

Green

LA Fires Reveal Limits of California's \$21 Billion Utility Fund

- Los Angeles wildfires could cost \$30 billion or more
- Fund was crafted to help backstop state's power companies



A home destroyed by the Eaton Fire in Pasadena. *Photographer: Jill Connelly/Bloomberg*

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Financial losses from the devastating Los Angeles wildfires are mounting after the blazes incinerated entire neighborhoods and destroyed thousands of homes. And now, investors are growing increasingly concerned that a \$21 billion state fund crafted to backstop utilities will fall far short of what's needed if companies are found liable.

No cause of the conflagrations has so far been determined, but given the state's history of power equipment starting fires, some traders are already starting to worry about the implications for utilities. Edison International,

which operates the region's largest utility Southern California Edison, has seen its shares drop about 20% this month.

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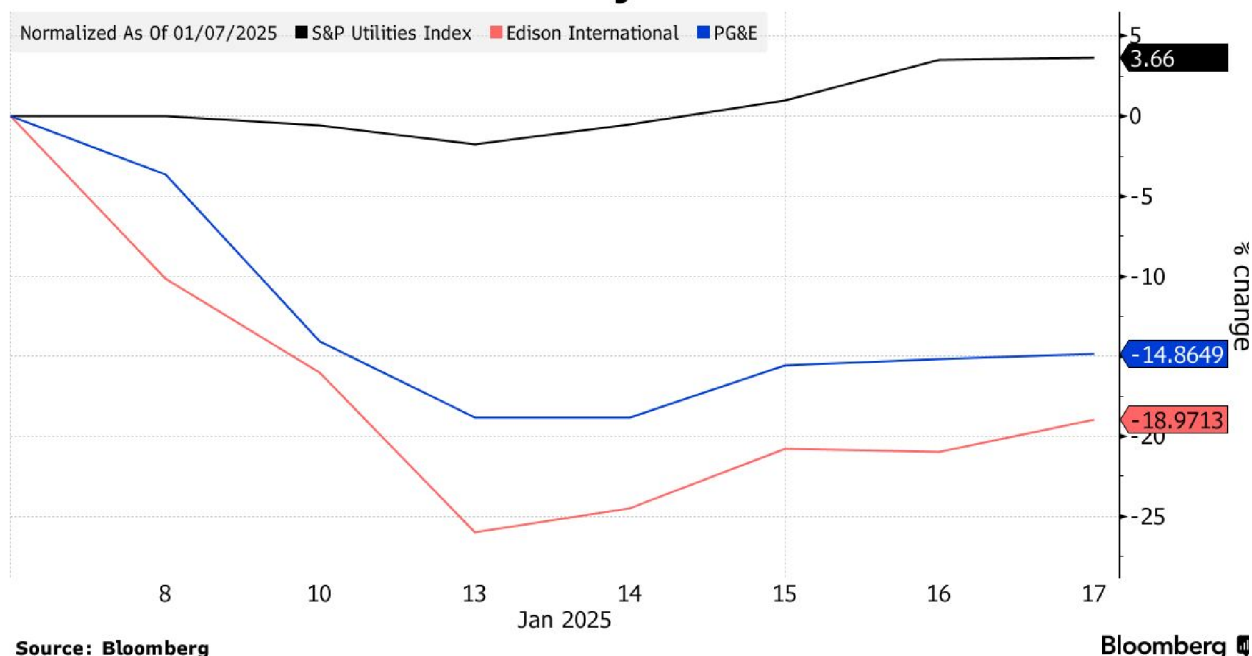
Wells Fargo & Co. and Goldman Sachs Group Inc. estimate insured losses from the major Los Angeles fires could reach as much as \$30 billion. Analysts at Keefe Bruyette & Woods peg the costs at as high as \$40 billion, and S&P Global Ratings expects the fires to be the most-expensive ever.

But the state fund that's designed to shield investor-owned utilities from losses currently has more than \$12 billion in liquid assets, and has a total allowance of \$21 billion – leaving it below most estimates of potential costs.

And if those resources are drained, it will also leave other utilities vulnerable in the event of another disaster elsewhere in the state. That's one reason why investors have also sold off shares of PG&E Corp. and to a lesser extent Sempra, owner of San Diego Gas & Electric, despite neither utility having operations close to the fires.

“The fund was giving this backstop so that a utility is not going to be on the verge of bankruptcy when a big fire breaks out,” said Jay Rhame, chief executive officer of Reaves Asset Management, which manages the Virtus Reaves Utilities ETF. “Otherwise, you have to price this risk into the stock.”

Investors Sold California Utility Stocks After LA Fires



California's legal doctrine holds utilities liable for damages if they are found to have started a fire, even if the company was found to have acted prudently.

The fund, crafted under California Governor Gavin Newsom, was established after PG&E was driven into bankruptcy in 2019. The utility faced more than \$30 billion in fire-damage claims, prompting California lawmakers to pass a number of wildfire safety reforms designed in part to help protect its investor-owned power companies from another financial wipe-out. The legislative package included the establishment of a \$21 billion insurance fund – half financed by utility shareholders, the other half by customer rates – that utilities could use to pay third-party damage claims.



Southern California Edison transmission towers in Eaton Canyon that are under investigation as the possible point of ignition of the Eaton Fire. *Photographer: Kyle Grillot/Bloomberg*

If Edison is found liable for the Eaton fire and found to have acted imprudently, it would be required to reimburse the fire fund, but only up to \$3.9 billion under a liability cap.

Lawsuits are already piling in.

On Friday, Edison was sued over the death of a woman whose home burned in one of the catastrophic fires. It appeared to be the first wrongful-death suit filed against Southern California Edison over the conflagration. The case comes after a flurry of previous complaints by property owners. Edison's decision to leave some power lines operating during a historic windstorm is under scrutiny as an investigation gathers pace.

Read More: [Edison Utility Faces First Death Lawsuit Over Raging LA Wildfire](#)

The company has said it's reviewing the suits and is focused on safely restoring power to customers. Edison's Chief Executive Officer Pedro Pizarro said on [Bloomberg TV](#) that the company hasn't seen data that points to

issues on its transmission lines that were energized close to where the Eaton fire started.

Meanwhile, credit rating companies S&P, Moody's and Fitch have warned that the wildfires could test California's liability reforms and the state wildfire fund, putting the investor-owned utilities at financial risk.

Edison, PG&E and San Diego Gas & Electric declined to comment.

Southern California Edison contractors repair power poles after the Eaton Fire in Altadena on Jan. 17. *Photographer: Jill Connelly/Bloomberg*

State legislation passed in 2018 and 2019 was “focused on strengthening utility wildfire prevention, providing certainty for wildfire survivors, and improving the solvency of utilities that provide essential electric service,” a statement from Newsom's office said, without providing further details on the outlook for utilities or the fund.

The California Earthquake Authority, which oversees the wildfire fund, said it hasn't received any notification that a utility participating in the fund has caused any of the Los Angeles wildfires, according to an agency spokesperson. The fund has more than \$12 billion in liquid assets and should

the agency need more liquidity to pay claims, legislation allows for the remaining monthly customer bill charges to be securitized through the issuance of revenue bonds, the spokesperson said.

The fund is “highly critical” to the state’s utility credit ratings, said Gabe Grosberg, an S&P Global Ratings analyst. California doesn’t currently have a way to replenish the fund if it gets drawn down, he added.

“This is an old risk,” Grosberg said. But “now you have an enormous wildfire in front of you, it gets much more magnified and discussed,” he said.

Asked about the utility fund on Thursday at the fire response staging area at the Pasadena Rose Bowl, Jesse Gabriel, chair of California assembly’s budget committee, said he “didn’t want to get out of out ahead of my skis” and that lawmakers are first approaching the immediate needs of fire victims and disaster clean up.

“A lot of us are still just trying to get through this initial stage,” said Gabriel, whose home is in the evacuation zone. “People are aware of all of these issues. We’re starting to think and talk about them.”

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