Senate Bill 254 (Becker) deservedly received a lot of attention when the Governor signed it into law earlier this year. After many twists and turns and late night speculation of will they/won't they, SB 254 became a landing pad for a sweeping set of wildfire and electric utility policy adjustments. Among the headlines:

- Creation of a Transmission Infrastructure Accelerator to promote public financing, construction, ownership and operation of new transmission
- Replenishment of the Wildfire Fund with up to \$18 billion in new funding split between ratepayers and utility shareholders
- The exclusion from utility ratebase of the next \$6 billion in capital spending on wildfire mitigation plans (which is in addition to the \$5 billion previously excluded by 2019 legislation)

Aside from these blockbusters, the bill contained several additional provisions that did not get as much attention. SB 254 streamlined the California Energy Commission's transmission siting process, exempted from CEQA the PUC's approval of utility electrical underground plans, required insurers to give utilities a right of first refusal before selling wildfire insurance claims to third-parties, directed utilities to include a somewhat terrifying new statistic of "cost-per-ignition avoided" in their wildfire management plans, and adjusted the timeframe to consider the wildfire liability cap in the event the utility acted imprudently with respect to a catastrophic wildfire. (Did you even know there was a liability cap?)

There's enough in there to keep any blogger busy for several posts. Today, however, I'm going to focus on another guiet addition to SB 254: the Natural Catastrophe Resilience Study. First, a little background.

The California Wildfire Fund exists to provide a source of money to reimburse eligible claims arising from a wildfire caused by one of the big three utilities: PG&E, SCE and SDG&E. California created the Wildfire Fund in 2019 in the wake of several devastating fires, including the tragic 2018 Camp Fire that destroyed the town of Paradise. The fund was initially set to raise \$21 billion, with half contributed by the utilities (allocated among the three primarily based on their size) and the other half from ratepayers. The idea was to allow utilities to pay or settle eligible claims directly, then seek reimbursement from the fund. The availability of funding would then (hopefully) prevent the utilities from going bankrupt (again) if there was a catastrophic fire caused by their distribution or transmission lines.

Why are utilities so vulnerable to wildfire liability? California is unique in its application of strict liability fire laws to public utilities. Article 1, Section 19 of California Constitution

provides, "Private property may be taken or damaged for a public use and only when just compensation...has first been paid to...the owner." If a public entity destroys property, the property owner can bring an inverse condemnation lawsuit against it to recover damages. California courts have interpreted the law to apply to investor owned public utilities. Put into practice, inverse condemnation means that any property damage from a wildfire caused by a public utility must be paid for by the utility, regardless of whether or not the utility acted negligently.

This now brings us back to 2025. Utilities in California are at risk of massive liability claims every time there is a wildfire sparked by their distribution or transmission lines. In a hot and dry climate crisis landscape, that can be a lot of property damage from a single spark. The California Wildfire Fund was supposed to provide the backstop solution for this issue; the utilities and ratepayers would all pay into the fund, thereby socializing the risk across their shareholders and service territories. Then Los Angeles burned.

The January 2025 Los Angeles wildfires were devastating - and very, very expensive. UCLA Anderson estimated in February that property and capital losses in Los Angeles County could range between \$95 billion and \$164 billion. Add to that speculation that SCE's power lines may have caused the Eaton fire, and suddenly the \$21 billion Wildfire Fund is not looking quite as solvent as before.

In the last legislative session, the utilities desperately wanted an increase to the Wildfire Fund, and they got it. \$18 billion more. Which should be fine, right? That had to be the last big fire, right?

I don't buy that. You don't buy that. And it turns out California doesn't buy that. Included in SB 254 was a requirement (codified in PUC Code 719) that the California Wildfire Fund Administrator (housed inside the California Earthquake Authority), must provide a report to the Legislature by April 1, 2026 that:

evaluates and sets forth recommendations on new models or approaches that mitigate damage, accelerate recovery, and responsibly and equitably allocate the burdens from natural catastrophes, including catastrophic wildfires, earthquakes, and other natural disasters, across stakeholders, including insurers, communities, homeowners, landowners, governments, electrical corporations, and local publicly owned electric utilities, to complement or replace the fund

The specifics required to be included in the report are sprawling. Everything from property insurance affordability, to new financing mechanisms, to vegetation management and home hardening requirements. Of all of these required recommendations to be addressed, the following stood out to me:

(2) An evaluation of alternative structures to socialize risk of damage from natural catastrophes, including catastrophic wildfires, that most efficiently and expeditiously compensate those harmed while maintaining accessibility to property insurance and access to safe, affordable, and reliable energy for Californians.

This is essentially the whole ballgame for climate adaptation, at least in this sector of the economy. How do we compensate those harmed by climate catastrophes while still maintaining the viability and affordability of property insurance and electric utility rates? It's a broad ask that opens up fundamental questions of how we, as a society, should allocate risk in a world that is increasingly risky. The fires aren't going to stop. Neither will the floods, the hurricanes, the mudslides, or the countless other climate catastrophes that are coming down the line around the world. Who is going to pay for it all?

I don't know what this report is going to say, but at least it's an acknowledgment from California that we have to consider that perhaps we are going about this whole management of wildfire risk thing the wrong way. Something has to change, or the electric affordability crisis, the insurance affordability crisis, the housing affordability crisis and many other crises are going to get worse.

Do you have a good idea? The California Wildfire Fund is asking for abstracts by Monday, November 3 (sorry for the late notice) with a deadline for full submissions by December 12.