Statewide Impacts of Wildfires on Utility Credit and Access to Capital

RESPONSE TO GOVERNOR'S REQUEST

November 1, 2026

California Public Utilities Commission

TABLE OF CONTENTS

INTRODUCTION **1**

EXECUTIVE SUMMARY **3**

PART 1. CATASTROPHIC WILDFIRE RISKS ARE INCREASING, EXPOSING UTILITY CUSTOMERS TO SUBSTANTIAL FINANCIAL LIABILITIES **9**

A. California wildfires have become more destructive due to climate change, accumulated vegetation, and development in fire-prone areas. **9**

B. Recent experience of utility related wildfires demonstrates the ongoing financial risk born by ratepayers for wildfire liability **10**
2019 PG&E Bankruptcy 11
Recent Fires and the Effects on the Wildfire Fund and Insurance Market 12
Financial Risks to Ratepayers 14

C. Wildfire-related costs are already significant for ratepayers, accounting for approximately 10 to 14 percent of typical residential electric bills for California's three large IOUs. **15**

D. Wildfire-related costs are recovered inequitably across residential customers **16**
Cost of Fires Over Time 17

E. California's Actions to Address Wildfire Liabilities **19**
Earlier Legislation in Response to PG&E Bankruptcy 19
Creation of the Wildfire Fund 20
Summary of SB 254 Legislation 21
Summary of SB 254 Report April 2026 22
Summary of CPUC's January 2026 Response to SB 254 23

F. California's application of inverse condemnation is unusual among states and exposes utilities to substantial wildfire liabilities, even in the absence of negligence. **24**

PART 2. CALIFORNIA'S WILDFIRE FUNDS PROVIDE IMPORTANT PROTECTIONS, BUT THEIR LONG-TERM ADEQUACY REMAINS UNCERTAIN **25**

A. The existing AB 1054 Wildfire Fund has approximately $21 billion in initial claim-paying capacity, but claims arising from the Dixie, Kincade, and Eaton Fires could substantially reduce its remaining resources. **25**

B. The SB 254 Continuation Account has $18 billion in nominal claim-paying capacity but remains unfunded, with shareholder contributions beginning in 2029 and ratepayer contributions in 2036 ..... **26**

C. The SB 254 Study Report recommended a variety of steps to address the large and growing costs associated with wildfires, but significant policy questions remain unresolved. **27**

PART 3. WILDFIRE RISKS CONTINUE TO PRESSURE UTILITY CREDIT RATINGS AND INCREASE BORROWING COSTS 29

A. Following the 2026 legislative session, rating agencies expressed continued concerns about California utilities' wildfire liabilities and the adequacy of existing protections. 29

B. S&P has identified Wildfire Fund balance thresholds and other conditions that could trigger additional credit rating downgrades. 30

C. California's IOUs generally have weaker credit ratings than comparable utilities outside California, and further downgrades could increase financing costs and limit access to capital. 31

D. California IOUs already pay higher borrowing costs than their peers, and additional credit rating downgrades would compound these costs. 33

PART 4. LIMITED ACCESS TO CAPITAL THREATENS CALIFORNIA'S ABILITY TO INVEST IN A RELIABLE, CLEAN, AND FIRE-RESISTANT GRID AND PAY WILDFIRE CLAIMS 38

A. Limited access to debt and equity capital could constrain utility investments needed to ensure a reliable, clean, and fire-resistant electric grid. 39

B. Deferred utility investments could delay housing development and business expansion, affecting California's broader economic growth. 39

C. Limited access to capital also threatens the ability of IOUs and POUs to pay wildfire claims and maintain financial stability. 40

D. Credit Ratings May Increase the Cost of Long-Term Contracting for New Clean Energy Resources 41

CONCLUSION 42

APPENDIX A: UTILITY CREDIT RATING FOR IOUS AND POUS – SUMMARY OF DOWNGRADES OR OUTLOOK CHANGES 44

IOU Credit Ratings Over Time 44

Recent Credit Rating Changes for IOUs 47

PG&E Credit Rating 47
SCE Credit Rating 48
SDG&E Credit Rating 48

Credit Ratings of California's publicly-owned utilities (POUs) and small multi-jurisdictional utilities (SMJUs) 49

SMUD 50
LADWP 50
PacifiCorp (Pacific Power) 52
Liberty Utilities 53

FIGURES AND TABLES

Figure 1. How Wildfire Liability Undermines Energy Affordability and Climate Goals....4
Figure 2. Not All California Utilities Have Access to the Wildfire Fund....6
Figure 3. The Continuation Account's Nominal Capacity is Not Cash Available Today....7
Figure 4. California's Top 20 Most Destructive Wildfires (by Number of Structures Destroyed)....9
Figure 5. Causes of CA Wildfires....11
Figure 6. Wildfire-Related Revenue Requirement by Capital-Related and Operating Expense, Relative to Total Revenue Requirement (January 1 2026, $ Millions)....18
Figure 7. CEA AB 1054 and SB 254 Account Coverage....25
Figure 8. Stock Price Performance of California's Large IOU Parent Companies Following the 2026 Legislative Session....28
Figure 9. Credit Rating History for California IOUs, 2016-2026....29
Figure 10. S&P Global Credit Rating Threshold....31
Figure 11. Current Credit Ratings for California Electric Utilities, as of October 26, 2026....32
Figure 12. SCE Historic Debt Trading Levels Relative to Rating Downgrades and Peer Average 2017-2019....36
Figure 13. PG&E's Historical Borrowing Costs on a Comparable Basis, 2013-2026....37
Figure 14. Wildfire Liability Risk and Credit Ratings Downgrade Cycle....38
Figure 15. Need for Urgent Reform....42
Figure 16. S&P Credit Rating History for California IOUs....44

Table 1. PG&E, SCE, and SDG&E Wildfire-Related Portion of Typical Average Monthly Bill, Bundled Residential Non-CARE Customers (January 1, 2026)....15
Table 2. Estimated Monthly Residential Wildfire-Related Portion of Monthly Bill by Utility, Geographic Location, and Net Energy Metering (NEM) Status....16
Table 3. Total Wildfire-Related Authorized Costs and Revenue Requirements (January 1, 2020 to January 1, 2026, $ Billions)....17
Table 4. Actual 2023-2025 and Projected 2026 - 2028 Wildfire Mitigation Cost by Operating Expenditures (OpEx) and Capital Expenditures (CapEx) ($ billions)....19
Table 5. Estimated Wildfire-Related Borrowing-Cost Premiums and Additional Interest Expenses for California IOUs....34

Introduction

California's increasingly destructive wildfires impose enormous human, environmental, and economic costs on the State and its residents. More than 100 individuals have died from wildfires in the past decade. Polluting wildfire smoke has at times blanketed much of the State, threatening public health. Catastrophic wildfires are estimated to have caused more than $100 billion in losses, threatening the State's economy.

As the State's utility regulator, the California Public Utilities Commission's (CPUC) focus is on California's ability to provide safe, clean, reliable, and affordable utility service to California residents, including electric utility service from investor-owned utilities. To fulfill their obligation to provide electric service to all those who request it throughout California, California's electric utilities maintain many thousands of miles of electric transmission and distribution lines in high fire-threat districts. These lines, which carry live electricity, can ignite fires in severe weather conditions or if not maintained adequately, and historically have been the cause of slightly under 10% of California's wildfire ignitions. Most electric equipment ignitions are quickly suppressed. However, in the past decade, as climate change has increased temperatures and dried the landscape, and following many years of fire suppression and fuel buildup and population growth in wildfire-prone areas, multiple electric line ignitions grew into massive and highly destructive wildfires with billions of dollars of losses and loss of life.

Under California law, including California's unique application of inverse condemnation as applied by California courts, the electric utility must pay the full costs for a wildfire ignited by the utility's electrical equipment, even if the utility acted reasonably and complied with its wildfire mitigation plan and safety obligations. Utility ratepayers are often responsible for all or a portion of these costs.

Given the increased likelihood that an ignition can transform into a catastrophic wildfire and the costs of catastrophic wildfires, the State has correctly demanded that electric utilities engage in wildfire mitigation to reduce the likelihood of utility wildfire ignitions. Following Assembly Bill (AB) 1054 (Holden, 2019) and other legislation, the CPUC and the Office of Energy Infrastructure Safety have approved and overseen the electric utilities' spending of tens of billions of dollars in wildfire mitigation to underground distribution lines, install covered conductors, implement early fault detection technology or automated fire detection systems, and apply continuous monitoring and develop other ignition reduction strategies. The State's utility wildfire mitigation is now nation- and world-leading and has meaningfully reduced the likelihood of utility wildfire ignitions.

Under this environment, a utility's failure to exercise care to safely operate its equipment is unacceptable and deserves substantial consequences. But given the more than 150,000 miles of electric wires throughout California, there is no short-term path for electric utilities to eliminate the possibility of electric equipment igniting wildfires. And electric utilities are not responsible for the factors that numerous studies identify as driving the increase in catastrophic wildfires from both electric equipment and non-electric-equipment sources, including climate change and forest fuel buildup. Nor do electric utilities have oversight over or the ability to implement many of the widely identified strategies to allow the State to reduce wildfire risk, such as home hardening, community investments, and reintroduction of healthy fires. Addressing wildfires requires a whole-of-society approach.

Senate Bill (SB) 254 (Becker, 2025) directed the California Earthquake Authority (CEA), in its capacity as Administrator of the California Wildfire Fund, to lead and prepare an extensive report with

recommendations on new models to mitigate damage, accelerate recovery, and responsibly and equitably allocate the burdens from wildfires and other natural catastrophes. As directed by SB 254, the CEA proposed multiple structural reforms to enhance the State's catastrophe resiliency, including structural reforms to address the impact of increased catastrophic wildfires on the State's utilities' ability to deliver safe, affordable power to their customers. To date, those reforms have largely not been adopted and the need for them remains justified and urgent.

On September 1, 2026, Governor Gavin Newsom requested that the CPUC report on the State's failure to provide these structural reforms. This report builds upon and cites earlier CPUC work and the CEA work. The Governor asked that the CPUC consult other agencies in preparing this report focused primarily on the credit impacts to utilities. The CPUC has consulted with the Department of Finance, California Energy Commission, Governor's Office of Business and Economic Development, and Office of Energy Infrastructure Safety. The CPUC appreciates their input and thank each for their contributions.

In short, as this report describes, until the whole-of-society steps needed to meaningfully reduce wildfire risk occur, the existing system that places tens of billions of dollars in wildfire costs on utilities and utility ratepayers and threatens further tens of billions of dollars in costs is not sustainable and increasingly harms the State's ability to provide safe, clean, reliable, and affordable electricity service.

Executive Summary

On September 1, 2026, the Governor requested that the CPUC report on the impacts of the State's failure to date to pass structural reforms to address the impacts of increasing catastrophic wildfires on electric utilities and their customers. In particular, the Governor requested that the CPUC report on the statewide impact of the lack of structural reform, including any credit rating downgrades or outlook changes for public and private utilities, increased borrowing costs, and potential limitations on access to capital. The Governor further requested the CPUC report on the potential consequences for utility customers and customer bills and broader State economic development from constrained access to the capital necessary to operate a safe and reliable electric system for California.

California's investor-owned and municipally-owned utilities build, maintain, and operate California's electrical grid. The electric grid consists of more than 150,000 miles of distribution and transmission lines, and approximately one-third of the grid travels through high-fire threat districts. The services carried over these wires are critical to Californians' daily lives. Electricity powers our homes, our businesses, and increasingly, our vehicles. The State's economy and each of us depend on safe, clean, reliable, and affordable electricity. As described in this report, in the absence of reform:

(1) Wildfire costs will continue to increase utility bills and make electricity increasingly unaffordable, particularly for lower-income households in hotter parts of the State.

Wildfire costs and liabilities increase electric bills. Under California law, including California's unique interpretation of inverse condemnation, electric utilities must pay the full costs for a wildfire ignited by the utility's electrical equipment, even if the utility acted fully reasonably. Utility ratepayers are typically responsible for all or a portion of these costs. In the past decade, as fires spread more quickly and grow more destructive, these possible costs have grown exponentially. For example, the January 2025 Los Angeles wildfires alone resulted in an estimated $53 billion in total economic losses (not all these losses are utility equipment related). In addition, per State requirements, electric utilities have spent further tens of billions of dollars on wildfire mitigation to decrease the likelihood of electric equipment ignitions. These costs are continuing and they will be passed on to ratepayers. Finally, wildfire risk has increased utilities' costs to borrow and obtain capital, which increases utility bills.

Wildfire costs will continue to drive increased electric bills that make electricity increasingly unaffordable for many. The combined wildfire costs have been a primary driver of increased California electric bills. For example, from 2020 through 2026, Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas and Electric (SDG&E) ratepayers alone paid more than $35 billion in wildfire-related costs. As of January 1, 2026, wildfire-related costs accounted for approximately $29 of PG&E's average monthly residential non-California Alternate Rates for Energy (CARE) bill, or roughly 14 percent of an average bill. And because of how electric bills are collected, an additional $16 billion—and growing—worth of wildfire costs are already incurred and approved for collection but they will be baked in slowly over time. Due to spreading certain wildfire costs over time in ratepayer bills, the reality is that today's known wildfire costs will be a large part of electric bills for decades to come, with future fires and future mitigation efforts only further increasing costs. Electric costs are a particularly significant expense for lower-income households, even more for lower-income households in hot climates. As a result, these already known and future bill impacts will be most felt by the individuals who can least afford it and who

live in those parts of the State where air conditioning is essential.

Wildfire costs are recovered inequitably across residential customers in different regions or with different usage patterns. Most wildfire-related costs discussed in this report are recovered through volumetric charges on customers' electricity bills, meaning these costs are passed on to customers through the cents per kilowatt charge on the customer bill. As a result, customers who use more electricity pay more toward wildfire-related costs, even though these costs are fixed costs that do not vary based on customer usage. This disproportionately affects inland customers, who pay more towards wildfire-related costs than coastal customers. For example, in PG&E's service territory, wildfire-related costs account for 16 percent of the average coastal customer's electricity bill, compared to 29 percent for the average inland customer, an effect of how costs are recovered in rates volumetrically according to usage. These disparities are a consequence of the current rate design and could widen as wildfire-related costs increase. As California continues to address wildfire risks and liabilities, it is important to consider how to more fairly recover costs across residential customers.

(2) Investor-owned electric utilities' access to capital and debt, as well as municipal utility access to debt and bond financing, is needed both to maintain and to grow the State's electric system; these investments are constrained by downgraded credit ratings and higher costs of debt and equity.

Utilities depend on debt and equity financing to maintain a safe and reliable electric system and expand service to meet growing demand. All utilities make capital investments to ensure reliability, repair systems, and expand the system as required by their obligation to serve. When the need for infrastructure investments exceeds monthly cash flows, utilities must use debt—and for investor-owned utilities, debt and equity—to maintain and expand the utility system.

Credit downgrades negatively impact ratepayers because they increase utility borrowing costs, constrain access to capital, and increase utility costs for energy contracts—all of which add cost pressures to every aspect of utility business. As summarized in Figure 1, low credit ratings directly impinge on the ability of utilities to make investments, which in turn impairs their ability to serve new customers or maintain reliability as they are forced to prioritize scarce fiscal resources on competing demands. When utilities face capital constraints, they generally prioritize critical safety investments, such as wildfire mitigation, and essential services. Other items that may still be critical for the

Figure 1. How Wildfire Liability Undermines Energy Affordability and Climate Goals



State's economy, such as interconnecting new housing developments and businesses, and bringing online more clean resources with transmission and interconnections, occur more slowly. Low credit ratings also increase utility's cost of borrowing, further increasing customer electric rates. For example, PG&E estimates that wildfire-related borrowing-cost premiums on bonds issued since 2017 will result in approximately $4.1 billion in additional interest expenses over the lives of those bonds, and California ratepayers are required to pay these expenses. Finally, utility credit ratings can negatively impact the cost of long-term contracting for clean energy. Generation and storage project developers may need to increase their price of power purchase agreements when they have lower confidence that their off-takers (i.e. utilities) have sufficient credit ratings to pay future bills on-time for future energy deliveries.

Wildfire risks are causing California electric utility credit downgrades. Most utilities around the world have high credit ratings, reflecting the perception that they are a safe and stable investment. This allows utilities to raise the money needed for electric infrastructure and to do so at affordable rates. The threat of wildfire liability has caused credit rating downgrades for California's electric utilities substantially below national peers, increasing borrowing costs by hundreds of millions of dollars each year, and constraining access to capital.

- For the investor-owned utilities (IOUs), as of September 2026, SCE's S&P rating was BBB-, the lowest investment-grade rating, with a Negative outlook. PG&E remained below investment grade under S&P's scale, while Fitch revised its outlook on PG&E to Negative in September 2026. Rating agencies identify uncapped wildfire liability exposure and the adequacy of the Wildfire Fund, described below, as major credit considerations in setting their credit ratings.

- These effects are not just limited to the IOUs. Following the January 2025 Los Angeles wildfires, S&P downgraded Los Angeles Department of Water and Power's (LADWP) Power System two notches, from AA- to A. Moody's subsequently downgraded its rating from Aa2 to Aa3 in March 2026, reflecting its growing capital program and contingent wildfire liabilities. For example, LADWP has cited that a two-notch downgrade could lead to as much as $927 million in additional interest expenses over time on their expected 5-year capital plan totaling over $30.5 billion in planned electric and water projects. In March 2025, S&P revised Sacramento Municipal Utility District's (SMUD) outlook from Stable to Negative, citing heightened wildfire-related liability risks, despite SMUD's low wildfire risk profile. Just like for IOUs, downgraded credit ratings of POUs directly affect the pace and scope of their ability to finance, build and maintain reliable grid infrastructure, and increase borrowing costs that are passed on to utility customers.

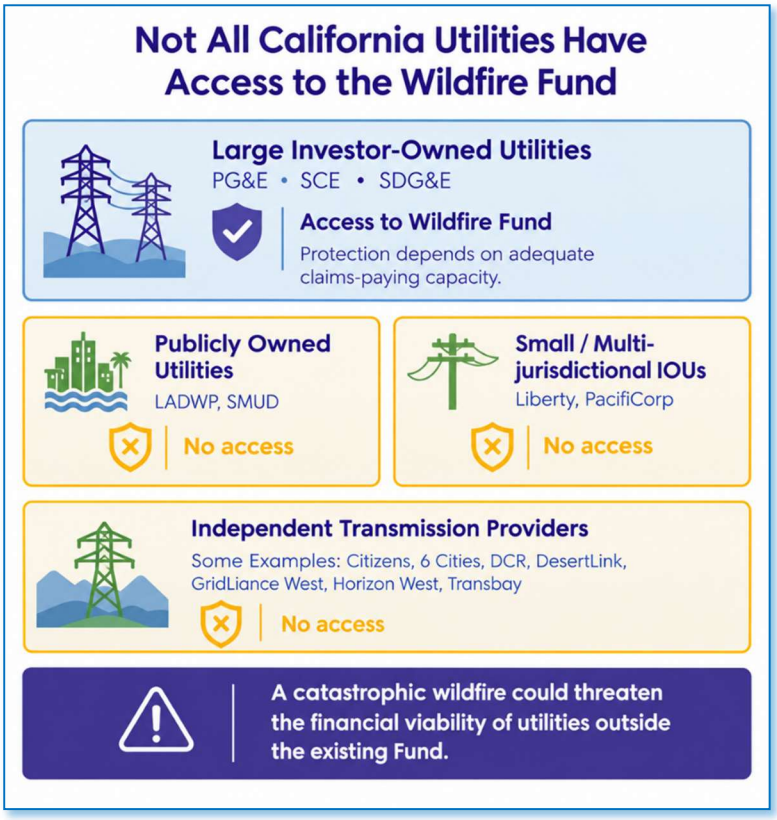
Credit downgrades will limit important California electric utility investments. In September 2026, PG&E announced the deferral of approximately $2 billion in planned 2027 investments, constrained access to the financial markets due to financing risks associated with California's wildfire liability framework and higher borrowing costs from downgraded credit ratings. The deferred PG&E work could include new housing connections, renewable generation interconnections, and service to large electricity customers. The PG&E announcements about curtailing investments that support ordinary economic development illustrate how wildfire-related financial pressures extend beyond utilities and ratepayers, potentially delaying housing development, business expansion and clean energy interconnections. Other IOUs and POUs make these

sorts of decisions on a regular basis – but not always on such a stark or large scale as the recent PG&E announcement. All utilities need to contract their investments to maintain access to debt and not extend their investments beyond their ability to access capital markets. Electric utility investment contraction harms all parts of the California economy.

(2) If major wildfires continue, the electric utilities may not be able to fill their essential functions absent emergency changes.

The publicly-owned utilities (POUs) and some investor-owned utilities, including transmission only utilities, do not have access to a Wildfire Fund and may be challenged to continue to operate or pay claims after a major wildfire. As highlighted in Figure 2, the POUs such as LADWP and SMUD and some investor-owned utilities such as Liberty and PacifiCorp do not have access to the Wildfire Fund under existing State law. As Senate Bill (SB) 254 (Becker, 2025) noted, an electrical corporation and its customers cannot feasibly bear losses of the magnitudes of a multi-billion dollar wildfire. If the utility's equipment ignites a wildfire, the utility may not be able to pay those costs, including wildfire claims, and the wildfire may eventually lead to the need to declare bankruptcy. If bankruptcy occurs, the utility is not likely to be able to pay the full costs of the utility wildfire liabilities. Nor is it clear how the utility would be able to access the capital markets and continue its essential services absent emergency government action. Moreover, as LADWP's example above shows, if a major fire occurs, even if not caused by the utility, that may trigger further credit rating downgrades with similar effects. Similarly, the Independent Transmission Owners, such as LS Power, GridLiance West, Horizon West, Transbay, and DCR Transmission do not have access to the Wildfire Fund and their transmission assets or investments could be at risk for wildfire liabilities. Commercial interest may be reduced by wildfire risk exposure among new transmission companies in submitting bids to serve as competitive transmission providers.

Figure 2. Not All California Utilities Have Access to the Wildfire Fund

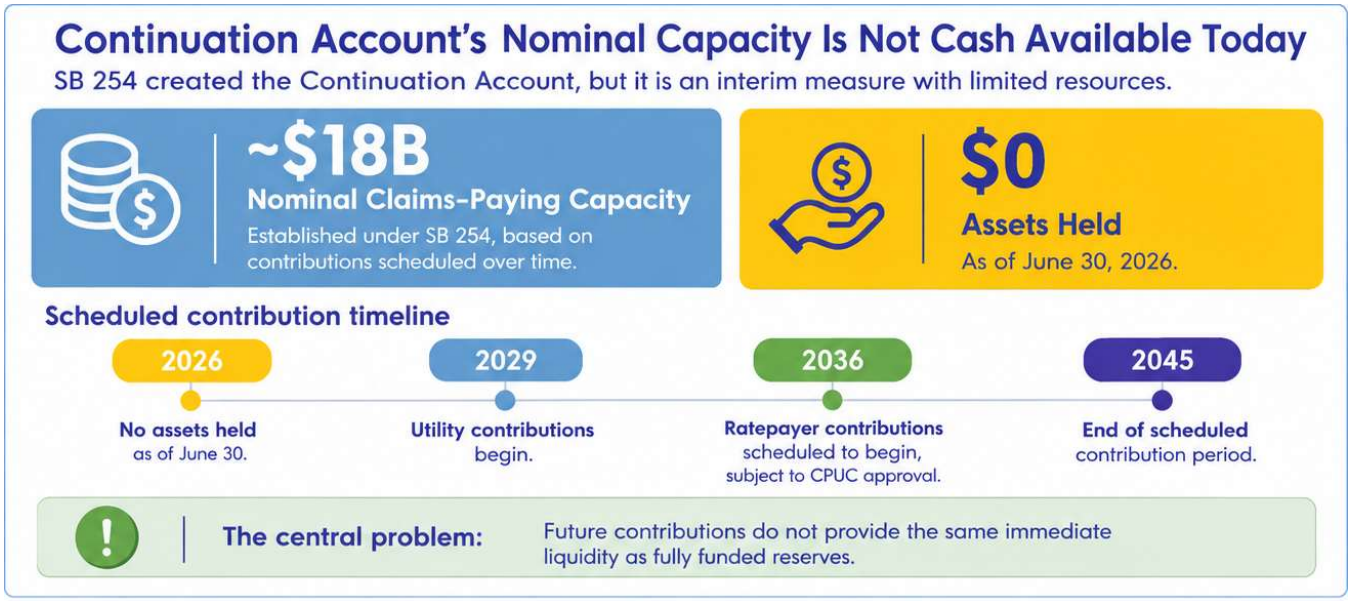


The large investor-owned utilities are dependent on access to a well-capitalized Wildfire Fund. Following AB 1054 and SB 254, the large IOUs have had access to a Wildfire Fund with money paid into by each IOU's shareholders and ratepayers that theoretically now can provide billions of dollars to pay wildfire liability claims. This fund was a critical element of PG&E exiting bankruptcy. The credit rating agencies have been clear that continued access to a Wildfire Fund with this claims-paying capacity is critical for those IOUs to even maintain their credit ratings at their current levels and that the IOU credit ratings will be downgraded if the Wildfire Fund falls

below certain coverage capacity. For example, in September 2026, S&P identified Wildfire Fund balance thresholds of $14 billion for SCE and $11 billion for PG&E that could trigger additional downgrades.

The SB 254 Wildfire Fund—the Continuation Account—is an interim measure that is limited and unlikely to be adequate to avert severe utility problems in the event of further major wildfires. SB 254 established the Continuation Account, which is the account that will pay wildfire claims going forward. But the Continuation Account was designed as an interim solution while longer term solutions are developed. Although SB 254 established the account with approximately $18 billion in nominal claim-paying capacity for eligible wildfires, the account currently holds no assets. Utility contributions are scheduled to begin in 2029, while ratepayer contributions would not begin until 2036 and remain subject to CPUC approval. Because these contributions would be collected over many years through 2045, their present value is substantially lower than their nominal total. The Continuation Account therefore does not currently provide the full $18 billion in resources available to pay future wildfire claims. Nor is there any mechanism to add to the account if a wildfire were to occur. Recent events have shown that even with significantly improved utility wildfire mitigation, utility electrical equipment can still ignite a wildfire in extreme conditions, expand beyond the utility right of way, and explode into a catastrophic fire with tens of billions of dollars of damage.

Figure 3. The Continuation Account's Nominal Capacity is Not Cash Available Today



Absent near-term action, further fires may bankrupt the IOUs and leave any California utility unable to provide adequate electric service or pay wildfire claims. Given the scale of potential wildfire liabilities, the existing Continuation Account funding framework is insufficient to cover future catastrophic events for large IOUs, and it does not cover small and multi-jurisdictional utilities, POUs, or independent transmission providers. Without access to the Wildfire Fund at sufficient levels to pay liability claims or some other mechanism to address utility liability, future large wildfires with billions in damages can cause bankruptcy. That event would likely trigger credit ratings downgrades across all the State's electric utilities.

The bankrupt utility would be severely limited in its ability to access capital and provided needed maintenance and expansion of electric service. As in the experience of the PG&E bankruptcy, its ability to pay wildfire victims would be—at best—substantially constrained. It is not clear how utilities would be able to continue their critical functions absent emergency action by the government to restore credit ratings. The policy solution set available today in advance of a catastrophic wildfire and bankruptcy may not be the same options available after an event.

In conclusion, absent structural reform, the status quo will see continued increasingly unaffordable electric bills, constrained electric service due to credit downgrades, and limited access to capital that hampers the State's overall economy. Without reform, even this status quo is likely unsustainable. Future fires may bankrupt and further downgrade electric utilities, further increasing rates and threatening the State's ability to provide safe, reliable electric service.

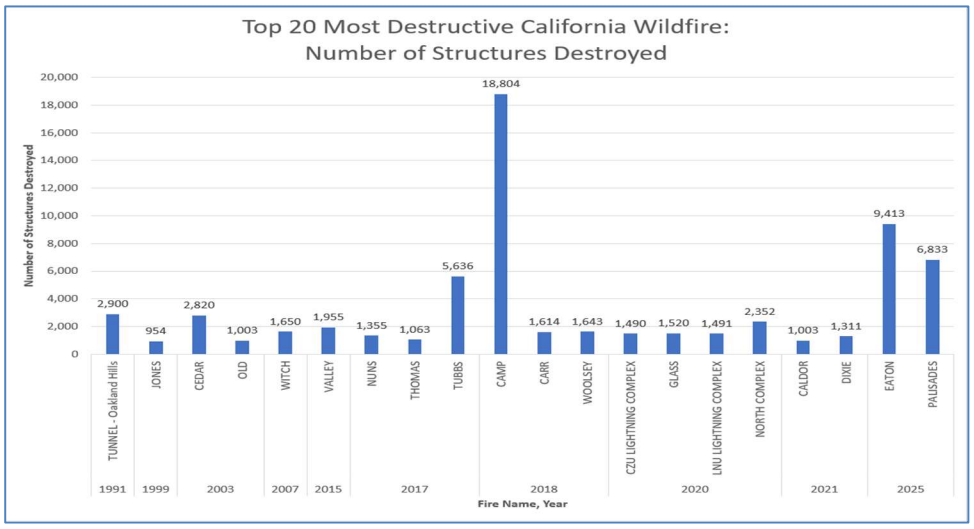
Part 1. Catastrophic Wildfire Risks Are Increasing, Exposing Utility Customers to Substantial Financial Liabilities

A. California wildfires have become more destructive due to climate change, accumulated vegetation, and development in fire-prone areas.

Over the past decades, California's wildfires have grown substantially more severe and destructive. According to the California Department of Forestry and Fire Protection (CAL FIRE), 14 of the 20 most destructive wildfires in California history have occurred since 2017.[1] The increased severity and destructiveness of California wildfires reflects a combination of factors, including climate change, hotter and drier conditions,[2] accumulated vegetation and fuel loads, and increased development in fire-prone areas.[3] The most catastrophic wildfires have had devastating consequences—first and foremost to the wildfire victims who died, were injured, or lost loved ones in the fire, and also in billions of dollars of economic losses and severe ecosystem impacts, including massive carbon and particulate emissions.[4]

The increasing severity of California's wildfires has resulted in significant loss of life, injuries, and destruction of homes and communities. The 2018 Camp Fire destroyed 18,804 structures, the largest number among the fires listed. More recently, the 2025 Eaton Fire destroyed 9,413 structures and the 2025 Palisades Fire destroyed 6,833 structures.[5]

Figure 4. California's Top 20 Most Destructive Wildfires (by Number of Structures Destroyed)



Source: CAL FIRE, Top 20 Most Destructive California Wildfires.

[1] CAL FIRE, Top 20 Most Destructive California Wildfires, August 4, 2026.
[2] Legislative Analyst's Office, Frequently Asked Questions About Wildfires in California, February 13, 2025.
[3] Penn State Institute of Energy and the Environment, California's wildfire crisis: Expert insights on causes, spread, and solutions, January 15, 2025.
[4] California Wildfire and Forest Resilience Taskforce, A Science-based Synthesis to Safeguard People, Communities, and Ecosystems from Wildfire in California, June 2026.
[5] CAL FIRE, Top 20 Most Destructive California Wildfires, August 4, 2026.

Climate change has contributed to hotter temperatures, longer dry seasons, and more frequent droughts, resulting in drier vegetation and an increase in dead and dying trees that are more susceptible to ignition.[6] Drier vegetation combined with strong winds can create particularly favorable conditions for rapid wildfire spread. At the same time, reductions in controlled burning and a history of fire suppression have contributed to increased vegetative fuel loads, providing more fuel for wildfires once they start.[7] California has also experienced substantial development in fire-prone areas, particularly in the wildland-urban interface (WUI). This development has increased the number of people and structures exposed to wildfire and can also increase the potential for human-caused ignitions.[8] Together, these factors cause wildfires to spread more quickly and become destructive catastrophic events.

B. Recent experience of utility related wildfires demonstrates the ongoing financial risk born by ratepayers for wildfire liability

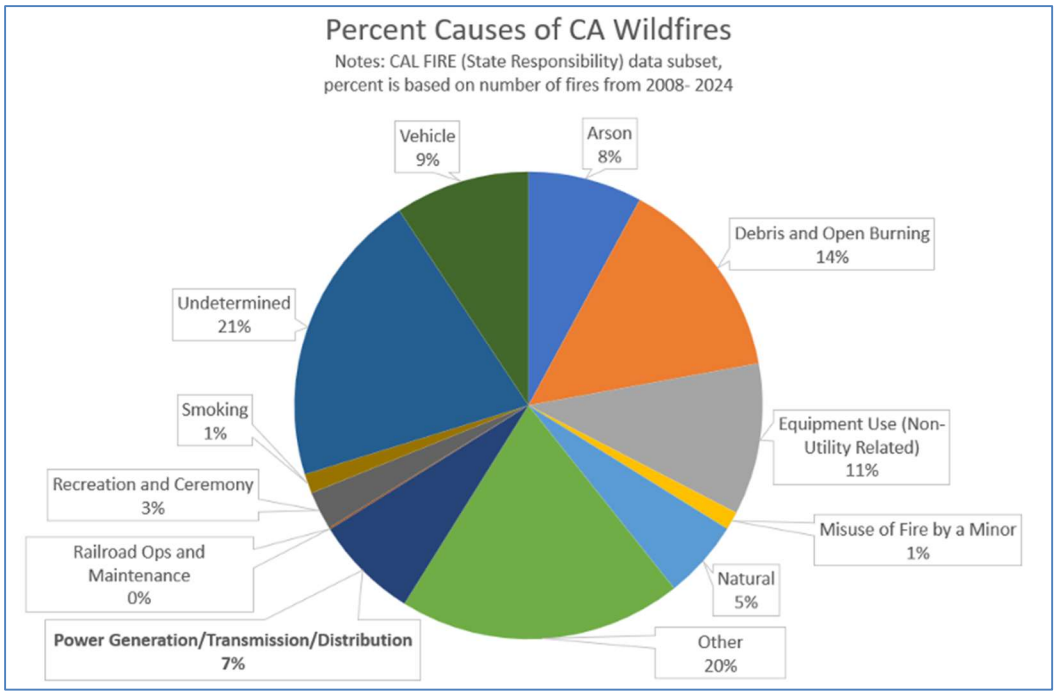
Utility equipment, in particular powerlines, can ignite wildfires. From 2011 through 2020, utility equipment accounted for approximately 9 percent of wildfire ignitions annually. More recent data indicate that powerlines and electrical equipment accounted for approximately 6 percent of annual wildfire ignitions from 2022 through 2024. This decline follows substantial wildfire mitigation efforts by California utilities, including undergrounding, covered conductors, vegetation management, and enhanced monitoring, which have helped reduce the risk of utility-related ignitions.[9] Utility-related ignitions can result from equipment failures, downed wires, vegetation or other contact with powerlines, and conductor slap.[10]

Utility-related ignitions have contributed to some of California's most destructive wildfires, including fires involving powerlines and other electrical equipment.[11] Although utility equipment accounts for approximately 6 percent of total wildfire ignitions in the most recent years, some of the utility-related fires have resulted in some of the most catastrophic losses.

The distinction between wildfire ignitions and catastrophic wildfire spread is important when considering wildfire mitigation. Utility wildfire mitigation can reduce the risk of utility-caused ignitions, including ignitions that could develop into catastrophic fires. However, because most wildfires originate from non-utility sources, utility mitigation alone cannot eliminate the risk of catastrophic wildfires.

[6] Legislative Analyst's Office, Frequently Asked Questions About Wildfires in California, February 13, 2025.
[7] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 9.
[8] Ibid.
[9] Ibid., p. 19 and 20.
[10] Conductor slap occurs when two energized powerlines come into contact, potentially causing electrical arcing that can produce sparks or hot metal particles capable of igniting nearby vegetation. Ibid, p. 12.
[11] Ibid., p. 10.

Figure 5. Causes of CA Wildfires



Source: CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 13.

Beyond the physical destruction caused by catastrophic wildfires, utility-related fires can also result in substantial financial liabilities. Following the 2007 Southern California wildfires, SDG&E incurred significant wildfire-related liabilities, and the CPUC subsequently denied recovery of certain wildfire costs from ratepayers.[12] This experience highlighted the potential financial exposure utilities face from catastrophic wildfire liabilities.

2019 PG&E Bankruptcy

The 2017–2018 wildfire season further demonstrated the substantial financial risks associated with utility-related wildfire liabilities. PG&E Corporation and Pacific Gas and Electric Company filed for Chapter 11 bankruptcy protection on January 29, 2019, following the accumulation of wildfire liabilities associated with the 2015 Butte Fire, the 2017 North Bay fires, and the 2018 Camp Fire. The bankruptcy was driven in large part by the magnitude of claims arising from these fires, with the resulting liabilities exceeding PG&E's ability to resolve the claims through its ordinary financial resources.[13]

PG&E remained bankrupt for approximately 17 months, emerging in July 2020 after the court confirmed its reorganization plan. The reorganization resolved approximately $25.5 billion in wildfire-related liabilities, including $13.5 billion to injured parties through the Fire Victim Trust, $11

[12] D.17-11-033.
[13] PG&E, 2019 Annual Report of Pacific Gas and Electric Company, March 25, 2020, p. 123.70.

billion for insurance subrogation claims, and approximately $1 billion for public-entity claims.[14] Under PG&E's bankruptcy plan, the Fire Victim Trust was funded with $6.75 billion in cash, including $1.35 billion to be paid on a deferred basis, and approximately 477 million shares of PG&E common stock.[15]

The bankruptcy also had consequences beyond wildfire claimants. During its bankruptcy reorganization, PG&E faced significant financing constraints, relying primarily on operating cash flows and debtor-in-possession financing to fund operations and capital expenditures, with limited access to additional financing.[16] The financial instability of PG&E, together with concerns about the creditworthiness of the other major investor-owned utilities, raised broader concerns about utilities' access to capital and their ability to continue investing in the electric system.[17] The resulting financial pressure ultimately affected customers through increased costs and placed additional uncertainty around investments needed to maintain and modernize the grid.[18]

The bankruptcy also created delays and uncertainty for wildfire survivors. Survivor claims and related litigation were subject to the bankruptcy process, including an automatic stay and a court-supervised reorganization. Under the resulting Fire Victim Trust (Trust), approved claims were to be paid on a pro rata basis from available Trust assets, meaning that distributions depended on the amount of approved claims and funds available to the Trust.[19] The California Department of Insurance also recognized delays in survivors receiving Trust payments and urged insurers to account for those delays when administering insurance claims.[20]

PG&E's experience illustrates the significant consequences of bankruptcy following catastrophic wildfire liabilities. While bankruptcy can provide a legal process for resolving claims, it does not prevent the financial disruption and uncertainty associated with catastrophic wildfire liabilities. These consequences contributed to the State's subsequent efforts to develop mechanisms to address catastrophic wildfire liabilities without again forcing a major electric utility into bankruptcy.

Recent Fires and the Effects on the Wildfire Fund and Insurance Market

The January 2025 Southern California wildfires, particularly the Eaton and Palisades Fires, represented a significant increase in the scale of wildfire losses and highlighted the financial exposure associated with catastrophic fires. The Eaton Fire burned approximately 14,000 acres,[21] while the Palisades Fire burned approximately 23,400 acres.[22] In August 2026, the Los Angeles County Fire

[14] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, p. 22.
[15] PG&E, PG&E Corporation, Prospectus Supplement, filed with the U.S. Securities and Exchange Commission (Form 424B2), June 25, 2020, S-13 and S-22.
[16] PG&E, PG&E Corporation, 2019 Form 10-K, , p. 35.
[17] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 29.
[18] Ibid., p. 23.
[19] PG&E, PG&E Fire Victim Trust Agreement, July 1, 2020, p. 9.
[20] California Department of Insurance, Commissioner Lara Urges Insurance Companies to Take PG&E Bankruptcy Settlement into Account for Wildfire Survivors Still Facing Rebuilding Delays, November 12, 2020.
[21] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 14.
[22] CAL FIRE, Palisades Fire | CAL FIRE, Last Updated April 9, 2026.

Department and CAL FIRE concluded that the Eaton Fire was caused by electrical arcing events on an out-of-service SCE transmission tower.[23] SCE elected to settle pending litigation arising from the Eaton Fire, and as a result the Eaton Fire is now a covered wildfire that will generate eligible claims from SCE for reimbursement by the Wildfire Fund.[24]

The scale of the Eaton Fire created substantial uncertainty regarding the remaining claim-paying capacity of the AB 1054 Account. As of March 31, 2026, SCE had recorded $1.3 billion in losses related to the Eaton Fire and a $295 million from the Wildfire Fund to cover eligible costs. As of June 30, 2026, the Wildfire Fund had reserved $295 million for Eaton-related claims but had not yet made payments. The Wildfire Fund Administrator reported that total eligible claims could ultimately exceed the remaining capacity of the AB 1054 Account.[25]

The fires also generated substantial losses for the property insurance market. In February 2025, the California FAIR Plan reported approximately 4,794 claims from the Palisades and Eaton Fires and estimated total losses of approximately $4.039 billion, including $914 million already paid and $3.125 billion in outstanding reserves.[26] Estimates of insured losses for the combined Eaton and Palisades Fires varied considerably, reflecting the uncertainty surrounding the ultimate cost of the disasters. Estimates of combined insured losses ranged from approximately $20 billion to $45 billion, depending on the source and methodology.[27] As of March 2026, insurers had paid more than $23.7 billion in claims associated with the two fires, [28] and the California Department of Insurance reported that payments had increased to approximately $25.2 billion by July 2026. As of March 31, 2026, the California Department of Insurance reported approximately $8 billion in insurance payments and nearly 28,000 reported claims for the Eaton Fire.[29]

The experience of the Eaton Fire also prompted actions to support claims resolution and utility liquidity. SCE established the Wildfire Recovery Compensation Program, through which more than 11,000 survivors had submitted claims by June 2026; more than 1,828 claimants had been paid a total of $272 million, and more than 70 percent of settlement offers had been accepted.[30] The Wildfire Fund Administrator also established a Liquidity Support Program with SCE intended to support early settlements and reduce potential financing costs. These developments illustrate the potential financial effects of catastrophic wildfires on the Wildfire Fund, utilities, insurers, and wildfire survivors.[31]

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[23] County of Los Angeles Fire Department (LACoFD), County of Los Angeles Fire Department Releases the Investigative Reports on the Cause of the Eaton Fire, August 4, 2026.
[24] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 14.
[25] Ibid., p. 10.
[26] California Insurance Commissioner Ricardo Lara, Updated Guidance regarding Insurer Recoupment Procedures in Response to Assessment by the FAIR Plan, February 11, 2025, p. 2.
[27] Ibid.
[28] California Insurance Commissioner Ricardo Lara, California Takes Legal Action Against State Farm After Investigation Finds Widespread Mishandling of LA Wildfire Claims, May 4, 2026.
[29] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 10.
[30] Ibid., p. 14.
[31] Ibid., p. 16.

Financial Risks to Ratepayers

Wildfire-related costs create an ongoing financial risk for electric ratepayers because the costs associated with wildfire liability and mitigation are not limited to a single fire or a single year. These costs include liabilities arising from utility-caused wildfires, such as payments to wildfire victims and insurers, as well as expenditures on wildfire mitigation measures, including vegetation management, equipment inspections, and infrastructure hardening. California's current framework generally allows utilities to recover wildfire-related costs from ratepayers, subject to the applicable statutory and regulatory standards. As a result, ratepayers are exposed to costs from past wildfires, ongoing mitigation programs, and future catastrophic events.

The scale of this exposure is already significant. As of January 1, 2026, wildfire-related revenue requirements—the amounts utilities are authorized to recover from customers through rates to cover wildfire-related costs this year—totaled approximately $3.8 billion for PG&E, $2.8 billion for SCE, and $0.7 billion for SDG&E, representing approximately 18 percent, 14 percent, and 14 percent of each utility's total revenue requirement, respectively.[32] These amounts include wildfire mitigation costs, Wildfire Fund contributions, and wildfire liability costs, including insurance and utility self-insurance.[33]

Ratepayers also face exposure to wildfire-related costs that extend well beyond the year in which they are incurred. The AB 1054 Wildfire Fund is paid for in part through annual ratepayer charges. Those charges extend through 2035. The SB 254 Wildfire Continuation Account is not yet funded but will be funded by annual ratepayer charges starting in 2036 and extending through 2045. Wildfire mitigation capital investments are also collected from ratepayers over many years, and can remain in rates over the useful lives of the underlying assets through depreciation and the associated return on net asset value. Similarly, some wildfire liabilities are recovered over many years. For example, costs associated with the Thomas Fire began entering SCE's rates in 2025 and are expected to continue in part for approximately 20 years, while Woolsey Fire costs had not yet been incorporated into rates as of the CPUC's January 2026 SB 254 Information and Recommendations report.[34]

Ratepayers are also affected indirectly by utilities' financing costs. Significant wildfire liability exposure can affect utilities' credit ratings and increase their costs of borrowing and raising equity. Those financing costs are ultimately reflected in the cost of providing electric service. PG&E's credit rating remains below investment grade following its bankruptcy and continued potential wildfire liability, contributing to higher short-term borrowing costs that are ultimately borne by ratepayers.[35]

The magnitude of future exposure is difficult to predict because catastrophic wildfire costs can reach tens of billions of dollars, while the frequency and location of future fires remain uncertain. Across PG&E, SCE, and SDG&E, nearly 50,000 miles of overhead transmission and distribution lines are located in high fire-threat districts. Despite substantial mitigation spending, these facilities remain

[32] CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 12.
[33] Ibid., footnote 35.
[34] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 23.
[35] Ibid.

exposed to wildfire risks that could result in future utility-related liabilities.[36]

C. Wildfire-related costs are already significant for ratepayers, accounting for approximately 10 to 14 percent of typical residential electric bills for California's three large IOUs.

Wildfire-related costs already represent a substantial portion of California electric utility revenue requirements and customer bills. From 2020 through 2026, PG&E, SCE, and SDG&E were authorized to recover approximately $53.9 billion in wildfire mitigation and liability costs, resulting in approximately $37.4 billion in associated revenue requirements over the period. As noted previously, as of January 1, 2026, wildfire-related revenue requirements expected to be collected this year totaled approximately $3.8 billion for PG&E, $2.8 billion for SCE, and $0.7 billion for SDG&E, representing approximately 18 percent, 14 percent, and 14 percent of each utility's total revenue requirement, respectively.[37] The total revenue requirement is divided across various rate classes, including commercial, industrial and residential customers. Even though the total amount of utility annual costs attributable to wildfire ranges from 14 to 18 percent, the average residential customer's bill ranges from 10 to 14 percent wildfire related. The corresponding wildfire-related portions of average monthly bundled residential non-California Alternate Rates for Energy (CARE) customer bills are depicted in the table below.

Table 1. PG&E, SCE, and SDG&E Wildfire-Related Portion of Typical Average Monthly Bill, Bundled Residential Non-CARE Customers (January 1, 2026)

	Wildfire Mitigation	Wildfire Liability	Total Wildfire-Related	Total Monthly Bill	Total Wildfire-Related Portion (%)
PG&E	$24	$5	**$29**	$203	**14%**
SCE	$19	$7	**$26**	$182	**14%**
SDG&E	$11	$8	**$19**	$187	**10%**

Source: CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 13.

These costs include both wildfire mitigation and wildfire liability expenses and reflect costs associated with past wildfire events and ongoing infrastructure investments. These tables do not reflect the higher cost of debt that drives up all portions of the bill—both wildfire related costs and non-wildfire costs.

[36] Ibid., p. 28.
[37] CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 12.

D. Wildfire-related costs are recovered inequitably across residential customers

Most wildfire-related costs are recovered through volumetric charges on customers' electricity bills, meaning most of these costs are passed on to customers based on their volume of energy consumption through the cents per kilowatt usage charge on customer bills. As a result, customers who use more electricity pay more toward wildfire-related costs, even though these costs are fixed costs that do not vary based on customer usage.

Table 1 in the previous section shows the percentage of wildfire-related charges on the average residential electricity bill by utility. In Table 2 below, a more detailed breakdown of wildfire-related costs across customer groups, highlighting differences in how much certain groups pay on average compared to others.

Table 2. Estimated Monthly Residential Wildfire-Related Portion of Monthly Bill by Utility, Geographic Location, and Net Energy Metering (NEM) Status

	Average Monthly Payments for Wildfire Costs ($/mo)					% of Monthly Average bill for Wildfire Costs				
	Avg. All	Coastal Non-NEM	Coastal NEM	Inland non-NEM	Inland NEM	Avg. All	Coastal Non-NEM	Coastal NEM	Inland non-NEM	Inland NEM
PG&E	**$29**	$30.07	$15.17	$55.35	$14.25	**14%**	16%	8%	29%	7%
SCE	**$26**	$21.63	$11.70	$31.50	$14.03	**14%**	12%	6%	17%	8%
SDG&E	**$19**	$18.59	$6.44	$21.44	$5.65	**10%**	11%	4%	13%	3%

Across the three major investor-owned utilities, inland customers pay more toward wildfire-related costs than coastal customers on average. In PG&E's service territory, for example, wildfire-related costs account for 16 percent of the average coastal customer's electricity bill, compared to 29 percent for the average inland customer. These differences become more pronounced when accounting for participation in Net Energy Metering (NEM). Among coastal PG&E customers, wildfire-related costs represent approximately 8 percent of the average NEM customer's monthly bill, compared to 29 percent for an inland non-NEM customer. Similar disparities are evident across the other two utilities, as shown in the table above. In practice, this means that customers in the Central Valley bear more wildfire-related costs because they use more electricity to cool their homes.

These findings highlight a fundamental inequity in how wildfire-related costs are recovered. Although wildfire-related costs are not directly driven by individual electricity consumption, the current rate structure recovers a greater share of these costs from customers who consume more electricity. This issue extends to other costs recovered through volumetric rates as well but is particularly significant for wildfire-related costs given how much these costs have increased over the last five years and may increase in the future. Without changes to rate design, rising wildfire-related costs could further widen existing disparities among residential customers.

As California continues to pursue solutions to manage wildfire risks and liabilities, it is important to consider how these costs are allocated among residential customers. Increasing the Base Service Charge or establishing a separate fixed charge for wildfire-related costs are two examples of ways that could help recover these costs more equitably by shifting the recovery of these costs away from electricity consumption-based charges. This type of reform could complement broader efforts to address wildfire liabilities while improving the fairness of residential electric rates.

Cost of Fires Over Time

Catastrophic wildfires have devastating consequences. They have cost lives, destroyed entire neighborhoods, strained California's insurance market, altered ecosystems, lead to the loss of habitat and biodiversity, and polluted California's air. Wildfires also emit carbon dioxide, which exacerbates climate change. As discussed below, these wildfires and the current systems for addressing them are also driving up energy costs, placing burdens on utility customers, and creating challenges for California's climate and energy goals.[38]

The 2017–2018 wildfire seasons illustrate the magnitude of losses associated with catastrophic events. Those fires generated more than $30 billion in insured gross catastrophe losses in California. For PG&E, wildfire liabilities from the 2017–2018 fires ultimately led to the utility's Chapter 11 bankruptcy and the resolution of approximately $25.5 billion in wildfire liabilities.[39] More recently, the January 2025 Los Angeles-area fires resulted in an estimated $53 billion in total economic losses, demonstrating the continued and increasing financial scale of catastrophic wildfire events.[40]

As shown in Table 3 across PG&E, SCE, and SDG&E, approximately $54 billion in wildfire-related costs were authorized for recovery for the years 2020 through 2026. These costs resulted in approximately $37 billion in corresponding revenue requirements over the seven-year period.

Table 3. Total Wildfire-Related Authorized Costs and Revenue Requirements (January 1, 2020 to January 1, 2026, $ Billions)

	Authorized Costs			Authorized Revenue Requirements		
	(A)	(B)	(C)	(D)	(E)	(F)
Utility	Total Wildfire Mitigation Authorized Costs	Total Wildfire Liability Authorized Costs	Total Wildfire-Related Authorized Costs (A) + (B)	Total Wildfire Mitigation Authorized Revenue Requirement	Total Wildfire Liability Authorized Revenue Requirement	Total Wildfire-Related Authorized Revenue Requirement (D) + (E)
PG&E	$24.9	$7.4	**$32.3**	$15.5	$6.9	**$22.4**
SCE	$12.2	$5.9	**$18.1**	$5.9	$6.1	**$12.0**

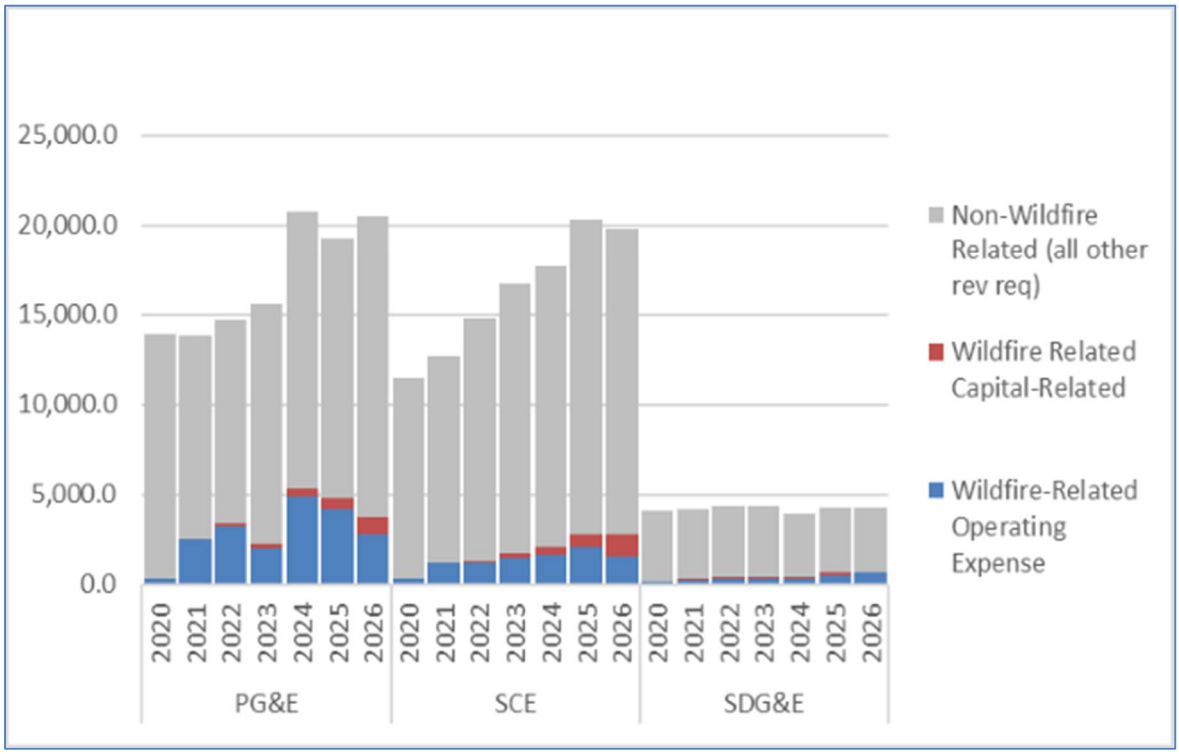
[38] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 8.
[39] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, p. 22.
[40] Ibid.

SDG&E	$1.9	$1.6	**$3.5**	$1.3	$1.7	**$3.0**
Total	**$39.0**	**$14.9**	**$53.9**	**$22.7**	**$14.7**	**$37.4**

Source: CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 42.

In Figure 6, the blue represents the operating expenses in revenue requirements and the red reflects capital-related expenses. The red block is growing and will continue to grow for decades into the future—reflecting the fact that capital-related costs are incorporated into rates over time rather than collected immediately.[41] Wildfire-related revenue requirements are expected to continue to increase over time as capital-related costs are increasingly layered in and incorporated into rates, including through depreciation and the corresponding return calculated on the net asset value.[42]

Figure 6. Wildfire-Related Revenue Requirement by Capital-Related and Operating Expense, Relative to Total Revenue Requirement (January 1 2026, $ Millions)



Source: CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 12.

These costs are likely to remain significant as utilities continue to incur wildfire mitigation expenditures and seek recovery of wildfire-related costs. From 2023 through 2025, PG&E, SCE, and SDG&E incurred approximately $24.6 billion in wildfire mitigation expenditures, including $9.7 billion in operating expenditures and $14.9 billion in capital expenditures.[43] The utilities' 2026–2028

[41] CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 12 and 42.
[42] Ibid., p. 12.
[43] CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and

Wildfire Mitigation Plans project an additional $26.7 billion in wildfire mitigation expenditures, consisting of approximately $9.8 billion in operating expenditures and $16.9 billion in capital expenditures.[44] These projected expenditures do not include projected wildfire liability costs and represent expenditures rather than the annual revenue requirement that may ultimately be recovered from customers over time.[45]

Table 4. Actual 2023-2025 and Projected 2026 - 2028 Wildfire Mitigation Cost by Operating Expenditures (OpEx) and Capital Expenditures (CapEx) ($ billions)

	Actual 2023 – 2025 WMP OpEx	Actual 2023 – 2025 WMP CapEx	Actual 2023 – 2025 WMP Total Wildfire Mitigation Cost	Projected 2026 – 2028 WMP OpEx	Projected 2026 – 2028 WMP CapEx	Projected 2026 – 2028 WMP Total Wildfire Mitigation Cost
PG&E	$6.7	$10.0	$16.7	$6.3	$12.4	$18.7
SCE	$2.4	$3.6	$6.0	$3.0	$4.0	$7.0
SDG&E	$0.6	$1.3	$1.9	$0.5	$0.5	$1.0
Total	**$9.7**	**$14.9**	**$24.6**	**$9.8**	**$16.9**	**$26.7**

Source: CPUC, 2026 Senate Bill 695 Report, Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 14.

The costs of future mitigation are also substantial. The CPUC estimates that undergrounding distribution lines currently costs approximately $2.3 million to $5.6 million per mile, although actual costs vary considerably by location and project.[46] At that range, undergrounding an additional 10,000 miles of distribution lines would require approximately $23 billion to $56 billion in capital investment, and undergrounding all distribution lines in high fire-threat districts would require approximately $92 billion to $224 billion, without including transmission lines or other mitigation measures.[47]

E. California's Actions to Address Wildfire Liabilities

Earlier Legislation in Response to PG&E Bankruptcy

In response to the wildfire crisis in 2017 and 2018 and PG&E's bankruptcy, the State adopted legislation intended to strengthen utility wildfire safety, establish mechanisms for addressing wildfire-related costs, and reduce the risk that catastrophic wildfire liabilities would threaten the financial viability of California's electric utilities. SB 901 (Dodd, 2018) established requirements related to utility wildfire mitigation plans and wildfire-related cost recovery. The 2019 legislative package,

Rate Increase Pursuant to Public Utilities Code Section 913.1, p. 14.
[44] Ibid.
[45] Ibid., footnote 51.
[46] CPUC, CPUC Response to Executive Order N-5-24, February 18, 2025, p. 23. The estimates are highly uncertain.
[47] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 28.

including AB 111 (Budget 2019) and AB 1054, subsequently established a broader framework for utility wildfire safety, financial stability, and wildfire liability.

The post-2017 and 2018 framework also placed increased emphasis on utility wildfire mitigation planning and regulatory oversight. Today, large electric IOUs are required to prepare comprehensive Wildfire Mitigation Plans (WMPs), which address wildfire risks, mitigation measures, and performance metrics. The CPUC and the Office of Energy Infrastructure Safety (OEIS) oversee different aspects of this framework, including review of utility wildfire mitigation activities and costs.

Creation of the Wildfire Fund

A central component of the 2019 reforms was the creation of the California Wildfire Fund through AB 1054. The Wildfire Fund was established to provide a source of funding to reimburse participating utilities for eligible third-party claims arising from covered wildfires, helping address the potentially significant financial exposure associated with catastrophic utility-caused wildfires and reduce the risk that such liabilities could contribute to another utility bankruptcy.

The Wildfire Fund was designed with approximately $21 billion in claim-paying capacity, supported by contributions from both utility shareholders and ratepayers. The three participating utilities collectively contribute $10.5 billion, while ratepayers provide a corresponding $10.5 billion through the Wildfire Fund's non-bypassable charge. The Wildfire Fund was initially capitalized with a $2 billion State loan, and utility and ratepayer contributions provide ongoing funding.[48] The California Catastrophe Response Council, created under AB 111, oversees administration of the Wildfire Fund, while the CEA serves as the Wildfire Fund's administrator.[49]

The original Wildfire Fund (Fund) established under AB 1054 and the Continuation Account subsequently established under SB 254 differ in both the wildfires they cover and the timing and structure of their capitalization. Following the enactment of SB 254, the Fund was divided into two segregated claim-paying accounts. The original AB 1054 Account, with approximately $21 billion in initial claim-paying capacity, is available for eligible claims arising from covered wildfires ignited between July 12, 2019 and September 19, 2025.[50] This includes the January 2025 Eaton Fire; because the fire occurred before SB 254 took effect, eligible Eaton Fire claims are payable from the AB 1054 Account and cannot be paid from the SB 254 Continuation Account. The Continuation Account provides up to approximately $18 billion in additional nominal claim-paying capacity for covered wildfires ignited on or after September 19, 2025. As a result, the AB 1054 Account is effectively closed to future wildfires, while the Continuation Account provides the framework for claims arising from future covered wildfires.[51]

The two accounts also differ significantly in the timing of their funding. The AB 1054 Account was capitalized through an initial State loan and contributions from participating IOUs and their customers. IOUs funded the account through an initial contribution and ten annual contribution

[48] Pub. Util. Code § 3288.
[49] Government Code § 8899.72.
[50] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 7.
[51] Ibid.

installments beginning in 2019,[52] while customer non-bypassable charge collections began in 2021 and remain authorized through 2035.[53] If the SB 254 Continuation Account is activated, IOU funding would continue without a gap, with additional annual IOU contributions beginning in 2029 and continuing through 2045.[54]

As of June 30, 2026, the Continuation Account held no assets. If activated, its approximately $18 billion in nominal funding capacity would consist of $9 billion in customer non-bypassable charges collected from 2036 through 2045, subject to CPUC approval; $5.1 billion from annual $300 million IOU contributions from 2029 through 2045; and up to an additional $3.9 billion in contingent IOU contributions if the Fund Administrator determines that the Continuation Account is likely to be exhausted.[55] The Administrator has discretion to activate capitalization of the Continuation Account and must do so no later than December 31, 2028, or the account sunsets under the statute.[56]

Summary of SB 254 Legislation

Following the January 2025 Southern California wildfires, the State revisited the existing wildfire liability and recovery framework. SB 254 amended the State's wildfire safety, cost recovery, and financing framework and added a Continuation Account to the existing Wildfire Fund. SB 254 was signed into law on September 19, 2025, as an urgency statute. Among other provisions, the legislation added up to $18 billion in additional wildfire funding capacity, subject to specified conditions, and modified the framework governing wildfire claims, utility contributions, cost recovery, and financing.

The Continuation Account was established to provide an additional source of funding for eligible wildfire claims associated with wildfires occurring after SB 254's effective date. The account is structured around potential contributions from both ratepayers and participating IOUs. If the Fund Administrator determines that contributions to the Continuation Account are necessary, the customer contribution mechanism can provide up to $9 billion, while the IOUs may be required to make aggregate contributions of up to $9 billion.[57]

SB 254 also made changes to the process for reviewing and recovering wildfire mitigation costs. For example, it amended the statutory framework governing wildfire mitigation memorandum accounts to give the CPUC discretion to authorize such accounts and to specify that recorded costs must be incremental and unforeseen. These changes were intended to strengthen the review of wildfire mitigation expenditures and improve alignment between utility wildfire mitigation spending and authorized costs.[58]

In addition to these immediate changes, SB 254 directed the Wildfire Fund Administrator to undertake a broader examination of California's approach to natural catastrophe risk. The legislation

[52] Pub. Util. Code § 3280 (d).
[53] CPUC, Decision 19-10-056, October 24, 2019, p. 20.
[54] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 2.
[55] Ibid., p. 12.
[56] Ibid.
[57] Pub. Util. Code § 3299.3.
[58] Pub. Util. Code § 8386.4.

required the Administrator to prepare a report evaluating new models and approaches to mitigate damage, accelerate recovery, and responsibly and equitably allocate the burdens associated with natural catastrophes among stakeholders. The report was also required to consider approaches that could complement or replace the existing Wildfire Fund.[59]

Summary of SB 254 Report April 2026

In April 2026, the CEA, as administrator of the Wildfire Fund, submitted the Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report (CEA Report) to the Governor and Legislature. The CEA Report examined California's ability to manage increasing natural catastrophe risks and the interconnected challenges facing wildfire mitigation, property insurance, utility financial stability, and community resilience. It assessed the potential costs of inaction and identified a range of policy options rather than a single recommended approach.

The CEA Report organized its policy options into three broad, non-exclusive pathways.

- The first pathway, Community Wildfire Risk Reduction, focused on strengthening statewide coordination, improving data and risk assessment, supporting targeted community and home mitigation, and maintaining utility safety and accountability.[60]

- The second pathway, Equitably Allocate Catastrophe Burdens, addressed the allocation of wildfire and catastrophe costs among utilities, property owners, insurers, ratepayers, and other stakeholders. Options include reforms to utility liability, improvements to wildfire compensation, strengthening residential property insurance, and creating a more durable Wildfire Fund.[61]

- The third pathway, State Roles for Addressing Catastrophe Resiliency, considered a greater State role in financing catastrophe risk and supporting statewide community wildfire mitigation, including potential State-administered insurance, reinsurance, or other financial mechanisms.[62]

Within the second pathway, the CEA Report examined several options to reduce wildfire-related liabilities, litigation costs, and financial pressures on utilities and ratepayers. One option would eliminate insurers' subrogation rights, which currently allow insurers to recover payments made to policyholders from utilities responsible for wildfire losses. CEA estimated that eliminating subrogation could reduce total wildfire settlement costs by approximately 35 to 40 percent, potentially reducing the required size of the Wildfire Fund and associated ratepayer costs. However, the report also recognized that this approach could shift substantial costs to insurers, potentially increasing insurance premiums and affecting insurance availability.[63]

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[59] Pub. Util. Code § 719 (b).
[60] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, p. 44.
[61] Ibid., p. 61.
[62] Ibid., p. 87.
[63] Ibid., p. 76–77.

The CEA Report also examined establishing a State-managed expedited claims facility to accelerate compensation to wildfire survivors and reduce litigation costs. CEA noted that utility wildfire claims take an average of four years to resolve and that legal costs can reduce survivors' net recoveries by approximately 25 to 40 percent. Under the proposed approach, eligible survivors could receive compensation offers within a specified period, with assistance in preparing claims and provisions for attorneys' fees. The facility would provide an alternative to lengthy litigation while preserving opportunities for claimants to pursue legal remedies.[64]

To address the long-term financial sustainability of the Wildfire Fund, CEA also evaluated establishing a more durable fund capable of withstanding multiple catastrophic wildfire events. One option would expand funding contributions and potentially use reinsurance or other risk-transfer mechanisms to increase claim-paying capacity. CEA estimated that achieving a 75 percent probability of fund solvency over 20 years would require approximately $36 billion in capital commitments under the modeled approach, compared with the $18 billion in nominal contributions authorized for the SB 254 Continuation Account.[65] The CEA Report also noted that additional funding sources or changes to utility liability could affect the amount ultimately required from ratepayers.[66]

Across these pathways, the CEA Report emphasized that long-term catastrophe resilience will require coordinated action across utilities, communities, insurers, and government. The options range from targeted reforms to more fundamental changes in how California finances, mitigates, and allocates catastrophe risk, providing a framework for further consideration by the Governor and Legislature.

Summary of CPUC's January 2026 Response to SB 254

Before completion of the CEA Report, the CPUC submitted Senate Bill 254 Information and Recommendations to the CEA on January 30, 2026, in response to Executive Order N-34-25. The CPUC's submission provided information and recommendations within the CPUC's areas of expertise, including utility rates, wildfire mitigation, utility liability, and cost recovery.

The submission identified significant costs associated with the existing wildfire liability and mitigation framework. Approximately $40 billion in wildfire mitigation and liability costs were authorized for recovery from IOU customers between 2019 and 2024, including more than $9 billion in 2024 alone. These costs have contributed to increases in electric bills and have implications for utility financial stability and infrastructure investment. The Wildfire Fund and Continuation Account were characterized as important but interim measures for addressing utility wildfire liability.[67]

The CPUC also noted that utility equipment accounts for only a portion of statewide wildfire ignitions and that utilities cannot, through utility-focused mitigation alone, address factors such as

[64] Ibid., p. 77–78.
[65] Ibid., p. 11 and 80.
[66] Ibid., p. 79.
[67] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 2-3.

climate conditions, vegetation and fuel accumulation, forest management, and community and home hardening.[68]

The CPUC discussed potential changes to more broadly allocate wildfire risk and responsibility while maintaining accountability for utility safety. These included expanding the pool of contributors to a Wildfire Fund, modifying utility wildfire liability standards, considering a broader catastrophic-event fund, allocating mitigation responsibilities more broadly among utilities and other actors, and considering non-ratepayer funding for utility wildfire mitigation. The submission also concluded that additional statutory changes to the existing utility wildfire mitigation plan process were not currently needed, citing the development of a sophisticated mitigation planning process and recent legislative changes strengthening cost review.[69]

F. California's application of inverse condemnation is unusual among states and exposes utilities to substantial wildfire liabilities, even in the absence of negligence.

Unlike most other states, California applies inverse condemnation to electric utilities, potentially holding them liable for property damage caused by their equipment, even without a finding of negligence. This exposure to substantial wildfire claims, together with uncertainty about cost recovery and the limits of insurance and Wildfire Fund protections, creates ongoing risks to utility financial stability.

The magnitude of this exposure is illustrated by PG&E's bankruptcy, which resolved approximately $25.5 billion in wildfire liabilities arising from the 2017–2018 Northern California wildfires and the 2018 Camp Fire. This included $13.5 billion for wildfire victims through the Fire Victim Trust, $11 billion in settlements with insurers, and approximately $1 billion in settlements with public entities. Beyond PG&E's bankruptcy, the settled utility liability claims associated with the Thomas, Woolsey, Kincade, and Dixie Fires totaled approximately $12.9 billion in combined claim payments and defense costs.[70]

These substantial liabilities demonstrate the financial risks that catastrophic wildfires pose to utilities, particularly when combined with uncertainty regarding cost recovery and limitations on wildfire liability insurance.

[68] Ibid, p. 9.
[69] Ibid, p. 3-6.
[70] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, p. 22.

Part 2. California's Wildfire Funds Provide Important Protections, but Their Long-Term Adequacy Remains Uncertain

A. The existing AB 1054 Wildfire Fund has approximately $21 billion in initial claim-paying capacity, but claims arising from the Dixie, Kincade, and Eaton Fires could substantially reduce its remaining resources.

The existing AB 1054 Wildfire Fund was established with approximately $21 billion in initial claim-paying capacity and can be used to cover eligible claims arising from the Dixie, Kincaid and Eaton fires, as shown in Figure 7 below. To date, the Wildfire Fund Administrator has reimbursed PG&E $127,619,513 for the Kincaid Fire[71] and $1,006,283,974 for the Dixie Fire,[72] for a combined amount totaling $1,133,903,486. The remaining funds will be used to settle any additional claims for these two fires, and claims arising from the Eaton Fire.

Figure 7. CEA AB 1054 and SB 254 Account Coverage



Source: CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 7.

[71] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 9.
[72] Ibid., p. 13.

As of June 30, 2026:

- **IOUs shareholder contributions:** PG&E, SCE, and SDG&E have contributed $9.6 billion to the AB 1054 Fund and will continue to make $300 million contributions annually through 2028.[73]
- **IOU Ratepayer contributions**: Ratepayers have contributed $5.14 billion through non-bypassable charges (NBC) authorized by the CPUC, and ratepayers will continue to make annual contributions of $902.4 million until January 1, 2036.[74]
- **Remaining funds:** Any residual amounts remaining after paying eligible claims from the Dixie, Kincade, and Eaton Fires, may be transferred to the SB 254 Continuation Account, as allowed by law.[75]

The magnitude of remaining claims, particularly those associated with the Eaton Fire, creates significant doubt of adequate funding for transfer.

B. The SB 254 Continuation Account has $18 billion in nominal claim-paying capacity but remains unfunded, with shareholder contributions beginning in 2029 and ratepayer contributions in 2036.

SB 254 established a Continuation Account with $18 billion in nominal claim-paying capacity to cover eligible wildfires ignited on or after September 19, 2025. However, the account currently holds no assets. Because utility and ratepayer contributions will be collected over time through 2045, the net present value of these future contributions is lower than their nominal total. In addition, borrowing against future contributions to pay claims before sufficient assets have accumulated would incur financing costs, further reducing the resources available to pay wildfire claims.

The timing and structure of its funding differ from those of the original AB 1054 Account:

- **IOU contributions:** Scheduled IOU contributions of $300 million annually do not begin until 2029 and continue through 2045, totaling $5.1 billion. Up to $3.9 billion in additional contingent IOU contributions may also be required.[76]
- **Ratepayer contributions:** Funding through NBCs, with an annual revenue requirement of approximately $902.4 million, does not begin until 2036 and is subject to CPUC approval. Total scheduled ratepayer contributions are approximately $9 billion through 2045.[77]
- **Residual funds:** Any rollover transfers from the existing AB 1054 Account would depend on the resolution of eligible claims, including those associated with the Eaton Fire. The amount and timing of any such rollover transfers remains uncertain and could be years in the future.[78]

[73] Ibid., p. 5.
[74] Ibid.
[75] Pub. Util. Code § 3292(k)(2). CA Catastrophe Response Council Meeting Materials, October 30, 2025, p. 20.
[76] Pub. Util. Code § 3299.3.
[77] Pub. Util. Code § 3299.2.
[78] Pub. Util. Code § 3292(k)(2). CA Catastrophe Response Council Meeting Materials, October 30, 2025, p. 20.

C. The SB 254 Study Report recommended a variety of steps to address the large and growing costs associated with wildfires, but significant policy questions remain unresolved.

In April 2026, the CEA submitted its *Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report* (CEA Report), which examined the large and increasing costs associated with catastrophic wildfires for utilities and the State more broadly. The CPUC's January 2026 submission to the CEA similarly identified potential approaches to broaden wildfire cost sharing, modify utility liability standards, expand the Wildfire Fund, and evaluate non-ratepayer funding sources for wildfire mitigation.[79]

The CEA Report also raised concerns about the long-term adequacy of the AB 1054 Wildfire Fund and SB 254 Continuation Account, stating:

> "Even in combination, the original AB 1054 Wildfire Fund and the SB 254 Continuation Account are neither durable nor sustainable solutions. In the absence of both those solutions and given utility imprudence, the full weight of unlimited liability for a utility-involved wildfire falls directly on the utility's ratepayers. There is no aggregate liability cap on costs that would be passed to ratepayers, no loss absorbing mechanism, no mechanism to spread cost across time or stakeholders. A wildfire producing losses at the scale California has now experienced twice in seven years (i.e., the 2018 Camp Fire, the 2025 Eaton Fire) is simply not a manageable challenge for an IOU. Bankruptcy will remain the only option. The conditions that drove PG&E into bankruptcy in January 2019 will be present, unresolved, and operating without the intended AB 1054 protections.[80]
>
> "In light of this, the credit consequence follows directly. For Southern California Edison (SCE), it has already begun. S&P downgraded SCE from 'BBB' to BBB-' on September 17, 2025, citing a smaller-than-expected Wildfire Fund as a primary season. 50 BBB- is the floor of investment grade at S&P. One further notch places SCE in speculative territory. Without a structural solution, that action is a more immediate risk. Rating agencies have stated explicitly that SB 254 outcomes are a watch factor; fund exhaustion produces a mechanical downgrade trigger, not a discretionary 100 to 200 basis point adjustment. PG&E's corporate credit rating remained sub-investment-grade." [81]

However, the Legislature did not enact additional comprehensive reforms to address the large and growing financial risks associated with catastrophic wildfires during the 2026 legislative session. The absence of additional reforms left unresolved concerns about future wildfire liabilities, the adequacy of the Wildfire Fund, and utilities' ability to manage the financial consequences of future catastrophic wildfires.

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[79] CPUC, Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25, January 30, 2026, p. 4.
[80] CEA, Wildfire Fund Administrator: 2026 Annual Report to the California Catastrophe Response Council & Legislature, August 15, 2026, p. 35.
[81] Ibid.

In late August 2026, the stock prices of California's large publicly traded IOU parent companies declined sharply, as illustrated in Figure 8. Market analysts attributed the declines in part to continued uncertainty regarding California's wildfire liability framework and the potential financial exposure of utilities and their shareholders.[82] These developments illustrate how wildfire-related financial risks can affect investor confidence and potentially increase the cost of raising equity capital.

Figure 8. Stock Price Performance of California's Large IOU Parent Companies Following the 2026 Legislative Session



Source: Microsoft Bing Finance (MSN Money), stock price data provided by London Stock Exchange Group (LSEG), accessed October 7, 2026.

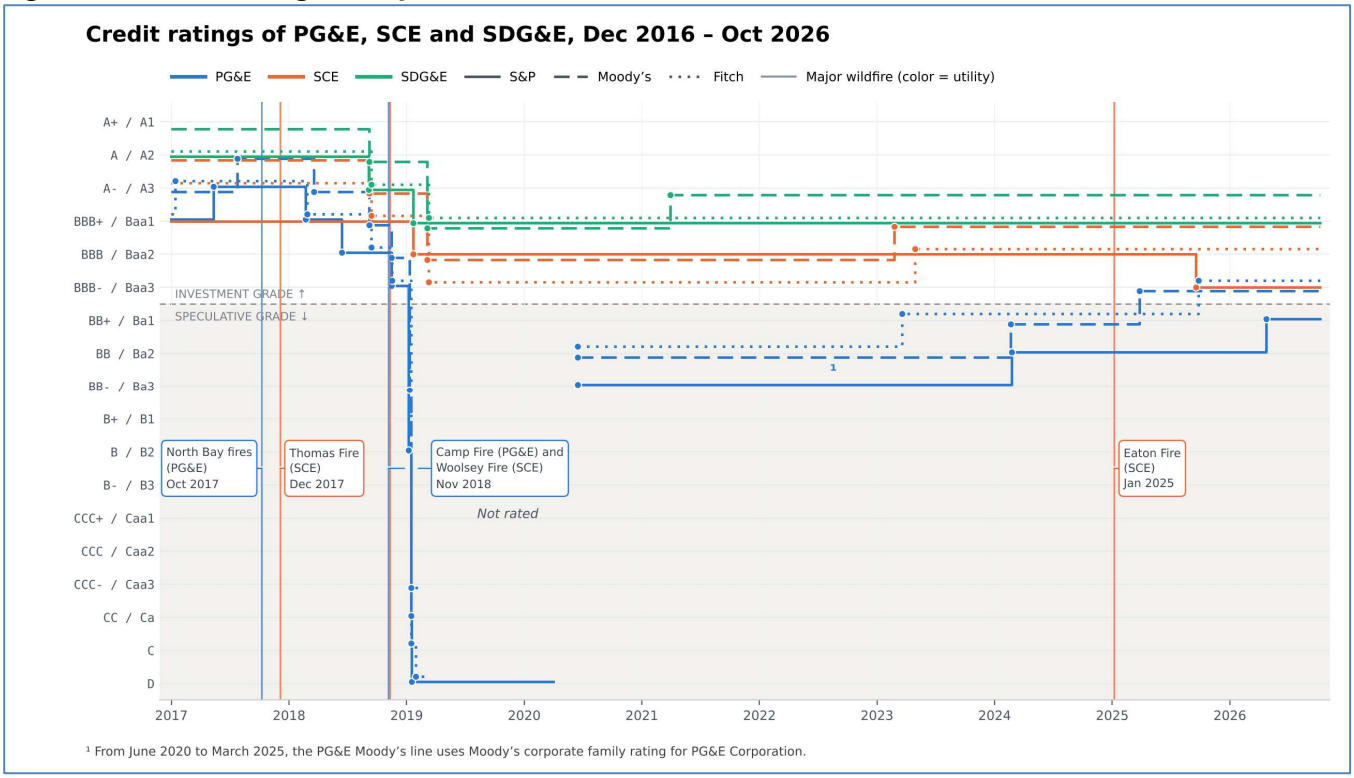
[82] In late August 2026, the revised Senate Bill 492 (Becker, 2026) did not include certain proposed wildfire liability reforms, including changes to insurance subrogation and certain proposed liability reforms. Wildfire liability bill dies without a vote on final day of session, September 1, 2026. Market analysts identified the absence of these provisions as a factor contributing to the sharp declines in California utility stock prices. California Utility Stocks Slide on Wildfire Legislation, August 31, 2026.

Part 3. Wildfire Risks Continue to Pressure Utility Credit Ratings and Increase Borrowing Costs

A. Following the 2026 legislative session, rating agencies expressed continued concerns about California utilities' wildfire liabilities and the adequacy of existing protections.

In addition to the stock price declines, rating agencies continued to identify significant wildfire-related financial risks for California's large IOUs. Although the establishment of the AB 1054 Wildfire Fund and subsequent wildfire mitigation improvements helped stabilize utility credit quality following the substantial downgrades of 2018 and 2019, recent rating actions demonstrate that these risks remain significant.

Figure 9. Credit Rating History for California IOUs, 2016-2026



- **PG&E:** Moody's upgraded PG&E to Baa3 in March 2025,[83] and Fitch upgraded the utility to BBB- in September 2025,[84] restoring investment-grade ratings under both agencies' scales. Moody's subsequently revised its outlook to Positive in February 2026,[85] and S&P upgraded PG&E to BB+ in April 2026, one notch below investment grade.[86] However, Fitch revised its

[83] Moody's Ratings, Moody's Ratings upgrades PG&E Corporation and Pacific Gas & Electric's ratings; outlooks stable, March 27, 2025.
[84] Fitch Ratings, Fitch Upgrades PG&E Corp. and PG&E to 'BBB-'; Outlook Stable, September 26, 2025.
[85] Moody's Ratings, Moody's Ratings changes PG&E Corporation and Pacific Gas & Electric's outlooks to positive; Affirms ratings, February 13, 2026.
[86] S&P Global Ratings, PG&E Corp. Upgraded To 'BB+' From 'BB' On Decrease, April 23, 2026.

outlook to Negative in September 2026, reflecting continued concerns regarding wildfire liability exposure and California's regulatory framework.[87]

- **SCE:** SCE experienced increased credit rating pressure following the January 2025 Eaton Fire. In February 2025, S&P assigned a Negative outlook.[88] S&P downgraded SCE from BBB to BBB- in September 2025, placing it at the lowest investment-grade level under S&P's scale.[89] In September 2026, S&P maintained its Negative outlook,[90] while Fitch revised its outlook to Negative and affirmed its BBB rating.[91] Both agencies identified potential wildfire liabilities and the adequacy of the Wildfire Fund as important credit considerations.
- **SDG&E:** SDG&E's credit ratings have remained comparatively stable. However, S&P lowered its assessment of SDG&E's business risk profile from "excellent" to "strong" in September 2025 and raised its funds-from-operations-to-debt downgrade threshold from 13 percent to 16 percent, citing climate-driven wildfire risks, inverse condemnation, and concerns regarding the size of the successor Wildfire Fund.[92] As of November 2025, SDG&E was rated A3 by Moody's and BBB+ by both S&P and Fitch.[93]

These rating actions demonstrate that California IOU credit quality remains closely linked to both utility-specific wildfire exposure and the statewide mechanisms available to absorb catastrophic wildfire losses.

B. S&P has identified Wildfire Fund balance thresholds and other conditions that could trigger additional credit rating downgrades.

Rating agencies continue to identify the adequacy and durability of the Wildfire Fund as important factors supporting California IOU credit quality. Further depletion of the Wildfire Fund, additional catastrophic wildfires, or insufficient progress on liability reforms could result in additional credit rating downgrades.

In assessing California utilities' credit ratings, S&P considers the financial protections provided by both the AB 1054 Wildfire Fund and the SB 254 Continuation Account. In its September 2026 assessment, S&P valued these resources at approximately $32 billion, including approximately $21 billion from the AB 1054 Wildfire Fund and $11 billion from the SB 254 Continuation Account, compared with the latter's $18 billion nominal value. After accounting for approximately $15 billion in potential Eaton Fire liabilities, S&P estimated a remaining balance of approximately $17 billion. S&P also identified net-present-value thresholds that could lead to credit rating upgrades or downgrades for California's large IOUs.

- PG&E: An upgrade could occur if the Wildfire Fund remains consistently above $16 billion. A

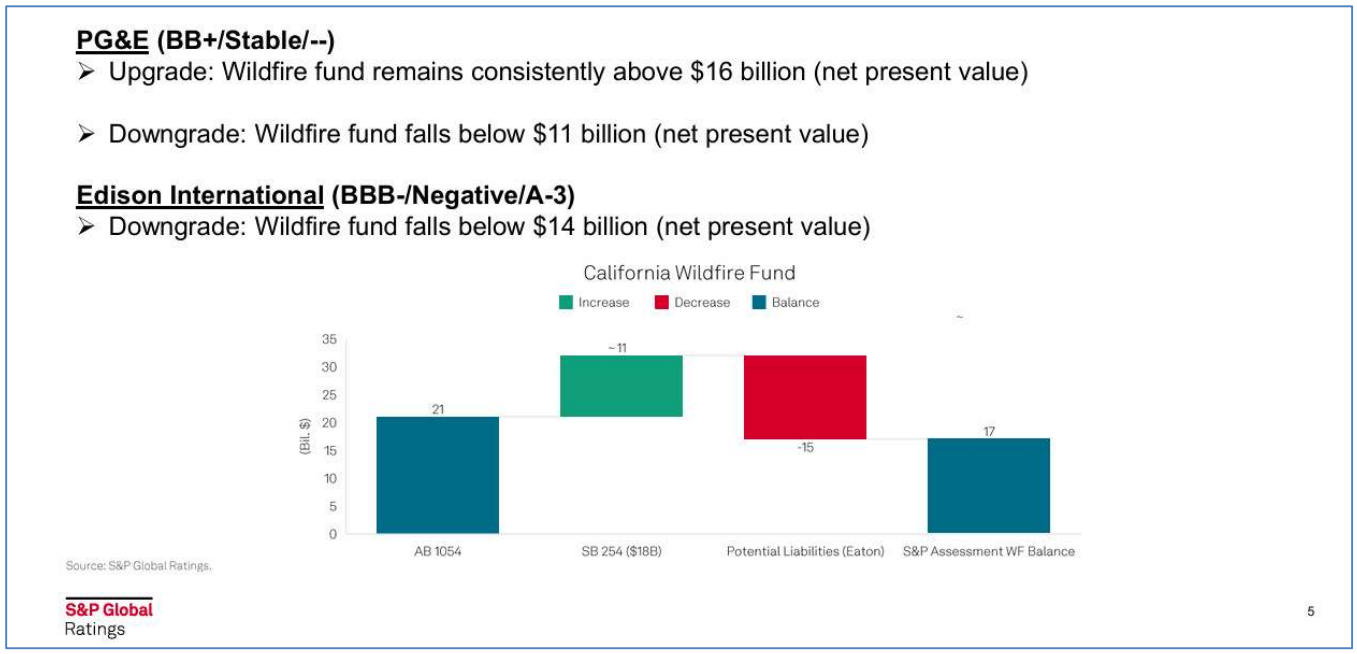
[87] Fitch Ratings, Fitch Revises PG&E Corporation's and Pacific Gas and Electric Co.'s Outlooks to Negative, September 16, 2026.
[88] S&P Global Ratings, Credit Risks Associated With Wildfires Are Increasing For California Public Finance Entities, February 20, 2025; S&P Global Ratings, Credit FAQ: After The Firestorms: Credit Risks Related To U.S. Wildfires, May 5, 2025.
[89] S&P Global Ratings, Edison International And Subsidiary Downgraded To 'BBB-' On Smaller-Than-Expected Wildfire Fund; Outlook Is Negative, September 17, 2025.
[90] S&P Global Ratings, Following Legislative Session, California Investor-Owned Utilities' Wildfire Liability Exposure Remains Significant, September 1, 2026.
[91] Fitch Ratings, Fitch Revises Edison International's and Southern California Edison Co.'s Outlooks to Negative, September 16, 2026.
[92] S&P Global Ratings, Research Update: San Diego Gas & Electric Co. Ratings Affirmed On California Senate Bill 254 Passage; Outlook Stable, September 19, 2025.
[93] Sempra, Sempra Third Quarter 2025 Earning Results, November 5, 2025, p. 21

downgrade could occur if the Wildfire Fund falls below $11 billion.[94]

- SCE: A downgrade could occur if the Wildfire Fund falls below $14 billion. A return to a Stable outlook could occur if the Wildfire Fund remains consistently above $14 billion, Edison's FFO to debt remains above 13 percent, and Eaton Fire liabilities remain consistent with expectations.[95]
- SDG&E: S&P estimated that approximately $5 billion in Wildfire Fund resources would be necessary to maintain SDG&E's BBB+ issuer credit rating.[96]

These thresholds illustrate the importance of maintaining adequate wildfire liability protections to support utility credit quality. S&P has also indicated that, without California's existing wildfire protections, PG&E and SCE could face substantially weaker credit ratings, potentially in the single-B category.[97]

Figure 10. S&P Global Credit Rating Threshold



Source: S&P Global Ratings, Cross-Practice Credit Spotlight: Navigating California's Wildfire Legislative Shift and Persistent Wildfire Risks, September 24, 2026, p. 5.

C. California's IOUs generally have weaker credit ratings than comparable utilities outside California, and further downgrades could increase financing costs and limit access to capital.

As shown in Figure 11, California large IOUs generally have lower credit ratings than comparable utilities

[94] S&P Global Ratings, Cross-Practice Credit Spotlight: Navigating California's Wildfire Legislative Shift and Persistent Wildfire Risks, September 24, 2026, p. 5.
[95] S&P Global Ratings, Research Update: Edison International And Subsidiary Downgraded To 'BBB-' On Smaller-Than-Expected Wildfire Fund; Outlook Is Negative, September 17, 2025.
[96] S&P Global Ratings, Credit FAQ: The Burning Questions: North America's Investor-Owned Utility Wildfire Risks, November 4, 2025.
[97] S&P Global Ratings, Virtual Webinar Series with CFOs – Featuring PG&E Corp., October 5, 2026, remarks by Gabe Grosberg, Managing Director and Sector Lead, North America Regulated Utilities, at 1:52.

outside California, reflecting their greater exposure to catastrophic wildfire liabilities. The average electric utility credit rating nationwide is highlighted in yellow. LADWP, which was downgraded after the January 2025 fires, as well as SMUD are shown in Figure 11 to be above the national average, and all other California utilities represented are at or below the national average. Figure 11 also demarks in red the investment grade line. SCE's S&P rating of BBB- is only one notch above speculative grade,[98] while PG&E remains below investment grade under S&P's scale, despite having investment-grade ratings from Moody's and Fitch.[99] Moody's rates corporate parent companies separately from the operating utilities. For all three of the IOUs, Moody's rates the parent company lower than the utility. PG&E Corp. senior secured debt is rated Ba2, below investment grade. Edison International, the parent company of SCE, is rated a notch below at Baa2, and Sempra the parent company of SDG&E is rated at Baa2. PacifiCorp is not rated by Fitch, but it is rated by S&P and Moody's. Credit rating companies may consider the financial health of the entire corporate group when rating IOUs. The CEA Report argues that "[a]bsent structural reform, both PG&E and SCE face the risk of multi-notch downgrades. For SCE, the trajectory leads to non-investment grade. Ratepayers will suffer the consequences through their increasing monthly bills and the quality of service a utility can provide with limited access to the capital markets."

Figure 11. Current Credit Ratings for California Electric Utilities, as of October 26, 2026

Current Credit Ratings, as of 10/26/2026

Moody's	S&P	Fitch	Rating Scale
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High Grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper Medium Grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower Medium Grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-Investment Grade
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly Speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial Risk
Caa2	CCC		Extremely Speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	DDD	In Default
/		DD	
/		D	

Legend

Large IOUs
- PG&E — Baa3 / BB+ / BBB-
- SCE — Baa1 / BBB- / BBB
- SDG&E — A3 / BBB+ / BBB+

SMJUs
- PacifiCorp — Baa2 / BBB / —
- Liberty — Baa2 / BBB / BBB

POUs
- LADWP — Aa3 / AA- / AA-
- SMUD — Aa2 / AA / AA

U.S. electric utility average: BBB+ (Baa1)

Ratings shown as Moody's / S&P / Fitch; — = not rated

Average: EEI, average S&P parent company rating of U.S. investor-owned electric utilities, year-end 2025.

Note: Moody's ratings for the large IOUs are for the operating utilities, not their parent holding companies. Moody's rates each large IOU's parent company lower than the utility. Moody's rates PG&E's parent, PG&E Corporation, below investment grade.

[98] SCE, Credit Ratings, As of September 16, 2026.
[99] PG&E, Credit Rating Summary, As of June 30, 2026.

Any additional downgrades could have adverse consequences for utilities and ratepayers:

- **Reduced access to short-term financing:** A downgrade of SCE below investment grade could limit its ability to access the commercial paper market,[100] potentially requiring the utility to rely on more expensive alternative financing arrangements.
- **Higher borrowing costs:** Further downgrades could increase the cost of debt for all three utilities,[101] above the additional borrowing costs they already incur relative to non-California peers.
- **Long-term customer impacts:** Higher interest rates on newly issued debt could remain embedded in utility financing costs and customer rates for decades.

These risks are particularly significant because California utilities already face higher borrowing costs than comparable utilities outside the State.

Small and multi-jurisdictional utilities (SMJUs) such as PacifiCorp and Liberty also face wildfire-related credit and financing pressures. PacifiCorp has experienced wildfire-related credit rating downgrades, while rating agencies have identified wildfire liability risks for Liberty's parent company. Unlike California's three large IOUs, SMJUs do not have access to the State's Wildfire Fund, potentially increasing their exposure to substantial wildfire liabilities. In general, SMJUs' smaller scale may limit their ability to absorb substantial wildfire liabilities or higher borrowing costs and may require additional actions to support financial viability. For example, PacifiCorp's recent sales of generation and distribution assets to address these financial uncertainties.[102] Maintaining adequate wildfire liability protections is therefore important to preserving PacifiCorp's, Liberty's, and other SMJUs' access to capital and minimizing the risk that increased financing costs will be passed on to customers. Additional details and analysis are included in Appendix B.

D. California IOUs already pay higher borrowing costs than their peers, and additional credit rating downgrades would compound these costs.

Wildfire-related credit risks, including credit rating downgrades, have contributed to higher borrowing costs for California IOUs relative to comparable utilities outside the State. Available estimates indicate that wildfire-related credit risks have increased borrowing costs for California's IOUs, as summarized in Table 5.

PG&E and SCE currently face borrowing costs approximately 61 and 56 basis points higher than comparable non-California utilities, respectively. Based on estimates provided by the IOUs, these higher borrowing costs result in approximately $330 million in additional interest expenses in 2026 across the three major California IOUs as shown in Table 5.[103] Further credit rating downgrades or increases in borrowing spreads could raise the cost of future debt issuances, adding to the higher borrowing costs already incurred by the utilities and potentially increasing customer rates.[104] The higher interest rates compound over time as shown in the last column of Table 5, showing that PG&E's annual interest cost of higher than otherwise interest costs from 2017-2025 have already compounded to equal $4.1 billion of additional lifetime interest costs.

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[100] SCE, 2025 Form 10-K, December 31, 2025, p. 17.
[101] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, p. 23.
[102] PacifiCorp, PacifiCorp to sell Washington service area to Portland General Electric, February 17, 2026, and PacifiCorp to sell distribution assets to Oregon electric cooperatives, March 19,2026.
[103] Data accessed through Bloomberg Peers include Southern Co, Duke Energy Corp, Avangrid, National Grid PLC, Eversource, Xcel, AEP, PSEG, Exelon, Dominion, Entergy, AES. Debt issuance balance sheets accessed through Refinitiv.
[104] The Legislative Analyst's Office, Allocating Utility Wildfire Costs: Options and Issues for Consideration, June 21, 2019, p. 1.

Table 5. Estimated Wildfire-Related Borrowing-Cost Premiums and Additional Interest Expenses for California IOUs

Utility	Premium Vs. Non-CA Peers[105]	Debt Issued 2017–2025 Still Outstanding	Additional Interest Costs In 2026[106]	Additional Lifetime Interest Costs[107]
PG&E	61 basis points	~$34 billion	$206 million	~$4.1 billion on bonds issued since 2017
SCE	56 basis points[108]	~$22 billion	$123 million	~$200 million on March 2019 bonds, cumulative lifetime costs across all debt issuances not quantified.[109]
SDG&E	Less than 1 basis points	~$7 billion	Less than $1 million	Not quantified
Total	—	~$63 billion	~$330 million	—

The issue demonstrated above is not limited to large IOUs. For example, LADWP has cited that a two notch downgrade could lead to as much as $927 million in additional interest expenses over time on their expected 5 year capital plan totaling over $30.5 billion in planned electric and water projects. As noted by an LADWP representative on October 28, 2026, during a hearing at the State Legislature, "Moreover, risk does not disappear under public ownership; it moves. Inverse condemnation applies to public entities too. LADWP's experience shows how. During the January 2025 Los Angeles fires, S&P cut LADWP's power bonds two notches, from AA– to A, citing liability claims "that could eclipse its liquidity and insurance coverage and put the City of Los Angeles on negative watch."[110]

A credit rating downgrade affects public and investor-owned utility ratepayers because of the increased risk to investors—both as debt (including bonds) or equity-holders. This increased risk results in higher interest rates and increases the cost of utility operations. The resulting increased costs are passed down to ratepayers. According to the CEA Report, "[r]atepayers will suffer the consequences through their increasing monthly bills and the quality of service a utility can provide with limited access to the capital markets." It continues to explain that an estimated 1 percentage-point (or 100 basis point) increase in IOU financing costs translates to approximately $5 per month in additional rate increases per residential customer.[111] While credit ratings downgrades and costs to ratepayers are difficult to calculate precisely on a

[105] Estimates and calculations provided by California's IOUs, using Bloomberg debt spreads as of June 30, 2026; Refinitiv debt data; and SCE testimony.
[106] Estimated 2026 additional borrowing costs are calculated by applying borrowing-cost premiums relative to non-California utility peers to debt issued from 2017 through 2025 that remains outstanding. The analysis excludes commercial paper, notes, hybrid securities, and parent-company debt and assumes that borrowing-cost premiums are attributable to wildfire-related risks.
[107] Lifetime cost estimates are based on utility-specific information, cover different bond issuances and periods and are not directly comparable. Figures may differ due to rounding.
[108] SCE, SCE 2023 Thomas Fire and Debris Flow Cost Recovery Application Testimony A.23-08-013, August 22, 2023, p. 23.
[109] Lifetime interest-cost estimates are based on different debt issuance periods and are not directly comparable across utilities. PG&E's estimate covers bonds issued since 2017, while SCE's estimate applies only to bonds issued in March 2019. Approximately $200 million over the life of bonds issued in March 2019, reflecting higher borrowing spreads following credit rating and outlook downgrades. SCE, SCE 2020 Cost of Capital Testimony A.19-04-014, April 22, 2019, p. 56.
[110] Remarks by Fernando Valero, October 28, 2026, Assembly Utilities and Energy Hearing, State of California Legislature.
[111] CEA, Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report, April 7, 2026, footnote

causal one-for-one basis, we can look to historical trends to see the past cost impacts and how they affect ratepayer bills.

IOU access to capital is necessary to operate and invest in new infrastructure, maintenance, safety, and reliability. As credit ratings change, a risk premium is added to the price and availability of new capital, thus potentially limiting access to capital that is compliant with CPUC-authorized capital structures. IOUs need continuous access to capital to finance investments with the capital upfront so that ratepayers can benefit from smoothed and lower rates over the decades the assets are in service.

Absent significant wildfire reform, access to equity could become increasingly difficult for utilities in California and throughout the west, as investors have access to other, less risky investments in the utility sector, or other sectors entirely.[112] This predicament is summed up succinctly with the phrase: 'Utilities can't leave California, but investors can.' Both borrowing cost increases and increased returns to IOUs are costs that pass down to ratepayers.

Access to debt is similarly at risk with credit downgrades. A downgrade indicates that lenders will require higher interest rates on new and refinanced debt, and because a bond's coupon is fixed at issuance, that premium is locked in for the life of the bond which typically can be 30 years for utility bonds. Testimony supporting SCE's Thomas and Woolsey cost recovery applications quantified the debt premium paid by SCE customers after the decision disallowing SDG&E's 2007 wildfire costs. As investors redirected capital to jurisdictions with more predictable cost recovery outcomes, SCE saw an excess borrowing spread of approximately 40 to 70 basis points relative to comparably rated non-California utilities, as depicted in Figure 12.[113] SCE estimates that the April 2018 Moody's credit rating downgrade is estimated to cost ratepayers approximately $200 million over the life of the bonds issued in March 2019.[114]

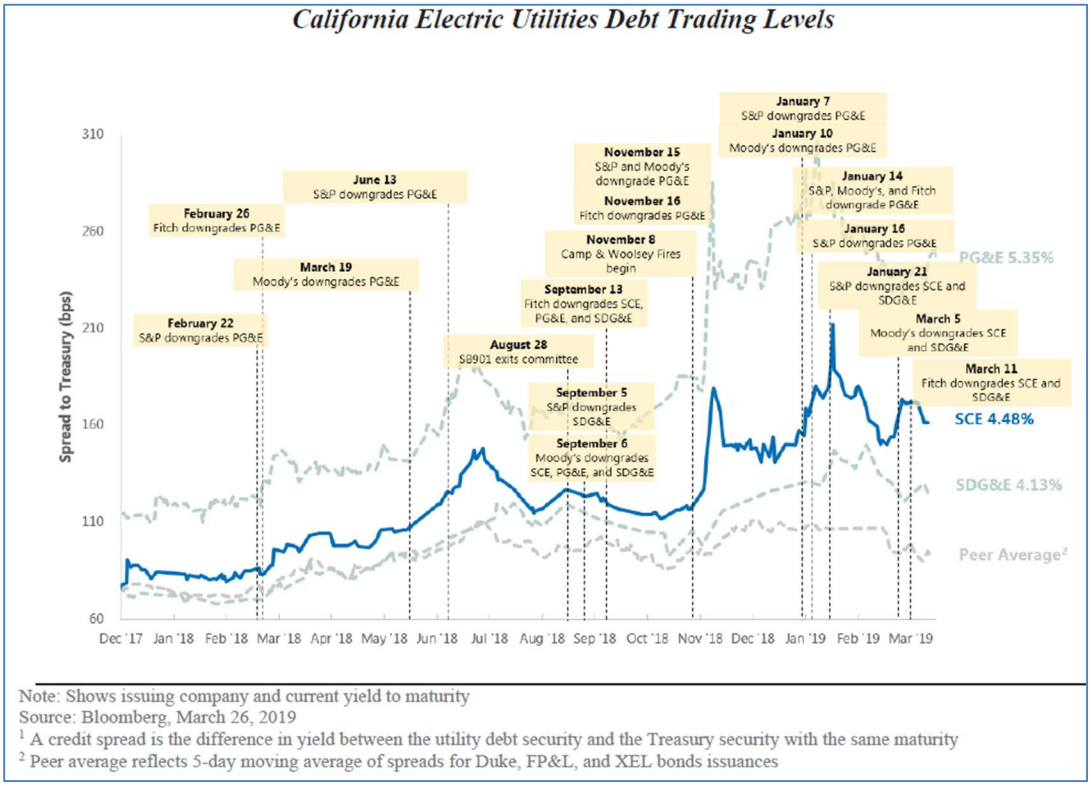
52, p. 36.

[112] SDG&E, SDG&E Prepared Testimony of Application A.19-04-017, April 2019; and SDG&E Prepared Rebuttal Testimony of Application A.19-04-017, August 21, 2019; SCE, Amended Testimony Supporting Southern California Edison's Application A.19-04-014, April 22, 2019, p. 45-47; and SCE Prepared Supplemental Testimony for Application A.19-04-014, August 1, 2019, Frank Graves' report entitled "California Megafires: Approaches for Risk Compensation and Financial Resiliency Against Extreme Events" (SCE's 2020 cost of capital application in support of a 600 basis point wildfire adder absent legislative reform). In SDG&E's 2020 cost of capital proceeding, its witness, Concentric Energy Advisors, estimated the wildfire risk premium on return on equity at 1.48 percent (148 basis points) with AB 1054 in place, but 3.4 percent (340 basis points) without wildfire legislative reform. For PG&E that adder was 5.0 percent or 500 basis points, and for SCE it was 6.0 percent or 600 basis points. While the IOUs have made significant progress in mitigating wildfire risk, climate-driven wildfire risk and the potential consequences of wildfire events have continued to increase. Accordingly, the pre-AB 1054 wildfire risk adders are relevant to the IOUs current cost of capital, particularly as the Wildfire Fund's claims paying capacity depletes.

[113] SCE, Financial Policy Testimony Thomas Fire and Debris Flow Cost Recovery Application A.23-08-013, August 22, 2023.

[114] SCE, Testimony Supporting Southern California Edison's Application for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2020 and to Reset the Annual Cost of Capital Adjustment Mechanism, April 22, 2019, p. 56. "In March 2018, a month 5 before Moody's first negative rating action in the year, SCE issued a low double A-rated 30-year 6 secured bond at 4.125 percent. In March 2019, SCE issued a low single A-rated 30-year secured bond at a rate 7 of 4.875 percent. While the 30-year Treasury bond yield decreased by 15 basis points between these two time 8 periods, investors required an additional 90 basis points (i.e., a 90 basis point "spread") as compensation 9 for purchasing SCE's lower rated debt."

Figure 12. SCE Historic Debt Trading Levels Relative to Rating Downgrades and Peer Average 2017-2019

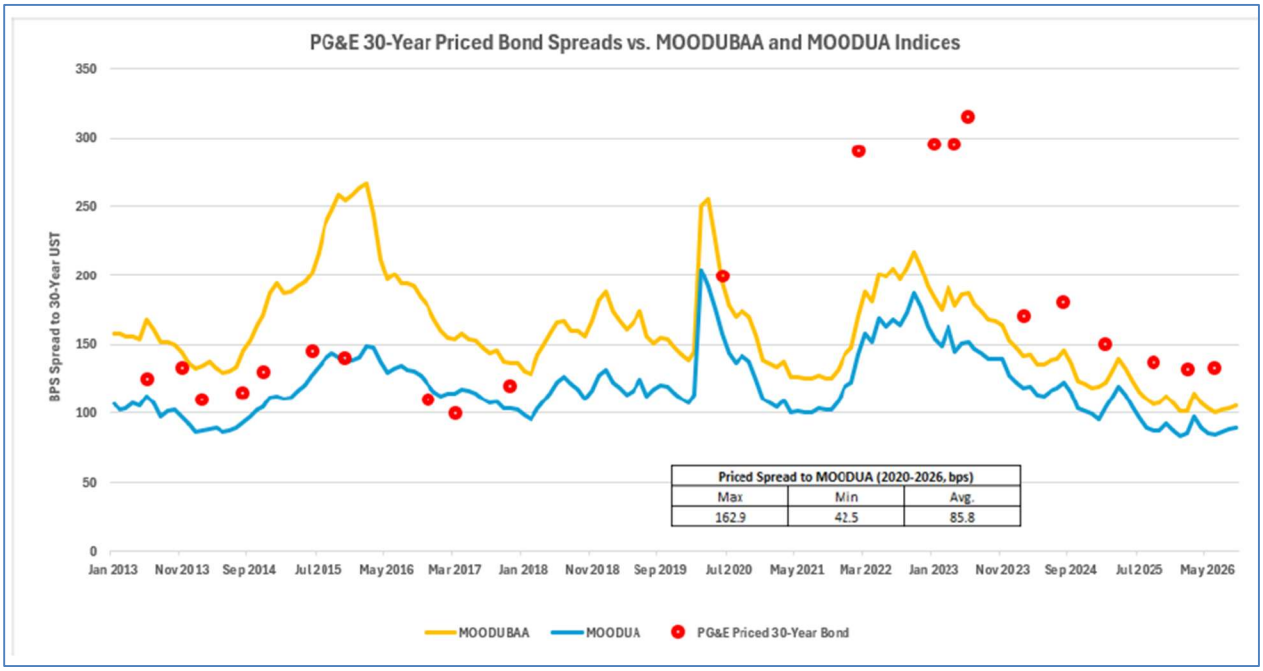


Source: SCE, Testimony Supporting Southern California Edison's Application A.19-04-014, April 22, 2019, p. 95.

PG&E estimates that its wildfire-related borrowing-cost premium relative to non-California utility peers is approximately 61 basis points. This is the midpoint for the lowest and highest range of approximately 44-77 basis points in the debt-spread analysis in Figure 13.[115] Since 2017, using a wildfire premium to cost of debt of approximately 61 basis points from 2013 through today, PG&E estimates that over the life of the issued bonds, it has committed to an additional $4.1 billion in interest expense that will be passed on to customers.

[115] PG&E uses a methodology consistent with Dan Ford's testimony in SCE's 2017 Thomas Fire and 2018 Debris Flow Cost Recovery Proceeding. "The estimate applies a comparative-market approach to PG&E-specific debt-spread data as of June 30, 2026. The analysis produced a range of approximately 44 to 77 basis points, with 61 basis points representing the midpoint estimate. Also, referenced in the table in response (a,c) above, PG&E also compared its 2020–2026 priced 30-year issuance spreads with the Moody's A-rated utility index. PG&E's spreads exceeded the index by an average of approximately 86 basis points, with differences ranging from approximately 43 to 163 basis points."

Figure 13. PG&E's Historical Borrowing Costs on a Comparable Basis, 2013-2026



Source: PG&E SEC filings and Moody's indices.

Current elevated borrowing rates for California IOUs are estimated to cost ratepayers an additional $330 million in 2026, relative to IOU peers, due to wildfire risk. This estimate is calculated from the sum of credit spread to peers applied to debt issuance from 2017 to 2025 still on IOU balance sheets.[116]

In September 2026, S&P indicated that without California's existing credit protections from AB 1054, the utilities' credit quality would be significantly lower, potentially in the single-B category, dropping below investment-grade. S&P identifies climate change and inverse condemnation as key risks, with the Wildfire Fund and liability cap serving as credit protections.[117]

[116] Data accessed through Bloomberg Peers include Southern Co, Duke Energy Corp, Avangrid, National Grid PLC, Eversource, Xcel, AEP, PSEG, Exelon, Dominion, Entergy, AES. Debt issuance balance sheets accessed through Refinitiv.
[117] S&P Global Ratings, Navigating California's Wildfire Legislative Shift Webinar, September 24, 2026; S&P Global Ratings, Cross-Practice Credit Spotlight: Navigating California's Wildfire Legislative Shift and Persistent Wildfire Risks, September 24, 2026, p. 12.

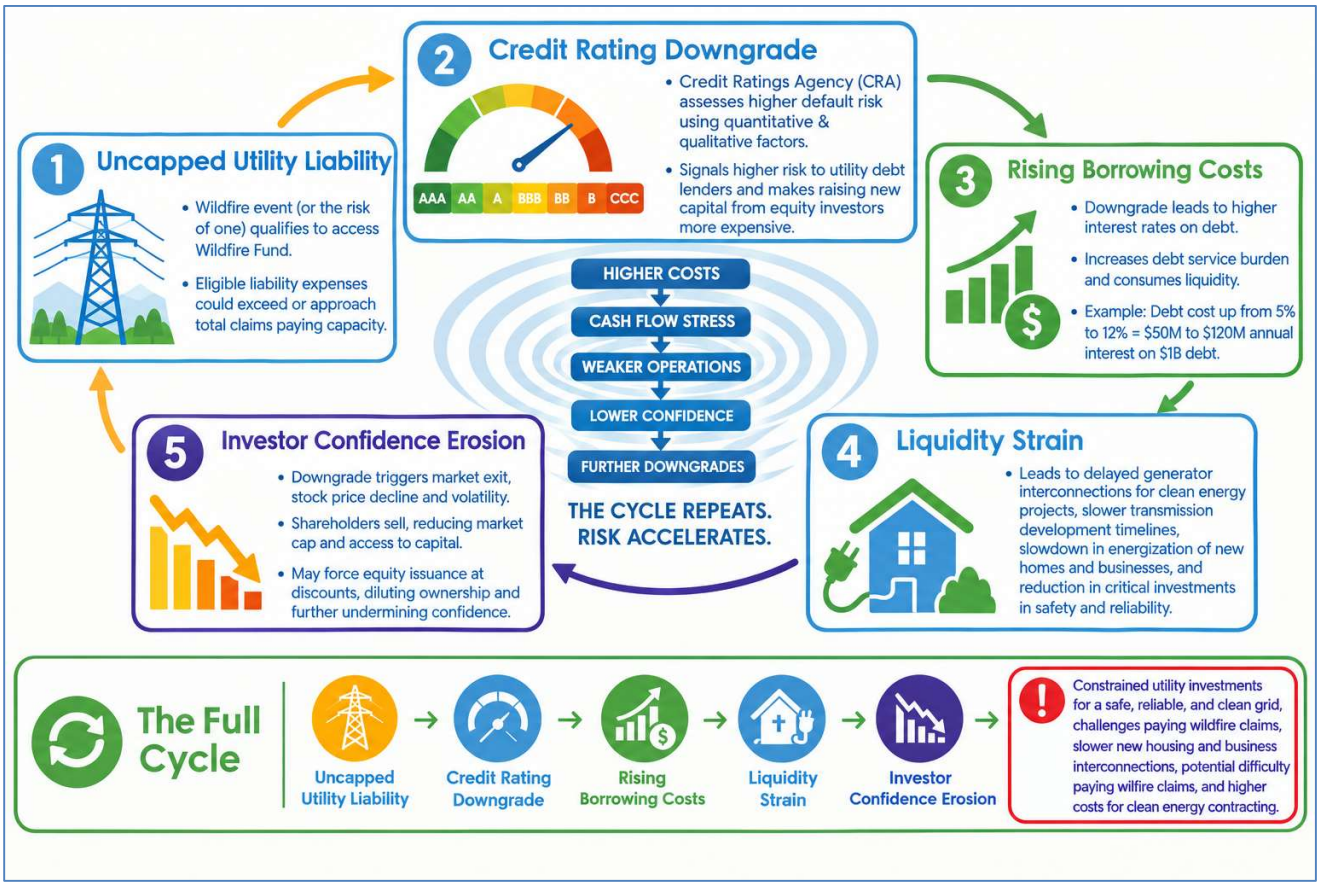
Part 4. Limited Access to Capital Threatens California's Ability to Invest in a Reliable, Clean, and Fire-Resistant Grid and Pay Wildfire Claims

Liability risks and utility credit rating downgrades cause a cycle that impacts ratepayers. Uncapped utility liability of a wildfire event, or risk of one, also puts utilities at risk of credit ratings downgrades. Credit rating downgrades negatively impact ratepayers because they increase utility borrowing costs that are legally collected on customer bills.

These higher financing costs also constrain access to capital and make it harder for utilities to fund important projects, including wildfire safety improvements, grid upgrades, and infrastructure needed to serve growing electricity demand to support growth in California's economy. This also increases utility costs for energy contracts.

This leads to liquidity strain—all of which add cost pressures to every aspect of utility business. And finally, investor confidence is eroded when downgrades trigger market exit by investors, stock price decline, and stock price volatility. The investor confidence erosion limits access to capital. So maintaining utilities' financial stability is important not only for paying wildfire claims, but also for keeping the electric system safe, reliable, and affordable.

Figure 14. Wildfire Liability Risk and Credit Ratings Downgrade Cycle



A. Limited access to debt and equity capital could constrain utility investments needed to ensure a reliable, clean, and fire-resistant electric grid.

Electric utilities require continuous access to debt and equity financing to maintain and modernize the grid, reduce wildfire risk, and support California's energy and climate goals. Further credit rating deterioration could increase borrowing costs, constrain utilities' ability to maintain CPUC-authorized capital structures, and limit their capacity to finance large infrastructure investments.

These investments are essential for:

A. Interconnecting new housing developments.
B. Interconnecting new businesses and expanding electricity service to existing customers.
C. Hardening the electric grid to reduce wildfire risk and improve reliability.
D. Interconnecting new generation and other resources to the transmission system to meet California's greenhouse gas emissions reduction, clean energy, and reliability goals.

Financing costs are a component of the utility's revenue requirement, so the costs connected with each additional notch of credit rating downgrade becomes a customer cost for the life of the associated debt. The financing-cost channel contributes to rates that are among the highest in the nation (California averages 35.25 cents per kWh as of April 2026, versus an 18.83 cent national average), and Moody's notes that high utility rates "add to the affordability pressures that exacerbate demographic challenges and impede economic growth," weighing on the State's economic competitiveness.[118]

Deferred investment reaches customers in a variety of ways: fewer new customer connections, less interconnection of new generation, and less grid capacity for growing demand. Additionally, this constraint can also increase the cost of clean energy resources as delays in interconnection means some of these clean energy projects could lose their ability to take advantage of the expiring federal tax credits.

Recent developments illustrate how wildfire-related financial risks can affect utility investment decisions. On September 2, 2026, PG&E announced the deferral of approximately $2 billion in planned 2027 investments, while maintaining its wildfire mitigation and certification programs. PG&E identified financing risks associated with the current wildfire liability framework and indicated that deferred work could include new housing connections, renewable generation interconnections, and service to additional large electricity loads.[119] For the State's broader economic development, the same constraint raises the cost of, and delays, the infrastructure required to energize new housing and business loads and interconnect clean energy resources.

B. Deferred utility investments could delay housing development and business expansion, affecting California's broader economic growth.

Additional catastrophic fires involving utility equipment could force more severe deferral of investments, potentially putting even critical spending and economic growth at risk. When utilities face capital constraints, they generally prioritize funding critical safety investments, wildfire mitigation, regulatory

[118] Moody's Ratings, Policy options to fund California's wildfire risk raise significant credit trade-offs, July 22, 2026.
[119] PG&E, PG&E Launches Strategic Review to Build a Better, More Affordable Energy Future for California Customers, September 2, 2026.

compliance, and essential services to existing customers. According to PG&E and SCE, near-term reductions or deferrals would therefore be more likely to affect growth-related investments, including new customer connections and system capacity upgrades. Delays in these investments could affect housing development, business expansion, and regional economic activity.[120]

California constructed 110,809 homes in 2024, substantially below the pace needed to meet the California Department of Housing and Community Development's estimated need for more than 2.5 million homes by 2031, roughly one-third of the annual pace that goal implies (HCD, cited in Senate Committee on Housing factsheet, January 2026). Without wildfire reform, delayed grid infrastructure improvements and deferred energization could further slow housing occupancy, business development, and other economic activity that depends on timely access to electricity service. The regional economic effects include delayed housing occupancy, business openings, and the property and sales tax base that accompanies them. Reduced utility investment reduces the construction and supplier activity. The investment that constrained capital removes first will likely include the investment that connects new economic activity (e.g. new homes and businesses) to the grid, so the cost of inaction may fall disproportionately on State economic growth.

C. Limited access to capital also threatens the ability of IOUs and POUs to pay wildfire claims and maintain financial stability.

Limited access to capital can also weaken utilities' ability to respond financially to future catastrophic wildfires. PG&E's 2019 bankruptcy illustrates how substantial wildfire liabilities can overwhelm a utility's financial resources, constrain infrastructure investment, and delay compensation to wildfire survivors.

These risks are not limited to IOUs. POUs generally do not have access to the Wildfire Fund or the statutory liability protections available to participating IOUs. Instead, they rely on their own insurance, liquidity, borrowing capacity, and rate-setting authority to manage wildfire-related financial exposure.

Following the January 2025 Los Angeles wildfires, S&P downgraded LADWP's Power System two notches from AA- to A.[121] Moody's subsequently downgraded the Power System from Aa2 to Aa3 in March 2026, citing its growing capital program and contingent liabilities associated with the Palisades Fire.[122] Although Fitch maintained its AA- rating, it continued to identify potentially significant wildfire liability as a credit consideration.[123] These developments demonstrate that wildfire-related financial risks can affect both IOUs and POUs, with potential consequences for utility customers, local governments, and wildfire survivors.

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[120] PG&E explains that it is reprioritizing approximately $2 billion in planned investments while continuing safety and compliance work. It specifically identifies the following projects as potentially taking longer: "Some reliability improvements, new customer connections, and new energy supply connections may take longer." PG&E, Answers to Common Questions About PG&E's Revised 2027 Investment Plan, September 11, 2026. "SCE's ability to operate its business, fund capital expenditures, and implement its business strategy is dependent upon its operating cash flow and access to the bank and capital markets." SCE, 2025 Form 10-K, December 31, 2025, p. 16.

[121] S&P Global Ratings, Los Angeles Department of Water & Power Ratings Lowered Two Notches To 'A' (Power) And 'AA-' (Water) on Increased Risks, January 14, 2025.

[122] Moody's Ratings, Moody's Ratings Downgrades LADWP's (CA) Power System Revenue Bonds to Aa3 from Aa2; Outlook Revised to Stable from Negative, March 3, 2026.

[123] Fitch Ratings, Fitch Rates LADWP's (CA) Power Rev Bonds 'AA-'; Outlook Stable, September 14, 2026.

D. Credit Ratings May Increase the Cost of Long-Term Contracting for New Clean Energy Resources

In addition to maintaining and expanding the existing electric delivery system, electric utilities are off-takers of long-term energy contracts with generation and storage developers. Community choice aggregators (CCAs) and direct access providers also enter into these contracts. When pricing power purchase agreements, developers consider the credit rating of their counterparty, including IOUs, POUs, CCAs, and direct access providers, because of the risk that these entities may be unable to meet their payment obligations. The risk became particularly relevant during both the California Energy Crisis of 2000-2001, which led to PG&E's first bankruptcy, and following the post-Camp Fire, which contributed to PG&E's second bankruptcy. During both periods, concerns about utilities' ability to meet existing contractual obligations and enter into new long-term energy contracts played a central role in the impact of the crises on customers.

For independent power producers, the primary revenue stream for the project is the off-taker's payments under the power purchase agreement (PPA). The off-taker's ability to pay is a critical factor in making the PPA bankable for the lenders on the projects—usually a combination of debt lenders, equity investors and tax-equity partners. When the PPA's project revenue stream appears like it could be threatened by defaults or payment delays, then a project's debt and equity are at risk and then lower-credit off-takers must provide credit support so that they can demonstrate their ability to reliably support these obligations. Examples of credit support are letters of credit, surety bonds, or cash collateral to make a deal acceptable. This situation is counter-intuitive because usually an off-taker is seeking demonstrations of credit from the developers to show that the developer will be able to build, own and operate a power plant reliably. In a competitive market for generation and storage projects, developers are going to choose the highest credit off-takers first, leaving less-creditworthy buyers with harder to finance deals. Lenders and tax equity partners screen the creditworthiness of PPA off-takers when structuring a deal, and they might require higher rate of return premium on a less credit worthy off-taker.

The situation described above directly impacts PPA pricing for long term energy contracting today. The longer California utilities stay at lower credit ratings relative to the nationwide utility average, the more at-risk California customers are for locking in more-expensive clean energy long-term contracts. As off-taker credit weakens, debt rates rise and equity investors demand a higher return premium. Together, a riskier capital stack and tighter financing terms compound to increase the required PPA price. Investors in power plant development are similar to investors in utility bonds and stocks; they expect reasonable, safe, long-term returns in exchange for capital. When those expectations falter, it is the ratepayers that pay more for clean-energy contracts because their investors act to ensure their investment stays safe.

Conclusion

California's increasingly destructive wildfires pose significant financial risks to electric utilities, their customers, and the State's broader economy. As described in this report, absent structural reform, wildfire-related costs and liabilities will continue to increase electric bills, weaken utility credit ratings, and constrain access to the debt and equity capital needed to maintain and expand California's electric system.

Wildfire costs will continue to increase electric bills and make electricity increasingly unaffordable, particularly for lower-income households in hotter parts of the State. California utilities and their ratepayers already bear substantial costs associated with wildfire mitigation, liability claims, and higher financing costs. These costs will continue to affect customer bills for decades, with future wildfires and mitigation efforts adding further financial pressures. The resulting bill impacts are particularly significant for lower-income households and customers in hotter parts of the State. The State needs to continue to find ways to keep wildfire investments as cost-efficient and effective as possible. We expect these investments to yield benefits in wildfire ignition reductions overtime.

Despite continued progress on reducing wildfire ignitions, wildfire liability risks will continue to pressure utility credit ratings and constrain investments needed to maintain a safe, reliable, and clean electric grid. California utilities have already experienced credit rating downgrades and higher borrowing costs due to wildfire liability exposure and uncertainty regarding the adequacy of existing financial protections. Further downgrades could increase costs for ratepayers and constrain utilities' access to debt and equity capital. These financial pressures could delay investments needed for grid reliability, wildfire mitigation, new housing and business connections, and clean energy development, affecting California's broader economic growth.

Existing wildfire liability protections may be insufficient to address future catastrophic wildfires. The AB 1054 Wildfire Fund faces substantial claims that could significantly reduce its remaining resources, while the SB 254 Continuation Account remains unfunded and provides limited near-term claim-paying capacity. Publicly-owned utilities, small and multi-jurisdictional utilities, and independent transmission providers do not have access to these protections. Without sufficient resources or other mechanisms to address catastrophic wildfire liabilities, future major fires could threaten utilities' financial stability, their ability to compensate wildfire victims, and their capacity to continue providing essential electric service.

Figure 15. Need for Urgent Reform



The opportunity today is to undertake reform before the next wildfire. The options available currently may provide greater flexibility than those available after the next wildfire occurs. Proactive structural reforms will help stabilize California's utilities, protect utility customers and promote affordability and clean energy goals. Absent meaningful structural reform, California faces the prospect of increasingly unaffordable electric bills, further utility credit rating

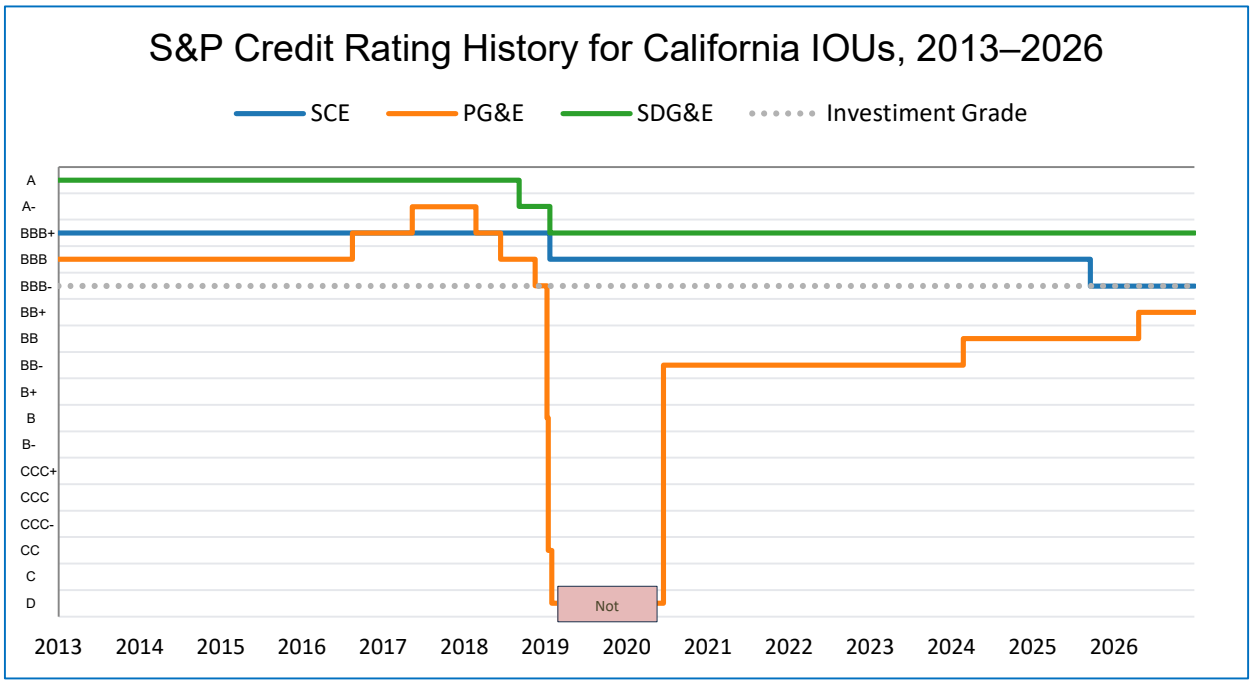
downgrades, constrained grid investments, and continued risks to utilities' ability to pay wildfire claims. Addressing these risks is essential to maintaining financially stable utilities capable of providing safe, clean, reliable, and affordable electricity while supporting the State's broader economic and climate goals.

Appendix A: Utility Credit Rating for IOUs and POUs – Summary of Downgrades or Outlook Changes

IOU Credit Ratings Over Time

California's IOUs have experienced significant credit rating changes over the past decade. Although individual rating actions reflect utility-specific circumstances, the rating histories of Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) show a common pattern: relatively strong or improving credit profiles before 2018, substantial deterioration as catastrophic wildfire risk and potential utility liabilities increased, and partial recovery following legislative and regulatory changes intended to reduce utilities' financial exposure to wildfire liabilities, especially post AB 1054.

Figure 16. S&P Credit Rating History for California IOUs



Note: S&P downgraded PG&E's issuer credit rating to D in January 2019 and subsequently withdrew the rating during PG&E's Chapter 11 bankruptcy proceedings. S&P assigned a new BB- rating on June 15, 2020. For visualization purposes, the chart carries forward the D rating during the intervening period, although PG&E did not maintain an active S&P issuer credit rating throughout that period.[124]

Before the major wildfire-related downgrades beginning in 2018, the IOUs generally maintained investment-grade ratings. PG&E, for example, was rated A3 by Moody's, BBB+ by Fitch, and BBB by S&P at the end of 2013. PG&E initially faced credit pressure related to the San Bruno pipeline explosion, but its ratings subsequently improved. S&P's 2017 upgrade of PG&E to A- reflected continued improvement in the utility's business risk profile following the San Bruno incident, efforts to rebuild regulatory and stakeholder confidence, supportive CPUC rate decisions, and continued

[124] PG&E, PG&E 2020 Form 10-Q, p. 92.

maintenance of a strong regulatory and financial profile.[125] By mid-2017, PG&E was rated A2 by Moody's and A- by both Fitch and S&P. SDG&E similarly entered 2018 with ratings of A1 from Moody's and A from both S&P and Fitch. SCE was rated A2 by Moody's, BBB+ by S&P, and A- by Fitch before the wildfire-related rating actions followed.

Beginning in 2017 and accelerating during 2018 and early 2019, wildfire risk became a major driver of California IOU credit ratings. Rating agencies cited the increasing frequency and severity of catastrophic wildfires, potential liabilities under California's inverse condemnation doctrine, uncertainty regarding recovery of wildfire-related costs, reduced availability of wildfire liability insurance, and concerns about whether the legislative and regulatory framework provided sufficient protection against potentially very large liabilities.[126] These concerns affected utilities even when they had not caused a recent catastrophic wildfire. SDG&E, for example, stated that all three major rating agencies downgraded it by at least two notches during 2018 and early 2019 despite its wildfire mitigation record and the fact that its equipment had not caused a significant wildfire since 2007.[127]

PG&E experienced the most severe credit deterioration. Following the 2017 Northern California wildfires, Moody's, S&P, and Fitch began downgrading PG&E as potential wildfire liabilities increased and uncertainty remained regarding cost recovery under inverse condemnation. The November 2018 Camp Fire further accelerated the deterioration. In January 2019, as PG&E prepared to seek Chapter 11 bankruptcy protection, its ratings fell rapidly. S&P states that PG&E recorded a $10.5 billion charge in Q4 2018 related to the Camp Fire. S&P then says that on January 7, 2019, it downgraded PG&E five notches, from BBB- to B, followed by a further downgrade to D in January as bankruptcy approached.[128] Moody's similarly lowered PG&E's rating to D following its bankruptcy filing. PG&E's experience also affected rating agencies' assessments of the broader California regulatory framework. For example, S&P cited PG&E's expected bankruptcy when it downgraded SDG&E to BBB+ in January 2019, explaining that PG&E's financial deterioration increased uncertainty regarding the risks facing California electric utilities generally.[129]

SCE and SDG&E also experienced substantial downgrades during this period. Between 2018 and March 2019, Moody's lowered SCE from A2 to Baa2, while Fitch lowered it from A- to BBB-. S&P lowered SCE from BBB+ to BBB in January 2019. SDG&E was downgraded from A1 to Baa1 by Moody's, from A to BBB+ by S&P, and from A to BBB+ by Fitch. Rating agencies repeatedly identified inverse condemnation and uncertainty regarding recovery of catastrophic wildfire liabilities as important reasons for these actions. In particular, agencies expressed concern that a utility could face substantial financial responsibility when its equipment contributed to a wildfire even if the utility was not negligent.[130]

The enactment of AB 1054 helped stabilize the IOUs' credit profiles. Rating agencies generally

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[125] S&P Global Ratings, Research Update: PG&E Corp. Upgraded To 'A-', Outlook Stable; Debt Ratings Also Raised, May 12, 2017.
[126] S&P Global Ratings, Credit FAQ: After The Firestorms: Credit Risks Related to U.S. Wildfires, May 5, 2025.
[127] SDG&E, A.25-03-010 SDG&E Opening Brief, September 19, 2025, p. 2-3.
[128] S&P Global Ratings, 2019 U.S. Municipal Green Bond And Resiliency Outlook: Will The Self-Labeled Market Rebound?, March 14, 2019.
[129] S&P Global Ratings, Will California Still Have An Investment-Grade Investor-Owned Electric Utility?, quoted in Commission on Catastrophic Wildfire Cost and Recovery Request for Comment, February 19, 2019, p. 19.
[130] SDG&E, SDG&E 2019 Cost of Capital Testimony reproduces the Moody's and S&P quotation, October 30, 2018, p. 64-65.

viewed the legislation's Wildfire Fund, revised prudency framework, liability protections, and wildfire safety certification requirements as credit supportive because they reduced the potential financial consequences of future catastrophic wildfires.[131] For example, following enactment of AB 1054, Moody's revised SDG&E's outlook from Negative to Positive, while S&P and Fitch revised their outlooks to Stable.[132] PG&E emerged from bankruptcy in 2020 with below-investment-grade ratings, but the agencies identified its participation in the AB 1054 Wildfire Fund and improved wildfire cost-recovery protections as factors supporting its post-bankruptcy credit profile.[133]

The improvement was not continuous, however. Record wildfire activity in 2020 led S&P to revise both PG&E's and SDG&E's outlooks to Negative, reflecting concern that more frequent catastrophic wildfires could accelerate depletion of the Wildfire Fund and reduce the protection it provided participating utilities.[134] As wildfire mitigation performance and financial metrics subsequently improved, ratings and outlooks began to recover. Moody's upgraded SDG&E to A3 in 2021, citing robust credit metrics, its wildfire mitigation record, and the credit support provided by California's wildfire legislation.[135] PG&E also experienced a series of positive rating actions beginning in 2022 as agencies cited reduced utility-linked wildfire activity, improvements in wildfire mitigation and operational performance, stronger financial metrics, and continued support from AB 1054 and the Wildfire Fund.[136]

Overall, the historical rating record indicates that California IOU credit ratings have been influenced by both utility-specific financial and operational performance and broader risks associated with California's wildfire liability framework. The experience since 2018 also demonstrates that rating agencies have considered the legislative and regulatory mechanisms available to allocate and finance catastrophic wildfire losses when evaluating utility credit quality.

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[131] Moody's Ratings, quoted in SDG&E 2020 Cost of Capital Testimony October 30, 2018, Appendix E.
[132] S&P Global Ratings, Research Update: San Diego Gas & Electric Co. Ratings Affirmed, Outlook Revised to Stable From Negative, July 30, 2019.
[133] S&P Global Ratings, quoted in PG&E's Securitization 2020 A.20-04-023 Testimony, p. 103.
[134] S&P said the Negative outlook reflected the "accelerated rate of adverse wildfire activity" and explained that because the AB 1054 fund does not automatically replenish, additional catastrophic utility-caused wildfires could deplete the fund sooner than expected. S&P Global Ratings, PG&E Corp. And Subsidiary Outlooks Revised to Negative on Adverse Wildfire Conditions; 'BB-' Ratings Affirmed, September 16, 2020; S&P Global Ratings, San Diego Gas & Electric Co. Outlook Revised to Negative on Adverse Wildfire Conditions; 'BBB+' Rating Affirmed, September 16, 2020.
[135] "'The upgrade of San Diego Gas & Electric reflects our expectation that the utility will continue to generate robust credit metrics, including a run-rate ratio of CFO excluding changes in working capital (CFO pre-WC) to debt of at least 20 percent, on a sustained basis", said Nati Martel, Moody's Vice President -- Senior Analyst. "The rating action also considers SDG&E's track record of effective wildfire risk mitigation practices and the credit support provided by Wildfire Fund legislation enacted by the State of California in July 2019", added Martel'. Moody's Ratings, San Diego Gas & Electric Company -- Moody's upgrades San Diego Gas & Electric to A3 from Baa1; Outlook Stable, reproduced in Yahoo Finance, March 30, 2020.
[136] PG&E's rating history shows Fitch revised its outlook to Positive in June 2022, upgraded the utility to BB+ in March 2023, and later to BBB- investment grade in September 2025. Fitch Ratings, Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings, June 2, 2022; Fitch Ratings, Fitch Upgrades PG&E Corp.'s and Pacific Gas and Electric's IDRs to 'BB+'; Outlook Stable, March 2023; Fitch Ratings, Fitch Upgrades PG&E Corp. and PG&E to 'BBB-'; Outlook Stable, September 25, 2025; Moody's Ratings, PG&E Corp., utility subsidiary credit outlook improves to 'positive' on wildfire mitigation efforts, reproduced in Utility Dive, February 10, 2023; Moody's Ratings, Moody's upgrades PG&E on reduced credit risks from wildfires, reproduced in Utility Dive, March 28, 2025; S&P Global Rating Research Update: PG&E Corp. Ratings Affirmed On Passing Of California Senate Bill 254; Outlook Remains Positive, September 17, 2025.

Recent Credit Rating Changes for IOUs

Recent rating actions in 2025 and 2026 show a more mixed credit environment. PG&E continued to receive upgrades as rating agencies recognized improvements in wildfire mitigation and financial performance, while SCE experienced increased rating pressure following the Eaton Fire. At the same time, rating agencies have continued to identify the adequacy of California's wildfire liability framework, the size and durability of the Wildfire Fund, inverse condemnation, and the potential financial consequences of future catastrophic wildfires as important credit considerations for all three IOUs.

PG&E Credit Rating

PG&E continued its post-bankruptcy credit recovery during 2025 and 2026. Moody's upgraded PG&E to Baa3 in March 2025, returning the utility to investment grade under Moody's scale, citing continued wildfire mitigation, improving financial metrics, and confidence in the protections provided by AB 1054 and the Wildfire Fund.[137] Fitch subsequently upgraded PG&E to BBB- in September 2025, restoring an investment-grade rating under Fitch's scale. The upgrade reflected continued reductions in wildfire risk, improved financial metrics, and the credit support provided by California's wildfire-liability framework, including the enactment of SB 254, which established additional funding for future wildfire liabilities.[138]

Moody's further revised PG&E's outlook from Stable to Positive in February 2026 while affirming its Baa3 rating.[139] S&P also took positive rating actions, although its assessment remained more conservative than those of Moody's and Fitch. On April 23, 2026, S&P upgraded the utility from BB to BB+ and revised its outlook to Stable.[140] The upgrade represented further progress in PG&E's post-bankruptcy credit recovery, but its BB+ issuer rating remained one notch below investment grade under S&P's scale. Consequently, PG&E had regained investment-grade issuer ratings from Moody's and Fitch but remained below investment grade under S&P's scale.

However, this improvement was accompanied by renewed concern later in 2026. On September 16, 2026, Fitch affirmed PG&E at BBB- but revised its outlook from Stable to Negative. Fitch cited the lack of meaningful additional wildfire liability reform, increased concerns regarding prudence disallowance risk, pressure on utility earnings and returns, and uncertainty regarding the long-term adequacy of California's wildfire liability framework.[141]

Thus, although PG&E's ratings remain substantially improved from its post-bankruptcy levels, its recent outlook change indicates continued sensitivity to the structure of California's wildfire liability protections.

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[137] Moody's Ratings, Moody's Ratings Upgrades PG&E Corporation and Pacific Gas & Electric's Ratings; Outlooks Stable, March 27, 2025.
[138] Fitch Ratings, Fitch Upgrades PG&E Corp. and PG&E to 'BBB-'; Outlook Stable, September 26, 2025.
[139] Moody's Ratings, Moody's Ratings changes PG&E Corporation and Pacific Gas & Electric's outlooks to positive; Affirms ratings, February 13, 2026.
[140] S&P Global Ratings, PG&E Corp. Upgraded To 'BB+' From 'BB' On Decrease, April 23, 2026.
[141] Fitch Ratings, Fitch Revises PG&E Corporation's and Pacific Gas and Electric Co.'s Outlooks to Negative, September 16, 2026.

SCE Credit Rating

SCE has faced greater recent rating pressure, particularly following the January 2025 Eaton Fire. In February 2025, S&P revised SCE's outlook from Stable to Negative while affirming its BBB rating;[142] in September 2025, S&P downgraded SCE from BBB to BBB.[143] Fitch also placed SCE on Rating Watch Negative in May 2025.[144] Moody's, by comparison, affirmed SCE at Baa1 with a Stable outlook in September 2025.[145]

Rating agencies continued to emphasize the relationship between SCE's credit quality, potential Eaton Fire liabilities, and the resources available through the Wildfire Fund. S&P explains that the Wildfire Fund is a fundamental component of California IOU credit quality and that depletion of the fund can weaken SCE's rating.[146] S&P says SCE's outlook could return to Stable if California enacted new measures that materially reduce Edison's wildfire risks.[147] Moody's similarly stated that a policy framework addressing liability exposure and providing legal and financial safeguards against extreme events would support utility credit quality and investor confidence.[148]

The pressure intensified following the 2026 legislative session. S&P maintained Negative outlooks on SCE and Edison International in September 2026, citing uncertainty regarding potential Eaton Fire liabilities and the possibility that related claims could substantially reduce the resources available in the Wildfire Fund. S&P identified further Wildfire Fund depletion, another major utility-related wildfire, inadequate wildfire mitigation, or deterioration in financial metrics as potential sources of additional downward rating pressure.[149] On September 16, 2026, Fitch also revised SCE's outlook to Negative while affirming its BBB rating. Fitch stated that without progress toward broader sharing of wildfire costs and additional support for utility creditworthiness, future downgrades could occur, including potentially multi-notch changes following future catastrophic wildfire events.[150]

SDG&E Credit Rating

SDG&E's issuer ratings have been comparatively stable in recent years. However, its stable issuer ratings do not mean that wildfire-related credit concerns have disappeared. In September 2025, S&P revised SDG&E's business risk profile from "excellent" to "strong" and raised the financial threshold at which a downgrade could occur, increasing the FFO-to-debt downgrade threshold from 13 percent to 16 percent. S&P cited increasing wildfire risks associated with climate change,

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[142] S&P Global Ratings, Credit Risks Associated with Wildfires Are Increasing For California Public Finance Entities, February 20, 2025; S&P Global Ratings, Credit FAQ: After The Firestorms: Credit Risks Related To U.S. Wildfires, May 5, 2025.
[143] S&P Global Ratings, Edison International And Subsidiary Downgraded To 'BBB-' On Smaller-Than-Expected Wildfire Fund; Outlook Is Negative, September 17, 2025.
[144] Fitch Ratings, Fitch Places Edison Int'l and So. California Edison on Rating Watch Negative, May 16, 2025.
[145] Moody's Ratings, Moody's - credit ratings, research, and data for global capital markets, September 17, 2025.
[146] S&P Global Ratings, Credit FAQ: What Are the Credit Implications of The Los Angeles County Wildfires?, January 1, 2025,
[147] S&P Global Ratings, Research Update: Edison International and Subsidiary Downgraded To 'BBB-' On Smaller-Than-Expected Wildfire Fund; Outlook Is Negative, September 17, 2025.
[148] Moody's Ratings, Liability Reform Will Be Key to Support Credit, November 7, 2024.
[149] S&P Global Ratings, Following Legislative Session, California Investor-Owned Utilities' Wildfire Liability Exposure Remains Significant, September 1, 2026.
[150] Fitch Ratings, Fitch Revises Edison International's and Southern California Edison Co.'s Outlooks to Negative, September 16, 2026.

continued exposure under inverse condemnation, and the size of the successor Wildfire Fund.[151] As of November 2025, SDG&E was rated A3 by Moody's and BBB+ by both S&P and Fitch.[152]

S&P acknowledged SDG&E's long record of wildfire mitigation and system-hardening investments but concluded that these measures cannot eliminate the possibility of a catastrophic event. It also identified the size of the Wildfire Fund as an important rating consideration, stating that SDG&E could face downward rating pressure if the fund fell below specified levels without sufficient countermeasures.[153] This illustrates that even an IOU without a recent catastrophic utility-caused wildfire may experience changes in rating-agency assessments because of statewide wildfire conditions and the structure of California's liability framework.

Taken together, the recent rating actions indicate that California IOU credit quality remains closely linked to both utility-specific wildfire exposure and the statewide mechanisms available to absorb catastrophic wildfire losses. PG&E's continued rating recovery demonstrates the credit benefits agencies have attributed to improved wildfire mitigation, financial performance, and wildfire-liability protections, while SCE's recent negative outlooks illustrate the potential credit consequences associated with a major wildfire and uncertainty over future liabilities. SDG&E's experience further shows that statewide wildfire and liability risks can affect rating-agency assessments even without a recent utility-caused catastrophic wildfire. Across the three utilities, rating agencies continue to identify the durability and size of the Wildfire Fund, inverse condemnation, prudency and cost-recovery standards, utility financial metrics, and the frequency and severity of future wildfires as important factors affecting future credit ratings.

Credit Ratings of California's publicly-owned utilities (POUs) and small multi-jurisdictional utilities (SMJUs)

California's publicly-owned utilities (POUs) and small multi-jurisdictional utilities (SMJUs) have different financial structures, service territories, and wildfire exposures than the State's large investor-owned utilities (IOUs). As a result, wildfire-related credit risks vary considerably among these utilities. California has a large number of POUs, but only two large POUs are reviewed in this report merely to provide a small sample of how credit trends affect POUs. Recent rating actions involving the Los Angeles Department of Water and Power (LADWP) and PacifiCorp demonstrate how wildfire-related liabilities can affect utility credit quality, while the Sacramento Municipal Utility District (SMUD) illustrates how wildfire mitigation practices and financial resources can help maintain credit stability. Liberty Utilities (CalPeco Electric) LLC (Liberty) provides an additional example of how wildfire liabilities and uncertainty regarding cost recovery can affect a small utility's credit risk. Unlike the large IOUs participating in California's Wildfire Fund, the POUs and SMJUs discussed below do not have access to the Fund's financial protections. These differences provide important context for understanding how wildfire risks affect their credit ratings.

[151] S&P Global Ratings, Research Update: San Diego Gas & Electric Co. Ratings Affirmed On California Senate Bill 254 Passage; Outlook Stable, September 19, 2025.
[152] Sempra, Sempra Third Quarter 2025 Earning Results, November 5, 2025, p. 21.
[153] S&P Global Ratings, Research Update: San Diego Gas & Electric Co. Ratings Affirmed On California Senate Bill 254 Passage; Outlook Stable, September 19, 2025.

SMUD

The SMUD provides an example of how wildfire risk can affect a POU's credit outlook even without a recent catastrophic wildfire involving its facilities. Moody's upgraded SMUD's rating to Aa2 in January 2024.[154] In March 2025, S&P revised SMUD's outlook from Stable to Negative, along with several other California utilities, citing heightened wildfire-related liability risks, while affirming its AA rating.[155] Fitch also maintained SMUD's AA rating in 2025.[156] In June 2026, S&P revised SMUD's outlook back to Stable, citing its wildfire mitigation practices, strong balance sheet liquidity, and insurance coverage as factors that could reduce its exposure to potential wildfire liabilities.[157] These rating actions illustrate how wildfire liability concerns can affect a utility's credit outlook, while effective mitigation practices and financial resources can help support credit stability.

SMUD's wildfire exposure differs from that of the large IOUs. According to SMUD, its Sacramento County service area has a relatively low wildfire risk profile due to its predominantly urban environment, flatter terrain, vegetation characteristics, and fewer significant wind events.[158] Although SMUD's service territory lies outside the CPUC's Tier 2 and Tier 3 High Fire Threat Districts (HFTDs), its Upper American River Project facilities, including transmission and hydroelectric infrastructure, are located within these higher-risk areas.[159] SMUD reported that it has never experienced a catastrophic wildfire involving its facilities and that historical ignition events have generally been limited in scope. [160] S&P similarly identified SMUD's relatively limited exposure, noting that approximately 170 miles of its overhead lines are located in Tier 2 and Tier 3 areas, compared with more than 18,000 circuit miles for SCE.[161]

Despite its relatively limited wildfire exposure, SMUD faces increasing wildfire insurance costs. In 2019, SMUD reported that it had approximately doubled its wildfire insurance coverage in the preceding year, while its premiums increased fourfold.[162] As of December 31, 2025, SMUD reported $315 million in wildfire liability protection, consisting of $280 million in commercial insurance and $35 million in self-insured layers.[163] Rising wildfire-related costs also have implications for customers. SMUD identified wildfire insurance, vegetation management, and outage response among the factors contributing to its approved rate increases for 2026 and 2027.[164] SMUD's experience illustrates how wildfire-related expenses can affect customers even without a catastrophic wildfire involving the utility or a credit rating downgrade.

LADWP

Unlike SMUD, which experienced a temporary negative credit outlook without a rating downgrade,

[154] SMUD, 2025 Financial Statements March 6, 2026, p. 13.
[155] S&P Global Ratings, Credit FAQ: After the Firestorms: Credit Risks Related to U.S. Wildfires, May 5, 2025.
[156] SMUD, 2025 Financial Statements March 6, 2026, p. 13.
[157] S&P Global Ratings, Sacramento Municipal Utility District, CA Revenue Bond Rating Outlook Revised To Stable From Negative, June 2, 2026.
[158] SMUD, 2023–2025 Wildfire Mitigation Plan, 2025 Update, p. 7.
[159] SMUD, 2023–2025 Wildfire Mitigation Plan, June 19, 2023, p. 23.
[160] SMUD, 2023–2025 Wildfire Mitigation Plan, 2025 Update, p. 7.
[161] S&P Global Ratings, Credit FAQ: After the Firestorms: Credit Risks Related to U.S. Wildfires, May 5, 2025.
[162] California Commission on Catastrophic Wildfire Cost and Recovery, Final Report, June 17, 2019, p. 30, footnote 34.
[163] SMUD, 2025 Financial Statements, March 6, 2026, p. 66.
[164] SMUD, Rate Change Archive, Approved Changes for 2026–2027, section "Why rate changes are needed".

LADWP experienced credit rating downgrades following the January 2025 Los Angeles wildfires. S&P, Moody's, and Fitch each identified potential wildfire liabilities and California's inverse condemnation framework as credit considerations, although the agencies differed in the extent to which these risks affected LADWP's ratings.

S&P took the most significant rating action on LADWP's Power System, lowering its rating two notches from AA- to A in January 2025 and subsequently maintaining the A rating with a Negative outlook.[165] Moody's initially affirmed its Aa2 Power System rating in January 2025 but revised the outlook from Stable to Negative, citing increased exposure to inverse condemnation, potential liabilities and litigation, rebuilding costs, and additional climate adaptation and resilience investments. Moody's noted at the time that there was no indication that LADWP's Power System equipment had contributed to the ignition of the recent Los Angeles wildfires.[166]

In March 2026, Moody's downgraded LADWP's Power System rating to Aa3 from Aa2 and revised the outlook to Stable. The downgrade reflected both LADWP's growing capital program and substantial contingent liabilities associated with the Palisades Fire.[167] Although federal investigators concluded that LADWP equipment did not cause the Palisades Fire or the preceding Lachman Fire, civil litigation against the City and LADWP continued, creating uncertainty for the Power System's longer-term financial profile.[168] Moody's continued to rate the Power System Aa3 with a Stable outlook in September 2026.[169]

Fitch's rating actions were more limited. Fitch placed LADWP's AA- Power System rating on Rating Watch Negative in January 2025 following the Los Angeles wildfires. Fitch stated that its review would consider potential wildfire liabilities as well as effects on liquidity, costs, billing and collections, capital needs, financing requirements, and rate flexibility.[170] By September 2026, Fitch maintained the Power System's AA- rating, reflecting LADWP's very strong financial profile, diverse customer base, and strong revenue defensibility. Fitch stated that the near-term likelihood of LADWP incurring a materially significant Palisades Fire liability was low and did not incorporate a wildfire liability into its rating case.[171] Nevertheless, Fitch identified a large wildfire judgment or settlement as a potential risk to LADWP's financial profile and stated that California's strict application of inverse condemnation precluded positive rating action.[172]

Available data indicate that LADWP may have comparatively less physical wildfire exposure than the large IOUs based on the share of infrastructure located in higher-risk areas. Fitch estimates that approximately 13.9 percent of LADWP's distribution infrastructure and 15.1 percent of its

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[165] S&P Global Ratings, Los Angeles Department of Water & Power Ratings Lowered Two Notches To 'A' (Power) And 'AA-' (Water) on Increased Risks, January 14, 2025.
[166] Moody's Ratings, Moody's Ratings Revises LADWP's (CA) Outlook to Negative and Affirms Aa2 Rating On $11.5 Billion Power System Revenue Bonds, January 22, 2025.
[167] Moody's Ratings, Moody's Ratings Downgrades LADWP's (CA) Power System Revenue Bonds to Aa3 from Aa2; Outlook Revised to Stable from Negative, March 3, 2026.
[168] Ibid.
[169] Moody's Ratings, Moody's Ratings Assigns Aa3 to LADWP, CA's Power System Revenue Bonds, 2026 Series C, September 17, 2026.
[170] Fitch Ratings, Fitch Places Los Angeles, LADWP and Related Ratings on Rating Watch Negative Due to Wildfires, January 17, 2025.
[171] Fitch Ratings, Fitch Rates LADWP's (CA) Power Rev Bonds 'AA-'; Outlook Stable, September 14, 2026.
[172] Ibid.

transmission infrastructure are located in areas with elevated or extreme wildfire risk.[173] By comparison, approximately 31 percent of PG&E's, 25 percent of SCE's, and 54 percent of SDG&E's overhead distribution lines are located in high-fire-threat or high-fire-risk areas. For overhead transmission lines, the corresponding shares are approximately 30 percent for PG&E, 35 percent for SCE, and 55 percent for SDG&E.[174] Thus, although LADWP remains exposed to potentially significant wildfire liabilities, a smaller share of its infrastructure is located in higher wildfire-risk areas than each of the three large IOUs.

Overall, the rating agencies have weighed these risks and financial strengths differently. S&P and Moody's downgraded LADWP's Power System following the 2025 wildfires, while Fitch maintained its AA- rating based in part on LADWP's financial strength and flexibility. Nevertheless, all three agencies identified wildfire liability as a material credit consideration.

PacifiCorp (Pacific Power)

PacifiCorp, which operates as Pacific Power in California, provides an example of how wildfire liabilities arising outside California can affect the credit quality and financial flexibility of a utility serving customers across multiple states. Unlike California's large IOUs, PacifiCorp does not participate in the State's Wildfire Fund. Its credit ratings reflect the financial condition and risks of its broader multi-state operations rather than its California operations alone.

PacifiCorp has experienced several credit rating downgrades in recent years, driven in part by wildfire-related liabilities and litigation.

S&P downgraded PacifiCorp's issuer credit rating from A to BBB+ in June 2023, citing increased wildfire litigation exposure following an Oregon jury verdict relating to four wildfires in 2020.[175] In July 2025, S&P further downgraded PacifiCorp from BBB+ to BBB, reflecting weaker financial metrics, continued wildfire litigation costs, increased insurance expenses, and adverse regulatory outcomes.[176] S&P subsequently downgraded PacifiCorp to BBB- in November 2025 amid concerns about financial obligations associated with wildfire litigation.[177] In March 2026, S&P placed PacifiCorp on CreditWatch Negative amid uncertainty surrounding potential liabilities and liquidity requirements associated with the James wildfire litigation in Oregon.[178] In April 2026, the Oregon Court of Appeals reversed and remanded the James class action judgment for further proceedings.[179]

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[173] Fitch Ratings, Fitch Revises Outlook on LADWP, CA's Power Rev Bonds to Stable; Affirms at 'AA-', October 23, 2025.

[174] IOU percentages are calculated from reported overhead line miles in high-fire-threat or high-fire-risk areas. For distribution lines, 24,911 of PG&E's 80,210 miles, 9,559 of SCE's 38,268 miles, and 3,434 of SDG&E's 6,393 miles are in these areas. For transmission lines, the corresponding figures are 5,506 of 18,111 miles for PG&E, 4,366 of 12,323 miles for SCE, and 993 of 1,815 miles for SDG&E. CPUC, Decision on Pacific Gas and Electric Company's 2023-2025 WMP, Appendix A, p. 39-40.

[175] S&P Global Ratings, Research Update: PacifiCorp Downgraded To 'BBB+', Outlook Revised To Negative; Berkshire Hathaway Energy Co. Outlook Also Negative, June 20, 2023.

[176] S&P Global Ratings, PacifiCorp Downgraded To 'BBB' From 'BBB+' On Weaker Expected Financial Measures, Outlook Negative; Debt Ratings Lowered, reproduced in PacifiCorp court filing, July 28, 2025, p. 161.

[177] S&P Global Ratings, PacifiCorp Downgraded To 'BBB-' On Disclosed Surety Bond Concerns; Outlook Negative, November 7, 2025.

[178] S&P Global Ratings, PacifiCorp Ratings Placed On CreditWatch Negative Following Multnomah County Circuit Court Jury Verdict, March 2, 2026.

[179] PacifiCorp, Oregon Court of Appeals Reverses and Remands James Class Action Back to Trial Court, April 8, 2026.

Following the decision, S&P revised PacifiCorp's outlook to Positive.[180]

Moody's similarly downgraded PacifiCorp from A3 to Baa1 in November 2023, citing increased wildfire-related liabilities and financial pressures.[181] In July 2025, Moody's further downgraded PacifiCorp from Baa1 to Baa2, citing rising wildfire litigation and mitigation costs, increased debt, and an unfavorable regulatory outcome in Utah.[182] Moody's subsequently revised its outlook to Stable in 2026.[183]

Despite these developments, wildfire-related financial exposure remained significant. As of June 30, 2026, PacifiCorp had recorded approximately $2.85 billion in cumulative estimated probable wildfire losses, including amounts already paid in settlements.[184]

PacifiCorp's rating history illustrates how wildfire-related liabilities, together with financial and regulatory pressures, can weaken the credit quality of a multi-state utility serving California customers.

Liberty Utilities

Liberty Utilities (CalPeco Electric) LLC (Liberty), which provides electric service in the Lake Tahoe region and surrounding areas of California, is a subsidiary of Liberty Utilities Co., which is owned by Algonquin Power & Utilities Corp. (APUC).[185] As Liberty's direct parent company, Liberty Utilities Co.'s credit quality is relevant to understanding the financial risks facing its California subsidiary. Liberty Utilities Co. maintains investment-grade issuer credit ratings of BBB from S&P,[186] BBB from Fitch,[187] and Baa2 from Moody's.[188]

Credit rating agencies have identified California wildfire exposure as an important credit consideration for Liberty's broader utility group. In January 2025, S&P affirmed APUC's BBB issuer credit rating with a Stable outlook. Although S&P recognized the benefits of APUC's diversified regulated utility operations, it identified California wildfire risks, particularly potential liabilities under inverse condemnation, as a constraint on the company's business risk profile. S&P indicated that a catastrophic wildfire caused by the company's California operations could result in a downgrade.[189]

These concerns are particularly relevant to Liberty following the November 2020 Mountain View Fire, which occurred within its California service territory. The fire resulted in substantial litigation

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[180] S&P Global Ratings, PacifiCorp Outlook Revised To Positive Following Oregon Court Of Appeals Decision, April 20, 2026.
[181] Moody's Ratings, Moody's downgrades PacifiCorp to Baa1, outlook stable, November 21, 2023.
[182] Moody's Ratings, Moody's Ratings Downgrades PacifiCorp to Baa2; Outlook Stable, rating action reproduced in court filing, July 9, 2025, p. 154.
[183] Moody's Ratings, Moody's Ratings revises PacifiCorp's outlook to stable, affirms ratings, April 29, 2026.
[184] Berkshire Hathaway Energy, Quarterly Report for the Period Ended June 30, 2026, June 30, 2026, p. 25.
[185] Algonquin Power & Utilities Corp., 2025 Annual Information Form, March 6, 2026, p. 4.
[186] S&P Global Ratings, Liberty Utilities Co.'s Proposed Senior Unsecured, January 11, 2024.
[187] Fitch's Ratings, Dodd-Frank Rating Information Disclosure Form, March 19, 2024, p. 1.
[188] Moody's Ratings, Moody's Ratings announces completion of a periodic review of ratings of Liberty Utilities Co., February 4, 2026; Moody's affirms Baa2 ratings of Liberty Utilities Co. and Liberty Utilities Finance GP1; outlooks stable, April 21, 2023.
[189] S&P Global Ratings, Algonquin Power & Utilities Corp. Ratings Affirmed Following Sale Of Algonquin Power Co; Outlook Stable; Ratings Withdrawn On Algonquin Power Co., January 30, 2025.

and settlement costs. As of May 2025, Liberty reported approximately $179.7 million in costs associated with defending and resolving third-party claims, including approximately $116 million covered by insurance. In June 2025, Liberty filed an application with the CPUC seeking recovery of approximately $78.2 million in wildfire-related costs, including uninsured claims, litigation expenses, and financing costs.[190] The extent and timing of regulatory cost recovery remain important considerations in assessing the financial consequences of the fire.

Liberty's experience illustrates how wildfire-related liabilities, insurance recoveries, and uncertainty regarding regulatory cost recovery can affect a small California utility's financial risk profile, even when its parent company maintains investment-grade credit ratings.

[190] Liberty Utilities (CalPeco Electric) LLC, Liberty Prepared Testimony of Application A.25-06-017, June 2025, p. 1.