WILDFIRES AND OUR COMMITMENT TO CALIFORNIA

EDISON INTERNATIONAL

2020 EDISON ELECTRIC INSTITUTE ADVOCACY EXCELLENCE AWARD NOMINATION
EXECUTIVE SUMMARY

Catastrophic wildfires in recent years have taken a tragic toll on the state of California with lives lost, property destroyed and millions of acres burned. Families and communities have been devastated, and California’s economy harmed.

In early 2018, the California Legislature formed a working group to assess wildfire prevention and response, including liability reform. It was soon clear that policymakers had no appetite to reform inverse condemnation, especially with public perception that utilities’ negligence was sparking fires.

Following extensive engagement with the state’s investor-owned utilities and other key stakeholders, the Legislature passed SB 901 (Dodd) in late 2018, laying a foundation for utility wildfire risk mitigation, but without a clear pathway to timely cost recovery. Shortly after SB 901 was signed into law and before the law went into effect, another wave of catastrophic wildfires swept through California in November 2018.

Newly elected Gov. Newsom and other California leaders recognized that more needed to be done to protect the state’s communities and economy from wildfire risk. In fact, addressing all aspects of the state’s wildfire risk, beginning with public safety and ensuring the financial health of IOUs, was one of the first and most visible initiatives of the new governor.

SCE and other stakeholders launched a multifaceted public education campaign to advocate for policy solutions that would hold utilities accountable for operations and require them to achieve specific standards to protect the public while providing them with more regulatory certainty and financial stability.

The dialogue among all parties was instrumental in the development of Assembly Bill 1054, one of several measures passed in 2019 to ensure a comprehensive approach to California’s growing wildfire risk. AB 1054 includes provisions to enhance wildfire mitigation across state and local agencies, requires annual safety certifications for utilities to promote the adoption of best wildfire mitigation practices (and which allows utilities to benefit from other aspects of the legislation, including a presumption of prudent wildfire operations and a liability cap for purposes of cost recovery), establishes a cost recovery standard for utilities that focus on the reasonableness of utility conduct, and creates a Catastrophic Wildfire Fund financed by shareholders and customers to help pay for the cost of property damage arising from a wildfire ignited by utility equipment.

Gov. Newsom signed AB 1054 into law on July 12, 2019, providing a pathway to more regulatory certainty and financial stability for utilities and, in turn, enabling continued and accelerated investment in clean energy and grid resiliency.
THE SITUATION

Catastrophic wildfires brought financial difficulties to the state’s investor-owned utilities, due in part to regulatory and legal decisions which hold a utility strictly liable, as it relates to real property and attorney fees, when utility equipment causes a wildfire – even if the utility operates prudently – without a clear standard for recovery of costs exceeding insurance. California is one of a few states that applies strict liability to investor-owned utilities under the doctrine of inverse condemnation.

The destruction and aftermath of the fires created exorbitant costs and potential liability, which threatened the financial health of California’s utilities, both public and private. Socialization of these costs is handled uniquely in California in comparison to other states. This is because California courts have held that IOUs are strictly liable under a doctrine called “inverse condemnation,” which treats IOUs like public entities because they have state-granted eminent domain authority, provide a public service and the purported ability to raise rates to spread the costs associated with that service among all beneficiaries.

In California, inverse condemnation creates a strict liability standard through which a utility can be found liable for damages in the form of real property and attorney fees, even if it did nothing wrong. This, combined with the perception of an “all or nothing” approach to cost recovery at the CPUC, placed all wildfire liability on IOU investors.

Credit rating agencies subsequently downgraded SCE and SDG&E, accompanied with negative credit outlooks which risked further downgrades to below investment grade. The timing was especially alarming, as the utilities were seeking to raise billions of dollars to finance wildfire risk mitigation measures and to implement additional clean energy initiatives required for the state to meet its clean energy goals.

SCE and the other California IOUs asserted that holding electric utilities liable for all property damage caused by their facilities without regard to fault and without a predictable, objective process for timely cost recovery at the CPUC had damaged the IOUs’ financial health. SCE communicated with state policymakers that “allowing what is essentially unlimited liability undermines the financial health of the state’s utilities, as investors and bond holders put their money elsewhere. Thus, inverse condemnation may seem obscure, but it has a huge negative implication for the state’s environment, economy and communities.”
POLICY ENGAGEMENT IN SACRAMENTO

Dialogue with Elected and Wildfire Officials
The inverse condemnation doctrine and the full implications it has on wildfire costs were still obscure when the dialogue began. The challenge of engaging elected officials was complicated by circumstances in which utility equipment was involved in the ignition of wildfires and the perception of IOUs as negligent.

While policies and environmental conditions affected all utilities equally, the operational practices and responses taken by each IOU were distinct. IOUs understood the importance of engaging officials on policy needs collectively while striking a balance between working collaboratively and advocating from their different perspectives. As public interest and awareness of critical issues were increasing, newly elected Gov. Newsom created a Strike Force to analyze the current situation and issue recommendations.

SCE was extensively involved with the SB 901 Commission on Catastrophic Wildfire Cost and Recovery through its participation in public meetings and the submission of materials that were posted for public viewing on the commission website. EEI also submitted comments to the commission. Such transparency helped encourage dialogue and provided opportunity to seek commonality and explore compromise.

EXTERNAL ENGAGEMENT

Building a Bipartisan Coalition
In 2018, the Building Resilient Infrastructure for Today’s Economy (BRITE) coalition was formed to support a comprehensive approach to the growing threats of wildfires to the state’s energy grid.

In 2019, BRITE evolved into Action for Wildfire Resiliency (AWR), a coalition of more than 200 organizations representing labor (including IBEW Locals 47 and 1245); business associations; public safety organizations; a range of community based organizations representing seniors, environmental interests, minority advocates, and faith-based organizations; and energy companies. AWR was an important voice in the public debate that advocated for policies which reflect four principles:

• enhanced wildfire prevention with clear accountability,
• increased investment in emergency response,
• adequate investment in skilled workers,
• and a fiscally responsible approach to cost recovery — establishment of a Wildfire Recovery Fund

Letter Campaigns
BRITE and AWR members were encouraged to contact their legislators to act on wildfire policy reform. Support letters from community-based organizations and other members were sent to Conference Committee members.
Corporate Philanthropy
Through an Edison International Wildfire Assistance Fund, SCE’s parent company contributed $3 million in shareholder funds to advance the community resiliency work. The California Conservation Corps received $500,000.

Academic Partnerships
Edison partnered with academic institutions of higher education to further examine wildfire policy issues. Information from unbiased, credible research experts helped add further perspective to complicated policy issues that were discussed with state policymakers.

FINANCING THIRD PARTY WILDFIRE DAMAGES:
OPTIONS FOR CALIFORNIA’S ELECTRIC UTILITIES
Carolyn Kousky, Katherine Greig, and Brett Lingle
February 2019

Wharton Risk Management and Decision Processes Center

POLICY BRIEF
LIVING WITH WILDFIRE
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ON THE WEB AT HTTP://WWW.BREN.UCSB.EDU
SUMMER 2018
COMMUNICATIONS ON OPERATIONAL EFFORTS

SCE implemented a variety of operational approaches, tools and procedures to further protect customers and communities from the growing risk of wildfires. This effort was critical to countering the misperception that the utilities had been neglecting their power systems.

SCE’s ability to demonstrate the effectiveness of past infrastructure investments and plans for future upgrades, coupled with philanthropic and community partnerships, helped establish credibility with state policymakers that improved advocacy efforts.

Enhanced Operational Initiatives
In support of SCE’s Wildfire Mitigation Plan, the company is committed to reducing the risk of electrical equipment igniting wildfires, going beyond industry practices to address new conditions. Hardening of the grid, bolstering situational awareness capabilities and expanding operational practices are part of this effort.

- This includes the installation of:
  - 482 weather stations
  - 161 wildfire monitoring cameras
  - 90% of the company’s service territory in high fire risk areas is covered by installed technology.
  - Enhanced aerial inspections of more than 6,000 miles of transmission lines and 108,000 distribution structures were performed.
  - 900,000 trees were inspected and 400,000 trees trimmed in high fire risk areas.
  - PSPS events to protect the public were implemented on 18 occasions, about 2% of SCE customers were impacted.

Statewide Education Campaign and Social Media
SCE and the other California IOUs played an integral role in the creation of a coordinated statewide education campaign. Created in conjunction with the CPUC, the California Office of Emergency Services and CAL FIRE, the statewide “Power of Being Prepared” campaign was led jointly by SCE, SDG&E and PG&E.

This multimedia, multilingual campaign included radio advertisements, preparedness resources and a new webpage (prepareforpowerdown.com) which encouraged Californians to take important steps to prepare for wildfires and PSPS events.

SCE also developed, utilized and promoted policy support and operations updates on social media channels, including Twitter and Facebook.
GOALS AND POLICY OUTCOME

Entrenched stakeholder interests coupled with devastating stories from wildfire victims effectively defeated any hope for legislative action on this issue lest it be seen as a type of bailout for IOUs. It was clear that no negotiation could move forward if inverse condemnation was still a consideration.

With inverse condemnation reform discussions eliminated in the Legislature, SCE modified its approach to advocate for cost recovery reform, if IOU conduct was reasonable or prudent. If utilities were still held strictly liable for all real property damages, then a clear path to recover those costs would restore faith in the financial health of IOUs in California.

Rare Collaboration Between Different Parties
IOUs’ engagement with policymakers about the broken regulatory compact and the risk it created for achieving the state’s clean energy goals helped create an urgency with the Legislature and the governor working to develop comprehensive legislation to enhance public safety. SCE made it clear that given their duty to serve all customers regardless of risk, IOUs should be able to recover prudently incurred costs from customers as determined by objective standards.

Policy Outcome
SCE continued its strong policy engagement by meeting with legislators and their staffs, testifying in committee hearings and responding to inquiries. Final legislative deliberations led to the passage of AB 1054 (Holden), a comprehensive wildfire bill that holds utilities accountable for mitigating wildfire risks and improves the regulatory compact by clarifying the determination of prudent wildfire operations.

The legislation contains several important provisions to address wildfire liability risk, such as the creation of a wildfire fund to help victims and their affected communities recover and rebuild more quickly, refines the prudency standard process for IOUs to recover catastrophic wildfire costs, including taking into consideration factors outside the utility’s control, and sets a cap on IOU shareholder liability only if there is participation in the wildfire fund. Specifically, the legislation called for the three IOUs to contribute a collective $10 billion of shareholder funds to a newly created Catastrophic Wildfire Fund. The fund is to be utilized to recover costs exceeding insurance, if the utility holds an annual safety certification approved by the CPUC and if executive compensation is tied to safety performance. While there were provisions in AB 1054 that were challenging for the company, the overall package balanced the interests of utility customers, shareholders and other stakeholders. Ultimately, the Governor’s signing of AB 1054 into law brought stability to the market, as witnessed by rating agency actions to solidify SCE’s investment grade credit rating. This stable outlook would be beneficial in restoring confidence in the IOU model and its ability to safely provide reliable, affordable and clean electricity to customers.
SCE's 2019 Wildfire Mitigation Plan

Assembly Committee on Utilities and Energy
May 21, 2019

Don Daigler, SCE Director of Business Resiliency, gives tour to Sen. Susan Rubio of SCE's Emergency Operations Center

Comments of the Edison Electric Institute to the Commission on Catastrophic Wildfire Recovery
April 22, 2019

The Edison Electric Institute ("EEI") writes to provide comments in response to the request published by the Commission on Catastrophic Wildfire Recovery ("Commission"). Due to the broad nature of the Commission’s request, EEI frames these comments as a response to Wildfires and Climate Change: California’s Energy Future (the "Strike Force Report"). EEI is the association that represents all U.S. investor-owned utilities. Our members, which include three investor-owned utilities in California, provide electricity for about 220 million American households and businesses.

EEI's Letter to the Wildfire Commission
APPENDIX | POLICY ENGAGEMENT | Continued

Coalition floor alert in support of SB 901

SCE letters to each Wildfire Commission hearing

COMMISSION ON CATASTROPHIC WILDFIRE COST AND RECOVERY REQUEST FOR COMMENT

EXECUTIVE SUMMARY

The Commission is tasked to help Californians recover from wildfires and afford them affordable rates. This request for comment is intended to guide us toward a solution that equitably shares the burden of catastrophic wildfire costs among all Californians, by prioritizing public protection, reducing risk, and ensuring fair and just compensation for all affected.

There are those who seek an unfair relief for utilities.

Dear Commissioners,

The Commission is tasked to help Californians recover from wildfires and afford them affordable rates. This request for comment is intended to guide us toward a solution that equitably shares the burden of catastrophic wildfire costs among all Californians, by prioritizing public protection, reducing risk, and ensuring fair and just compensation for all affected.

There are those who seek an unfair relief for utilities.

While California’s electric utilities are taking aggressive actions to prevent and mitigate wildfires, we agree with the Commission’s warning that additional, broader wildfire mitigation efforts are needed.

March 31, 2019

SCE’s Office of Public Affairs
P.O. Box 392
San Francisco, CA 94104

Commissioner Dick Gordon
Commissioner Noelia Ramirez
Commissioner Henry Melton

April 5, 2019

SCE’s Office of Public Affairs
P.O. Box 392
San Francisco, CA 94104

Commissioner Gary Jefferson
Commissioner Marcie Rogers

Executive Director

Dear Commissioner:

The cost of wildfires is staggering, with billions of dollars in repairs and recovery costs. These costs affect all of us, whether we own property near wildfires or not. The burden of these costs must be shared equitably, and we believe that the ratepayer mitigation fund established by SB 809 is a fair and just approach to achieving this goal.

We urge you to consider this proposal and work with your colleagues to ensure that the ratepayer mitigation fund is implemented in a way that is fair and just for all Californians.

Sincerely,

SCE
APPENDIX

EXTERNAL ENGAGEMENT

Los Angeles Times
Readers React: Abolishing private utilities isn’t the solution to California’s wildfire threat

(External): POLITICO California Pro, presented by Action for Wildfire Resiliency:
POLITICO California Pro <ca.sacramento@politicopro.com> (POLITICO California Pro via bounce)

Los Angeles Times
Q&A: Edison CEO talks wildfires, climate change and the utility’s vanishing monopoly

Community Engagement

YOU'RE INVITED

SCE invites you to a community meeting on SCE's wildfire resiliency efforts

Agenda
- SCE's commitment to fire safety
- Meeting with the Governor's office
- Meeting with the Attorney General
- Meeting with the State Board of Equalization

SCE Public Affairs retweeted
Action for Wildfire Resiliency @wildfireaction · 2 Jul 2019
"Everyone with any knowledge of the subject agrees: CA is on the brink of a potentially disastrous fire season." @Capitol_Weekly #Wildfires won't wait #CALeg must act #WildfireAction

Capitol Weekly @Capitol_Weekly
Outlook bleak for 2019 fire season. "We have a big fire problem in California," PUC President Michael Picker recently told a Sacramento Press Club gathering. Capitol Weekly's Chuck McFadden takes a look...
APPENDIX | EXTERNAL ENGAGEMENT | Continued

SCE Community Crew Vehicles are deployed during PSPS events

Community Crew Vehicles are equipped with backup power so customers can charge their personal mobile devices and continue to receive updates about outages.

Wildfire coalition urging the Legislature to act

Employee/Retiree Education and Advocacy

The image contains text and images related to community engagement, vehicle deployment, and wildfire preparedness. The text discusses initiatives such as the SCE Community Crew Vehicles and their role in providing backup power and updates during power outages. It also mentions a wildfire coalition urging legislative action. The page includes sections on employee and retiree education and advocacy.
Grid Hardening Technology

- 372 circuit miles of covered conductor
- 7,500+ faster-acting fuses installed
- 1,500 protective devices programmed with fast curve settings

Bolstering Situational Awareness

- Developed Fire Potential Index
- 482 weather stations

Enhanced Overhead Inspections

- Detailed inspections of 400,000+ distribution and transmission structures in high fire risk areas
Ten of California's most destructive wildfires have occurred in the past four years, and 2018 was the deadliest and most destructive wildfire year on record.

With the increasing threats from climate change, and wildfire season only a few months away, we must take action to improve wildfire prevention, response and recovery in order to keep Californians safe.

**Action for Wildfire Resiliency** was created to provide diverse constituencies throughout the state a unified voice to advocate for a package of policies to help California better prevent, prepare for and respond to the increased frequency and severity of the threat of wildfires.

The safety, health and livelihood of our communities depends on how we address the growing threat of California wildfires.

**Join Us**

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**California Leaders Must Act. Before it's too late.**

Advocacy through Partnerships and Collaboration
California Gov. Newsom to sign $21B wildfire liability bill today
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