Californians could see hikes in power bills to pay for fire damages

Ryan Randazzo, Arizona Republic Published 7:26 p.m. MT Nov. 13, 2018

(Photo: Noah Berger, Associated Press)

The costs of the damages from wildfires that ravaged parts of California last year could show up in utility bills of people throughout the state.

And the burden for paying for damages caused by the current catastrophic fires could also hit millions of Californians' pocketbooks.

That's because of a new law passed by the California Legislature to limit the damages Pacific Gas & Electric Co. might pay for the 2017 disasters, and some think those protections might be extended to the current blazes.

Senate Bill 901, signed by Gov. Jerry Brown in September, will allow companies like PG&E to raise utility rates if the liability payments threaten them with bankruptcy.

The utility raised concerns, and lawmakers agreed, that a bankruptcy would lead to steep rate hikes and sharing the liability would be a better way to manage the risk to utility customers.

PG&E is just beginning to see how SB 901 will apply to the damages from last year's historic fires, some of which were caused by the utility's equipment. The exact cost to ratepayers is yet to be determined for the 2017 fires, let alone those currently burning.

Was Camp Fire caused by utility company's equipment?

The company, which serves 16 million people from Bakersfield to Eureka, now faces the possibility that it will be blamed for the Camp Fire that started Thursday near Chico and burned the town of Paradise. At least 42 people have died and 6,522 homes and 260 businesses have been destroyed.

PG&E sent an incident notice to the California Public Utilities Commission on Nov. 8 noting that the company had an outage on a 115-kilovolt transmission line near the fire's origin around the time the blaze started.

The Associated Press reported Tuesday that the company emailed a customer in the area of the fire's origin the day before it ignited saying it needed to investigate sparks coming from its equipment.

Company spokesman Paul Moreno declined Tuesday to discuss liability issues.

"The cause of the Camp Fire has not been determined. (The California Department of Fire and Forestry) is investigating the cause of the fire," Moreno said.

SB 901 applies to 2017 fires where PG&E is determined to be liable for damages. State fire investigators found the company was to blame for several fires in Napa and Sonoma counties, and beyond, in October last year.

CPUC will apply a financial "stress test" to the company to see how much of the damage payments it can make without going bankrupt. Any amount above that will be financed through bonds that customers will repay.

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"That mechanism was created to help avoid sharp rate spikes that would happen if the utility had to pay out suddenly," said Paul Payne, press secretary for Sen. Bill Dodd, D-Napa, the bill's sponsor.

PG&E must work through the stress test with the regulators at the CPUC, which hasn't happened yet in the case of the 2017 fires.

"It's in process, but there isn't an official date or timing that I can give you at this time," PG&E CEO Geisha Williams told analysts last week on a conference call regarding the stress test.

How much would PG&E be liable for?

Her words came just a few days before the Camp Fire ignited, triggering another sell-off of company stock and investor fears of a potential bankruptcy.

Wall Street analysts who track PG&E stock estimate the company has potential liabilities of more than $14 billion from the 2017 fires and more than $6 billion in liabilities from the Camp Fire in buildings alone.

Some stock analysts are hopeful the CPUC will not force the company to pay for the 2018 damages out of profits that would go to shareholders and force the company into insolvency.

"We do not believe the utilities would absorb all the fire damages, given SB 901 and its intent," Wolfe Research analyst Steven Fleishman wrote in a Sunday research report.

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Fleishman also noted the CPUC's "history of considering utility financial health."

"Still, the current fires could get worse," he wrote. "It's still fire season and California regulators/policymakers do not act quickly."

Other analysts thinkit's possible lawmakers in the next year will change the law to apply the "stress test" to liabilities from the 2018 fires.

"Bottom line, the fire will still result in a growing deficit to be borne by shareholders if ratepayer recovery is not granted," Bank of America research analysts Julien Dumoulin-Smith said in a Monday research report.

PG&E stock takes a beating

Already the fires have hit the company's stock.

PG&E already stopped paying a quarterly dividend to stockholders in December 2017 because of the potential liabilities from that year's fires. The new fires have hit the stock hard, pushing shares down to $32.72 Tuesday, a level it hasn't seen since 2008. It's been as high as $56.90 in the past year.

Trading was temporarily halted on the stock Monday.

Not all analysts are optimistic. On Monday, CFRA Research analysts Christopher Muir reduced his price target for the stock to $32 from $40 and recommended selling it.

"It is unclear at this time what (PG&E's) exact liabilities will be, if any, but this highlights the higher risks posed by investing in (the company)," Muir wrote in a research report.

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Analysts also are watching the Southern California subsidiary of Edison International. The Woolsey Fire in Malibu also started Thursday. Two people have died and 435 structures have been destroyed. That fire is in the territory of Southern California Edison.

Analysts note that the timing of any rate increases will depend on the outcomes of investigations into the fires.

"Predicting timelines of investigations into cause and circumstance of ignitions has proven a fool's errand for previous fires," Barclays Capital Inc. analyst Eric Beaumont said in a Friday research report.

Damon Arthur of the Redding Record Searchlight contributed to this report