

Rewiring Risk

How to bring down electric bills and increase wildfire resilience in California

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Executive Summary

California's wildfire architecture is breaking on three sides at once. Electricity rates have risen 70 to 80 percent since 2018, driven in large part by utility wildfire mitigation and insurance that ratepayers now finance directly. The FAIR Plan—the state's insurer of last resort—has nearly quintupled in both policy count and dollar exposure over the same period. Public investment in fuels management lags badly behind expert recommendations while utility wildfire spending balloons. These three crises share a root cause: California's strict-liability rule for utility-caused wildfires. Strict liability has transformed electricity ratepayers into the de facto insurance fund for a wildfire problem that utilities did not create alone. It pushes utilities to over-invest in grid hardening, lets insurers shift wildfire losses onto electricity bills through subrogation, and strips out the actuarial signals that would otherwise discourage development of the wildland-urban interface (WUI). These problems are all tightly interconnected, and fixing one without addressing the others will backfire. This paper argues for four reforms, which must move together: replacing strict liability with a fault-based standard; pairing that change with a managed insurance-market transition for high-risk property owners; establishing a state catastrophe reinsurance backstop; and shifting fuels-management funding from volumetric electricity rates to sustained taxpayer support.

Introduction

Something happened to California electricity bills after the 2018 Camp Fire that has no parallel in the state's recent history.

From 2019 to 2024, PG&E's average bills rose by 80% and SCE's by 71%—more than three times the rate of inflation over the same period.¹ The primary cause of this remarkable increase was wildfire: the cost of vegetation management, grid hardening, liability insurance, and contributions to the state Wildfire Fund that California utilities pass through to their customers.

Wildfire costs are a large driver of rising electricity bills in California

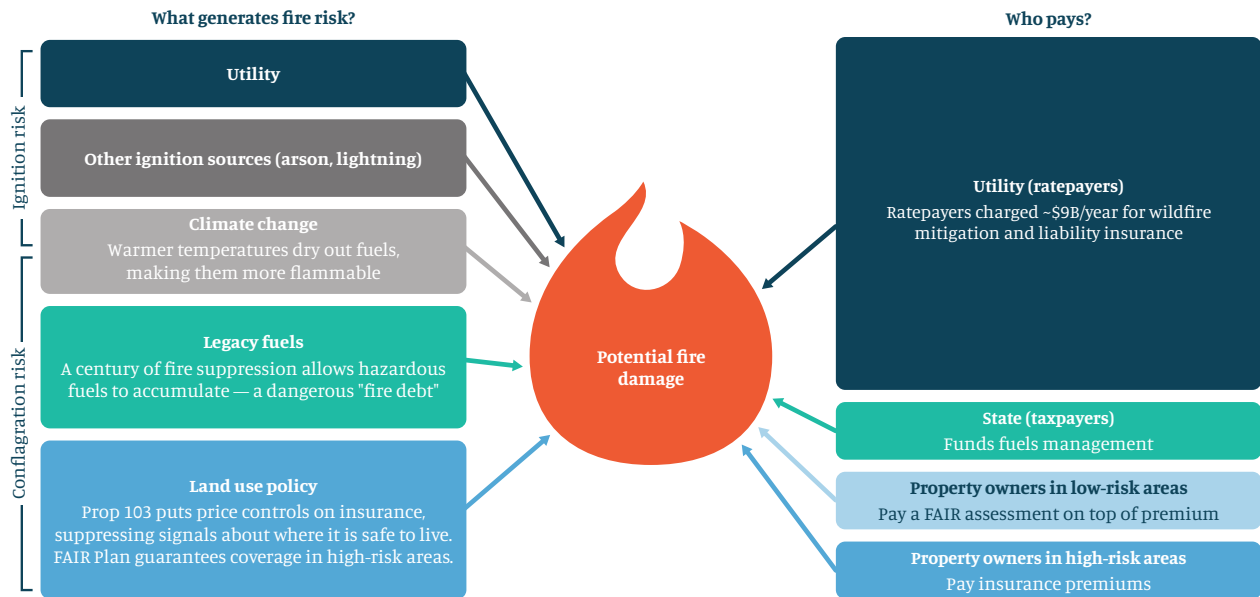


Sources: CPUC SB 695 reports (2020–2025). 2021–2024 wildfire cost shares are taken directly from CPUC bill tables; 2019–2020 values are reconstructed from bundled residential rates and wildfire-related revenue requirement or embedded wildfire-rate shares.

California's inverse condemnation with strict liability regime—which holds utilities responsible for fire damages caused by their equipment regardless of negligence—has placed the burden of growing wildfire risk squarely on ratepayers. This burden grows heavier every year and shows no signs of stopping, with rates for all three IOUs projected to rise another 6-7% a year through 2028, far outpacing inflation.²

If inverse condemnation with strict liability is not reformed, California ratepayers will continue to be the primary funding source for the state's wildfire mitigation response, picking up the tab for a century of poor fuels management and misguided price controls on home insurance that facilitated excessive development of the wildland-urban interface.

Under California's wildfire liability regime, those who generate the most risk pay the least

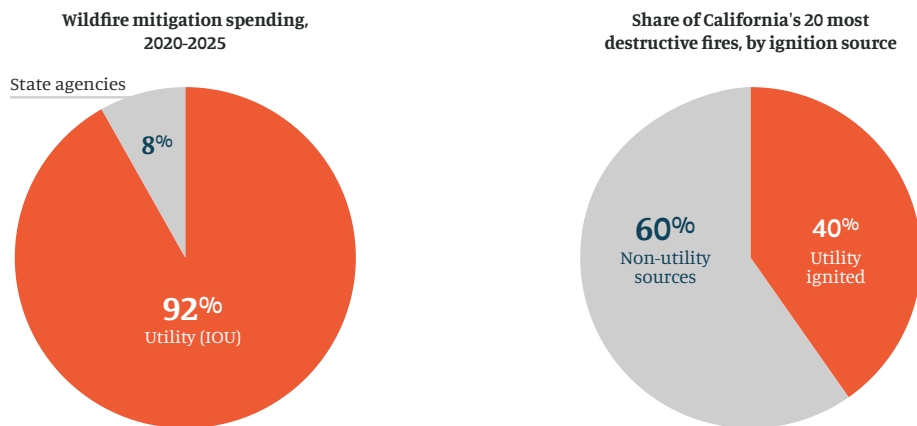


Note: Proportions are illustrative. Financial liability for utilities flows to ratepayers via rate recovery and Wildfire Fund assessments.

The problem with this state of affairs is not merely that it is unfair and regressive—low-income consumers are disproportionately burdened by high rates, especially since in California they are more likely to live in hot climate zones and not have rooftop solar systems³—or that high rates significantly impede progress toward California's ambitious electrification goals, although these are both very serious concerns. The problem is that California's liability regime is *a highly inefficient approach to wildfire mitigation*.

The current paradigm is inefficient for three reasons. First, utilities do not start most catastrophic fires in California. According to CalFIRE data, they account for only 10% of all ignitions and 40% of the most destructive ignitions to date.⁴ Yet between 2020-2025, utilities accounted for more than 90% of wildfire mitigation spending in California.

Utilities account for 92% of state wildfire mitigation spending but caused 40% of the most destructive fires



Source: Spending: IOU WMP filings (PG&E, SCE, SDG&E 2023–2025) + California LAO discretionary wildfire resilience (\$3.64B) + Prop 4 allocation (\$598M). Fire ignitions: Cal Fire incident data.

Second, strict liability strongly incentivizes utilities to attempt to reduce their ignitions to zero because a single catastrophic fire can bankrupt the utility; however, while most risk can be reduced cheaply, the “last mile” of ignition risk can only be eliminated through extensive undergrounding, which is extraordinarily expensive. According to their most recent filings, the three IOUs are on track to spend a combined \$8-9 billion a year—an order of magnitude more than the state’s annual wildfire resilience budget⁵—attempting to eliminate this residual risk, largely through extensive capital hardening. Redeploying even a fraction of that ratepayer capital toward the fuels management and home hardening the state sorely needs would achieve far more risk reduction per dollar—and reduce the severity of all fires, not just those started by utility equipment.

Third, strict liability insulates homeowners in high-risk areas from the true cost of living there, perpetuating California’s overall wildfire exposure. Proposition 103 forbids insurers from actuarially pricing forward-looking wildfire risk into premiums, and one of the only reasons insurers continue to write policies in California at all is that strict liability allows them to recover catastrophic losses from utilities through subrogation. The cost of insuring fire-prone homes is thus quietly transferred from policyholders to utility ratepayers. Reforming strict liability would force homeowners to confront the real price of wildfire risk and either adapt or move.

Passed in 2025 amid mounting alarm over utility rate increases and the strain on California’s Wildfire Fund in the aftermath of the Palisades and Eaton fires, SB 254 (Becker) directed the California Earthquake Authority — the state’s Wildfire Fund administrator — to study how the state might more sustainably respond to the threat of catastrophic wildfire. The resulting study, released in April, lays out three policy pathways the state could pursue: scaling up community-level wildfire mitigation; rebalancing catastrophe burdens across utilities, insurers, and homeowners; and expanding the state’s direct role in financing catastrophe risk through new public reinsurance and funding mechanisms. Within the second pathway, the CEA presents reform of strict utility liability as one of the most promising options — but stops short of recommending it.

This report goes further. It argues that strict liability reform is essential — and furthermore, that it cannot stand alone. Reform without an insurance-market transition leaves high-risk homeowners exposed; an insurance transition without a state catastrophe backstop drives insurers from the market; and none of these reforms is sufficient if California continues to fund wildfire mitigation primarily through electricity rates. California must therefore pursue four interlocking reforms:

- replace strict utility liability with a fault-based standard;
- pair that change with a managed insurance-market transition for high-risk property owners;
- establish a state catastrophe reinsurance backstop to absorb tail risk; and
- redirect wildfire mitigation investment toward taxpayer-funded resilience and away from ratepayer-funded utility spending

California has a choice. It can maintain the status quo—electricity bills climbing indefinitely, ratepayers in low-risk areas subsidizing development in high-risk ones, and overall wildfire risk expanding year by year—or it can rebalance liability, redirect mitigation toward where it actually reduces risk, and bring down both California’s wildfire exposure and the long-run cost of bearing it.

How Utility Liability Broke California Electricity Bills



California's skyrocketing bills have their origin in *Barham vs. Southern California Edison* (1999), a California Courts of Appeal decision that extended the state's strict liability doctrine of inverse condemnation to IOUs—establishing that when utility equipment causes a wildfire, the utility owes compensation to fire victims regardless of whether it acted carefully or recklessly. Causation alone establishes liability; negligence need not be shown.⁶ No other state applies inverse condemnation this way. In Oregon, Colorado, Utah, Montana, and other Western states, utilities are subject to inverse condemnation, but cannot be held liable unless they were shown to have acted negligently. But in California, a broken palm frond can sail hundreds of feet, hit a utility's power line, ignite a catastrophic fire, and saddle that utility with billions in damages.⁷

This legal quirk sat quietly for almost twenty years until the Camp Fire of 2018. On November 8, 2018, a PG&E transmission line near the town of Paradise ignited a fire during a high wind event; 86 people died, nearly 19,000 structures burned, and PG&E faced an estimated \$30 billion in liabilities—roughly its entire market capitalization.⁸ Under California's strict liability doctrine, PG&E's legal responsibility was established the moment its equipment was identified as the ignition source. In January 2019, PG&E filed for Chapter 11 bankruptcy, becoming the first American utility to collapse under wildfire liability.

The bankruptcy created cascading consequences. Thousands of fire victims were left waiting for compensation while the company reorganized in court. PG&E, the state's largest electricity provider—responsible for the grid serving roughly a third of California's electricity customers—was being dismembered by litigation. The result was a political crisis and a legislative intervention—but, as it turned out, not structural reform.

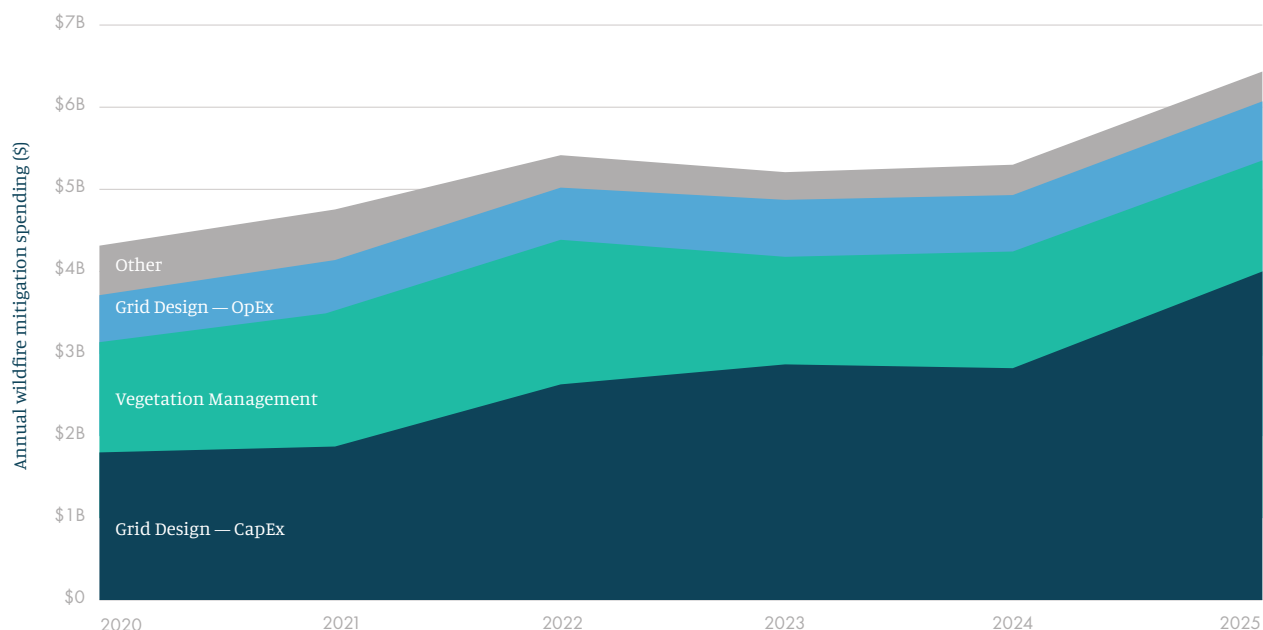
In order to prevent future utility bankruptcies, California lawmakers passed AB 1054 in 2019, which created a \$21 billion Wildfire Fund—funded in part by ratepayer assessments, in part by utility shareholders. Ratepayers now pay a non-bypassable charge of approximately \$2–4 per month toward the Fund, depending on their utility. SB 254 in 2025 added \$18 billion more, after it became clear the damages from the LA fires would deplete the existing Fund.⁹ Because the Wildfire Fund only kicks in above \$1 billion per event, utilities still have to cover the first \$1 billion in damages themselves, a cost that is passed on to ratepayers as well. PG&E customers now pay roughly \$400 million a year into the utility's self-insurance reserve.¹⁰

But neither the Fund nor self-insurance are the biggest burden on ratepayers. To access the Fund—and to earn the presumption of prudent spending that allows cost recovery through the General Rate Case—a utility must hold a valid safety certification from the CPUC, demonstrating ongoing compliance with an approved Wildfire Mitigation Plan. Certification requires documented investment across a broad menu of approved categories: vegetation management, equipment inspection and replacement, weather monitoring, public safety power shutoffs, and grid hardening.¹¹ A utility that sharply concentrated its resources on the highest-impact interventions at the expense of others would risk losing its certification and its access to the Fund. The incentive is not to spend efficiently, but to spend broadly. Combined with unlimited strict liability, this gives utilities every reason to spend as aggressively as the CPUC’s rate recovery process will allow.

Wildfire-related expenses cost California ratepayers roughly \$488 million in 2019; by 2024, they had reached approximately \$9 billion—an eighteenfold increase in five years. Wildfire now represents 27 percent of PG&E’s total revenue requirement and 19% of a typical customer’s monthly bill — costing non-CARE residential customers between \$250 and \$490 per year.¹²

PG&E wildfire spending goes increasingly to low marginal return CapEx

PG&E wildfire mitigation spending by category, 2020–2025



Source: CPUC Wildfire Mitigation Plan spending data. “Other” includes PSPS, Emergency Preparedness, Community Outreach, and miscellaneous.

What these ratepayer dollars end up funding has changed over time. From 2020–2022, PG&E spent aggressively on enhanced vegetation management (EVM)—the practice of clearing a 12 foot buffer around powerlines to prevent vegetation from making contact and sparking a fire. Since 2022, the utilities have ramped down EVM in favor of fast-trip settings, an operational measure that has been shown to greatly reduce ignition risk at low cost. The widespread deployment of fast-trip settings, which independent researchers have shown to reduce ignition risk by 82%,¹³ represents a real success on the part of PG&E’s wildfire mitigation efforts.

The problem is the remaining 18% of risk. Because of the existential implications of uncapped strict liability, PG&E and other IOUs have every incentive to attempt to reduce risk to zero—an aim utilities admit to freely in their wildfire mitigation plans.¹⁴ But the only way to reduce utility ignition risk to zero is to underground every single power line. And this is orders of magnitude more expensive than eliminating the first 80% of risk through EPSS implementation:

Chasing zero: the extraordinary expense (and impossibility) of eliminating utility wildfire risk

Total 30-year ratepayer cost vs. cumulative ignition risk reduction (PG&E)



Source: EPSS: Warner, Callaway & Fowle, Energy Institute at Haas WP 347R (2025); PG&E 2027 GRC Ch. 6: \$112M/yr. UG 10K miles: \$30B capital (Warner et al.; PG&E 2023 GRC). UG 15K miles: 15,000 × \$3M/mile = \$45B. All capital annualized at 7.5% WACC over 30 years. Residual ~6% reflects transmission lines (12% of PG&E wildfire risk value, PG&E 2026-28 WMP) after all distribution is undergrounded.

Diminishing marginal returns are exactly where utilities are heading. PG&E already has plans to underground 10,000 miles of distribution lines at the cost of \$3 million per mile.¹⁵ Yet this \$30 billion dollar investment would still not bring ignitions to zero. To eliminate distribution risk entirely, PG&E would have to underground the remaining 15,000 miles of distribution lines as well. And this would still leave risk from transmission lines, which account for 12% of ignition risk from the power system¹⁶ and are nearly impossible to underground. Undergrounding distribution is already costly; undergrounding transmission runs \$6 million to \$100 million per mile—with an additional layer of multi-jurisdictional regulatory complexity that implicates FERC and CAISO as well as the CPUC.¹⁷

SB 254 promises to bring more cost discipline to this process going forward by requiring utilities to present an estimate of cost per ignition avoided in their general rate case application. But cost discipline at the rate case cannot offset the upstream incentive created by strict liability. Under California's current liability regime, there is no version of utility wildfire mitigation that delivers a stable electricity bill. So long as utilities face uncapped strict liability for any fire their equipment ignites, they will continue to spend past the point of cost-effectiveness — and the CPUC will face heavy pressure to approve it.

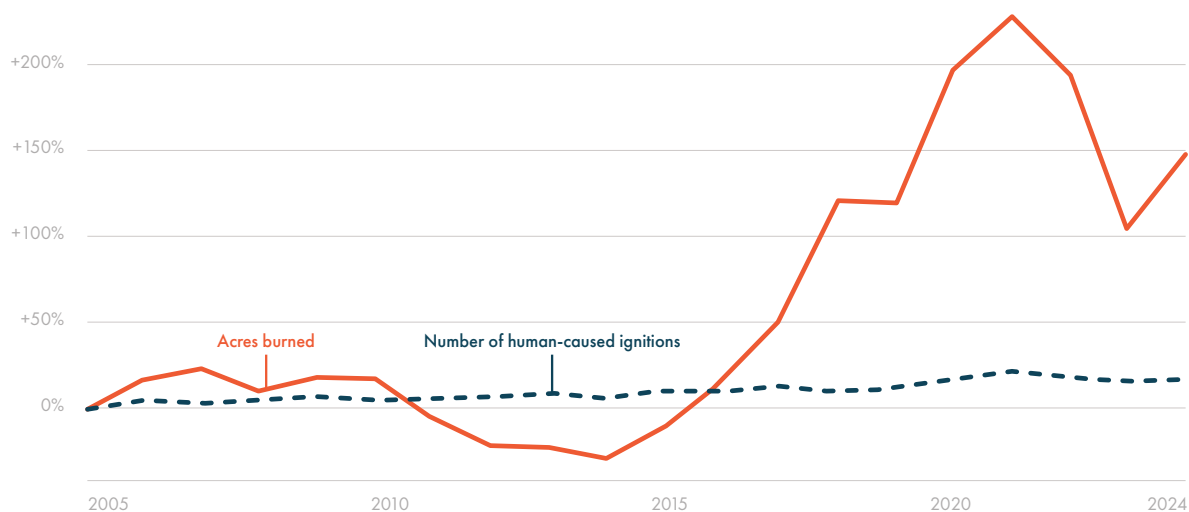
From eliminating ignitions to managing conflagration risk: a more sustainable approach



Inverse condemnation with strict liability necessarily concentrates California wildfire mitigation funding on reducing ignition risk—specifically, the risk of one type of ignition that accounts for less than half of the state's most catastrophic fires. Yet given California's ecology as well as the diverse and unpredictable nature of ignition sources—some of the state's worst fires have been ignited by lightning or by arsonists—it is not possible to eliminate ignitions entirely. Meanwhile, the risk of serious conflagration from any given ignition has increased over time. Indeed, California's growing wildfire epidemic is driven largely by worsening conflagrations rather than increased ignitions:

In California, ignitions have stayed flat while the scale of fires has ballooned

5-year rolling average; California human-caused wildfires, indexed to 2001-2005



Source: National Interagency Fire Center (NIFC), Human-Caused Wildfire Statistics, California 2001-2024.

Note: Both series shown as a 5-year trailing average, indexed to 2001-2005 average. Includes fires reported by CAL FIRE and cooperating agencies.

Because ignitions can never be eliminated entirely, an optimal statewide wildfire mitigation framework would redirect funding and resources to *conflagration risk management* in an effort to sharply curtail the scale and damage of fires once ignited. If California does not make this shift, any potential damage reduction from reducing ignition risk can easily be erased by growing conflagration risk.

The reasons for growing conflagration risk are threefold: 1) Expansion of residential development into the wildland-urban interface (WUI); 2) the build up of legacy fuels thanks to a century of fire suppression; and 3) climate change, which dries out vegetation and makes fuel more flammable.

Accounting for about 1% of world emissions, there is not much California on its own can do about climate change. Therefore, the state's two main levers for reducing conflagration risk are land use policy and fuels management policy. Progress has been made in both of these areas; but strict liability reform is needed to fully transition into a framework that prioritizes conflagration risk management.



Land use

Growing conflagration risk in California is, in significant part, a land use problem. The number of structures in California's wildland-urban interface—where development meets fire-adapted landscape—has grown by more than 1.5 million units since 1990. Approximately 40 percent of California's housing stock—some five million units representing an estimated \$1.3 trillion in real estate—now sits within fire-prone terrain.¹⁸ Each new WUI development expands the perimeter that firefighters must defend, increases the number of structures that can ignite and re-ignite adjacent vegetation, and deepens the aggregate exposure that insurers are asked to absorb.

Land use policy has had a leading role in this dangerous expansion of the WUI. While some Californians choose the WUI for lifestyle reasons — proximity to nature, larger lots, the appeal of rural living — a growing share end up there because they have no other choice: zoning laws, permitting barriers, and other impediments to expanding the supply of homes in desirable cities have sent those in search of affordable housing to the fire-prone urban edge.¹⁹

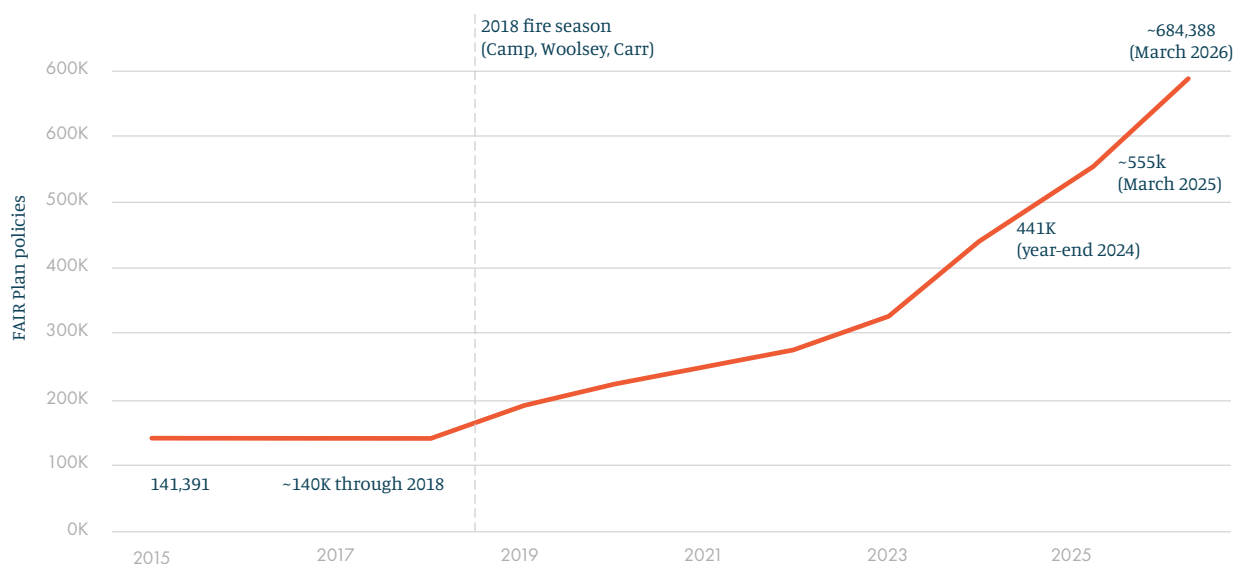
Artificially cheap home insurance has greatly exacerbated the problem. In a functioning insurance market, prohibitively high home insurance premiums in the most dangerous areas would either discourage new development of the WUI or push those already living there to invest aggressively in home hardening. But thanks to Proposition 103, a 1988 ballot measure that subjected homeowner insurance rate increases to approval by an elected Insurance Commissioner—effectively imposing price controls on premiums—rates have not been able to rise to the level that would send reliable price signals about where it is safe to live.

In recent years, this price suppression has become untenable for insurers. State Farm stopped writing new homeowner policies in California in 2023; in 2024 it declined to renew tens of thousands of existing policies, including 70 percent²⁰ of policies in the wealthy Pacific Palisades—a zip code where home-value-adjusted premiums had been running lower than in 97 percent of U.S. zip codes.²¹

As major private insurers have reduced their exposure in California's wildfire-prone regions through nonrenewals and pauses on new business, many homeowners have been pushed onto the state-administered FAIR Plan as a coverage option of last resort, with residential policies in force quintupling over the past decade:

California FAIR Plan policy count nearly quintupled after the 2018 fire season

Residential policies in force, 2015 to March 2026

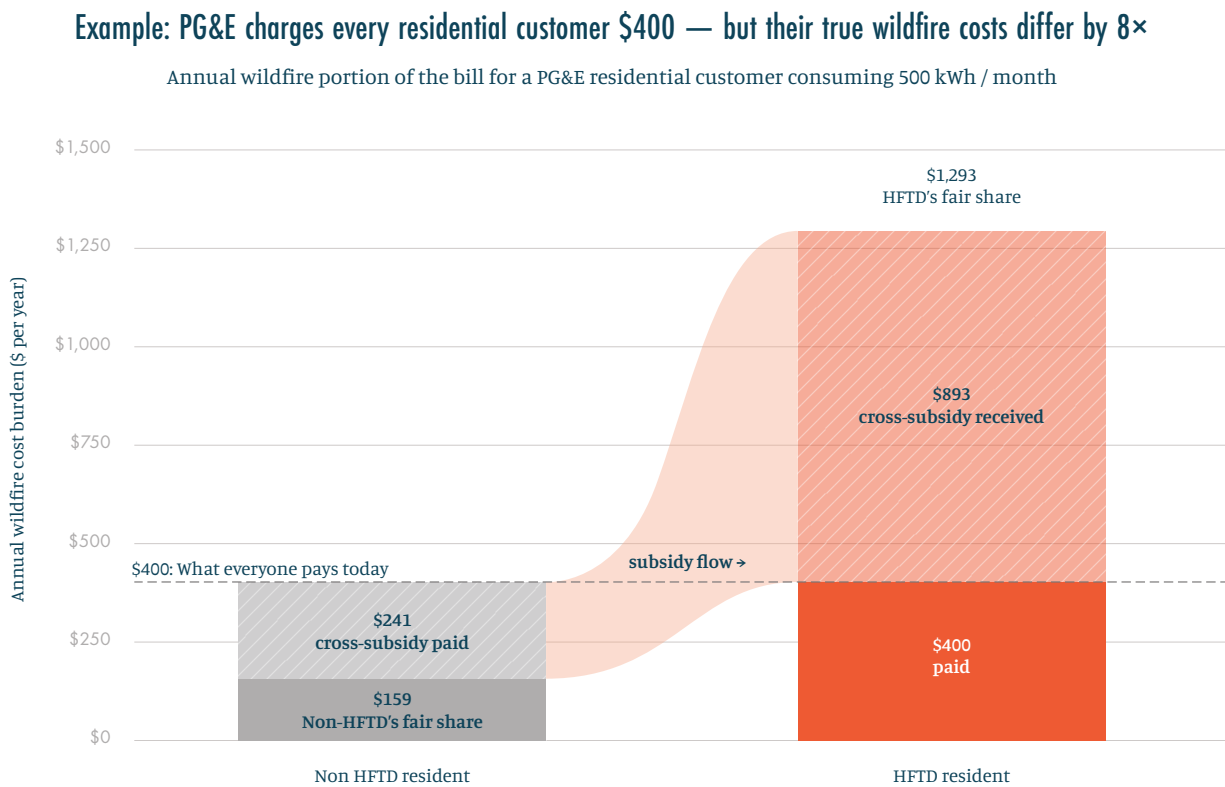


Sources: California Department of Insurance, 'Summary on Residential Insurance Policies and the FAIR Plan' (Jan 2025) for 2015–2023 (annual new + renewed); Hilbig, Hen, Macaraeg, 'Navigating California's Wildfire Insurance Challenge' (UC Davis / CA Policy Lab, Sep 2025), citing CA FAIR Plan Association, for 2024 and March 2025 (policies in force).

This expansion has also increased the scale of potential statewide cross-subsidies. Following the January 2025 Palisades and Eaton fires, the FAIR Plan imposed a \$1 billion assessment on member insurers, with carriers permitted to recoup up to 50% of the first \$1 billion through temporary statewide surcharges on policyholders. In practice, this translates into an aggregate transfer of roughly \$500 million from policyholders across California — mostly in lower-risk urban and coastal communities — to cover losses concentrated in a relatively small number of high-risk ZIP codes that rely heavily on the FAIR Plan.²²

The few private insurers that remain are being kept afloat thanks in part to another cross-subsidy, this one laundered via utilities. Under California's strict liability doctrine, insurers who pay claims to fire victims can pursue the responsible utility through subrogation, recovering their losses by turning liability back onto the utility that caused the ignition. Locked out of actuarially sound pricing on the front end, California's property insurers have depended on subrogation recovery to remain viable in the state's highest-risk markets; without it, they would likely write even fewer policies.²³ Trade groups representing property and casualty insurers submitted to the CEA's SB 254 study process that California insurers paid roughly \$30 billion in claims from the 2017 and 2018 fires alone, the majority attributable to utility ignitions, and that over \$45 billion in insured losses from IOU-caused fires have accumulated over the past decade.²⁴ Subrogation allows insurers to recover a substantial portion of those losses—and in California's regulatory environment, it functions as a financial lifeline.

All of this means that California ratepayers are subsidizing the continued expansion of housing into the most dangerous parts of the WUI via their electric bills. PG&E estimates that about a tenth of its customers live in what the CPUC has designated as High Fire Threat Districts (HFTD); yet 70% of wildfire mitigation funds are being spent in the HFTD.²⁵ This implies a large cross subsidy from the majority of ratepayers who live in low threat areas to the minority who live in the HFTD, on the order of about \$900/year for each HFTD resident:



Fair share = (service-area WMP cost ÷ service-area kWh) × customer kWh. Costs from PG&E 2024 WMP cost responsibility table; kWh from PG&E 2024 ZIP usage, allocated to HFTD by ZIP polygon area within the CPUC Tier 2/3 HFTD map.

These large cross subsidies are not only unfair, but dangerous. Insulating high-risk development from the cost of that risk disincentivizes home hardening measures and encourages continued residential growth in fire-prone regions, perpetuating California’s overall wildfire exposure over time.



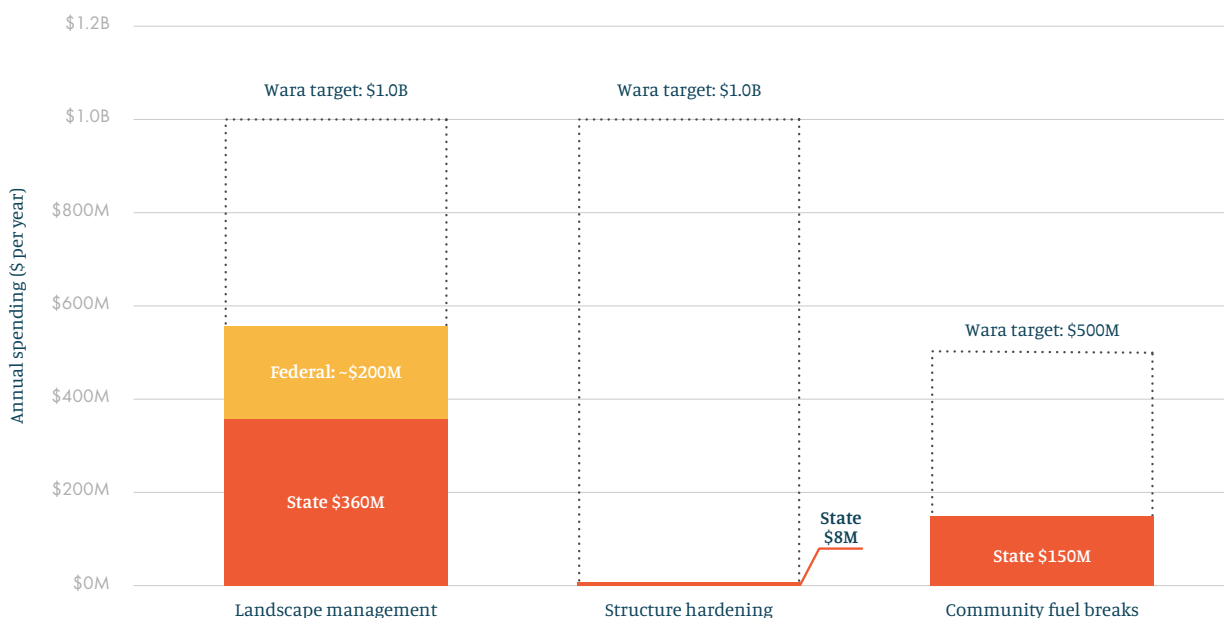
Fuels management

California has two distinct fuels management problems when it comes to wildfires. In the Sierra and the wildlands, the fuel is the forests: a century of fire suppression has produced biomass loads that drive fuel-driven megafires. These require extensive landscape-scale prescribed burning and mechanical treatment to mitigate. In the developed coastal WUI, the fuel is the built environment itself — wind-driven embers igniting older homes built before Chapter 7A codes — and the structures are what burns. In such areas, the most effective interventions are not landscape scale fuel treatments but aggressive investment in structural hardening and community fuel breaks.

While the former has received more attention in the public eye, the latter is arguably just as important. Indeed, the devastating LA fires of January 2025 were largely structure-driven conflagrations.²⁶ California wildfire expert Michael Wara has made the case that structural fuels deserve just as much funding for “treatment” as landscape-scale vegetative fuels. In a 2021 report, he proposed directing \$1B/year to both landscape management and structural hardening, as well as \$500M/year for community fuel breaks, which can buy time for evacuation and fire suppression efforts before fire makes its way into communities. All three interventions are underfunded according to this paradigm, although structural hardening is underfunded most radically:

California fuels management spending falls short of expert recommendations

Annual averages. Bar height = Wara 2021 target for combined state, federal, and private spending.



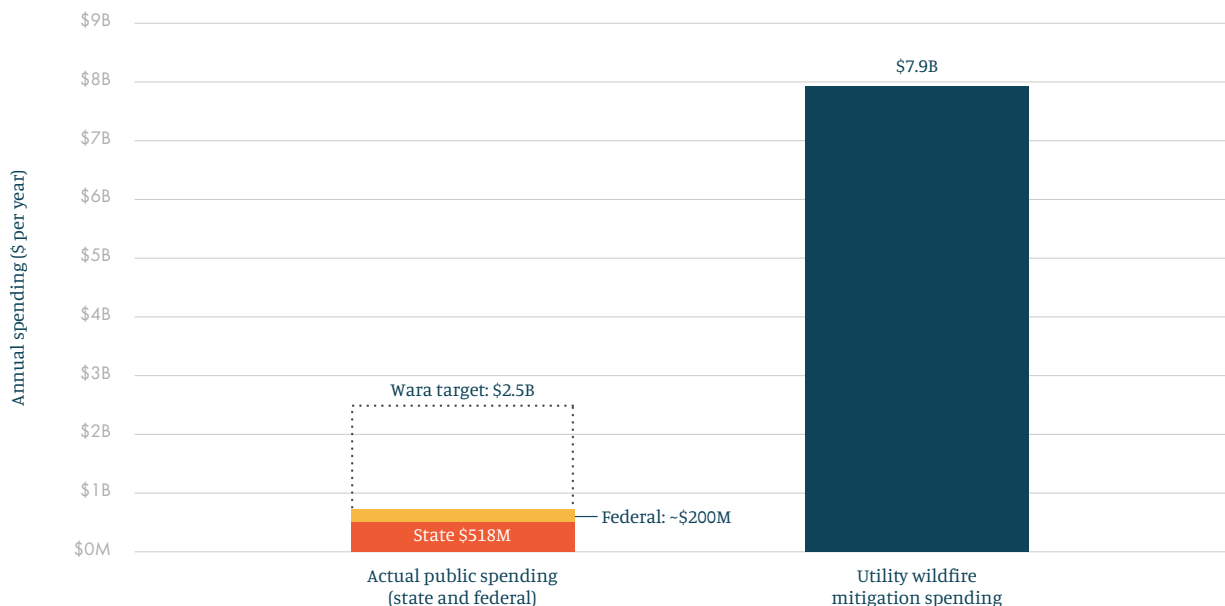
Notes: Federal landscape estimate is the midpoint of USFS hazardous-fuels appropriations directed to California — 20-45% of the \$649M FY2024 US total (RFF 2025 Federal contributions to community fuel breaks and structure hardening (FEMA BRIC, IIA) exist but are not separately quantified here.

Sources: LAO 'Overview of Wildfire Prevention and Response Funding' (Apr 2026); RFF Working Paper 25-03 (Wear, Wibbenmeyer, Zhu, Nov 2025); Wara, Stanford Woods Institute (2021).

Wara's \$2.5B/year proposal sounds ambitious—until you set it against the roughly \$8B California utilities already spend annually on grid-side mitigation:

Utility wildfire spending dwarfs public fuels management spending

2020–2025 annual average, \$ per year



Notes: Federal landscape estimate is the midpoint of USFS hazardous-fuels appropriations directed to California — 20–45% of the \$649M FY2024 US total (RFF 2025). Wara target sums his three fuels-strategy categories; the \$500M coordination line is omitted.

Sources: LAO 'Overview of Wildfire Prevention and Response Funding' (Apr 2026); RFF Working Paper 25-03 (Wear, Wibbenmeyer, Zhu, Nov 2025); Wara, Stanford Woods Institute (2021); CA IOU WMP filings.

The funding capacity for ambitious fuels management already exists in California—it is simply in the wrong place. Utilities spend roughly \$8 billion a year on grid-side wildfire mitigation that has reached steeply diminishing marginal returns, while the state and federal partners together spend less than \$1 billion a year on the landscape, community, and structural fuels work that experts have identified as the highest-leverage interventions. Redirecting even a fraction of that grid-mitigation spend would put fuels management on expert-recommended footing. Moreover, paying for wildfire mitigation through volumetric electricity rates is highly regressive, falling hardest on the customers least able to absorb it. Sustained taxpayer funding—through the General Fund or a broader, progressive revenue source—would be both more effective and more equitable.



Reforming inverse condemnation for a more holistic approach to wildfire mitigation

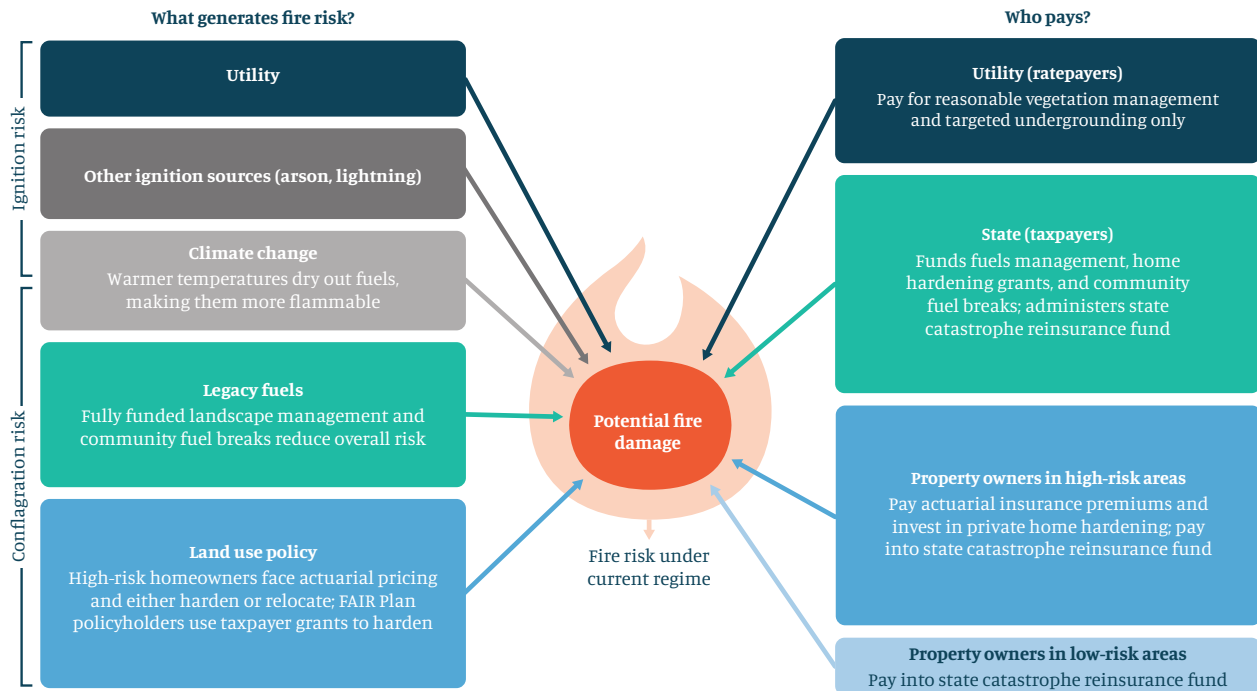


In order to stop electricity bills from skyrocketing, inverse condemnation with strict liability must be reformed. Utilities should be held to a rigorous standard of prudent management: required to invest meaningfully in vegetation management, equipment inspection, and grid hardening, and liable for damages when they fall short of that standard. They should not, however, be strictly liable for damages driven by fuel conditions, wind events, and WUI exposure that no amount of utility spending can address. **Replacing strict liability with a fault-based liability standard** would preserve accountability without making utilities the financial backstop for a wildfire crisis they did not create.

What would it take to replace strict liability with fault-based liability?

Switching to a negligence-based standard should not require a constitutional amendment. Article I, Section 19—California's takings clause—requires “just compensation” when private property is damaged for public use, but courts imposed the strict liability interpretation as a gloss on that text; the Legislature can revise the statutory standard without touching the Constitution, through an amendment to the Public Utilities Code or Code of Civil Procedure.^{28,29} Models exist: Utah Code § 54-24-303 and Wyoming Stat. § 37-3-405 both establish negligence standards that bar liability findings against utilities that completed approved mitigation work. Colorado applies a full negligence standard tied to vegetation management compliance. California has its own precedent: AB 436 (2013) proposed comparative fault in inverse condemnation actions and passed the Assembly 51–26 before stalling in the Senate, and the CPUC's January 2026 SB 254 submission formally recommended legislative modification along these lines.

Under a rebalanced regime, those who generate risk help bear its costs



Proportions are illustrative. The rebalanced regime distributes wildfire cost more closely with risk, and lowers overall exposure.

Strict liability reform is the precondition for everything else in this paper. Without it, insurance markets cannot price risk honestly, ratepayer spending cannot be redirected, and the state cannot move from suppressing ignitions to managing conflagration risk.

California stakeholders increasingly recognize that this must happen. In January 2026, responding to a Governor's order issued in SB 254's wake, the CPUC issued formal recommendations to modify strict liability, cap utility tort exposure for catastrophic events, and replace the Wildfire Fund with an event-triggered catastrophe fund. The CEA study issued in April identified strict liability reform as one of three possible paths forward, although it stopped short of explicitly recommending it. The question now is whether the Legislature will act. The political economy of inverse condemnation and utility wildfire liability in California is extremely difficult. For any reforms to become feasible, several grand bargains must be made.

Insurers and IOU detente

The most formidable opposition to inverse condemnation reform will not come from wildfire victims—it will come from the insurance industry. California's property insurers have depended on subrogation recovery to remain viable in the state's highest-risk markets; without it, losses accumulate in the insurance pool with no compensating mechanism.

The bargain that might bring insurers to the table is one in which insurers accept a modified liability standard that reduces their subrogation recourse against utilities in exchange for the right to price wildfire risk correctly. Full actuarial pricing would allow insurers to underwrite California's high-risk areas on a sustainable basis for the first time since Proposition 103 passed in 1988. Insurance Commissioner Ricardo Lara's Sustainable Insurance Strategy (SIS), passed in 2024, has already

laid the groundwork by allowing insurers to use forward-looking catastrophe models, and there are some early signs that this is working to bring private insurers back into the state. However, it is not enough. The SIS tied the use of forward looking models to coverage commitments in high risk areas, which blunts the price signal for very high risk properties. It also lets Proposition 103's core architecture—elected commissioner approval of all rate changes, with the attendant political pressure to suppress premiums—remain intact. A durable private insurance market in California's high risk areas ultimately requires insurers to charge what the risk actually costs.



The state will have to ease the transition for property owners in HFTDs

Insurers are not the only constituency whose transition must be managed. If inverse condemnation reform and actuarial pricing arrive simultaneously, HFTD property owners face dramatically higher costs on properties they cannot easily sell. The state will need to bridge that gap—but the lesson from every other state that has tried to solve a similar problem through indefinitely subsidized last-resort coverage is cautionary. A Stanford CEPP review of wind pool models from hurricane-prone states found that residual markets designed as temporary backstops reliably became permanent homes for high-risk properties when underlying risk persisted and private insurers exited—exactly California's trajectory.³⁰

The better model is a sunset: a clearly defined date beyond which the state's subsidized backstop coverage phases to actuarial pricing, announced far enough in advance that property owners have time to respond. This is roughly the structure of the United Kingdom's Flood Re scheme—a state-backed reinsurer explicitly designed as transitional, with a 25-year sunset to 2039, intended to give property owners time to adapt and to drive investment in property-level flood protection. A California equivalent would convey a clear message to HFTD homeowners: the current arrangement cannot continue, and there is a defined window to invest in home hardening or to reassess where they live. State grants to subsidize those investments for lower-income HFTD residents would blunt the equity edge of this transition.



The state must absorb tail risk

Even a well-functioning private insurance market and well-funded public fuels management cannot solve the problem of catastrophic tail risk at California's scale. Insurance works by pooling independent risks: premiums from policyholders who do not suffer losses in a given year subsidize those who do. However, this only works well when policyholder risk is uncorrelated. Wildfire does not behave this way. A megafire moving through a utility service territory or a dense WUI zone can simultaneously threaten tens of thousands of insured structures across multiple counties, generating losses in the tens of billions with no offsetting "safe" premium base in the same portfolio.

Catastrophe reinsurance markets can absorb some of this tail, but not at California's scale. North Carolina's wind pool—the closest structural analog to what California's wildfire market needs—holds \$950 million in reinsurance and \$1.13 billion in catastrophe bonds against \$125.7 billion in total exposure. California's FAIR Plan alone carries \$750 billion in exposure, and the private market is not capitalized for losses on the scale of the 2025 Los Angeles fires, let alone a larger event. The only actor capable of absorbing the true catastrophic tail is the state, which uniquely can spread costs across all taxpayers, issue bonds against future revenue, and compel risk-sharing across the economy. A state-backed catastrophe reinsurance fund—capitalized by dedicated assessments on insurers, property owners, and general fund contributions, and supplemented by pre-event catastrophe bonds—would function as the reinsurer of last resort only above a threshold at which private insurers are no longer able to absorb risk, which would minimize the scale of the cross-subsidy involved. The CPUC's January 2026 recommendations pointed toward this model, proposing to replace the existing Wildfire Fund with a broader event-triggered catastrophe fund.³²

Conclusion

California's approach to wildfire liability has been to concentrate the financial consequences of the state's growing conflagration problem on the one institution that cannot escape them: the regulated utility, and by extension, the ratepayer. The result is rapidly rising electricity bills, a mitigation regime that directs the largest share of spending toward grid hardening and vegetation management rather than the fuel accumulation and land-use conditions that actually drive catastrophic fire, and an insurance market incapable of honest risk pricing. These are not failures of execution, but the predictable output of the state's current liability architecture.

The CPUC's January 2026 recommendations and Commissioner Lara's Sustainable Insurance Strategy together outline the shape of the necessary bargain. What they require is the willingness to pursue all three elements—liability reform, insurance market correction, and catastrophe fund capitalization—simultaneously rather than sequentially, because each blocking coalition dissolves only when the full trade is visible. That willingness demands naming the problem plainly: the current system is not protecting wildfire victims or containing the wildfire epidemic. It is protecting the legal architecture that makes it convenient to extract money from ratepayers rather than to solve the underlying problem. Reforming it is the harder and more honest path.

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