent need to reconsider California's wildfire liability structure and reduce ratepayer exposure by reforming portions of SB 254 that recapitalize the Wildfire Fund. Utilities should bear the cost of their own operational failures, not households. In instances where the utilities must be rescued financially or face bankruptcy, that rescue should be paid for by the state, not ratepayers, and constitute a purchase of a proportionate share of the company.

### Wildfire Fund Reform

- Substantially **increase shareholder contributions** so that ratepayers are no longer the primary financial backstop.
- Replace ratepayer contributions with a **State-funded risk pool** financed through progressive income and estate taxes.

### Integrating Wildfire Costs Into the GRC Process

All wildfire-related costs should be consolidated into the General Rate Case to:

- Prevent duplicative or hidden cost recovery;
- Ensure transparent evaluation of wildfire spending and risk modeling;
- Reinforce that wildfire mitigation is a core utility obligation, not a discretionary add-on.

### Creating a Path to Public or Ratepayer Ownership

If catastrophic wildfire exposure requires drawing from the Wildfire Fund or triggers further State assumption of liability, the State should convert both its own and ratepayer financial intervention into ownership equity in the utility. This should include the current \$10.5 billion capitalized into the Wildfire Fund through ratepayer contributions in the form of non-bypassable fees. When public dollars shoulder private risk, the public should gain corresponding financial interest and decision-making control over the governance of the utility. Should State/ratepayer ownership exceed 50%, California should reorganize the IOU to provide a clear, lawful, and fiscally

responsible pathway toward public or ratepayer ownership, aligning long-term grid governance with safety, affordability, and community resilience.

## **Conclusion: Risk Should be Proportional to Control and Financial Rewards**

SB 254 offers a generational opportunity to realign incentives away from shareholder profit and toward public safety, affordability, and climate resilience. The recommendations in this white paper lay the groundwork for:

- Lower household energy costs;
- Reduced wildfire ignition risk;
- Faster, fairer compensation for victims;
- Real accountability for utilities;
- A gradual, orderly transition to ratepayer-owned, democratically governed utilities.

For too long, the investor-owned utility structure of financing has allowed for systemic socialization of risk while profits remain privatized. This is an unstable, unjust arrangement for the people of California. A truly just arrangement would result in either risk being privatized along with profit, or profit being socialized along with risk. Both scenarios likely result in socialized risk supporting a new utility ownership model as private liabilities are unsustainable in the long-run and would likely result in bankruptcy followed by state reorganization (such as PG&E could have faced in 2019-2020).

We are at a crucial fork in the road: We can repeat the mistakes and injustice that ratepayers of PG&E faced five years ago, or we can choose the path of justice that will shed the 20th century model of utilities built for shareholders focused on stock prices, and replace it with a 21st century model build for people that can deliver safety, reliability and most importantly, affordability. California must choose a future where the grid is operated in the public interest, and this study initiated by SB 254 could be a critical step toward that transformation.