COMMISSION ON CATASTROPHIC WILDFIRE COST AND RECOVERY

COMMENTS OF THE
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION

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Pursuant to the request of the Commission on Catastrophic Wildfire Cost and Recovery (SB 901 Commission) for comments by April 22, 2019, the California Large Energy Consumers Association (CLECA)\(^1\) submits these comments.

I. INTRODUCTION

The SB 901 Commission is assessing the “status of utility liability for damages caused by wildfires in California” and will make “recommendations on the equitable distribution of these costs.”\(^2\) The SB 901 Commission will also examine the “impact of changes in liability” on insurance markets and how to mitigate those impacts, as well as make “recommendations on a fund to assist in the payment of damages associated with catastrophe wildfires.”\(^3\) A critical issue for CLECA is how the recovery of costs associated with catastrophic wildfires is balanced against concerns about ratepayer costs and continued progress toward California’s climate goals. CLECA recognizes the need to compensate wildfire victims, but we are concerned about costs and the

\(^1\) CLECA is an organization of large industrial electric customers of Pacific Gas & Electric Company (PG&E) and Southern California Edison Company; CLECA has been active in Commission proceedings since the early-to-mid 1980s. Some members take bundled service, some take Direct Access (DA) service, and some members take service from Community Choice Aggregators (CCAs). The member companies are in the steel, cement, industrial gas, mining, pipeline, cold storage, and beverage industries and share the fact that electricity costs comprise a significant portion of their costs of production. The retail costs of electricity in California are among the highest in the nation. CLECA members all participate in utility demand response programs and energy efficiency programs to mitigate the impact of these high costs on the global competitiveness of their products.

\(^2\) Commission on Catastrophic Wildfire Cost and Recovery, Scope of Work.

\(^3\) Id.
climate; these are interrelated. California’s industrial customers compete in out-of-state and international markets; accordingly, they cannot just pass higher electricity costs along to their customers. Thus, the level of electricity rates is extremely important to the viability of industrial businesses in California. Electric rates impact the State’s climate goals, because keeping the production of cement, steel, minerals, industrial gases, cold storage and beverages in California enables their manufacture where energy is cleaner and avoids additional emissions associated with transportation from out-of-state facilities. Since California seeks to avoid greenhouse gas leakage in the electric energy sector as part of its climate change policy, it should also be concerned about leakage from critical industries moving outside California.

A key issue for the SB 901 Commission is how to develop an equitable recommendation for the recovery of catastrophic wildfire costs that balances competing needs. These needs are reflected in the report, Wildfires and Climate Change: California’s Energy Future, a Report from Governor Newsom’s Strike Force (April 12, 2019) (Strike Force Report). The Strike Force Report prioritizes the need for affordable electricity rates (which are necessary to keep industrial customers in the State); then it identifies additional needs: to hold the utilities accountable, be fair to wildfire victims, equitably spread the burden of catastrophic wildfire damages, lower total wildfire costs by improving safety and insurance price signals for risk, support the State’s clean energy goals, and be aware of taxpayer contributions.4 The Strike Force Report recommends assessing any proposals for stabilizing and sharing catastrophic wildfire costs against these principles.5 CLECA agrees with the Strike Force Report that the imperative is “to provide safe,

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5 Strike Force Report, at 27.
reliable, and affordable power on a sustainable basis”\textsuperscript{6} and we support use of the Strike Force Report’s principles, with a primary emphasis on the first principle.

The Strike Force Report recognizes that “maintaining low electricity rates is vital”\textsuperscript{7}, yet California’s industrial electricity rates are almost double those of other western states. For example, in January 2019: Nevada’s average industrial rate was 4.94 ¢/kWh; Arizona’s was 5.96 ¢/kWh; Texas’ was 5.25 ¢/kWh; these can be compared to California’s average industrial rate of 11.43 ¢/kWh.\textsuperscript{8} The past cost drivers of California’s high rates include the costs of early renewable power procurement and related transmission additions as well as major distribution infrastructure replacement needs. Now, the primary driver will be the tens of billions of dollars in wildfire costs; these include grid hardening costs to mitigate the risk of catastrophic wildfires, past liabilities for catastrophic wildfire damages, and future liabilities for catastrophic wildfires. CLECA estimates these three buckets of costs total about $45 billion; that is far too great a cost burden for the investor-owned utility ratepayers to bear alone. These costs must be spread and spread broadly to mitigate their impact as much possible.

The Strike Force Report concludes, “under the status quo, all parties lose.”\textsuperscript{9} CLECA agrees, and we note that utility ratepayers lose the most. The status quo has to change for California to continue its progress on climate goals and allow industry to remain in the State.

\textsuperscript{6} Strike Force Report, at 27.
\textsuperscript{7} Strike Force Report, at 17.
\textsuperscript{9} Strike Force Report, at 27.
II. COMMENTS

1. Wildfire Liability Regime

   a. What, if any, issues exist with the application of the inverse condemnation doctrine? Do they limit the equitable distribution of wildfire costs, and if so, how?

   There are issues with the current application of the inverse condemnation doctrine. It should be changed because the doctrine as it is currently applied wrongly and harmfully limits the equitable distribution of wildfire costs. It does this by putting the ultimate burden of catastrophic wildfire costs, including damages, on ratepayers. This is the most significant issue with inverse condemnation in CLECA’s view. As Commissioner Nava asked, “While on the [insurance loss] statistics it shows the 275% loss ratio, do we know whether or not that was an actual loss?” The answer was “no, we don’t know.”10 When catastrophic wildfires ignited by utility wires damage insured property, insurance companies seek recovery of the damages from utilities through inverse condemnation.11 The utility then seeks recovery of those costs from ratepayers, and the California Public Utilities Commission will allow the recovery of those costs from ratepayers if the utility acted prudently;12 although for 2017 wildfires, per SB 901, these costs can be passed onto ratepayers even if the utility was imprudent and the costs are unjust and unreasonable.

   While difficult politically, reform of inverse condemnation to a fault-based standard must be pursued. This reform should be understood not as a bailout of unpopular investor-owned utilities, but as critically needed ratepayer protection that is vital to the achievement of the first

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10 SB 901 Meeting Minutes,
12 See, e.g., D. 17-11-033 (the infamous denial of cost recovery due to San Diego Gas & Electric Company’s “failure to operate and maintain” its system prudently).
priority of safe, reliable and affordable power. As noted in the Strike Force Report, “steep rate increases would have adverse consequences for consumers, businesses, and California’s climate goals. Thus, rate increases must be mitigated.”

The Strike Force Report shows the significant increase in wildfire damages over the past two years, with 2017 reaching close to $20 billion in wildfire damages and 2018 nearing $25 billion. Looking at Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE), we have taken liability figures from utility filings where available and have conservatively estimated PG&E’s 2018 liability. Our estimate is that PG&E’s liability for 2017 is $14 billion and its liability for 2018 is conservatively estimated at $6 billion, SCE’s 2017 liability is estimated at $2.9 billion and 2018 is $1.8 billion. Under inverse condemnation and SB 901’s cap on recovery from utility shareholders of the costs of the 2017 wildfires, these 2017 and 2018 liabilities will almost certainly be recovered from PG&E and SCE ratepayers.

CLECA estimates that the combined wildfire liability for PG&E for these two years would represent an 18% increase in rates for PG&E bundled primary voltage industrial rates by 2023 assuming the liabilities for both years were securitized based on a comparison with 2019 rates. PG&E bundled primary voltage industrial rates would increase from 16.2 cents per kWh to 19.0

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13 Strike Force Report, at 27.
14 Strike Force Report, at 26, Figure-09. The source of these numbers in the Strike Force Report is not provided. CLECA therefore has no knowledge of the basis of the 2018 figure and cannot verify its accuracy.
15 If PG&E’s 2018 liability were ultimately found to be higher, the rate impacts of course would increase commensurately.
16 See Appendix 1, CLECA Revised Impact of Wildfire Costs on Industrial Customers. We focus on the rate impacts on industrial customers but note that ALL customer classes will be unfairly burdened with these wildfire damages costs. Ratepayers did not cause these fires but are forced under the current regime to pay not only for the grid hardening costs to mitigate the risk of catastrophic wildfires, but also for the damages caused by catastrophic wildfires associated with utility infrastructure.
cents per kWh. This represents a bill increase of $357,000 per year for an average PG&E primary voltage industrial customer.

For SCE, the combined wildfire liability for these two years would represent a 5% increase for SCE bundled primary voltage industrial rates by 2023 assuming the liabilities for both years were securitized based on a comparison with 2019 rates. SCE bundled primary voltage industrial rates would increase from 12.6 cents per kWh to 13.3 cents per kWh by 2023. This represents a bill increase of $52,000 per year for an average primary voltage industrial customer.

These estimated industrial ratepayer cost increases are just for the 2017 and 2018 wildfire damages, and they are steep cost increases. CLECA notes that utility ratepayers will also bear significant rate increases associated with grid hardening costs to mitigate the risks of catastrophic wildfires sparked by utility infrastructure.17

b. What benefits, if any, are provided by the current application of the inverse condemnation doctrine?

A possible benefit appears to be that it provides compensation to wildfire victims. Based on the testimony provided by wildfire victims to date and PG&E’s bankruptcy, that compensation is not assured, nor is it timely.

c. What, if any, changes to the utility wildfire liability regime do you recommend, and what are the consequences of these changes?

CLECA strongly recommends that the utility wildfire liability regime be changed pursuant to the Strike Force Report’s concept of moving to a fault-based system.18 The consequences of such a change would be to limit the anticipated steep rate increases under the current regime.

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17 See Appendix 1, CLECA Revised Impact of Wildfire Costs on Industrial Customers.
18 Strike Force Report, at 36-37.
and align with bedrock legal principles of fault and negligence. As TURN stated, it also “makes sense to fund property losses with property insurance.”

If changes to the utility wildfire regime cause problems for homeowners in obtaining fire insurance, there also may be other approaches available to dealing with the provision of fire insurance; this could be done through a state-run entity similar to the California Earthquake Authority that was formed to address difficulties that property owners had in obtaining earthquake insurance after several catastrophic earthquakes occurred.

2. Insurance

CLECA does not have insurance industry expertise, and offers limited comments in this section informed by the presentations and testimony to date before the SB 901 Commission.

a. What actions can improve utility access to affordable wildfire liability insurance?

CLECA has no comment on this question at this time.

b. What actions can ensure that local governments, homeowners, and businesses are adequately insured for wildfire loss? What actions can improve availability and affordability of homeowners’ and commercial insurance?

Based on the testimony and presentations at the April 3, 2019 SB 901 Commission hearing, CLECA recommends establishment of a state-run data agency, similar to the state agency that studies hurricanes in Florida. Empirical, data-driven analysis by scientists, engineers, and sophisticated modeling that examines topography, forest and vegetation conditions, weather, climate, etc., should inform the determination of risk of property damage from catastrophic wildfires; it would also be helpful for zoning, land use, and planning purposes.

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19 Testimony of Mark Toney, TURN, at SB 901 Commission Meeting, April 3, 2019.
3. Financing Mechanisms

a. What specific problems related to wildfire cost assignment and recovery should a dedicated wildfire fund or other financial mechanism address?

It is very important that wildfire costs be recovered broadly, not just from the customers of investor-owned utilities (IOUs). The current inverse condemnation policy creates an undue burden on utility ratepayers since they will pay any costs passed through to the utilities that have not been found to be imprudently incurred. Moreover, for IOUs, even if the costs of 2017 wildfires ignited by utility infrastructure are found imprudent, ratepayers will bear the cost of maintaining utility financial solvency per the stress test process.\(^{20}\) We note that IOUs make up only about 65 percent of the electrical usage statewide, with the balance being made up of publicly-owned utilities (POUs), electric cooperatives, and other governmental agencies.\(^{21}\)

If a Catastrophic Wildfire Fund as proposed in the Strike Force Report is to be adopted, participation should not be limited to the IOUs. All utilities and other load serving entities use long distance transmission to import power and part of this transmission covers fire-prone terrain, including transmission owned by POUs. Federal energy policy requires open access to the transmission grid, so while the transmission line may be owned by one company, the benefits of the transmission system accrue to all electric customers. We support the mandatory funding of a Catastrophic Wildfire Fund by all utilities, rather than allowing POUs to only

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\(^{20}\) SB 901 for 2017 wildfire costs requires the CPUC to perform a financial stress test regarding amounts of wildfire costs that the shareholders are required to bear because they are not found to be reasonable. If the utility is unable to bear all of the costs associated with disallowed wildfire costs because of its financial health, ratepayers would be required to pay the portion that the utility is unable to afford.

\(^{21}\) California Energy Commission, 2017 electric industry statistics.
participate on a voluntary basis. In addition, there should be contributions from other sources, such as insurance companies, government entities as appropriate, etc.

We note that the Strike Force Report states that taxpayers have already footed the bill for substantial wildfire-related costs. However, unless inverse condemnation is eliminated, governmental entities can seek recovery from the utilities for any expenses associated with wildfires involving utility equipment. Thus, while governmental entities like CalFIRE and local fire agencies as well as FEMA do incur costs of administration and staffing, costs specifically related to these wildfires associated with electric equipment will be reimbursable unless inverse condemnation is changed. The SB 901 Commission should recognize that utility ratepayers are the ones who ultimately bear the burden now of the costs to fight catastrophic wildfires sparked by utility infrastructure; as with liability costs, the amount the taxpayers actually pay for those costs of CalFIRE and other agencies under inverse condemnation must be clearly understood and addressed to rectify the current inequitable, untenable situation.

b. What financial mechanism(s) best address the problems you identify within the current liability and insurance regimes? Please provide as much detail as possible regarding proposals (e.g. What liabilities would be covered? Who are the involved parties? What is the administrative structure? How is it capitalized and funded? What level of capitalization is needed? How would subrogation and damage claims be handled? Is it scalable and how? What are the consumer impacts? What are the risks to the proposed approach?)

The Strike Force Report proposes three approaches to addressing funding for wildfire liability costs. These are distinct from wildfire mitigation costs, for which the IOUs have proposals before the CPUC. These are a liquidity-only fund, replacement of inverse

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condemnation with fault-based liability, and a catastrophic wildfire fund. These are discussed at pages 34-39 of the Strike Force Report. Clearly, these are not mutually exclusive.

**Liquidity-Only Fund.** We have some concerns about the liquidity-only fund and oppose any proposal to only implement this concept. It is proposed as a liquidity-only fund “to cover utility costs to pay claims after a determination of cause and before a determination of cost recovery.”\(^{23}\) The CPUC would have to create a cost recovery standard to determine when costs can be recovered in rates and, if the standard is met, ratepayers would reimburse the fund. If the standard is not met, ratepayers would not pay. We have a number of questions regarding this fund.

It is not clear to us who would be responsible for paying if the standard is not met but the utility is found under a financial stress test to be unable to repay the liquidity-only fund. Furthermore, the details associated with the liquidity fund are unclear. For example, there is no description of the process for gaining access to any such fund by the various potential claimants. Furthermore, it is unclear as to what types of costs the liquidity-only fund would be available to reimburse. Also, there is no indication of the priorities for disbursements among the various entities that would seek moneys, *i.e.*, insurance companies seeking subrogation, un- and under-insured claimants, local governments, *etc*. Finally, it is unclear as to the time-frame during which liquidity would be necessary, the level of funding that would be considered sufficient amount, and the means by which the liquidity-only fund would be funded.

**Catastrophic Wildfire Fund.** The catastrophic wildfire fund would be used as a “buffer to absorb a significant part of wildfire liability funds that might otherwise be passed on to

\(^{23}\) Strike Force Report at 37.
ratepayers and provide time for mitigation”. The Report expects that shareholders would also contribute to the fund. It says utilities would have access to the funds to pay claims against them. However, if the utility is in financial difficulty, is not paying dividends, and has a very low stock value, it is not clear to us what source of funds the shareholders would use to contribute to the catastrophic wildfire fund and how the fund is to be repaid.

The rate impacts associated with the Catastrophic Wildfire Fund depend in part on its size, how rapidly moneys are placed into the fund, and whether the fund is paid for by only customers of IOUs or whether it is paid for more broadly. Consider the following example: a Catastrophic Wildfire Fund is created and only IOU ratepayers are asked to fund it, at an initial $20 billion level. If the fund revenues were raised by imposing higher rates over a 5-year period on customers of all three IOUs based on the sales to their distribution customers, then the rate impact would be 2.2 cents per kWh; this would amount to an increase of $276,000 per year for an average PG&E primary voltage industrial customer. In contrast, if the same rate burden were spread to all usage statewide including POUs, cooperatives, and other governmental agencies, the rate impact would be only 1.4 cents per kWh and the cost burden to an average PG&E primary voltage industrial customer would be reduced to $179,380.

If the amount of the catastrophic wildfire fund were securitized over 10 years at 3% and collected from only the IOU ratepayers, the rate impact would be 1.3 cents per kWh, which would

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24 Strike Force Report at 37.
25 See Appendix 1, CLECA Revised Impact of Wildfire Costs on Industrial Customers.
26 A much larger industrial customer, such as those connected at the subtransmission voltage, with higher energy requirement would pay on average about $981,000 more per year.
amount to an increase of $162,000 per year,\textsuperscript{27} for example, for an average PG&E industrial customer. In contrast, if the same rate burden were spread to all usage statewide including POUs, cooperatives, and other governmental agencies, the rate impact would be only 0.8 cents per kWh and the cost burden to an average PG&E primary voltage industrial customer would be reduced to $105,144.

Limits to Securitization. It appears that the Strike Force Report is considering funding both the liquidity-only fund and the catastrophic wildfire funds through the issuance of debt secured by guaranteed obligations of ratepayers via legislation, aka securitization. The Strike Force Report states: “like the liquidity-only fund, an extended DWR charge could be dedicated to support the claims paying resources of the wildfire fund”.\textsuperscript{28} This clearly refers to securitization but there is no indication that the answers to many questions regarding its feasibility were sought.

There are limits to how much can be securitized and over what time period, both of which affect rates. For example, the DWR energy crisis bonds securitized only $11.2 billion in power purchase contract costs and did so over a 20-year period. In contrast, the wildfire liabilities for the 2017/2018 period could easily be twice as big and is quite likely to be bigger if one considers the possibility of future wildfires.

We note that in the testimony of Saber Partners’ Paul R. Sutherland, on behalf of the California Community Choice Association in the CPUC’s R. 17-06-026, his Exhibit C shows $49 billion of securitizations in the US over 64 separate projects for over two dozen utilities from

\textsuperscript{27} A much larger industrial customer, such as those connected at the subtransmission voltage, with higher energy requirement would pay on average about $575,000 more per year.

\textsuperscript{28} Strike Force Report at 38.
1997 to 2016, the largest of which was for roughly $4 billion. Depending on whether the amount to be securitized is the past utility exposure for 2017-2018 of roughly $20 billion or a potentially significantly larger exposure including future fire risk, it should not be assumed that this amount of securitization is feasible. Furthermore, it is not clear that a term of 20 years for such a large exposure would be viable or what would be the possible interest rate. The shorter the recovery term, the higher the charge to recover the cost. On the other hand, the longer the term, the higher the associated interest rate is likely to be. Additionally, longer terms may make obtaining securitization even more difficult.

4. **Community and Wildfire Victim Impacts**

CLECA struggles to adequately express our sympathy and support for the wildfire victims; we recognize their tremendous loss and near-impossible situation. We must also recognize, however, the need to send appropriate signals regarding risk, as noted by Commissioner Jones at the February 25, 2019 hearing:

> [C]limate change is real, it is happening, and is only going to get worse. We have to think about the implications associated with masking various signals [from] markets in terms of that real risk. So there is a balance to be struck between trying to equitably address costs associated with catastrophic wildfires and socialize them, but also give some attention and thought to whether in doing so we are masking signals necessary to be sent by markets, so that people understand these risks are real and they have real consequences. In addition to options, we need to give some thought to whether those options are actually reasonable and make sense in the context that we are in.

a. **What are the specific needs of communities and wildfire victims in considering how costs are socialized?**

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29 See Appendix 2.
CLECA believes that most if not all wildfire victims are also ratepayers. To the extent the wildfire victims are ratepayers, their specific needs are aligned with the need of all ratepayers for safe, reliable and affordable power. The SB 901 Commission should recognize the ratepayer burden on wildfire victims in considering how costs are socialized, in addition to the specific need for timely and just compensation of wildfire victims.

b. What are the specific needs of communities and wildfire victims in considering a potential wildfire fund or other financial mechanism?

Based on the testimony of the wildfire victims and community representatives at the SB 901 Commission hearings, CLECA believes that a potential wildfire fund needs to be able to provide timely compensation to the victims.

5. Miscellaneous

a. Do you have other recommendations for ways to reduce wildfire damage and costs that the Commission should consider?

The SB 901 Commission’s scope of work recognizes the need to “be mindful of additional policy areas that play a key role in preventing, responding, and exacerbating wildfires” and lists related policy areas of “land use planning; forestry and vegetation management.” The final report should encourage the Legislature to address necessary reforms for land use and zoning, including planning for evacuation in high fire threat areas.

b. Do you have other recommendations to ensure a more equitable distribution of wildfire costs and liabilities that the Commission should consider?

We ask the SB 901 Commission to keep in mind that IOU ratepayers must bear very significant costs associated with hardening the transmission and distribution systems. Based

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31 Commission on Catastrophic Wildfire Cost and Recovery Scope of Work.
32 See Appendix 1, CLECA Revised Impact of Wildfire Costs on Industrial Customers.
on the 2019 IOU Wildfire Mitigation Plans before the California Public Utilities Commission,\textsuperscript{33} we estimate that the costs associated with the hardening of the system likely represent a total cost of $12.6 billion for PG&E and $3.7 billion for SCE over a five-year period (2019-2023). Thus, industrial ratepayers on PG&E’s system face forecast rate increases between 7-14 percent, and on SCE’s system between 4-6 percent, just associated with hardening the system.

The ratepayers for these two utilities also face likely liability for the wildfire losses in 2017 and 2018. If hypothetically, the combined 2017 and 2018 PG&E wildfire liability were paid for by ratepayers using a 10-year securitization at 3 percent, this would represent an 18 percent increase in rates for PG&E primary voltage industrial customers. If hypothetically, the combined 2017 and 2018 SCE wildfire liability were paid for by ratepayers using a 10-year securitization at 3 percent, this would represent a 5 percent increase in primary voltage industrial rates.

If the cost of hardening the system and the liability for the 2017 and 2018 wildfire losses were passed to ratepayers, PG&E primary voltage industrial ratepayers could face combined rate increases of as much as 5.2 cents per kWh, bringing their rates up to 21.3 cents per kWh in 2023. SCE primary voltage industrial ratepayers could face combined rate increases of as much as 1.42 cents per kWh, bringing their rates up to 15.2 cents per kWh in 2023. For comparison purposes, if that same company was located in Nevada, it would currently pay 4.94 cents per kWh; in Arizona it would currently pay 5.96 cents per kWh; and in Oregon it would currently pay 6.01 cents per kWh.

\textsuperscript{33} See R. 18-10-006.
III. CONCLUSION

CLECA appreciates the opportunity to offer these comments and hopes they help inform the SB 901 Commission’s consideration of these difficult issues and development of its report. We recommend the SB 901 Commission’s report support reform of the inverse condemnation doctrine to a fault-based standard, establishment of a data agency to inform the calculation of wildfire risk and a Catastrophic Wildfire Cost Recovery Fund that is broadly funded by utility shareholders and ratepayers, POUs, and contributions from insurance companies profits, in addition to the limitations on subrogation claims.

Respectfully submitted,

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