EDISON INTERNATIONAL®

Caroline Choi
Senior Vice President
Corporate Affairs

June 3, 2019

Governor's Office of Planning and Research
P.O. Box 3044
Sacramento, CA 95812-3044

Commissioner Carla Peterman, Chair
Commissioner Dave Jones
Commissioner Michael Wara
Commissioner Michael Kahn
Commissioner Pedro Nava
Executive Officer Evan Johnson

RE: Draft Report of the Commission on Catastrophic Wildfire Cost and Recovery

Dear Commissioners:

Southern California Edison (SCE) commends you and Commission staff for your work, specifically in creating an open and transparent process through numerous public meetings and posting materials on your website, to encourage public participation. The delivery of the Commission draft report five weeks prior to the statutory deadline reinforces the urgency that is needed in confronting the impacts of catastrophic wildfires to all Californians. SCE hopes that this sense of urgency shifts to the Legislature with the timely passage of comprehensive wildfire legislation and policies that effectively address California's wildfire risks.

Enhanced prevention with clear accountability to reduce wildfire risk is critical

While California's electric utilities are taking aggressive action to prevent and mitigate wildfires, we agree with the Commission's warning that additional, broader wildfire risk mitigation efforts are needed to protect the "millions of Californians now and for the foreseeable future [who] are vulnerable to the devastating consequences of catastrophic wildfires."[1]

As this Commission and the Governor's Strike Force report have noted, climate change, real estate development patterns in the wildland urban interface (WUI), and insufficient resources for hardening and adapting communities are all contributing to wildfire damage, and all stakeholders must be involved in the solutions. In light of this "multi-dimensional emergency," we concur that in conjunction with additional investments in wildfire hazard reduction associated with utility infrastructure, the State also needs to invest in mitigation measures that

---

[1] Commission on Catastrophic Wildfire Cost and Recovery, Discussion Draft, Appendix I: Utility Liability Workgroup Report, page 1.

PO Box 976
Rosemead, CA 91770

help make communities more resilient and fire-safe and discourage risky behavior. This includes regulation and financial support for individual action addressing, among other things: smarter planning that ensures new and existing buildings are flame- and ember-resistant; sustainable and safer development; and protective defensible space and building code requirements.

Urgency is needed on wildfire policy reforms

In prior communications, SCE has noted the value of financially healthy utilities. Rating agencies have made it abundantly clear that failure to act on significant policy this year could lead to credit ratings downgrades for the state's investor-owned electric utilities (IOUs), which could result in sub-investment grade credit ratings, which in turn will hurt our customers. In its February 19, 2019 report, *Credit FAQ: Will California Still Have An Investment-Grade Investor-Owned Electric Utility*, Standard & Poor's clearly stated that "[a]bsent concrete steps taken by regulators and/or politicians to reduce the risks for California's electric utilities, S&P Global Ratings could lower the ratings on Edison, SCE, and SDG&E by one or more notches -indicative of the possibility that the [issuer credit ratings] on these companies could be below investment grade before the start of the 2019 wildfire season." Following a discussion with the S&P analyst covering California IOUs, an equity research analyst indicated that S&P has refined the timing of potential action writing, "[S&P's analyst] made it clear that July 12 (before summer recess) is a hard deadline for S&P to wait for wildfire legislation that could sustain SCE (EIX) and SDG&E (SRE) investment grade ratings."[2]

Moody's has similarly expressed that, "SCE's ratings are likely to fall further without additional legislative or regulatory action by the end of this year's California legislative session in the third quarter of 2019."[3]

If the risks remain unaddressed and the IOU credit ratings decline further, utility customers will be harmed as each utility's costs to access the debt and equity capital markets increase. Even before considering the impact of further credit ratings downgrades, SCE's recent March 2019 debt issue carried a 0.9% interest rate premium compared to debt issued by peer utilities, as mentioned in our April 22 letter. This premium translates to ~$270 million of additional interest over the life of the typical 30-year bond per $1 billion raised. For context, the California IOUs have disclosed capital investment plans of ~$13 billion for 2019, implying nearly $2 billion of interest commitments each year above peer utilities outside California before incorporating the impacts of additional downgrades, which translates into $55 per residential customer (per year), of incremental interest costs. The increasing risk profile has also had an impact on the cost of equity capital, which is reflected in each IOU's recent Cost of Capital filing at the California Public Utilities Commission (CPUC).

---

[2] Wolfe Research, "The Fleishman Daily 5/23/19," May 23, 2019.
[3] Moody's, *Southern California Edison Company: Update following downgrade to Baa2 negative*, March 13, 2019.

Undoubtedly, lack of policy reform this session will further decrease investor confidence, pressure each utility's business operations and increase costs for our customers.

Objective standards that define utility prudence and a timely process for completing a prudency review are needed

Throughout the Commission process, SCE has consistently emphasized that in order to restore the market's confidence in California's regulatory framework, the State needs durable and objective standards that define utility prudence and a timely process for completing a prudence review. This means that if an electric utility complies with approved standards, that utility is deemed a prudent manager. Wildfire damage that nonetheless occurs where a utility is prudent would be covered by the utility's insurance and the catastrophic wildfire recovery fund described below.

The CPUC can and should deny cost recovery for utility wildfire damages to the extent a utility's management is imprudent and that imprudent conduct was the direct cause of a wildfire. SCE appreciates the Commission's recommendation to adopt the Federal Energy Regulatory Commission's (FERC) presumption of prudence. Also consistent with the standard applied by FERC, a single mistake should not equal imprudence. In making its prudence determination, the CPUC or other responsible agency should consider all causes of a wildfire ignition and its progression, including external factors beyond the utility's control, such as wind; fuel stock; temperature; low humidity; the extent of development in high wildfire risk areas, and/or to what extent any actors outside the utility contributed to damages.

SCE is encouraged by the Commission report's recommendation to establish a wildfire fund

SCE agrees that a catastrophic wildfire recovery fund should be established to achieve broad risk and cost sharing that covers property damage resulting from wildfires caused by electric utility ignitions. The Wildfire Fund should be sufficient to cover the costs of catastrophic wildfire damages regardless of whether the inverse condemnation/strict liability standard is reformed.

As SCE noted in its previous comments to the Commission, we do not believe a liquidity-only fund is a viable solution, by itself, to solve the current inequitable socialization of wildfire liability in California. Instead, the key features of the liquidity fund concept described in Governor Newsom's Strike Force report should be integrated into the wildfire recovery fund.

The Fund should be capitalized by various sources, up front and post event, including customers, shareholders, and the state. We concur with the Commission's inclusion of a dedicated revenue stream (via continuation of DWR bond collection) to help quickly capitalize the Wildfire Fund and pay claims to future wildfire victims while mitigating the impact on customers from annual premiums paid to the Fund.[4]

Due to the cost and lack of available capacity in the commercial insurance markets above ~$1.5 billion, it is important that the Fund be designed to respond to claims in excess of the utility's insurance coverage before a prudency determination is made, just as commercial insurance does. If a utility is later found to have acted imprudently in connection with the cause of the fire, the utility's shareholders will be allocated a portion of the post-loss premium paid to the Fund in proportion to its imprudence, while considering the extent to which the wildfire and its damages were caused by circumstances beyond the utility's control.

The Commission report recommends the establishment of an electric utility wildfire board to consolidate all prevention, mitigation and enforcement activities, separate and apart from the CPUC. If such a board is created and has the authority to require utilities to implement wildfire mitigation activities and adjudicate wildfire claims, including prudence determinations, it must have the concomitant authority to mandate that the CPUC permit the utilities to recover the costs of doing so from customers. Similarly, if the board has the authority to fine the utility for non-compliance, the CPUC must be divested of its authority to do so in the wildfire context. Whether these functions reside in a new board or remain in the CPUC, it is critical that the standard-setting and cost recovery decisions be made by one regulator or, if made by the new board, such decisions need to be binding on the CPUC. If a new board is created, its members must have the requisite risk management and utility expertise to perform these functions.

Again, SCE appreciates the service that you and your staff have provided the state, our customers, and communities through an inclusive and transparent approach. SCE looks forward to expanding on the work of this Commission by continuing to seek clear, comprehensive, and timely policy solutions in the Legislature this year that will mitigate wildfire risks and improve the quality of life for countless Californians.

Sincerely,

Caroline Choi /lcw.

Caroline Choi
Senior Vice President
Corporate Affairs

---

[4] Combining the Liquidity Fund features with the Wildfire Fund will allow the funds raised for the Liquidity Fund to enjoy the tax benefits of the Wildfire Fund.