Summary and Assessment of Changes to Prudent Manager Standard—July 8th Update

Summary of change	• Modified standard based on reasonableness and, in part, removes specific considerations established in law last year. • Shifts burden of proof to ratepayer advocates if investor-owned utility has valid safety certification from California Public Utilities Commission (CPUC), unless a party creates a serious doubt about reasonableness of utility conduct. • Clarifies that CPUC can implement partial cost recovery. • These changes would take effect only if insurance fund is implemented. Otherwise pre-2019 standard applies.
Distribution of costs and future risk between different groups	• Shifts financial risk from shareholders to ratepayers. Magnitude of shift is unclear.
Effect on incentives to reduce fire risk	• Reduces financial incentive for utility shareholders to reduce fire risk, but could be offset, at least partially, by utility implementing activities required in safety certification.
Ability to raise capital and reduce financing costs	• Likely improves ability to raise capital and reduces financing costs. Magnitude unclear but could be significant.

Summary and Assessment of Wildfire Fund—July 8th Update

	Liquidity Fund if No Utility Contribution	Insurance Fund if Utility Contributes
Summary of change	• ***Eligibility:*** SCE and SDG&E eligible to access fund. PG&E must meet specified requirements related to bankruptcy exit. • ***Initial contributions:*** Ratepayers contribute $10 billion bond paid for by extension of $880 million annual charge. • ***Claims payment:*** Fund administrator pays utility wildfire claims that exceed insurance. • ***Reimbursement to fund:*** Ratepayers reimburse fund if utility acted reasonably; shareholders reimburse fund if utility did not act reasonably.	• ***Eligibility:*** IOUs must make initial and annual contributions to the fund. PG&E must meet specified requirements related to bankruptcy exit. • ***Initial contributions:*** Ratepayers contribute $10 billion bond paid for by extending $880 million annual charge on ratepayers. Shareholders pay $7.5 billion initially and $300 million annually. • ***Claims payment:*** Fund administrator pays claims that exceed insuranc. • ***Reimbursement to fund:*** If utility acted reasonably then no reimbursement. If utility did not act reasonably, shareholder reimbursement up to estimated cap of roughly $750 million to $2.5 billion per utility over a three year period.
Distribution of costs and future risk between different groups	• Ratepayers pay to initially fill the fund, but no direct change to distribution of future financial risk.	• Ratepayers and shareholders both have up-front costs to pay to establish fund. • Ratepayers have reduced risk for future fires where utility acted reasonably, as long as money in fund is sufficient to cover costs of future fires. • Shareholders have reduced risk for future fires where utility did not act reasonably, as long as money in fund is sufficient to cover costs of future fires.
Effect on incentives to reduce fire risk	• No direct change on incentives to reduce future fire risk.	• Reduces financial incentives for utility to reduce future fire risk, potentially partially offset by additional safety certification requirements.
Ability to raise capital and reduce financing costs	• Helps ensure capital available to pay wildfire claims and reduce financing costs for those payments. Limited impact on overall ability to raise capital and financing costs for other utility investments.	• Helps ensure capital available to pay wildfire claims and reduce financing costs for those payments. Potentially significant improvement in utility overall ability to raise capital and reduce financing costs for other utility investments, but magnitude of effect unclear.

SCE = Southern California Edison; SDG&E = San Diego Gas and Electric; PG&E = Pacific Gas and Electric; and IOU = investor-owned utility.