ENERGY DIVISION

New Report: Statewide Impacts of Wildfires on Utility Credit and Access to Capital

Response to Governor Newsom's Request

November 1, 2026

On Sept. 1, 2026, Governor Gavin Newsom requested that the California Public Utilities Commission (CPUC) report on the impacts of inaction to provide structural reforms to stabilize the utility sector and address the customer affordability crisis stemming from the increased risk of catastrophic wildfires. California's increasingly destructive wildfires pose significant financial risks to electric utilities, their customers, and the State's broader economy. As described in the CPUC's Nov. 1, 2026 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.

Summary

- Wildfire costs will continue to increase utility bills and make electricity increasingly unaffordable, particularly for lower-income households in hotter parts of the state.
- 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.
- Existing wildfire liability protections may be insufficient to address future catastrophic wildfires.
- 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.

Increasingly Unaffordable California Electric Bill Costs

Under State law, electric utilities must pay the full costs for a wildfire ignited by the utility's electrical equipment, even if the utility acted reasonably. Utility ratepayers are typically responsible for all or a portion of these costs. As fires spread more quickly and grow more destructive due to climate change, decades of fuel build up, and increased housing in high fire threat areas, these costs have grown exponentially. In addition, per State requirements, electric utilities have spent tens of billions of dollars on wildfire mitigation to decrease the likelihood of electric equipment ignitions

Wildfire costs and liabilities are already a prime driver of increased California electric bills. From 2020 through 2026, Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) ratepayers paid more than $35 billion in wildfire-related costs. As of Jan. 1, 2026, wildfire-related costs accounted for approximately 14 percent, or $29, of PG&E's average monthly residential non-CARE bill. Many of these costs are already incorporated into electric bills for decades to come, with future mitigation and liabilities only further increasing costs. The impact of rising electric costs will largely be borne by individuals who can least afford it and who live in inland parts of the State where air conditioning is essential, since the costs are largely recovered via usage charges. 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. 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.

California's Electric Utilities Access to Needed Debt and Equity at Risk Due to Credit Ratings

Utilities pay for needed capital investments to ensure reliability, repair systems, and expand the system in large part through debt, and for investor-owned utilities, through debt and equity. Low credit ratings constrain utilities' ability to access debt and equity. That in turn means the utility has more limited ability to make new investments that may be critical for the State's economy, such as interconnecting new housing developments and businesses, and bringing online more clean resources. It also increases the utility's cost of borrowing, further increasing customer electric rates.



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

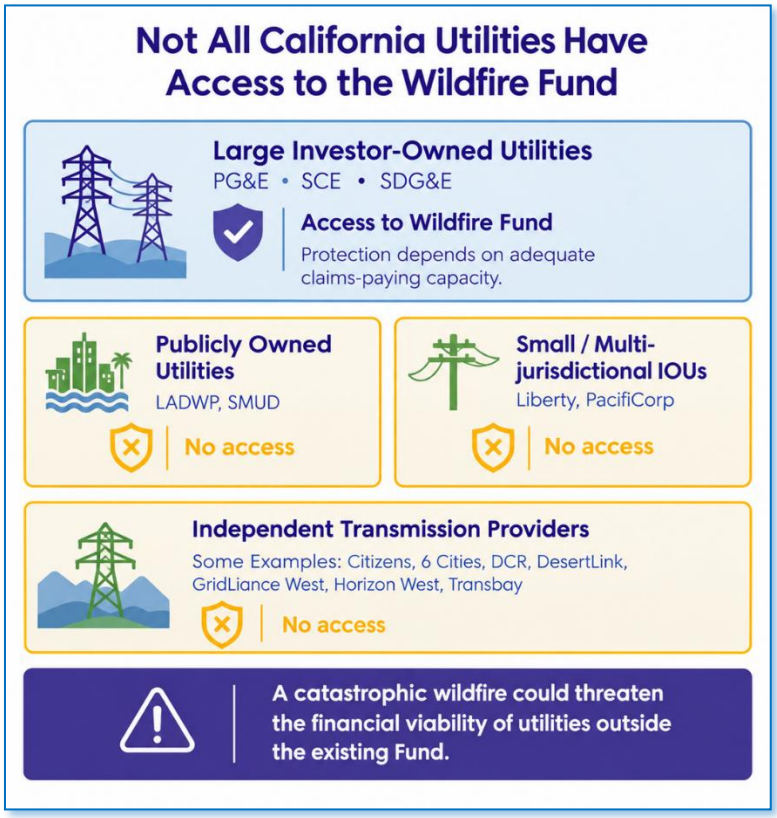
The threat of wildfire liability has caused credit rating downgrades for California's electric utilities substantially below national peers. As of September 2026, PG&E is below investment grade. SCE's S&P

rating was BBB-, the lowest investment-grade rating. Rating agencies identify uncapped wildfire liability exposure and the adequacy of the Wildfire Fund as major considerations in setting their credit ratings. These effects are not just limited to the investor-owned utilities. 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.

The credit downgrades already constrain investments and substantially increase utility borrowing costs. 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 and has announced deferral of up to $2 billion in planned 2027 investments. LADWP has cited that downgrades may cause up to $900 million in additional interest expenses on their capital investments.

California's Wildfire Funds Provide Important Protections, but their Long-Term Adequacy Remains Uncertain

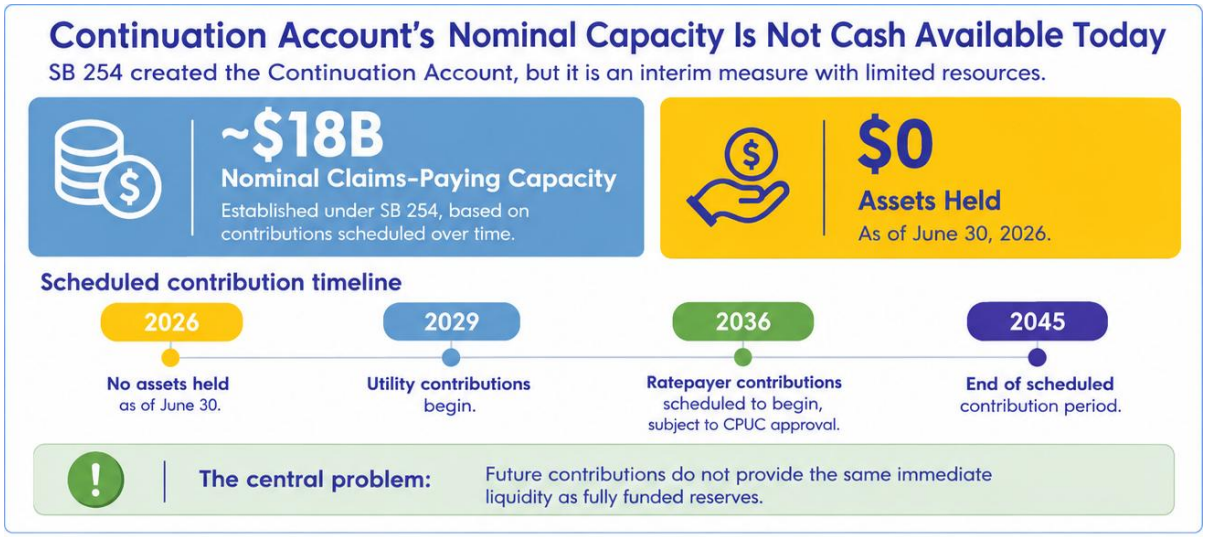
PG&E, SCE, and SDG&E have access to a Wildfire Fund that provides billions of dollars from those utilities' shareholders and ratepayers to pay wildfire liability claim. Other electric utilities, including other investor-owned utilities (IOUs) like PacifiCorp and publicly-owned utilities like LADWP and the Sacramento Municipal Utility District (SMUD), do not have access to a similar fund.



As Senate Bill 254 (Becker, 2025) finds, an electrical corporation and its customers cannot feasibly bear losses of the magnitudes of a multi-billion dollar wildfire. For those utilities without access to a wildfire fund, if their equipment ignites such a wildfire, they would likely face extreme challenges to cover the costs of wildfire liabilities.

Even for PG&E, SCE, and SDG&E, the existing Wildfire Fund framework extended via the Continuation Account created by Senate Bill (SB) 254 does not provide certainty. The Continuation Account was intended as an interim solution and has not yet commenced funding collections. The credit rating agencies have been clear that continued access to a wildfire fund with billions to pay claims is critical for those IOUs to maintain their existing credit ratings. 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. That means if a wildfire depletes the existing Wildfire Fund, PG&E and SCE will be downgraded further with the resulting impacts on capital and borrowing costs.



Without structural reforms that address utility wildfire liability, a large wildfire would likely trigger credit ratings downgrades across the State's electric utilities and could again threaten the financial viability of an IOU. A bankrupt utility would be severely limited in its ability to access capital and provide needed maintenance and expansion of electric service.

Conclusion

The options available currently may provide greater flexibility than those available after the next wildfire occurs. Proactive structural reforms – as enumerated in the SB 254 Report – will help stabilize California's utilities, protect utility customers, and promote affordability and clean energy goals.



Key Links

- CPUC Wildfire and Wildfire Safety
- CPUC Contribution to 254 Report (January 2026)
- Senate Bill 254 Information and Recommendations, Response to Executive Order N-34-25
- CEA Report, SB 254 Natural Catastrophe Resilience Study | CA Wildfire Fund
- CPUC Response to Executive Order, February 18, 2025
- CPUC Affordability Reports
- AB 67 Report
- SB 695 Report