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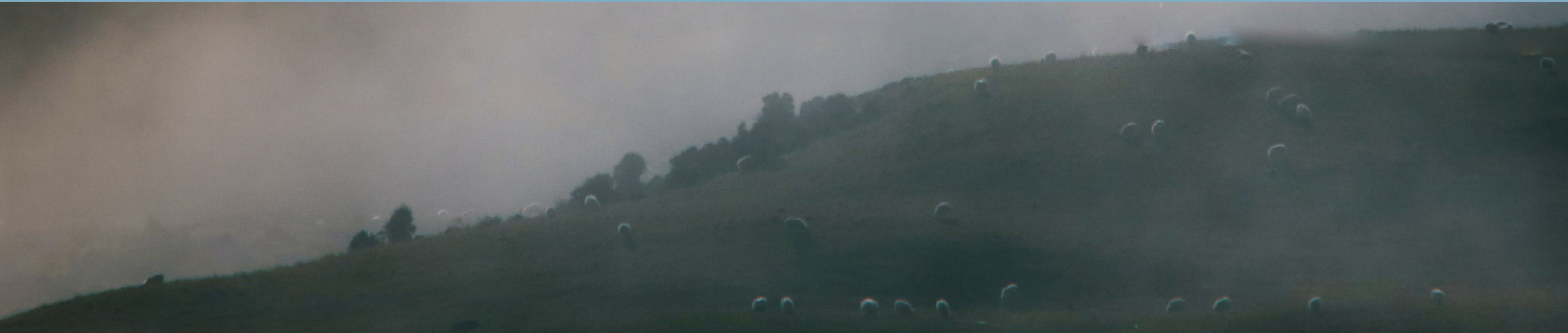
THE PRICE OF RESILIENCE

Understanding Wildfire Cost Allocation in the Transmission Context



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Understanding Wildfire Cost Allocation in the Transmission Context

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Introduction

CLIMATE CHANGE IS DRIVING MORE FREQUENT AND INTENSE WILDFIRES. The electricity grid plays a dual role in this crisis: it can both spark wildfires and be damaged by them, leading to widespread economic and social consequences. The economic costs of wildfires are immense. UCLA economists estimate that the property and capital costs of the 2025 Los Angeles wildfires total nearly $131 billion.[1] A 2018 Energy Commission report estimated that, between 2000 and 2016, wildfire damage to parts of the transmission and distribution system alone exceeded $700 million.[2]

Interventions designed to reduce the risk of electric system ignitions are expensive too. Wildfire mitigation is a major driver of increasing electricity rates in California. A 2025 NRDC report found that the largest single contributor to PG&E's rising rates—about $0.06 of the $0.11 per kWh increase since 2018—is spending on distribution and transmission infrastructure, largely to mitigate wildfire impacts.[3] Spending on operation and

1 Zhiyun Li and William Yu, *Economic Impact of the Los Angeles Wildfires*, UCLA Anderson School of Management (2025), https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/economic-impact-los-angeles-wildfires.

2 Larry Dale, Michael Carnall, Max Wei, Gary Fitts, and Sarah Lewis McDonald, *Assessing the Impact of Wildfires on the California Electricity Grid, prepared for California's Fourth Climate Change Assessment* (August 2018), https://www.energy.ca.gov/sites/default/files/2019-11/Energy_CCCA4-CEC-2018-002_ADA.pdf#:~:text=The%20urban%20fringe%2C%20often%20called%20the%20wildland%2Durban,a%20prox y%20for%20risk%20to%20distribution%20assets.

3 Mohit Chhabra, *Powering Change: Understanding California's Electric Rate Challenges and Affordability Solutions*, NRDC (March 11, 2025); *see also* Madalsa Singh, Alison Ong, and Rayan Sud, *Wires and Fire: Wildfire Investment and Network Cost Differences Across California's Power Providers*, The Electricity J. 38:3 (2025) (for a comparison of rate increases related to wildfires at investor-owned utilities, Community Choice Aggregators, and publicly-owned utilities in California).

PHOTO: OLIVER KNIGHT

maintenance of transmission lines in PG&E service territory has more than doubled since the company was held liable for starting wildfires in 2018, and is now nearly double the non-PG&E investor-owned utility average.[4] In addition to prospective wildfire mitigation costs, utilities bear and sometimes pass through massive liability costs for wildfires that have occurred. Under California's inverse condemnation doctrine, utilities are strictly liable for damages caused by their infrastructure, regardless of negligence.[5] Costs are split between ratepayers and utility shareholders depending on fault: utility shareholders pay all liability costs if the utility is found negligent, but if the utility is not found negligent, shareholders and ratepayers split the liability costs.

Wildfire-related costs are inevitable, either through effective prevention or liability. The question of who will bear these rising costs is increasingly important. A substantial body of research has explored the costs and impacts of wildfires on the distribution grid.[6] Parallel discussions of transmission costs, however, have been less robust, notwithstanding the fact that transmission lines have been implicated in some of California's largest wildfires—most saliently, the 2025 Eaton Fire, where a Southern California Edison dormant transmission line has been implicated and is the subject of ongoing investigation and litigation.[7] Applying the conclusions of debates around distribution to the transmission context is inadvisable, however, as there are several legal, regulatory, technical, and cost differences between the two.

First, transmission is materially different from distribution. Transmission operates upstream from distribution, and accordingly any disruptions to transmission will have an outsize impact on downstream distribution lines. One transmission line failing will impact more customers than one distribution line. Second, transmission owners operate under a different legal and regulatory scheme than the utilities that own and operate the distribution grid. Though many entities operate in both spheres, they have distinct rights and responsibilities in their capacity as transmission owners. Third, the costs of commonly discussed wildfire mitigation strategies are vastly different in the transmission context.

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4 Chhabra, *supra* note 3, at 13.

5 *See, e.g., Pacific Bell v. City of San Diego* (2000) 81 Cal. App. 4th 596, 602 ("any actual physical injury to real property proximately caused by [a public] improvement as deliberately designed and constructed is compensable ... whether foreseeable or not") (internal citations omitted).

6 *See, e.g.*, Cal. State Assembly Utilities and Energy Committee, Oversight Hearing on Energy Affordability: Wildfire Spending (March 5, 2025), https://autl.assembly.ca.gov/system/files/2025-03/03.05_wildfire-spending-oversight-hearing-background.pdf; Cal. Pub. Advocates Off., 2023-2024 Wildfire-Related Cost Increases of California's Three Major Investor-Owned Electric Utilities (June 14, 2024), https://www.publicadvocates.cpuc.ca.gov/press-room/reports-and-analyses/wildfire-cost-increases-of-california-electric-ious; CODY WARNER, DUNCAN CALLAWAY, AND MEREDITH FOWLIE, DYNAMIC GRID MANAGEMENT TECHNOLOGIES REDUCE WILDFIRE ADAPTATION COSTS IN THE ELECTRIC POWER SECTOR, ENERGY INSTITUTE AT HAAS WP 347R (revised March 2025), https://haas.berkeley.edu/wp-content/uploads/WP347.pdf.

7 County of Los Angeles Complaint v. Southern California Edison in Los Angeles County Superior Court (Jan. 13, 2025), *available at* https://file.lacounty.gov/SDSInter/lac/1178568_EatonFireLACountySCEComplaint.pdf?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=. Note that SCE is offering voluntary payouts to those affected by the Eaton fire while litigation is pending, see https://energized.edison.com/wildfire-recoverycompensation-program. Transmission infrastructure was also implicated in the Camp Fire (2018) and the Witch Fire (2007). Peter Eavis and Ivan Penn, *California Says PG&E Power Lines Caused Camp Fire that Killed 85*, N.Y. TIMES (May 15, 2019), https://www.nytimes.com/2019/05/15/business/pge-fire.html; News Release: SDG&E Pays United States $6.4 Million for "Witch Creek Fire" Damages, Off. of the U.S. Attorney So. Dist. Cal. (Sept. 17, 2012), https://www.justice.gov/archive/usao/cas/2012/cas12-0917-SDGESettlement.pdf.

Undergrounding, for example, already costly for distribution lines, can be far more expensive for transmission. Utility estimates for undergrounding distribution lines range from $1.85 million to $6.072 million per mile.[8] The costs of undergrounding transmission lines range from $6 million to $100 million per mile.[9] Finally, public engagement on transmission-related issues is even more inaccessible than for the distribution grid, as it implicates multiple legal and regulatory regimes, a convoluted multi-step process, and a wider range of actors.

At the same time, transmission is a key part of California's decarbonization strategy. As the adage goes, there is no transition without transmission. The state is increasingly willing to fund transmission buildout not just through ratepayers, but through public funds. In 2025, the legislature passed SB 254, which established a fund to provide low-cost public financing to transmission projects, and authorized state ownership of transmission facilities.[10]

Given this context, wildfire-related transmission costs warrant more substantial public examination. This brief first describes the players and processes involved in the transmission cost recovery process. Next, it explains how transmission costs are established and recovered by transmission owners. Finally, we highlight several ways transmission costs are impacted by wildfires, including wildfire mitigation interventions and liability costs, and pose several questions for future research related to the distribution of these costs.

8 CPUC Underground Programs Description, Cal. Pub. Util.Comm'n, https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/infrastructure/electric-reliability/undergrounding-program-description (last accessed June 17, 2025).

9 *Id.*

10 *See infra* Section 5.

PHOTO: ANTHONY SEBBO/UNSPLASH

Transmission Basics

TRANSMISSION REFERS TO THE HIGH VOLTAGE LINES that carry electricity long distances. Transmission lines' higher voltage helps minimize electricity loss, conveying electricity more efficiently than thinner and lower voltage distribution lines. Prior to the advent of transmission lines, early electricity grids operated on the local scale. Transmission facilitated the highly networked grid we have today and the reliability benefits that come along with it.[11]

Transmission is "interconnected" to the distribution grid. When electricity moves from the distribution grid to the transmission grid or vice versa, it must be stepped up or stepped down by substation transformers to adjust the voltage so it can be safely conveyed along these different kinds of lines. The California Independent System Operator (CAISO) manages the transmission grid in California.[12] As the "balancing authority" in the region, CAISO ensures the grid maintains consistent electric frequency and sufficient generation to meet load at all times.[13]

11 *See generally* Willis Long & Stig Nilsson, *HVDC Transmission: Yesterday and Today*, 5 IEEE POWER AND ENERGY MAG. 22 (2007) (describing the history of high-voltage transmission development in the United States and globally).

12 Balancing Authority, CAISO, https://www.caiso.com/about/our-business/balancing-authority (last accessed June 17, 2025).

13 Cal. Pub. Util. Code § 9600.

PHOTO: CARLOS DE MIGUEL/UNSPLASH

While CAISO manages transmission, it doesn't own the lines. Instead, transmission lines are owned by one of three types of entities: investor-owned utilities, municipal utilities, and non-utility private transmission developers.[14] To participate in the CAISO system, they enter into agreements allowing CAISO to operate their transmission infrastructure.[15]

While CAISO manages transmission, it doesn't own the lines. Instead, transmission lines are owned by one of three types of entities: investor-owned utilities, municipal utilities, and non-utility private transmission developers.

The Federal Energy Regulatory Commission (FERC) regulates the costs these transmission owners are permitted to recoup for their transmission services, and CAISO implements that cost recovery process. This approach contrasts with the way costs are recovered for distribution infrastructure, which is regulated by state public utility or public service commissions.[16] Legally, this distinction stems from transmission being understood as "interstate" and therefore under federal jurisdiction, whereas distribution is a local, and therefore state, matter.[17]

In short, transmission owners are compensated for the use of their lines; FERC conducts proceedings to establish how much they are owed; and CAISO operates California's transmission grid and implements the cost recovery process.

14 For Participating Transmission Owner applications, see Participating Transmission Owner Applications Submitted, CAISO, www.caiso.com/library/participating-transmission-owner-applications-submitted (last accessed June 17, 2025).

15 *See* Transmission Control Agreement Among the Independent System Operator and Transmission Owners, https://www.caiso.com/documents/transmissioncontrolagreement_16-aug-04.pdf ("... each Participating [Transmission Owner] shall place under the ISO's Operational Control the transmission lines and associated facilities forming part of the transmission network that it owns or to which it has Entitlements..."); Cal. Pub. Util. Code § 330(m).

16 *See* Federal Power Act (1935), codified at 16 USC §§ 824 (a) – (b), d(a); 42 USC § 7171(a).

17 *See* U.S. Const. Art. I, §8; 16 U.S.C. § 824(b)(1); *see also New York v.* FERC, 535 U.S. 1, 20-21 (discussing the *"Attleboro"* gap and the way in which the Federal Power Act authorized federal regulation of interstate, wholesale sales of electricity).

Transmission Cost Recovery: From FERC to CAISO to Utility to Ratepayer

HISTORICALLY, TRANSMISSION OWNERS were vertically-integrated electric utilities. Under this traditional model, electric utilities owned generation, transmission, and distribution infrastructure.[18] When California restructured the electric power sector in the late 1990s, utilities were encouraged to sell off their generation resources and CAISO was created to manage transmission and operate new electricity markets.

Today, the three large investor-owned utilities, Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric, still own most of the transmission infrastructure. Municipal utilities also own transmission infrastructure in some cases.[19] In their capacity as transmission owners, these utilities are required to charge just and reasonable rates for the use of their transmission facilities.[20] Like in the distribution context, transmission owners are permitted to recover the costs of providing service as well as a rate of return on capital investments. Unlike in the distribution context, however, transmission rate proceedings take place at FERC, rather than the CPUC, and the cost allocation and recovery process is facilitated by CAISO.[21] In addition to the utilities, there are a growing number of independent,

18 *See* Ari Peskoe, *Replacing the Utility Transmission Syndicate's Control*, 44 ENERGY L.J. 1, 30 (2023).

19 How Transmission Cost Recovery Through the Transmission Access Charge Works Today, CAISO at 10 (April 12, 2017), https://www.caiso.com/Documents/BackgroundWhitePaper-ReviewTransmissionAccessChargeStructure.pdf (explaining that "Anaheim, Azusa, Banning, Colton, Pasadena, Riverside and Vernon are municipal PTOs, and Valley Electric Authority (VEA) is a rural electric association PTO").

20 In their capacity as distribution utilities, these companies are also required to provide just and reasonable rates for the distribution of electricity to California homes and businesses, but this cost recovery is conducted through a separate process facilitated by state regulators.

21 While Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric own most of the transmission infrastructure in California, the cost recovery process in their capacity as PTOs is separate from cost recovery in their capacity as distribution utilities. For conceptual clarity, this brief distinguishes between PTOs and distribution utilities when describing transmission cost recovery, even though in practice these are often the same actors.

PHOTO: АЛЕКСЕЙ КРАВЧУК

private transmission owners. These independent owners are selected by CAISO through its competitive solicitation process to develop necessary transmission infrastructure in specific places.[22] All transmission owners seek to recover the costs of operating and maintaining transmission infrastructure from the parties that benefit from that infrastructure. A series of complex processes across different jurisdictions and under overlapping legal regimes determine how transmission costs are established, allocated, and imposed on individual ratepayers. This section describes a simplified version of these processes.

Step One: FERC Approves Recoverable Costs for Transmission Owners

In California, transmission owners, which CAISO calls "Participating Transmission Owners" (PTOs), recover transmission-related costs through CAISO's Transmission Revenue Requirement process.[23] This process is set forth in Section 26 of the CAISO Tariff, which is approved by FERC.[24]

The first step for PTOs is to submit a Transmission Revenue Requirement filing with FERC. The Transmission Revenue Requirement filing includes forecasted operation and maintenance expenses, as well as forecasted capital additions. FERC issues a ruling to determine the Transmission Revenue Requirement each PTO is permitted to collect in rates.[25] The CPUC often intervenes in these cases on behalf of California ratepayers.[26]

While municipal utilities aren't generally subject to FERC jurisdiction for their local municipal operations, they are subject to FERC regulation in their capacity as PTOs. Municipal utilities that own transmission must also file their tariffs and Transmission Revenue Requirements with FERC.

When approving Transmission Revenue Requirements, FERC distinguishes between a "regional" and a "local" portion of PTO costs.[27] The regional portion is composed of the costs associated with higher voltage transmission facilities and the local portion is composed of the costs associated with lower voltage transmission facilities.[28] In theory, all distribution

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22 How Transmission Cost Recovery Through the Transmission Access Charge Works Today, CAISO at 11 ("These non-utility or non-load-serving PTOs include DATC Path 15, StarTrans IO, Trans Bay Cable, and Citizens Sunrise"; "PTOs that do not have a service area are typically (but not exclusively) independent or non-utility transmission developers whom the ISO selected in its competitive solicitation process to build specific transmission facilities approved in the ISO's transmission planning process (TPP).")

23 This general process was developed during California's restructuring in the late 1990s. Restructuring established CAISO and a 1996 California statute suggested that the utilities that own transmission "should jointly advocate to the Federal Energy Regulatory Commission a pricing methodology for the Independent System Operator that results in an equitable return on capital investment in transmission facilities for all Independent System Operator participants" based on specific principles and tasked CAISO with recommending a rate methodology to FERC. Cal. Pub. Util. Code § 9600.

24 CAISO Fifth Replacement Electronic Tariff (hereinafter "CAISO Tariff"), § 26. Transmission Rates and Charges, available at https://www.caiso.com/legal-regulatory/tariff.

25 CAISO, *How Transmission Cost Recovery Through the Transmission Access Charge Works Today* 4 (Apr. 2017).

26 Electric Transmission Rates and FERC Proceedings, Cal. Pub. Util. Comm'n, https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/electric-transmission-rates-and-ferc-proceedings; *see e.g.* FERC No. ER25-624 Protest, Request for Hearing and Reservation of Rights of the CPUC, *available at* https://elibrary.ferc.gov/eLibrary/filelist?accession_number=20250130-5157.

27 CAISO Tariff, Appendix F, Schedule 3, Section 12.

28 Facilities operating at or above 200 kV are considered high voltage, and operations operating at voltages lower than 200 kV are considered low voltage. See CAISO, *How Transmission Cost Recovery Through the Transmission Access Charge Works Today* 5.

utilities that participate in the CAISO market could benefit from the higher voltage, regional transmission infrastructure, while lower-voltage, local transmission infrastructure should primarily benefit nearby distribution utilities and their ratepayers. For PTOs that are also load-serving entities (the investor-owned and municipal utilities), FERC also approves a Gross Load figure.[29]

Step Two: CAISO Recovers Transmission Costs from Utilities

Once FERC establishes PTOs' Transmission Revenue Requirements—how much they are permitted to recover—it falls to CAISO to ensure the appropriate amount is recovered and returned to each PTO. Section 26 of the CAISO Tariff requires that "[a]ll Market Participants withdrawing Energy from the CAISO Controlled Grid shall be assessed Access Charges."[30] CAISO uses these access charges to recover the total of all PTOs' Transmission Revenue Requirements from the utilities who rely on transmission lines to convey electricity onto their distribution grids. However, a few factors make this process more complex in practice.

When California restructured the electric power sector, the legislature directed CAISO to develop a transmission rate methodology that equitably balances the costs and benefits of transmission service.[31] This task prompts value-based debates over how much different kinds of ratepayers should contribute to transmission costs and on what basis.[32] In addition, not all PTOs have retail customers to charge for their services. The costs owed to these PTOs, therefore, must be recouped through charges on distribution utilities' ratepayers, which distribution utilities then pass along to PTOs.

CAISO uses a multi-part cost recovery process to address the first challenge and match transmission charges to utilities based on the net of the transmission services they use and the transmission services they provide (when the utility is also a PTO). It employs two distinct methodologies to recover the two portions of the Transmission Revenue Requirement: a regional method for the costs of the higher-voltage lines and a local method for the cost of the lower-voltage transmission lines.

First, CAISO totals all regional Transmission Revenue Requirements and distributes the sum across the whole balancing area (California, essentially) based on use. This calculation generates a regional "Transmission Access Charge" (TAC). The regional TAC is a per-kWh

29 *Id.* at 5.
30 CAISO Tariff § 26.1.
31 AB 1890 (Brulte, 1996), codified at Cal. P.U.C. § 854(2); FERC Order 1000 also requires that cost allocation be roughly proportional to the benefits received.
32 These debates over ratepayer charges parallel similar conflicts over distribution cost recovery, in particular whether ratepayers with distributed resources should contribute equally to fixed costs of the distribution grid. See, e.g. CAISO, H*ow Transmission Cost Recovery Through the Transmission Access Charge Works Today* at 6 ("The ISO's 2016 "Review TAC Wholesale Billing Determinant" initiative considered whether it would be appropriate to revise the current method of billing transmission costs in the ISO's wholesale settlement process—specifically the use of end-use customer metered load (i.e., Gross Load2 as defined in the ISO tariff) in PTO service areas to bill the volumetric transmission access charge (TAC)—to reflect potential benefits from distributed generation in reducing or avoiding some transmission costs.")

fee for transmission usage.[33] The regional TAC is imposed on market participants—utilities and metered substations that rely on the CAISO-balanced transmission system.[34] Ultimately, CAISO remits the proceeds from these charges back to PTOs to fulfill their regional revenue requirements.

Using the local method, PTOs that are also utilities simply collect their local Transmission Revenue Requirement from their customers. In contrast to the higher voltage, regional transmission infrastructure which could accrue benefits beyond the PTO's service territory, the lower voltage, local transmission infrastructure should benefit the local distribution area.[35]

CAISO's method of imposing regional TACs ensures cost recovery for PTOs without retail customers. CAISO also creates a parallel set of charges for PTOs that engage only in transmission, not in distribution, to compensate CAISO for the use of its system.[36] The specific formulas for each of these charges is set out in Schedule 3 of Appendix F of the CAISO Tariff.

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33 More concretely, CAISO aggregates the approved regional Transmission Revenue Requirements of all PTOs within the CAISO balancing authority area and then divides this amount by the total gross load for the area (gross load itself is a FERC-approved figure. TAC Campaign Q&As, CLEAN COALITION, https://clean-coalition.org/wp-content/uploads/2019/01/TAC-QA-28_dm-16-Dec-2016.pdf (Dec. 2016).

34 *Id.*

35 *Id.*

36 CAISO, *How Transmission Cost Recovery Through the Transmission Access Charge Works Today* at 7. These "Wheeling Access Charges" (WACs) come in local and regional variants like the TACs. Wheeling refers to the transmission of electricity out of ("wheeling out") or through ("wheeling through") the CAISO system through a third-party interconnection network. CAISO Tariff, Appendix A. These non-utility PTOs pay for their reliance on the CAISO system and infrastructure as they transmit electricity; meanwhile, distribution utilities recover the nonutility PTO costs through the regional TACs, which CAISO then disburses back to the non-utility PTOs. WACs apply to the PTOs that are not also distribution utilities, as well as to non-PTOs operating within the ISO balancing area. These "non-PTOs" do in fact own transmission; they are transmission operators in existence prior to CAISO's establishment that have chosen not to participate in the CAISO cost recovery process. These non-PTOs pay the regional WAC when they use the CAISO system, but not the regional transmission access charge, since they already pay transmission costs for non-CAISO transmission. They do not add their own transmission costs into the CAISO cost recovery process WACs are smaller charges than the TACs, based on the ratio of a given PTO's Transmission Revenue Requirement to the sum of all PTO Transmission Revenue Requirements. *See* CAISO Tariff, Appendix F at 1737.

PHOTO: WENDELL AND CAROLYN

Step Three: Utilities Pass on Transmission Charges to Ratepayers

All distribution utilities recover the costs associated with the regional TAC from their ratepayers. Most PTOs that are distribution utilities also recover their local TAC from ratepayers. Investor-owned utilities must do so as prescribed by CPUC rate structures, while municipal utilities can set rate structures as they wish.

Overall, investor-owned utility retail rates must conform with CPUC-approved rates and rate designs, but under the filed-rate doctrine, FERC-approved cost allocations are not subject to reconsideration in state ratemaking proceedings.[37] When investor-owned utility-PTOs file for a new transmission rate with FERC, they concurrently submit an advice letter to the CPUC to inform them of the proposed change.[38] CPUC Resolution E-3930 explains,

> *The passing through of these cost-of-service requirements to the utilities' customers does not involve the promulgation of "general rates," or the establishment of a new general rate structure. Rather, the rates involved here pass through an adjustment to a FERC-jurisdictional category of costs.*[39]

Where there is a conflict between FERC-approved rates and state statutory rate requirements, the rates appear to be harmonized through the advice letter and resolution process.[40] Unlike the private PTOs, municipal utilities' governing boards ultimately set the retail transmission rates that result.[41] Rates are still filed with CAISO, but for informational purposes only.[42]

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37 *Entergy Louisiana, Inc. v. Louisiana Pub. Serv. Comm'n*, 539 U.S. 39, 41-42 (2003) ("Under the filed rate doctrine, FERC-approved cost allocations between affiliated energy companies may not be subjected to reevaluation in state ratemaking proceedings."); *see also* CPUC, *Resolution E-3930* at 4 ("Consistent with the filed rate doctrine, it is just and reasonable under State law for the utilities to recover through retail rates the transmission rates that are filed with and become effective at the FERC, provided that those rate adjustments are subject to refund to the same extent as they are at the FERC.")

38 CPUC, *Resolution E-3930* (May 26, 2005) ("establishes a Process for Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southern California Edison Company (SCE) to pass through rate changes for transmission costs that have been filed with and become effective at the Federal Energy Regulatory Commission (FERC)").

39 *Id.*

40 For example, Resolution E-3930 notes that implementing FERC-approved changes to transmission rates "should not increase residential Tier 1 and Tier 2 rates above Assembly Bill (AB) 1X limitations." *Id.* at 5. The Resolution further provides that, "the utility should propose an allocation of the rate change based on the most recent CPUCapproved rate design." The Resolution further notes that in the past, when rate changes would otherwise exceed statutory limits, the CPUC has "authorized utilities to decrease generation charges for usage up to 130% of baseline by an amount equal to the transmission rate increase, and re-allocate that generation revenue shortfall to residential tiers not limited by AB 1X." In short, the CPUC provides for some flexibility to reallocate costs to harmonize rates with both state and federally-imposed constraints.

41 *See* CAISO Tariff § 26.1.5 ("For a Local Publicly Owned Electric Utility, retail transmission service rates shall be determined by the Local Regulatory Authority and submitted to the CAISO for information only.").

42 *Id.*

Wildfire Costs

WILDFIRE-RELATED COSTS IMPACT TRANSMISSION IN THREE MAIN WAYS. First, transmission owners must harden their lines and infrastructure against increasing wildfire and ignition risk, which increases capital expenditures and the costs of operation and maintenance.[43] Maintenance is crucial for transmission owners because faulty or poorly maintained equipment can spark wildfires. Second, transmission infrastructure itself can be impacted by wildfires, resulting in power outages and recovery costs. Third, transmission owners can also face liability if their lines ignite or are involved in a wildfire.

43 *See, e.g.*, CPUC, *Utility Costs and Affordability of the Grid of the Future* 35-36 (2021) (describing how wildfire mitigation costs would be recovered by a utility).

PHOTO: HERI SUSILO

a. Transmission and Wildfire Mitigation Costs

Transmission operation and maintenance costs to reduce wildfire risk generally flow through the process described above. Operation and maintenance expenses submitted by PTOs in the Transmission Revenue Requirement process are key areas where wildfire-related costs for recovery are assessed. FERC thus plays a critical role in assessing how wildfire-related costs come into the Transmission Revenue Requirements process.

However, determining which wildfire costs can be considered operation and maintenance is complex and increasingly controversial. In one recent proceeding, for example, PG&E was requested to "identify and describe any wildfire costs...that are included in the [transmission owner tariff] and identify the FERC account to which the costs are recorded."[44] However, in PG&E's Transmission Owner Tariff, the utility indicated that it does not track operation and maintenance costs or capital costs by wildfire event for electric transmission.[45]

Further, as novel approaches to dealing with the skyrocketing costs of wildfires emerge, assessing which new approaches can be recovered from ratepayers is increasingly contentious. FERC is currently assessing whether costs related to "Wildfire Self Insurance" can be included in utilities' Transmission Revenue Requirement. PG&E, for example, has tried to include its purchase of $1 billion in general liability self-insurance to cover potential wildfire claim costs in its Transmission Formula Rates.

This proposed revision included a wildfire liability self-insurance program, which PG&E claimed would "provide significant potential customer savings in the years in which there are no losses or PG&E experiences smaller wildfire losses.

On October 13, 2023, PG&E filed revisions to its Transmission Owner Tariff and its formula rate for costs associated with its transmission facilities. The formula rate proposed a 2024 base Transmission Revenue Requirement and associated retail and wholesale transmission rates. This proposed revision included a wildfire liability self-insurance program, which PG&E claimed would "provide significant potential customer savings in the years in which there are no losses or PG&E experiences smaller wildfire losses. With self-insurance, unused funds are rolled over to the next year which increases the amount of funding available for future loss events. As the self-insurance balance grows, PG&E can reduce the amount of potential cost recovery in future years to cover its wildfire liability claim costs."[46]

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44 Pacific Gas & Electric Company, *Transmission Owner Tariff (TO21) Data Response 29* in FERC Docket No. ER24-96-000, https://www.pge.com/assets/pge/docs/regulation/wholesale-transmission-service/cpuc-set-02-06-17-2024-10-05-2024.pdf.

45 *Id.* at 2.

46 PG&E Tariff Filing per 35.13(a)(1), Exhibit PGE-0003, in FERC Docket No. ER24-96-000.

In early 2024, FERC initially concluded that the proposed formula rate and TRR may be unjust, unreasonable, unduly discriminatory, preferential, or otherwise unlawful, and thus brought the issue into settlement proceedings. The settlement ultimately required revisions to the formula rate protocols to specifically "require PG&E to make a single-issue filing concerning implementation of PG&E's wildfire self-insurance program" and "a requirement for PG&E to provide a workpaper tracking certain wildfire expense costs."[47] Under the terms of the settlement, when PG&E's Wildfire Self-Insurance Fund's available accrual balance exceeds $1 billion, PG&E will return an allocated portion of the excess to Transmission Owner customers through the annual update process.[48] That $1 billion target was established as a result of AB 1054 (2019), which requires utilities participating in the California Wildfire Fund to be responsible for the first $1 billion in claim funds before the wildfire fund may be called upon.[49] Further, when PG&E's wildfire self-insurance requires replenishment of more than $100 million in a single year, the replenishment amount shall be recovered from Transmission Owner customers over a two-year period.[50] The costs of self-insurance are allocated between retail and transmission customers on the basis of a plant allocation factor, which divides costs based on the relative share of plant capital composed of transmission infrastructure versus distribution infrastructure.[51] In PG&E's 2025 FERC filing, that meant 20.64% of wildfire insurance costs were allocated to transmission customers, with the remainder recovered from retail ratepayers and shareholders.[52]

The settlement also resolved matters related to liability for six distinct wildfire events, where PG&E agreed to "refund to transmission owner (TO) customers $75 million for costs for the Settled Wildfires recorded through December 31, 2023," "provide TO customers their allocated portion of the funds PG&E receives from the California Wildfire Fund as reimbursement for costs from any of the Settled Wildfires through December 31, 2023," and reduce cost recovery from TO customers to 77% of what it would have been under PG&E's transmission tariff, with PG&E shouldering the difference.[53] These settlement terms were in response to the settling parties' protests that PG&E should not recover O&M costs related to the Kincade, Drum, Zogg, Dixie, Fly and Mosquito Fires and PG&E should have applied insurance proceeds that it applied to costs associated with another wildfire to the Administrative and General and/or Operation and Maintenance costs of those fires.[54]

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47 FERC Order Certifying Uncontested Settlement re Pacific Gas and Electric Company under ER24-96 in FERC Docket No. ER24-96-000.

48 FERC Initial Comments of the Commission Trial Staff in Support of the Offer of Settlement and Stipulation, in FERC Docket No. ER24-96-000 at 8.

49 *See* 185 FERC ¶ 61,243 at ¶ 10.

50 FERC Initial Comments of the Commission Trial Staff in Support of the Offer of Settlement and Stipulation, in FERC Docket No. ER24-96-000 at 8.

51 185 FERC ¶ 61,243 at ¶ 10.

52 *See* PG&E, Advice Letter 7231E, *Report Risk Transfer Balancing Account (RTBA) Activities in Prior Year* (2024) ("For the year 2024, PG&E expects to collect $400 million from CPUC-jurisdictional customers for the year 2024 and $67 million of 2023 under collections for 2023 RRQ not collected in 2023. In addition, . . . PG&E will collect $104 million from FERC-jurisdictional customers.")

53 FERC Order Certifying Uncontested Settlement re Pacific Gas and Electric Company under ER24-96. ER24-96-000 at 11

54 FERC Notice of Settlement of Certain Issues Raised in Protest of the Northern California Power Agency under ER19-13 et al. ER19-13-000 ER19-1816-000 ER20-2265-000 (consolidated) at 2.

As another example, the CPUC recently objected to PG&E's inclusion of "[costs] incurred or forecast . . . for reconnection of the Grizzly Powerhouse due to the Camp Fire" in a FERC filing.[55] The CPUC filing asserted: "Although it is reasonable to reconnect the Grizzly Powerhouse to the transmission grid, such an investment is only required to meet PG&E's obligations because of the Camp Fire and PG&E's acknowledged role in it. Further, this project provides no new ratepayer benefit. Costs that are the direct consequence of the Camp Fire should be disallowed."

Transmission cost allocation, especially in the context of wildfires, presents challenging questions about who should pay for the difficult-to-quantify future benefit of reduced wildfire risk on lines that we all rely on to varying degrees. Cost allocation is not a new challenge and contentious debates over cost allocation contribute to the massive queues delaying interconnection of renewable generation.[56] As of now, FERC allocates wildfire costs in much the same way it allocates any other transmission-related costs, and allows PTOs to pass them along under the established terms of their wholesale transmission tariffs. In practice, this has already led to protests from wholesale customers. PacifiCorp, for example, attempted to pass along $400 million in wildfire liability costs to its wholesale customers in Oregon and California. It relied on the presumption of prudence FERC extends to transmission owners and claimed these costs should not undergo additional

55 FERC Notice of Intervention, Protest, Request for Hearing, and Reservation of Rights of the CPUC in Docket No. ER25-624-000 at 9 (Jan. 30, 2025).
56 Brian Potter, *How Cost Allocation Works for Transmission Lines*, INST. FOR PROGRESS (April 19, 2024), https://ifp.org/how-cost-allocation-works-for-transmission-lines/.

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review by the Commission.[57] Customers, in turn, demanded that FERC review these costs to determine whether PacifiCorp was negligent in incurring them.[58] The dispute remains ongoing as of November 2025.

More research is needed to identify and trace wildfire cost through the convoluted cost recovery system described above. The basic approach to transmission cost recovery presents several questions now, however.

- The regional transmission access charges are designed to spread transmission costs evenly across the balancing area. There are pros and cons to this approach. One obvious concern is that this creates a cross-subsidy where utilities in high wildfire risk areas are subsidized by utilities—and ultimately the ratepayers in these service territories—in low wildfire risk areas. While lower-risk (often urban) areas do rely on transmission lines that travel through higher-risk areas and should bear some of the costs of system hardening, cross-subsidization could potentially encourage overbuilding of communities in high-fire-risk areas. Future research should analyze existing cross-subsidies and critically evaluate their impacts.

Much like in the distribution context, some clean energy advocates argue that transmission should be paid for based on use at the household level in order to capture the benefits of distributed resources.

- Because the regional transmission access charges apply evenly across the state, they may impose costs on utility service territories that have prioritized distributed resources and local renewables.[59] Much like in the distribution context, some clean energy advocates argue that transmission should be paid for based on use at the household level in order to capture the benefits of distributed resources. Some federal courts have critiqued states for taking purely regional "postage stamp" rate approach for similar reasons, but a D.C. Circuit opinion found that considering local and regional benefits, as California does, is preferable.[60] As in other contexts, a part of this debate stems from disagreements about which kinds of benefits should be considered in cost allocation, which have grown increasingly relevant as states attempt to grapple with climate change. Future research should consider these costs and benefits more deeply to reflect these changing priorities.

57 Motion to Dismiss, Motion to Consolidate, and Answer of PacifiCorp to the Formal Challenge of Idaho Power Company, et al. in Docket No. ER24-2004 at 19 (Aug. 22, 2025).

58 *See* Motion for Leave to File Answer and Answer of Joint Customers, in Docket No. ER24-2004 at 6-7 (Sep. 26, 2025).

59 Transmission Access Charges, Clean Coalition, https://clean-coalition.org/policy/transmission-access-charges/.

60 Gabe Tabak, *The "Goldilocks" Approach to Transmission Cost Allocation,* STATE ENERGY & ENV'T IMPACT CENTER (March 24, 2022), https://stateimpactcenter.org/insights/the-goldilocks-approach-to-transmission-cost-allocation.

b. Transmission and Wildfire Liability Costs

The costs described thus far are primarily O&M and capital costs related to reducing wildfire risk. But once they occur, wildfires can also impose tremendous liability costs on PTOs. For utility PTOs, costs can be recovered both from wholesale transmission customers and from retail customers. The relative allocation of those costs follows a formula approved by FERC prior to the passage of AB 1054. PTOs were asked to record wildfire-related costs to Account 925 with FERC, which tracks injuries and damages.[61] That account also contains the cost of wildfire insurance premiums, losses not covered by insurance, and expenses incurred in the settlement of wildfire claims.[62] Costs must be allocated in accordance with the salaries devoted to a particular category of expenditures,[63] not based on direct assignment. Under a direct assignment approach, utilities will attempt to recover costs from either distribution or transmission customers based on what type of equipment caused the fire at hand. For example, SDG&E attempted to use direct assignment for the 2007 Witch, Rice, and Guejito fires. The first two were caused by transmission equipment, whereas the Guejito fire was caused by distribution equipment.[64] FERC rejected that approach and required the use of labor ratios to allocate costs between transmission and distribution.[65] Under AB 1054, utility PTOs would now recover all wildfire liability costs above $1 billion from the Wildfire Fund. The billion-dollar deductible would be partially recoverable from wholesale transmission customers according to the Transmission Plant Allocation Factor.[66] The remainder would be covered by the ratepayerfunded Wildfire Fund.[67]

Currently, Southern California Edison is being sued for a possible ignition at one of its transmission towers, with a trial date set for January 2027.[68] This particular incident alone raises a number of questions about how liability for transmission owners is considered.

- In this case, the transmission tower in question is owned by a utility-PTO. Does the same liability regime apply to non-utility PTOs? If a non-utility PTO's transmission tower was implicated, for example, is it held to the same liability standards? Currently only the

61 *See* 18 CFR § 367.9250

62 *See* 137 FERC ¶61,041 (2011)

63 This is known as a labor ratio: an allocation factor that uses labor costs as a proxy for cost allocation purposes. FERC uses labor ratios to distribute common costs among operational categories based on the proportion of salaries that are assigned to transmission, distribution, and generation. Using labor ratios, the allocation factor allocating costs between transmission, generation and distribution is equal to the ratio of wages for one of those categories to overall wages. For example, if 25% of overall wages go to transmission-related wages, then 25% of common costs would be allocated to transmission. *See id.*; *see also* 18 C.F.R. § 301.2 (defining FERC's use of labor ratios, albeit in a different context); National Assoc. of Reg.Util. Commissioners, *Electric Utility Cost Allocation Manual* 105 (1992), available at: https://www.pubmanitoba.ca/pdf/cos_review/exhibits/mipug-28.pdf ("the amount of labor, wages, and salaries assigned to each function is known, and a set of labor expense ratios is thus available for use in allocating accounts such as transportation equipment, communication equipment. investments or general office space.")

64 137 FERC ¶61,041 at ¶ 20.

65 *Id.*

66 *See supra* §4.a.

67 Cal. P.U.C. § 3285(c).

68 Tony Saavedra, *Judge sets 2027 trial date for first set of lawsuits against SCE for Eaton fire*, L.A. DAILY NEWS, https://www.dailynews.com/2025/08/19/judge-sets-2027-trial-date-for-first-set-of-lawsuits-against-sce-for-eatonfire/ (Aug. 19, 2025).

big three investor-owned utilities participate in the Wildfire Fund, and there is a risk that the Fund could be significantly depleted by the Eaton Fire if SCE is found liable.[69] Should non-utility transmission owners be incentivized or required to participate in the Wildfire Fund?[70]

- A leading theory is that the ignition of the Eaton Fire was caused by a dormant SCE transmission line. This raises questions about best practices around dormant lines and decommissioned infrastructure, but also whether PTOs are compensated for maintenance related to dormant lines. Transmission owners may be limited in their ability to recover for addressing dormant lines due to requirements that investments be "used and useful."[71] Under FERC Order No. 631, utilities may recover costs incurred in fulfillment of asset retirement obligations; in other words, utilities may recover decommissioning costs so long as there is a legal requirement to retire an asset.[72] Similarly, maintenance required to reduce fire risk such as vegetation management may be recovered, whether it is on active or inactive lines, so long as the maintenance is required to maintain a reliable electric transmission system.[73] However, maintenance on some dormant projects may not slot neatly into one of the allowable cost recovery categories. Do any existing cost recovery practices create undue risk by disincentivizing needed maintenance?

Transmission owners may be limited in their ability to recover for addressing dormant lines due to requirements that investments be "used and useful."

- The IOU participants in California's Wildfire Fund are required to cover the first billion in costs themselves prior to drawing upon the Fund. These IOUs have recovered part of their contributions to this billion-dollar self-insurance pool from wholesale transmission customers, on the basis of predetermined allocation factors.[74]

69 *See, e.g.*, Caroline Petrow-Cohen, *Southern California Likely to Incur "Material Losses" Related to Eaton Fire, Executive Says*, LA TIMES (April 30, 2025), https://www.latimes.com/business/story/2025-04-30/edison-earnings-eaton-fire-losses.

70 Cal. Wildfire Fund Questions, https://www.cawildfirefund.com/sites/wildfire/files/documents/2025/cwf-media-explainer-terms-and-questions-march-2025.pdf.

71 The "Used and Useful" principle is a longstanding doctrine in U.S. energy law that stems from the 1898 case, *Smyth v. Ames. Smyth v Ames.*, 169 U.S. 466 (1898). However, the doctrine is not consistently applied. See, e.g., 116 FERC ¶ 61,058, Order Granting Petition for Declaratory Order and Denying Motion to Defer Consolidation (July 20, 2006) at ¶ 77 (citing Order No. 298) ("As we found in Order No. 298, there are "widely recognized exceptions and departures from this [used and useful] rule, particularly when there are countervailing public interest considerations."")

72 *See* FERC, *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations* (Order No. 631), 104 FERC ¶ 61,183 (2003).

73 *See, e.g.*, NERC, *Transmission Vegetation Management*, Standard FAC-003-5 (2025).

74 *See, e.g.*, PG&E, *Draft Formula Rate Model Rate Year 2025, Schedule 30*, in Docket No. ER24-96-001 (Jan. 12, 2024) available at: https://www.pge.com/assets/pge/docs/regulation/Draft-TO21-RY2025-Model.pdf; PG&E, *Pacific Gas and Electric Company Transmission Owner Rate Year 2025 Annual Update Filing under the Formula Rate Approved* in Docket No. ER24-96-000 (Dec. 2, 2024), available at: https://www.pge.com/assets/pge/docs/regulation/Draft-TO21-RY2025-Model.pdf. (noting that the formula rate model was approved by FERC in March 2024)

The remainder, which represents the majority of contributions to the Wildfire Fund, comes from IOU shareholders and charges to retail ratepayers.[75] Is it fair for wholesale customers to bear a relatively smaller share of the insurance burden, or should alternative cost allocation methods be explored?

In addition to concerns about the direct liability costs, a determination of wildfire liability can also impact future cost allocation. For example, for the Camp Fire, the CPUC made critical changes to the proposed settlement with PG&E to ensure that the utility couldn't sidestep wildfire-related financial obligations through ratepayer recovery. Specifically, CPUC increased the original $1.675 billion amount of disallowances for ratepayer recovery from the proposed settlement to "increase the financial obligations to be imposed on PG&E by an additional $462 million of which $198 million shall go toward future wildfire mitigation expenses that would have otherwise been recovered from ratepayers but for this decision."[76] The CPUC uses disallowances to require shareholders to absorb costs that would have otherwise been paid by ratepayers.[77] In particular, CPUC has disallowed ratepayer recovery for costs related to fires caused by utility equipment where the CPUC found that the utility did not prudently manage and operate its facilities before the fires.[78]

In 2019, a specific prudence standard for recovery was codified in AB 1054. Under the new standard, a utility is allowed to recover costs and expenses if its conduct "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."[79] The bill also created a certification system. If a utility holds a valid safety certification at the time the wildfire ignites, its conduct will be deemed reasonable unless a party creates a serious doubt as to the reasonableness of the utility's conduct.[80] The bill does not differentiate between fires caused by transmission versus distribution lines.

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75 See, e.g., CPUC, *Decision Modifying Decision 21-08-036 and Adopting Agreement Regarding Wildfire Liability Insurance 7*, D.23-05-013 (May 18, 2023) ("To the extent recovery is available from transmission customers under SCE's Federal Energy Regulatory Commission (FERC) formula rate, the amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of $1 billion.").

76 CPUC, *Decision Approving Proposed Settlement Agreement With Modifications*, CPUC I.19-06-015, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M336/K236/336236538.pdf.

77 *See, e.g., CPUC, CPUC Safety Enforcement Staff Issue Proposes for PG&E Penalties and Disallowances in Settlement Addressing 2019 Kincade Wildfire* (Nov. 2, 2021), https://www.cpuc.ca.gov/news-and-updates/allnews/cpuc-safety-enforcement-staff-issue-proposal-for-pge-addressing-2019-kincade-wildfire.

78 CPUC, *Decision Approving Proposed Settlement Agreement With Modifications*, CPUC I.19-06-015, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M336/K236/336236538.pdf.

79 Cal. P.U.C. § 451.1(b).

80 Cal. P.U.C. § 451.1(c).

Conclusion

AS THE COST OF CALIFORNIA TRANSMISSION CONTINUES TO INCREASE due to both the repair costs for aging transmission lines and the need for transmission buildout to accommodate utility-scale renewables,[81] questions about precisely who pays and how will become even more important. Wildfires and wildfire risk to transmission lines also present significant distributional concerns around whether California's transmission system costs are equitably imposed, and who should shoulder the costs of increasing wildfire risk.

California legislators have taken steps to increase the resilience of the transmission system while keeping ratepayer costs down. Senate Bill 254 (Becker, 2025) established a public financing mechanism for transmission projects[82] as well as authorized a state entity to own or develop transmission projects itself.[83] These provisions could partially socialize the cost of

81 *See* Madalsa Singh, Alison Ong & Rayan Sud, *Wires and Fire: Wildfire Investment and Network Cost Differences Across California's Power Providers*, 38 ELEC. J. e107475, 8 (2025) ("Expenses for network infrastructure and wildfire mitigation—capital investments in grid hardening, maintenance costs of overhead lines, and vegetation management—will continue to be a source of increasing costs for a growing and aging grid.")

82 Cal. P.U.C. § 12100.110(h)

83 *See* Cal. P.U.C. § 3310(a)

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transmission fire hardening across all taxpayers, rather than limiting them to a specific utility's ratepayer base. How this will interact with the trend towards utility self-insurance remains to be seen. Further, SB 254 required utilities to include cost-effectiveness estimates and timeline estimates in the wildfire mitigation plans they are required to file with the CPUC. In doing so, the bill attempts to address a concern that utilities are not pursuing the most cost-effective strategies to mitigate fire risk.[84] Increased transparency and oversight should incentivize utilities to pursue prudent investments needed to reduce wildfire risk.

The extent to which SB 254's reforms will result in a more cost-effective, equitable way of addressing wildfire risk to transmission infrastructure remains to be seen. Regardless, the bill itself will not be the last word in the debate on cost allocation. SB 254 tasked the California Earthquake Authority (CEA)—the administrator of the state's Wildfire Fund—with creating a report by April 2026 analyzing potential new approaches to addressing catastrophes and their associated costs.[85] In response, industry stakeholders such as insurance firms and utilities have forcefully advocated before the CEA to advance their preferred solutions.[86] Utilities seek to change the strict liability standard currently in place,[87] and have proposed a state backstop for extreme event losses.[88] Such a backstop would socialize wildfire liability costs to a degree, alleviating pressure on ratepayers, and allow for a potentially more progressive funding mechanism.[89] Additionally, utilities argue that a public backstop would reduce transaction costs inherent to the litigation process currently used to recover damages from utilities.[90]

The release of the CEA's report in April will hopefully drive interest in the knotty problems related to wildfire liability. Future research, as well as the CEA's report itself, should more precisely parse who contributes what to wildfire mitigation and liability costs from the transmission grid, explore how cost-effectiveness requirements will influence transmission investment decisions, and determine what other methods could be used to equitably distribute wildfire costs without generating excess moral hazard. A way to standardize the classification of wildfire costs into FERC's Uniform System of Accounts in order to fairly

84 *See* Alejandro Lazo, *Californians pay billions for power companies' wildfire prevention efforts. Are they cost-effective?*, CALMATTERS, https://calmatters.org/environment/2024/12/pge-utilities-wildfire-prevention-customerbills-california/ (Dec. 3, 2024) (citing a former head of the CPUC claiming that the "commission [is] 'rubberstamping outrageous costs' and allowing the companies to 'address wildfires in the most expensive, least effective way possible.'")

85 *See* SB 254 (2025); *see also* Cal. Exec. Order No. N-34-25 (2025).

86 Camille von Kaenel, *The next front in the wildfire wars*, POLITICO, https://www.politico.com/newsletters/california-climate/2026/01/26/the-next-front-in-the-wildfire-wars-00748701 (Jan. 26, 2026).

87 Specifically, California's inverse condemnation doctrine. See Carla Peterman, Dan Skopec & Caroline Choi, *IOU Combined Response Re: Call for Contributions in Support of Study on New Models and Approaches to Complement or Replace the Wildfire Fund* 26-27 (Dec. 12, 2025), available at: https://www.cawildfirefund.com/sites/wildfire/files/documents/2025/saul-gomez-new-sb-254-pg-e-sdg-e-sceresponse-12-12-25.pdf.

88 *Id.* at 23.

89 *Id.* at 23-24; funding could be more progressive if the state chooses to fund its backstop reserves with a progressive form of taxation (which is largely out of reach for utilities).

90 *Id.* at 27-28.

distribute them among wholesale customers is another topic ripe for exploration.[91] Beyond that, the upcoming report is likely to consider whether the strict liability standard for utility-caused wildfires in California should remain, or whether a way of more broadly socializing wildfire costs should be adopted. We may see California move towards an increasingly socialized cost-sharing mechanism in the future, as utilities seem to favor, which would bring along its own set of distributional concerns. Further research would be needed to parse the various potential alternatives to strict liability, and their associated benefits and costs.

Issues of wildfire liability do not stop at California's borders. Cost allocation for interstate transmission lines, and any wildfire liability resulting therefrom, will likely continue to be a contested issue in the years to come. States with lower wildfire risk have already bristled at having to shoulder upstream transmission fire-related costs.[92] This area is most ripe for federal, rather than state-level intervention, and we may see FERC step in to clarify exactly which costs transmission providers may pass along to wholesale customers. This will likely be the next frontier of regulatory intervention, and may be a more complex endeavor still. States will have to make hard decisions on how to share costs for wildfire damage, and on whether to use taxpayer money to pursue some of the investments needed to make

States will have to make hard decisions on how to share costs for wildfire damage, and on whether to use taxpayer money to pursue some of the investments needed to make our transmission network more fire resilient.

our transmission network more fire resilient. Such interstate approaches are seemingly beyond the scope of the current legislative response in California, as prescribed by SB 254. Nevertheless, a comprehensive and sustainable solution will eventually require cooperation between utilities, state legislatures, public utility commissions, and FERC.

Wildfire costs to utilities, be it in the form of mitigation investments or liability payouts, will rise in the coming years. Who bears these costs, however, remains to be determined. The current cost recovery system for wildfire mitigation and liability payouts is convoluted and confusing, with a lack of hard-and-fast rules governing the allocation between transmission and distribution. Wholesale transmission customers, in particular, face an uncertain share of wildfire-related costs. Highly contested rate cases and costly litigation follow from this uncertainty. A patchwork of interlocking federal and state regulations further complicates

91 FERC's Uniform System of Accounts is regulated under 18 C.F.R. § 101.

92 *See* Joint Formal Challenge and Complaint of Deseret Generation & Transmission Co-operative, Inc., Utah Associated Municipal Power Systems, and Utah Municipal Power Agency v. PacifiCorp in Docket No. EL25-99 (Jul. 2, 2025).

this picture. California has taken, and continues to take, meaningful steps towards clarifying utilities' obligations related to wildfire events. Recently passed bills, such as SB 254, explore ways of harmonizing cost recovery and shifting burdens away from specific utilities and onto the public more generally. Yet California can only do so much alone, especially given the interstate nature of our electric grid. Substantive collaboration with nearby states and federal regulatory agencies will be required to formalize procedures for assigning wildfire-related costs. This may include harmonizing liability standards across states, specifying accounting measures for wildfire-related costs passed through via transmission access charges, and even forming multi-state wildfire insurance funds. A fair allocation of wildfire costs would avoid disproportionately burdening some ratepayers for a problem that affects much of the Western United States.

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