



***PG&E Corporation***

# Investor Meetings March 2025

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Delivering For  
Customers AND  
Investors





## Protections Offered Under AB 1054

### Physical Risk Reduction Drives Financial Protections

- 1 Physical Risk Mitigations
- 2 Approved Wildfire Mitigation Plan (WMP)
- 3 Wildfire Safety Certification

### Cost Recovery

*Improved prudence standard*

- Utility conduct presumed prudent
- Enhanced cost recovery standard distinct from Wildfire Fund
- Self-insurance up to \$1B began in 2023

### Liquidity

*Available when needed*

- Liquidity available as soon as claims paid exceed \$1B
- Wildfire Fund with at least \$21B claims paying capacity
- CPUC empowered to authorize securitization

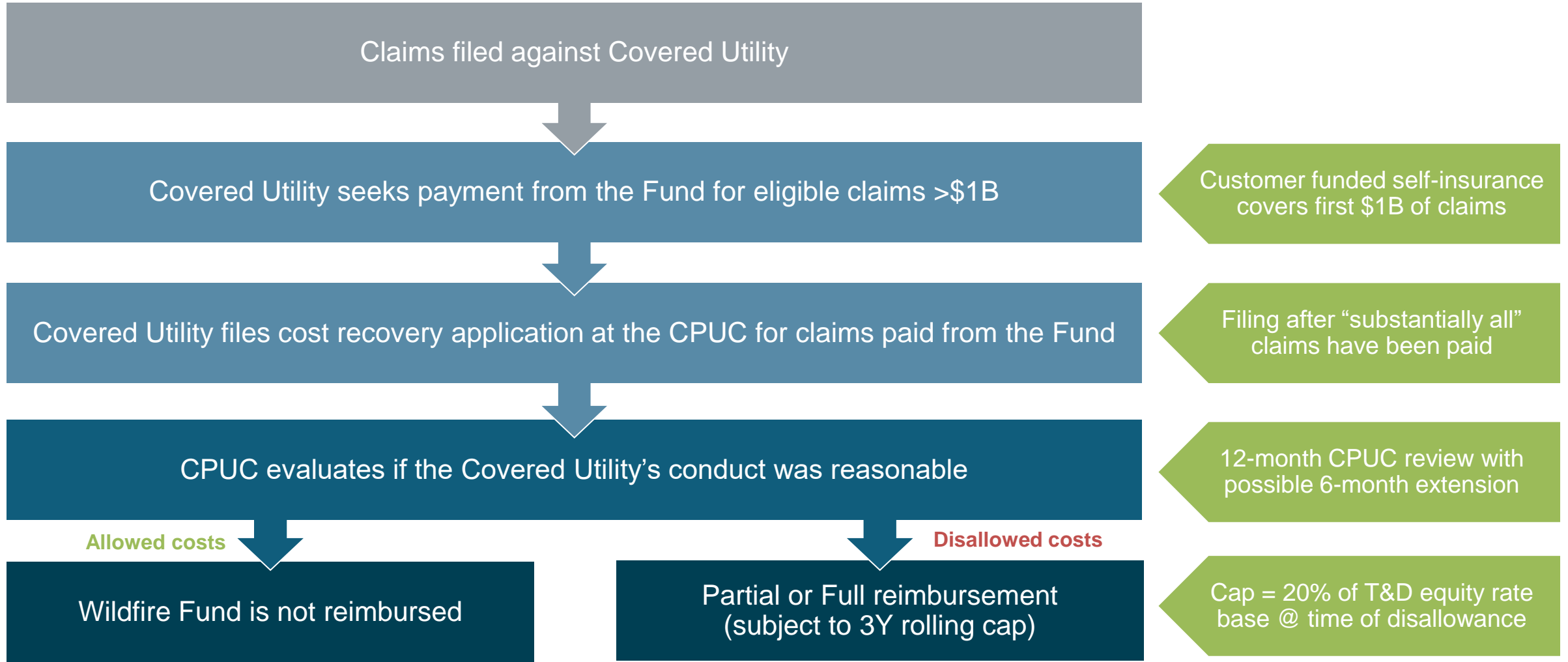
### Reimbursement

*Maximum liability capped*

- If found prudent: Wildfire Fund reimbursement not required
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- If found imprudent: reimburse Wildfire Fund
- Obligation is capped at 20% of electric T&D equity rate base on a 3 Year rolling basis (~\$4.1B)



# AB 1054 Wildfire Fund Mechanics





# Why Did California Establish a State Wildfire Fund?



- 1 Provide a ready source of compensation for fire victims and ensure they receive proper compensation expeditiously**

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- 2 Reduce the costs to ratepayers of addressing utility-caused catastrophic wildfires**

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- 3 Ensure electrical corporations have ready access to capital in order to fund ongoing operations and make new investments to promote safety, reliability, and California's clean energy mandates**

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- 4 Support the credit-worthiness of electrical corporations given California's application of its unique strict liability Inverse Condemnation doctrine**



# What Are PG&E's Key Legislative Priorities For AB 1054?



- 1** Build upon the original principles of AB 1054, promoting investments which effectively mitigate wildfire risk and support financial health of the state's utilities to the benefit of customers
- 2** Provide the appropriate assurances for investors given implications of California's no-fault strict liability standard (Inverse Condemnation)
- 3** Address stakeholder concerns over the finite nature of the California Wildfire Fund and lack of replenishment mechanism
- 4** Address concerns that Wildfire Fund depletion would eliminate the cap on wildfire cost recovery disallowance
- 5** Bolster investor confidence in California's enhanced prudency standard and overall wildfire cost recovery framework



# FAQs: PG&E Exposure to Future Wildfire Claims

## How is the first \$1B of wildfire exposure covered?

- PG&E maintains “customer-funded self-insurance” using a captive insurance vehicle to cover the first \$1B of calendar year exposure; this replaced the prior practice of using customer dollars to purchase commercial insurance coverage
- PG&E’s maximum annual exposure is \$50M under the self-insurance program deductible (based on 5% of claims up to \$1B)

## What about claims above the \$1B threshold?

- Claims incurred above \$1B for events in a calendar year would be recoverable from the Fund; note this is a “per year” limit, not “per event”
- Under the current statute the Fund administrator is responsible for setting the Fund attachment point

## What are the relevant reasonableness review requirements?

- Under AB 1054 any claims paid by the Fund are subject to after-the-fact reasonableness review by the CPUC
- If found imprudent under the AB 1054 prudence requirement, the utility could be required to reimburse the Fund up to a capped amount
- Claims paid under self-insurance are not subject to reasonableness review



# FAQs: California Wildfire Fund – Scope & Coverage

## Which entities have access to the Fund?

- California’s three investor-owned utilities, Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric (“participating utilities”)
- Note that California’s municipal utilities are not part of the Fund and are not subject to oversight by OEIS

## Which fires are covered by the Fund?

- Fund applies to a “covered wildfire,” defined as 1) fires which ignited on or after July 12, 2019 and 2) which were caused by an electrical corporation as determined by the governmental agency responsible for determining causation (e.g., CalFire). A covered wildfire also includes fires asserted to have been caused by an electrical corporation and that result in a court-approved dismissal resulting from the settlement of third-party damage claims.
- To date, the only fires eligible for potential reimbursement from the Fund are Kincade (2019) and Dixie (2021)
- Recoveries directly from AB 1054 for the Kincade fire (2019) would be subject to a 40% limitation on the allowed amount of claims arising before emergence from bankruptcy

## What are the eligible claims from the Fund?

- Claims for third-party damages resulting from covered wildfires exceeding \$1B, in the aggregate, in any calendar year
- Eligible claims include, but are not limited to, economic damages, fire suppression, emotional distress, and damages from resulting mud slides
- If a utility has multiple covered wildfires ignited in the same coverage year, the \$1B attachment point applies to all claims associated with those fires in the aggregate



## How much is in the Fund currently?

- The Fund had an asset balance of \$12.9B as of December 31, 2024 per its most recent financial report (published February 13, 2025)
- See [www.cawildfirefund.com](http://www.cawildfirefund.com) for further information and meeting materials of the California Catastrophe Response Council

## What is the Fund's claims paying capacity?

- The Fund was designed to have total capitalization of at least \$21B based on initial and annual contributions from Utilities and Customers
- Utility annual contributions (\$300M/yr combined) for 10 years and separate customer NBCs or non-bypassable charges (~\$900M/yr combined) that continue through 2035
- The Fund may issue bonds secured against remaining NBCs but has not done so to date; absence of early-year financing costs means that total claims paying capacity is on track to exceed \$21B

## Is the Wildfire Fund replenishable?

- The current statute has no explicit mechanism for Fund replenishment
- The Fund Administrator (California Earthquake Authority) sets the attachment point and could elect to raise the \$1B attachment point
- Forward-looking prudence standard, and recovery for reasonably-incurred costs in customer rates continues even once the Fund is fully depleted



# FAQs: California Wildfire Fund – Mechanics & Payments

**Is an annual safety certificate required to access the Fund?**

- No; participating utilities may access Fund liquidity even if they did not have a valid safety certificate at the time of the ignition
- Safety certification is required for 1) the presumption of prudence as part of the enhanced prudency standard and 2) the cap on reimbursement to the Fund if found imprudent

**When are claims paid?**

- Utilities first pay claims and then submit request for payment to the Fund Administrator; the Administrator generally must pay eligible claims within 45 days of approving the claim settlement amount
- For the Dixie Fire, PG&E has submitted monthly requests as claims are settled and is receiving consistent, timely payments from the Fund
- Administrator reviews claims subject to “reasonable business judgment” standard; subrogation claims settled or paid at  $\leq 40\%$  of total asserted claim value are presumptively reasonable

**Does the Fund terminate?**

- The Fund terminates when the Administrator determines that the Fund is no longer necessary or that Fund resources are exhausted; on termination any remaining funds are returned to ratepayers
- If the Fund were terminated, the AB 1054 prudency standard would continue to apply, including upfront prudency presumption, for participating utilities with a valid safety certificate
- Absent the Fund, utilities may still seek cost recovery from customers, consistent with socializing costs of inverse condemnation; there would no longer be a cap on reimbursement if a utility were found imprudent



## What was the standard before AB 1054?

- Utilities have historically been held to the general standard of “reasonableness based upon the facts that are known or should have been known at the time”
- There was significant variation in how CPUC precedent applied this reasonableness standard, especially with respect to wildfires
- In 2017 the CPUC denied cost recovery for three 2007 wildfires involving SDG&E equipment, creating the perception of a perfection standard with “all-or-nothing” cost recovery; this was the first time a California utility had sought recovery of wildfire costs exceeding insurance coverage and coincided with the major 2017/2018 wildfires affecting both Northern (PG&E) and Southern (SCE) California

## What’s different about the AB 1054 standard?

- AB 1054 introduced a new prudency standard, specific to wildfires, which includes:
  - Concept of partial disallowances or allocation of responsibility
  - Good-faith actions based on information available at the time
  - Consideration of factors beyond the utility’s control
  - Burden shifting, whereby a utility with safety certification is presumed to have acted reasonably unless a stakeholder raises serious doubt



# FAQs: Enhanced Prudency – AB 1054 Statutory Language

How does AB 1054 define reasonableness?

- **Section 451.1(b):** Costs and expenses arising from a covered wildfire are just and reasonable if the conduct of the electrical corporation related to the ignition was consistent with ***actions that a reasonable utility would have undertaken in good faith under similar circumstances, at the relevant point in time, and based on the information available to the electrical corporation at the relevant point of time.*** Reasonable conduct is not limited to the optimum practice, method, or act to the exclusion of others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with utility system needs, the interest of the ratepayers, and the requirements of governmental agencies of competent jurisdiction. ***Costs and expenses in the application may be allocated for cost recovery in full or in part taking into account factors both within and beyond the utility's control*** that may have exacerbated the costs and expenses, including humidity, temperature, and winds.

How does AB 1054 establish presumption of upfront prudency?

- **Section 451.1(c):** An electrical corporation bears the burden to demonstrate, based on a preponderance of the evidence, that its conduct was reasonable pursuant to subdivision (b) ***unless it has a valid safety certification*** pursuant to Section 8389 for the time period in which the covered wildfire that is the subject of the application ignited. ***If the electrical corporation has received a valid safety certification*** for the time period in which the covered wildfire ignited, ***an electrical corporation's conduct shall be deemed to have been reasonable pursuant to subdivision (b) unless a party to the proceeding creates a serious doubt as to the reasonableness of the electrical corporation's conduct.*** Once serious doubt has been raised, the electrical corporation has the burden of dispelling that doubt and proving the conduct to have been reasonable.



# FAQs: CPUC Wildfire Cost Reasonableness Review

## Who determines after-the-fact prudence/reasonableness?

- The California Public Utilities Commission (CPUC) makes the prudence determination in an after-the-fact wildfire cost recovery proceeding
- With a valid safety certificate at the time of the ignition, a participating utility’s conduct is presumed prudent unless a party to the proceeding raises “serious doubt”
- Partial prudence is possible, there is not an “all-or-nothing” outcome from the reasonableness review

## When does the review occur and what are the consequences?

- The review occurs when directed by the Fund Administrator or when a participating utility has resolved all or substantially all claims associated with a covered wildfire
- The CPUC has 12 months to issue a decision on a wildfire cost recovery application, with a one-time opportunity for a 6-month extension
- If a utility is found imprudent, the CPUC can be require the utility to pay back the Fund subject to a 3-year rolling reimbursement “cap”

## What is serious doubt?

- AB 1054 does not define serious doubt; CPUC will determine if serious doubt has been established as part of the cost recovery proceeding
- Only if party “creates a serious doubt” as to whether the utility was reasonable “relative to the ignition” of the wildfire will the utility have the burden of proving it was reasonable based on preponderance of evidence



# FAQs: Fund Reimbursement & Utility Liability Cap

**What is the cap on utility shareholder liability?**

- If the CPUC finds utility conduct was not reasonable (i.e. imprudent), it can require reimbursement of Wildfire Fund subject to a 3-year rolling cap
- Reimbursement cap is defined as 20% of the utility's T&D equity rate base "at the time of the disallowance;" for PG&E the cap would be \$4.1B based on 2024 rate base
- Fund reimbursement NOT required if the utility acted reasonably

**Under what circumstances would the cap not apply?**

- Cap does not apply if:
  - the Fund administrator determines that the utility's actions or inactions that resulted in the applicable wildfire constituted "conscious or willful disregard of the rights and safety of others"
  - the participating utility failed to maintain valid safety certification; or
  - the Fund is terminated

**If reimbursement of the Fund were required, what is the timeline?**

- Within 6 months of the CPUC issuing a final decision
- In practice this probably means at least 5-6 years after the event considering that 1) substantially all claims must be paid before filing for CPUC review; and 2) 12-18 months for the CPUC review proceeding

**What does conscious or willful disregard mean?**

- Think of this test as being akin to a "gross negligence" legal construct requiring a reckless act, applicable in only the most egregious of cases, and some form of intentional behavior