

AB 1054 & CALIFORNIA'S WILDFIRE INSURANCE FUND

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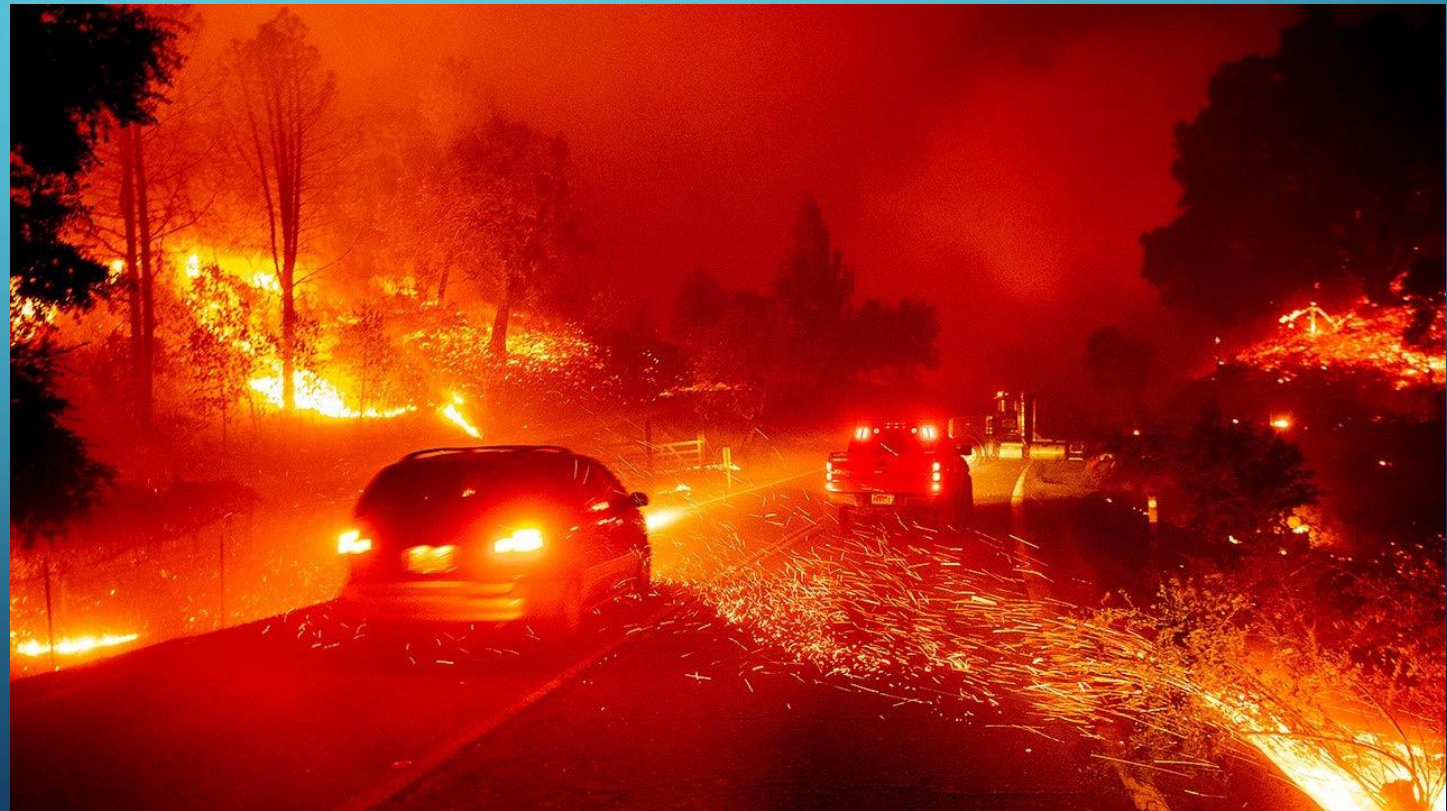
STAFF ATTORNEY

THE UTILITY REFORM NETWORK (TURN)



AGENDA

- Overview of AB 1054
- Purpose and operation of the Wildfire Insurance Fund
- TURN perspective on the Wildfire Fund Rulemaking at the California Public Utilities Commission



AB 1054 (HOLDEN)

- Urgency measure to address the “dangers and devastation from catastrophic wildfires in California caused by electric utility infrastructure”
- Lengthy bill that addresses many issues related to utility infrastructure caused wildfires
- Creates new rules for utility wildfire mitigation and agencies to oversee the implementation of the rules:
 - CA Wildfire Safety Advisory Board
 - CA Catastrophe Response Council
- Requires significant shareholder contributions for Wildfire Fund (\$10.5 Billion) and wildfire prevention & grid hardening activities (\$2.5 Billion contribution & no rate of return of \$5 billion in utility capital investments)
- Changes the prudence standard by which utility conduct related to a wildfire ignition is reviewed and evaluated and created a new Safety Certification Process (P.U. Code 451.1)
 - Major change - shifts the burden of proof from the utilities to parties/intervenors to demonstrate that utility conduct was unreasonable
 - If utility conduct is found to be reasonable then costs and expenses related to the wildfire ignition are recoverable from the Wildfire Fund or ratepayers through a Catastrophic Wildfire Proceeding. P.U. Code Section 1701.1(d)(4)

WILDFIRE FUND – CREATED BY P.U. CODE 3284

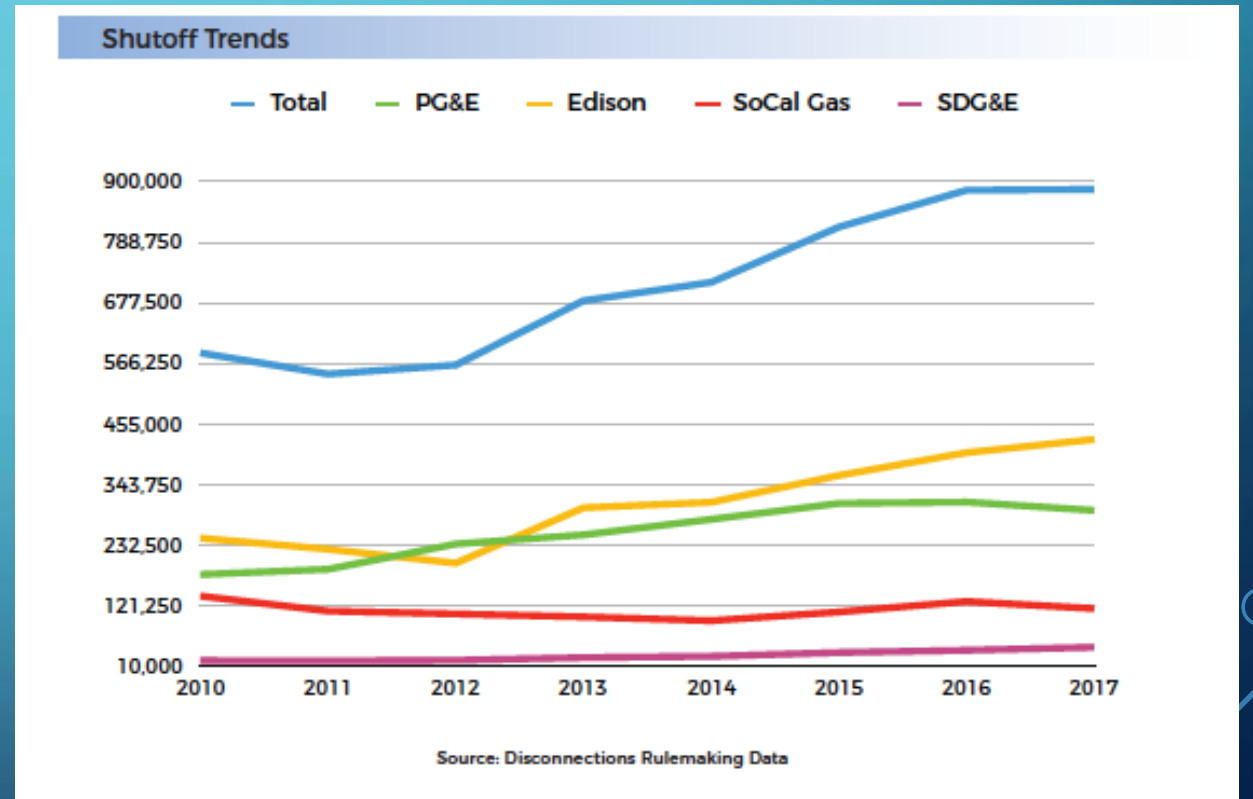
- Insurance fund to pay claims for third-party damages against an electrical corporation resulting from covered wildfires exceeding the greater of \$1 billion in the aggregate in any calendar year, or (2) the amount of the insurance coverage required to be in place for the electrical corporation.
- Funded by \$10.5 billion contribution from utility shareholders & \$10.5 billion contribution from utility ratepayers
 - Amount of each utilities' shareholder contribution is based on "Wildfire Fund Allocation Metric" → considers amount of land and transmission lines in each utilities' service territory that are in a high fire-threat district – Section 3280(n)
 - PG&E: 64.2%
 - SCE: 31.5%
 - SDG&E: 4.3%

RULEMAKING 19-07-017: CONSIDERATION OF THE WILDFIRE FUND NON-BYPASSABLE CHARGE

- AB 1054 directed the Commission to open a Rulemaking to consider whether to impose the Wildfire Fund non-bypassable charge (Wildfire Fund Charge)
- Section 3289(a)(1) directs the Commission to apply its broad discretion and authority under Section 451 to determine if it is “just and reasonable” to impose the Wildfire Fund Charge on ratepayers.
- Three large utilities indicated desire to participate in the Wildfire Insurance Fund. All of the smaller regional utilities declined to participate
 - P.U. Code 3292 addresses the requirements for eligibility to participate in the Wildfire Fund if the utility is subject to an insolvency proceeding

FAIRNESS AND REASONABLENESS OF IMPOSING WILDFIRE FUND CHARGE ON UTILITY RATEPAYERS?

- Author promised the charge would not increase electric bills because it is a continuation of an existing charge that was set to expire in 2020
- Alleged benefits to ratepayers: decreased costs resulting from limiting electric utilities' exposure to financial liability from ignitions.
 - Cost of capital
 - Insurance cost/ difficulty in obtaining insurance



* Graph from TURN's Living Without Power Report, referencing data provided in R.10-02-005.

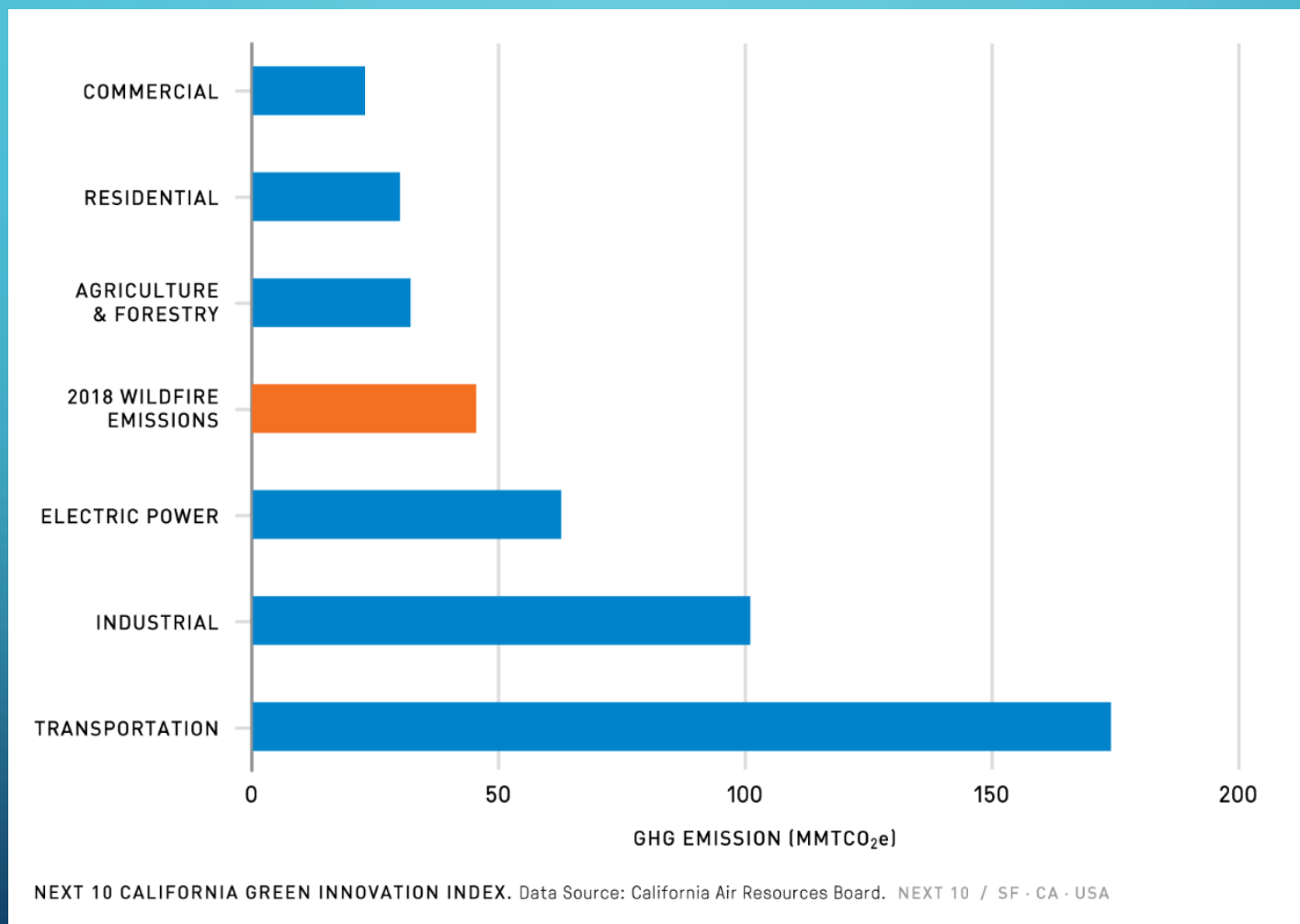
KEY CONSIDERATIONS TO PROTECT RATEPAYERS REGARDING THE IMPOSITION OF THE WILDFIRE FUND CHARGE

- Reducing limitations on the collection of the Wildfire Fund Charge
 - 3289(a)(2)) requires the Wildfire Fund charge be collected “in the same manner” as payments made historically under the Department of Water Resources (DWR) bond charge
 - DWR Bond Charge exemptions for low-income customers and those who did not utilize the electricity purchased by DWR – “Continuous Direct Access” and Customer Generation Departing Load
- Limiting collection to only what is necessary to support up to \$10.5 Billion bonds
- Ensuring commensurate contributions from shareholders
 - Wildfire Fund NBC will ultimately collect over \$13.5 BILLION from ratepayers
 - Shareholder contributions are a tax write-off for the investor owned utilities
 - Who will pay the financing costs of shareholder contributions
- Clean-up legislation (AB 1513) modified Section 3292
 - Any money left in the Wildfire Fund at its termination will no longer be returned to ratepayers, but instead will go into the state’s General Fund
 - Wildfire Fund Charge will be collected until January 1, 2036.

CPUC DECISION 19-10-056

- Approved Wildfire Fund Charge: Commission found it “just and reasonable”
- Combined annual collections from PG&E, SCE & SDG&E ratepayers (assuming PG&E eligibility) = \$902.4 million
- Charge updated annually based on forecast sales and over or under-collections from the prior year
- Charge collected on every kWh used unless customer qualifies for exemption:
 - CARE (low-income) customers,
 - Medical Baseline customers,
 - Continuous Direct Access customers, &
 - Customers using Customer Generation Departing Load

CALIFORNIA 2017 EMISSIONS BY SECTOR AND 2018 ESTIMATED WILDFIRE EMISSIONS



Source: <https://www.next10.org/publications/2019-gii>