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S&P Credit FAQ: How Are California's Wildfire Risks Affecting Utility Credit Quality?

The 2020 California wildfire season was one of the more destructive wildfire seasons on record with more than 4 million acres burned and 10,000 structures damaged or destroyed. A relatively small percentage of the destruction was directly attributable to California's investor-owned utilities (IOU) or public power utilities (POU) as opposed to the previous few years, and we believe this is in part a reflection of the efficacy of the utilities' updated wildfire mitigation plans. While timing varies, we expect it will take upwards of three to five years for all utilities to fully implement their wildfire mitigation strategies. In the meantime, risks associated with catastrophic wildfires continue to weigh to varying degrees on our ratings on California's IOUs and POUs, which remain exposed to onerous liability claims under the state's inverse condemnation doctrine—whereby a California utility can be financially responsible for a wildfire if its facilities were a contributing cause of a wildfire, irrespective of negligence. While we view Assembly Bill (AB) 1054 that established an approximate \$21 billion wildfire fund as supportive of the IOUs' credit quality and most POUs, which cannot access the wildfire fund, are not highly susceptible to wildfires due to their urban service territories, undergrounding of power lines, or having power lines that run through areas with scant vegetation, we view wind-driven events as a key contributor to utility-caused wildfires. High wind conditions can spark a wildfire if trees and limbs come into contact with power lines or cause electrical lines to fall onto combustible material (dry brush and trees). California's environment has been more prone to catastrophic wildfires as evidenced by 13 of the 20 most destructive wildfire having occurred since 2017, some of which were attributable to electric utility infrastructure.

In advance of this year's wildfire season, S&P Global Ratings reviewed the 2020 wildfire season empirical data with many industry stakeholders. This FAQ updates our wildfire assumptions and analysis, answering investors' frequently asked questions.

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June 3, 2021