



Date: May 6, 2026

To: California Catastrophe Response Council (Council) and the Wildfire Fund Administrator

Re: **SB 254 Natural Catastrophe Resiliency Study**

Members:

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PROGRESSIVE

MERCURY

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The Personal Insurance Federation of California (PIFC) is a statewide trade association that represents thirteen of the nation's largest property and casualty insurance companies. Collectively, these insurance companies write over 80% of the home insurance premium in California.

The National Association of Mutual Insurance Companies (NAMIC) consists of nearly 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States.

We are writing to express significant concerns regarding the SB 254 Study Report and its treatment of utility cost recovery, wildfire liability allocation, and broader electricity affordability policy. While the report raises important questions about wildfire risk and financial stability, it reflects a series of analytical gaps and policy inconsistencies that warrant serious reconsideration.

At the center of these concerns is the evolving role of the California Public Utilities Commission and its departure from the longstanding regulatory framework governing investor-owned utilities (IOUs). For decades, California's regulatory covenant has rested on a clear principle: costs associated with providing safe and reliable electric service are recoverable through rates, thereby socializing system-wide costs among ratepayers. With its decision in 2017 to deny an IOU's request to socialize fire-related costs, CPUC has altered the general understanding of how IOUs recover wildfire-related liabilities in rates. This shift undermined utility financial predictability and created systemic uncertainty for the IOUs and the capital markets that invest in them.

What is particularly concerning is the intellectual and policy disconnect that follows from this approach. On one hand, the CPUC has taken the position that it is inappropriate for electricity ratepayers to bear the cost of certain wildfire liabilities when utility behavior fails prudence standards—effectively placing those costs on utility shareholders. On the other hand, emerging policy frameworks, including those contemplated or enabled in the SB 254 report, suggest shifting those same liabilities onto taxpayers and insurance consumers.

This raises a fundamental equity and governance question. If it is deemed inappropriate for electricity ratepayers to bear costs because utilities may act imprudently, on what principled basis is it appropriate to shift those same costs to teachers, nurses, firefighters, and other Californians through higher taxes or increased insurance premiums? This redistribution does not eliminate the cost—it merely relocates it to parties who neither control utility operations nor contribute to wildfire causation in any direct sense.

The result is a troubling inconsistency in incentive design. The regulatory logic applied to ratepayers and shareholders is not carried through when costs are moved into broader fiscal or insurance mechanisms. If accountability for imprudent utility behavior is a guiding principle, then how can it be deemed acceptable to simply disperse those costs across unrelated taxpayers and insurance policyholders? Clearly, that approach will only dilute that accountability and weaken incentives for risk mitigation and operational discipline.

The SB 254 report also fails to adequately situate wildfire liability within the broader context of electricity affordability. California has the second highest residential electricity rates in the nation, nearly double the national average. As documented by the California Legislative Analyst's Office in its *Assessing California's Climate Policies—Residential Electricity Rates in California*, these high rates are driven primarily by structural and policy factors unrelated to wildfire liabilities. These include:

- Cost shifts associated with Net Energy Metering (NEM), where solar customers have not historically paid full fixed system costs, shifting burdens to non-solar customers. *(CPUC estimates that solar cost shifts contributed 11 - 20 percent to non-CARE non-solar customers' bills in 2023.)*
- Income-based rate relief programs, funded through higher charges to other ratepayers. *(CPUC estimates that CARE contributed between 2 - 4 percent to non-CARE customer bills in 2022. On average, California ratepayers contribute a greater share of their rates to low-income bill-assistance programs than most other states.)*
- Climate and decarbonization mandates that have increased system costs significantly. *(IOU ratepayers are now supporting a range of Zero Emissions Vehicles (ZEV), energy efficiency, and other climate-related programs through the public purpose charges on their rates. About 4 percent of average rates for large IOUs are used for supporting climate-related activities. Renewable Portfolio Standard (RPS) costs resulted in another 5 percent increase in overall retail rates for IOU customers.)*
- Utility-specific infrastructure and procurement requirements concentrated in investor-owned utilities rather than publicly owned utilities.

In comparison, wildfire liability costs represent a relatively small portion of total electricity bills—estimated in the range of 4.7-6.5% for non-CARE customers, according to the CPUC. Despite this, the SB 254 report disproportionately centers wildfire liability as a primary driver of energy affordability concerns while largely omitting the dominant structural cost factors.

Compounding this issue is the report's limited engagement with the broader implications of proposed cost-shifting mechanisms. The notion that increases in electric bills, on the order of approximately \$8.50 per month, could provide a more durable wildfire fund stands in stark contrast to proposals that would instead rely on billions of dollars in new taxes, surcharges, and insurance premium increases. The latter approach disperses costs across a population with no connection to utility operations or wildfire causation, while obscuring the true cost of electricity service.

This approach also raises moral hazard concerns. By decoupling cost responsibility from operational responsibility through shifting liabilities away from ratepayers and shareholders and onto taxpayer and insurers, it risks weakening incentives for utilities to maintain prudent and

reasonable behavior. Strong accountability requires that those who control risk exposure also bear its financial consequences within a coherent and transparent framework.

Additional concerns arise from specific elements of the SB 254 report's analysis. The proposal to eliminate insurer subrogation, for example, fails to acknowledge that subrogation is a long-standing, constitutionally protected property right. Any statutory attempt to eliminate it would face significant legal challenge under established takings and due process principles. The omission of this threshold legal constraint is a serious analytical gap. Why are we talking, again, about ignoring constitutional protections that cannot be legislated away? When the 1st or 4th Amendments are inconvenient to government actors, would people really suggest legislating them away? If not, then why is the 5th Amendment any different?

The report also cites estimates suggesting that insurer subrogation may account for 35–40% of wildfire fund payments. However, this figure appears to be derived from modeling assumptions that have not been publicly validated. To date, empirical experience with the wildfire fund does not substantiate claims of that magnitude, and the absence of transparent methodology limits the ability to evaluate its credibility.

Finally, the report appears to severely discount or mischaracterize the early-stage implementation of the Sustainable Insurance Strategy. Implemented in 2026 after years of regulatory development by the California Department of Insurance, the SIS is only now being operationalized. Despite this, the report suggests insufficient progress. Early participation, including SIS-related filings from eight carriers representing approximately half of the admitted market and explicit commitments to expand insurance availability in distressed wildfire-prone regions, indicates meaningful early momentum that is not properly reflected in the report's assessment.

In summary, the SB 254 Study Report raises important issues but is undermined by several structural inconsistencies:

1. It does not sufficiently address the CPUC's departure from the traditional regulatory covenant governing utility cost recovery.
2. It reflects a policy disconnect in which IOU liability costs deemed inappropriate for electricity ratepayers are nonetheless contemplated for redistribution to taxpayers and insurance consumers.
3. It dramatically overemphasizes wildfire liability relative to the dominant drivers of electricity affordability.
4. It advances cost-shifting mechanisms without fully accounting for legal constraints, empirical validation, or incentive effects.
5. It greatly undervalues the newly emerging SIS insurance market reforms at a stage too early to draw reliable conclusions.

We respectfully urge a more comprehensive and internally consistent policy analysis—one that transparently aligns cost responsibility with control over risk, fully accounts for legal and economic constraints, and avoids shifting financial burdens onto parties who neither caused nor can control the underlying risks.

Sincerely,

A handwritten signature in black ink, appearing to read "Seren Taylor". The signature is fluid and cursive, with a long horizontal stroke at the end.

Seren Taylor
Vice President
Personal Insurance Federation of California

A handwritten signature in black ink, appearing to read "Christian Rataj". The signature is cursive and somewhat stylized, with a prominent initial "C".

Christian Rataj
Sr. RVP, Western Region
National Association of Mutual Insurance Companies