Decision __________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2023. (U39M)	Application No. 21-06-021

GRANT OF JOINT PETITION FOR MODIFICATION OF DECISION 23-11-069 REGARDING NON-WILDFIRE LIABILITY INSURANCE

TABLE OF CONTENTS

Title **Page**

GRANT OF JOINT PETITION FOR MODIFICATION OF DECISION 23-11-069 REGARDING NON-WILDFIRE LIABILITY INSURANCE

Summary

This decision grants the unopposed "Joint Petition for Modification of Decision 23-11-069 for Implementation of an Agreement among Pacific Gas and Electric Company (U 39 M), the Public Advocates Office, and The Utility Reform Network on Non-Wildfire Liability Insurance." This grant includes the Commission's approval of the "Agreement Among Pacific Gas and Electric Company, The Utility Reform Network and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.23-11-069 on Non-Wildfire Liability Insurance." As a result, Pacific Gas and Electric Company will establish the self-insurance framework stated in the Agreement for a portion of its non-wildfire liability insurance coverage, thereby providing an opportunity for ratepayer savings in a few years consistent with the Commission's ongoing efforts to address utility bill affordability. The amount to be collected in rates for non-wildfire liability insurance in 2025 and 2026 remains unchanged.

This proceeding remains open.

1. Background

1.1. Procedural Background

On November 17, 2023, the Commission issued Decision (D.) 23-11-069. This decision resolved Phase 1 (revenue requirement) issues in Application (A.) 21-06-021 for the test year (TY) 2023 general rate case (GRC) of Pacific Gas and Electric Company (PG&E).

On December 20, 2024, a Joint Petition for Modification of D.23-11-069 (Petition) was filed by PG&E, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), and The Utility Reform Network (TURN; collectively Settling Parties). The Petition seeks Commission approval of an "Agreement Among Pacific Gas and Electric Company, The Utility Reform Network and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.23-11-069 on Non-Wildfire Liability Insurance" (Agreement; the Agreement is contained in Attachment A to this decision.) The Agreement allows PG&E to establish a self-insurance framework for a portion of its non-wildfire liability insurance coverage.

The Petition also asks for a Commission decision by mid-March in order to allow early implementation of self-insurance and provide an opportunity to begin cost savings sooner rather than later. An early decision is requested given that existing policies expire May 31, 2025. According to the Settling Parties, actions to secure renewals or acquire new policies require about two months of work before existing policies expire, with necessary efforts beginning by about April 1, 2025.

No responses to the Petition were filed.

On January 28, 2025, the Settling Parties were ordered by an Administrative Law Judge's Ruling to provide additional evidence. On February 3, 2025, the Settling Parties filed a joint response with that additional evidence.

1.2. PG&E's Non-Wildfire Insurance and Ratemaking Treatment

Non-wildfire liability insurance protects against claims due to accidents or injuries that are caused by events other than wildfires and which are alleged to have occurred from utility business operations, assets, and risk of loss from the supply of electricity and natural gas to customers.[1] PG&E maintains three layers of non-wildfire liability insurance: Layer 1 covers claims up to $115 million; Layer 2 covers claims between $115 million and $535 million; and Layer 3 covers claims between $535 million and $700 million. D.23-11-069 authorized a base cost paid by ratepayers of $156 million per year for PG&E to purchase a total of $700 million in non-wildfire liability insurance coverage.[2] The Layers and authorized cost are:

TABLE 1: Layers and Authorized Non-Wildfire Liability Insurance Cost[3]

LINE NO	LAYER	CLAIM COVERAGE ($ millions)	AUTHORIZED COST ($ millions)
1	1	Up to $115	$41
2	2	$115 to $535	$96
3	3	$535 to $700	$19
4	TOTAL		$156

Insurance costs charged to ratepayers are managed using the Risk Transfer Balancing Account (RTBA). The RTBA is a two-way balancing account that

[1] Petition at 5. Coverage excludes claims covered by other non-wildfire-related insurance such as Directors and Officers, Nuclear Property, Aviation, and Cyber.

[2] Petition at 5 citing D.23-11-069 at 842-843 and Finding of Fact (FOF) 344.

[3] Petition at 2-3.

records and recovers the GRC portion of actual insurance costs up to the adopted insurance cost. The RTBA captures all insurance products and related costs.[4] If PG&E's annually incurred non-wildfire liability insurance costs are less than the authorized forecast of $156 million, the RTBA is used to return to ratepayers the difference between the amount collected and the amount incurred. Alternatively, if PG&E's costs are above the forecast, PG&E may seek recovery of those costs by application.[5]

1.3. Changes In Non-Wildfire Liability Insurance Market and Potential Benefits of Self-Insurance

PG&E states that past and expected future trends in the non-wildfire liability insurance market prompted PG&E to consider self-insurance as a possible cost-effective alternative.[6] For example, PG&E projects that the premiums for $700 million in coverage will increase from $152 million in 2020 to $176 million in 2025/2026, and to $260 million in 2033/2034.[7] PG&E separates its annual coverage into three layers as follows.[8]

> <u>**Layer 1 coverage**</u>: The first layer covers claims between $10 million[9] and $115 million. PG&E states that this layer has the highest likelihood of use due to the frequency of small claims

---

[4] Petition at 5. The Petition states that insurance products include, for example, reinsurance, collateralized reinsurance, catastrophe bonds, and insurance-linked securities. Related costs include broker fees and excise taxes.

[5] Petition at 5-6 (which references D.23-11-069 at 842-843, FOF 344).

[6] Petition at 4 and 6.

[7] Petition at 6-7.

[8] Petition at 7-8.

[9] PG&E self-insures the first $10 million in liability. (Petition at 7 citing A.21-06-021, Exhibit PG&E-9, p. 3-12, lines 3-7.)

that may breach through PG&E's self-insured retention of $10 million. PG&E believes commercially purchased insurance at this level provides relatively cost-effective coverage and additional benefits to PG&E. Those benefits include litigation support for complex claims, loss control consultative services, and educational opportunities for employees on utility industry risk management best practices. PG&E states that once the self-insurance framework has been successfully implemented and assessed for Layer 2, further consideration will be given to the benefits and burdens of applying a self-insurance framework for a portion, or all, of Layer 1.

Layer 2 coverage: The second layer covers claims between $115 million and $535 million. It represents the highest portion of the cost to pay insurance premiums (about $96 million (62%) of the approved $156 million). PG&E states that this layer has the greatest potential for cost savings through self-insurance.

Layer 3 coverage: The third layer covers "catastrophic" losses between $535 million and $700 million. PG&E states that the benefits of continuing to purchase coverage at this level exceed the risks of insufficient financial protection for potential liabilities exceeding $535 million.

PG&E states that this Petition to convert commercial non-wildfire liability insurance to self-insurance is based on the ratepayer benefits of its successful operation of its wildfire self-insurance to date.[10] Based on its wildfire liability self-insurance model, PG&E believes a self-insurance framework for non-wildfire liabilities potentially can also provide ratepayer savings. Among the benefits identified by PG&E are the following.[11]

[10] Petition at 9. PG&E's wildfire self-insurance program was authorized in D.23-01-005.

[11] Petition at 9-10.

First, to the extent funds are not needed to cover losses in a given year, the self-insurance cost remains available for subsequent years. This is not the case for commercial insurance, where the insurers generally keep the premiums paid, regardless of the number of claims ultimately made against the policy. Under this "use it or lose it" paradigm, in a year with relatively low claims submitted to the insurer for reimbursement, customers are potentially leaving third party insurers with hundreds of millions of dollars in excess premiums. In contrast, as the Commission noted: "Unlike with commercial insurance, under a self-insurance framework if funds are not needed to cover losses in a given year the self-insurance cost remains available for subsequent years."[12]

Second, there is often a lag between the time a non-wildfire event occurs and the time when claims are ultimately paid. As such, the amount of self-insurance funds that may be necessary to pay claims in future years does not necessarily need to be collected in rates upfront, and all at once. The self-insurance funds may grow during the time between a third-party liability event occurring and when settlement payments are made. This is not the case for commercial insurance, where the entire amount of the premium is paid annually to the insurance company at the time the policy is purchased, which is often years before the covered claims are paid and reimbursed by the insurer.

Third, insurance market conditions indicate further volatility (e.g., sharp premium increases, changes in the amount and quality of coverage, and

[12] Petition at 9, citing D.23-05-013 at 14, FOF 4.

reductions in total global capacity as carriers exit the market). Self-insurance can reduce PG&E's exposure to this volatility.

1.4. Commission's Recent Approval of Similar Customer-Funded Self-Insurance Programs

PG&E says recent Commission decisions approving self-insurance for wildfire-related risks are instructive. For example, D.23-01-005 approved a settlement between PG&E, Cal Advocates, and TURN for a multi-year, 100 percent self-insurance program for wildfire liabilities. D.24-07-016 continued Southern California Edison Company's (SCE) wildfire liability customer-funded self-insurance program, concluding it is "likely that customers will continue to receive greater overall cost savings and benefits from self-insurance during the 2025-2028 period compared to commercial insurance."[13] Moreover, the Commission in D.24-07-016 pointed to the positive outlook for PG&E's wildfire self-insurance program, emphasizing that "wildfire liability insurance for third party claims has risen to the point that self-insurance is likely to achieve sufficient insurance coverage at a lower overall cost to PG&E's customers than commercial insurance."[14]

1.5. Settlement Discussions with Intervenors

In August 2024, PG&E approached Cal Advocates and TURN to explore the benefits of implementing a self-insurance framework for specific layers of PG&E's non-wildfire liability insurance coverage. These three parties held eight conferences and exchanged information via electronic mail between August 2024

[13] Petition at 11 citing D.24-07-016 at 7.

[14] Petition at 11, citing D.24-07-016 at 7 (in turn referring to D.23-01-005 at 1).

and December 2024. Discussions included an evaluation of the cost effectiveness of the protection provided in the first and second layers of coverage.[15] On December 16, 2024, the Settling Parties executed their Agreement.

On December 20, 2024, the Settling Parties jointly filed the Petition. The Petition includes three attachments: the first contains proposed changes to D.23-11-069, the second is the Declaration of Stephen J. Cairns,[16] and the third is the Agreement among the Settling Parties to jointly petition for modification of D.23-11-069.

2. Agreement and Petition

The TY 2023 GRC period covers four calendar years, from January 1, 2023 to December 31, 2026. The Settling Parties have agreed upon a framework and structure for PG&E to partially rely on self-insurance for non-wildfire liability insurance coverage during the last portion of the TY 2023 GRC period (running 19 months from June 1, 2025 through December 31, 2026). The framework and structure are memorialized in their Agreement. An essential part is the provision of $460 million of self-insurance in Layer 2, with PG&E discontinuing the collection of the corresponding cost in rates (currently $96 million per year) when the $460 million target is reached.[17]

---

[15] Declaration of Stephen J. Cairns at 3-4.

[16] Cairns is PG&E's Vice President of Enterprise Financial Risk Management. His responsibilities include the management of PG&E's insurance portfolio to determine the most cost-effective mechanisms to protect PG&E and its customers against third-party liabilities. Cairns sponsored PG&E's testimony and workpapers on insurance-related issues in PG&E's TY 2023 GRC that resulted in D.23-11-069. (See Declaration of Stephen J. Cairns at 2-3.)

[17] Petition at 3.

The Settling Parties commit to not only advocating for and defending the terms of the Agreement for the TY 2023 GRC cycle but also to advocate for and defend a proposal to continue, on substantially the same terms as the Agreement, the self-insurance program through the TY 2027 GRC cycle. They commit to this further advocacy because the substantial share of benefits for ratepayers from this use of self-insurance will not occur until after December 31, 2026.

The Petition summarizes the key elements of the Agreement as follows:[18]

> Initial Rate Recovery: The initial rate recovery amount for PG&E's base cost from January 1, 2025 through December 31, 2026 will not be revised and shall remain at the amount authorized and approved in D.23-11-069, consisting of $156 million for 2025 and $156 million for 2026. (Agreement Sections 3.1 and 3.2.1.)
>
> Revise D.23-11-069: The GRC decision (D.23-11-069) will be revised to provide flexibility for PG&E to establish a self-insurance framework. Self-insurance will be established for Layer 2 of PG&E's non-wildfire liability insurance. (Agreement Section 3.1.) Table 1 (above) shows the amount authorized for non-wildfire insurance liability coverage.
>
> Increase Size of Layer 2: Layer 2 of PG&E's non-wildfire liability insurance (which currently covers non-wildfire liability claims between $115 million and $535 million) will be restructured to cover claims between $75 million and $535 million (for a total Layer 2 self-insurance of $460 million). (Agreement Section 3.1.)
>
> Deductible of 2.5 Percent: For program years 2025 and 2026 in PG&E's TY 2023 GRC cycle, PG&E will have a deductible of 2.5 percent attached to Layer 2 for up to $460 million of self-insurance costs ultimately paid for non-wildfire events that

[18] Petition at 12-16.

occur each calendar year. The total amount of the deductible will not exceed $11.5 million annually notwithstanding the number of non-wildfire events (i.e., 2.5 percent of $460 million). No rate recovery of such deductible costs will be permitted. (Agreement Sections 3.2.3 and 3.7.2.)

Invest Accrued Funds: The accrued self-insurance funds will be invested and the resulting returns used to offset the costs of operating the investment vehicle and contributing to additional self-insurance. (Agreement Section 3.6.)

Transmission Customers: To the extent recovery is available from transmission customers under PG&E's Federal Energy Regulatory Commission formula rate in a future Transmission Owner Tariff Formula Rate proceeding, the amounts recovered would be applied toward achieving a total available self-insurance accrual amount of $460 million. (Agreement Section 3.5.)

Adjustment Mechanism: The following mechanism will apply for annual adjustments for 2025 and 2026 program years:

> Remainder of 2025: For June 1 – December 31, 2025, if the estimated claims for non-wildfire events in Layer 2 exceed the amount collected for self-insurance in that same year, the self-insurance amount authorized to be collected in rates during the following year will increase by 50% of the difference between the self-insurance amount collected and the estimated self-insurance costs for non-wildfire events in the immediately preceding year. The increase in cost will become effective January 1 of the following year, or as soon thereafter as practicable. (Agreement Section 3.2.2.) For example, if the estimated claims for 2025 non-wildfire events to be paid from Layer 2 amount to $106 million, which exceeds the $96 million collected in rates for self-insurance in 2025 by $10 million, then the amount to be

collected in rates for self-insurance in 2026 will increase by $5 million (50% of $10 million) to $101 million.

2026: For January 1, 2026 - December 31, 2026, if the estimated claims for non-wildfire events in Layer 2 (including any increase or decrease in estimated self-insurance costs for non-wildfire events in prior years of the Program Period[19]) exceed the amount collected for self- insurance in that same year, the self-insurance amount authorized to be collected in rates during the following year will increase by 50% of the difference between the self-insurance amount collected and the estimated self-insurance costs for non-wildfire events in the immediately preceding year. The increase in cost will become effective January 1 of the following year, or as soon thereafter as practicable. (Agreement Section 3.2.2.1.)

Shareholder Contribution: The amount of any PG&E shareholder contribution will not be considered in the Adjustment Mechanism and not included in customer rates. (Agreement Section 3.2.3.)

Reduction in Collection from Ratepayers: The amount collected for self-insurance in the annual cost will be reduced for subsequent years if, when added to the self-insurance fund balance, the total will exceed $460 million as of the end of that year. (Agreement Section 3.2.2.1.)

Illustrative Calculations: Illustrative calculations of the adjustment mechanism and shareholder contribution

[19] Program Period refers to two of the program years in the TY 2023 GRC period – program years 2025 and 2026. Two insurance renewal periods are within this Program Period: (a) PG&E's 2025 non-wildfire liability insurance renewal period (covering June 1, 2025-May 31, 2026) and (b) the first half of PG&E's 2026 non-wildfire liability insurance renewal period (covering June 1, 2026-December 31, 2026). (Agreement at 2-3, Section 2.12.)

are included in Appendix A and Appendix B to the Agreement.

End of Period Funds: The Agreement includes provisions for addressing the balance of self-insurance funding at the end of the Program Period, whether the funding is over-collected (such that the amount of non-wildfire-related claims over the cycle is less than the amount of self-insurance funding) or under-collected (the amount of claims exceeds the amount of self-insurance funding). (Agreement Section 3.3.)

No Reasonableness Review: For the Program Period, no reimbursement of self-insurance funding or self-insurance costs will be subject to reasonableness reviews. (Agreement Section 3.4.)

Adjustments: A Tier 2 Advice Letter process will be used for implementing necessary adjustments under the Agreement, as well as resolution of the over-collection or under-collection that may exist at the end of the Program Period. (Agreement Section 3.7.3.)

Modify RTBA: PG&E's RTBA shall be modified as necessary to support administration of the Agreement and, more broadly, the shift to reliance on self-insurance for a portion of non-wildfire liability insurance, Layer 2, during the Program Period. (Agreement Section 3.8.) The RTBA will be modified to include a description of the recording and tracking of the purchase of commercial insurance coverage for non-wildfire liabilities.

If Commission Decision After Mid-March 2025: The Agreement includes a provision that would become effective absent a final decision adopted no later than mid-March 2025, in recognition that despite the Settling Parties' shared belief that self-insurance is the strongly preferred option under current circumstances, as of that date absent a Commission final decision PG&E may need to renew some or all of the commercial coverage that will be expiring on May 31, 2025. (Agreement Section 3.9.)

Meet and Confer: The Settling Parties will meet and confer twice annually in 2025 and 2026 (in the second and fourth quarters) and can make modifications to the Agreement terms, if and only if mutually agreed upon by all Settling Parties, and any proposed modification is submitted to and approved by the Commission through a Petition for Modification, in accordance with Agreement Section 4.8. PG&E agrees to a self-insurance model unless Settling Parties unanimously agree that third-party insurance is in customers' interest and should be pursued (which modification to the Agreement would be presented via a Tier 1 advice letter). (Agreement Sections 3.4 and 3.10.)

Commit to Advocacy: The Settling Parties commit to jointly advocating for and defending the terms of the Agreement for the TY 2023 GRC cycle, and to advocating for and defending a proposal to continue the self-insurance program through the TY 2027 GRC cycle, on substantially the same terms of this Agreement. (Agreement Section 4.9.)

Agreement Continuation until Final Decision in TY 2027 GRC: The terms of the Agreement would continue in effect until a final decision on the TY 2027 GRC (to account for the possibility of a decision extending beyond December 31, 2026). (Agreement Section 4.14.)

3. Issue Before the Commission

The issue before the Commission is whether to grant or deny the Petition. Granting the Petition will modify D.23-11-069 and implement self-insurance for a portion of PG&E's non-wildfire liability insurance coverage consistent with the Agreement reached among PG&E, Cal Advocates, and TURN. Denying the

Petition will retain the current non-wildfire insurance framework of coverage purchased from commercial insurance entities.

4. Grant Petition

The Settling Parties make a compelling case for partial self-insurance for non-wildfire liabilities, and the Petition and Agreement are unopposed. For the reasons stated below, the Commission finds that the Petition should be granted.

4.1. Requirements for a Petition for Modification

A petition for modification must state the justification for the requested relief and propose specific wording to carry out all requested modifications. It must also support allegations of new or changed facts by a declaration or affidavit. (Rule 16.4(b).)[20] These requirements are met by the body of the Petition along with its first attachment (proposed wording) and second attachment (Declaration of Stephen J. Cairns).

4.2. Standards for Review

The Settling Parties apply Commission standards under Rule 12 (Settlements) to justify adoption of the Petition and the Agreement. In particular, Rule 12(d) provides that:

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

The Commission finds that these standards are reasonably applied here. Insurance premiums and coverage can be contentious issues and would be

---

[20] Unless otherwise specified, all references to a Rule are to the Commission's Rules of Practice and Procedure.

among the issues to be addressed by the Settling Parties in the upcoming TY 2027 GRC. The Settling Parties have preemptively addressed this issue and reached a settlement now. The Settling Parties propose early implementation within the TY 2023 GRC period to secure benefits without unnecessary delay. The settlement standards in Rule 12 are comprehensive and appropriate to use regarding the Settling Parties' Agreement.

The Commission has long favored the settlement of disputes. This policy supports many worthwhile goals. These goals include reducing litigation costs, conserving scarce resources of parties and the Commission, and allowing parties to reduce the risk that litigation will produce unacceptable results.[21] Although the Commission favors settlements, all matters decided by the Commission must meet the overall just and reasonable standard of the Public Utilities (Pub. Util.) Code.[22] The Commission considers whether a settlement is just and reasonable based on the agreement as a whole, not on individual provisions:

> In assessing settlements, we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.[23]

---

[21] D.05-03-022 at 9; D.14-12-040 at 15; D.10-06-031 at 12; D.23-11-069 at 752.

[22] Pub. Util. Code § 451 requires that all public utility charges "shall be just and reasonable" and that every "unjust and unreasonable charge…is unlawful."

[23] D.12-03-015 at 19.

To approve a settlement the Commission must also find that the agreeing parties had a sound and thorough understanding of the issues, and all the underlying assumptions and data included in the record.[24] As explained below, the Commission finds that the Agreement meets the three tests of Rule 12(d).

4.3. Reasonable in Light of the Whole Record

The record for consideration of the Petition is comprised primarily of the Petition and its three attachments. For the reasons stated below, the Commission finds that the requested relief is reasonable in light of the whole record.

The record establishes the potential for savings by PG&E using self-insurance. For example, the record shows that PG&E has not placed a claim with its insurance carriers for Layer 2 coverage in the last 15 years, with one exception.[25] (See Attachment B to this decision.) The past does not predict the future, but this history shows the potential for significant saving in the cost of premiums charged to ratepayers to purchase Layer 2 coverage.

The record shows the requested relief is consistent with other Commission decisions on self-insurance. The record also supports the need for a Commission decision by mid-March in order to begin accrual of savings as soon as possible while avoiding the need for PG&E to secure renewals or new commercial policies beginning June 1, 2025.

---

[24] D.23-11-069 at 752-753.

[25] Petition at 7 and Declaration of Stephen J. Cairns at 5, paragraph 7(b). This is true under both the current Layer 2 attachment point of $115 million and the proposed lower $75 million attachment point for self-insurance. The one exception involved claims of $517 million in policy year 2010-2011 for the 2010 San Bruno pipeline explosion.

The record addresses not only self-insurance but necessary ratemaking treatment. This includes possible adjustments to the insurance costs should the amount collected prove insufficient to cover non-wildfire liability claims. It also addresses the performance of the RTBA to return to ratepayers the difference between the amount collected and the amount incurred in non-wildfire liability insurance premiums that are less than the authorized forecast of $156 million. The record provides sufficient information and data to enable the Commission to implement the provisions, terms, and conditions of the Agreement, and to discharge the Commission's regulatory obligations.

The record also shows that the Settling Parties are knowledgeable and experienced regarding insurance issues, including non-wildfire insurance related issues, along with the risks and potential benefits associated with self-insurance versus commercial third-party insurance coverage.[26] Cal Advocates and TURN are unquestionably deeply experienced in representing consumer interests in Commission proceedings. Their experience with insurance issues generally, along with the five months over which they negotiated the specific Agreement here, shows they each had a sound and thorough understanding of the facts and

[26] The Settling Parties cite several examples, such as D.23-11-069 at 645-647 (summarizing the Stipulation of TURN, Cal Advocates, and PG&E resolving disputes regarding insurance coverage other than wildfire liability insurance and associated ratemaking); D.23-01-005 (adopting the unopposed settlement agreement between PG&E, Cal Advocates, and TURN, creating a self-insurance program for third party wildfire liability claims of less than $1 billion per year); D.23-05-013 (adopting the uncontested settlement agreement between SCE, Cal Advocates, and TURN establishing a customer-funded wildfire liability self-insurance program for SCE for the remainder of the SCE TY 2021 GRC cycle); D.24-07-016 (granting the joint motion of SCE, Cal Advocates, and TURN to extend SCE's wildfire liability self-insurance program through the SCE TY 2025 GRC cycle). (Petition at 17, footnote 45.)

policy implications supporting this Petition. The Settling Parties also share a concern that the rise in third-party liability insurance costs in recent years has created circumstances that warrant developing and implementing an alternative with a reasonable possibility of achieving sufficient insurance coverage at a lower overall cost to PG&E's customers. The record also shows that the Agreement was negotiated at arms-length over the course of five months with several conferences and electronic mail communication.[27]

The Commission finds that the Agreement is reasonable in light of the whole record.

4.4. Consistent with Law

The Settling Parties assert that the Agreement is consistent with law as there are no statutory provisions or controlling law that would be contravened or compromised by the Agreement. No other party in the proceeding argues otherwise.

The Agreement neither changes the base cost authorized and approved in D.23-11-069, nor the amount therein for non-wildfire insurance premiums (consisting of $156 million in each year of 2025 and 2026). This maintains the just and reasonable level of rates adopted in D.23-11-069. The Agreement provides for a lawful framework and structure materially consistent with Commission treatment of self-insurance for wildfire liability coverage. The Commission finds that the Agreement is consistent with law.

[27] Petition at 11-12; Declaration of Stephen J. Cairns at 3-4.

4.5. In the Public Interest

The Agreement is in the public interest for many reasons.

In the near term, costs will not need to be collected from ratepayers for procurement fees and taxes tied to third-party insurance coverage that would otherwise be purchased absent the self-insurance structure.[28] In the longer term, when the self-insurance target of $460 million is reached, ratepayers will no longer need to pay the related cost (currently $96 million per year).[29]

There are other benefits of partial self-insurance, which are also noted above. For example, the insurance premiums paid by PG&E are not reimbursed to PG&E if there are no claims made in the year of that policy. In contrast, if the funds are not paid in premiums but instead are maintained in a self-insurance fund and the claims do not exhaust the amount in the funds, then those funds are available to PG&E to cover claims losses for subsequent years.[30]

In addition, the timing between a covered event and payment of claims provides a benefit. This period can be greater than a year, allowing time for the self-insurance fund to be invested and grow to meet liabilities. In contrast, insurance premiums must be paid annually in advance to secure coverage.[31]

Moreover, insurance market conditions indicate further volatility, including the significant potential for large premium increases, changes in the amount and quality of coverage, and reductions in total global capacity as

[28] Petition at 19.

[29] Petition at 3.

[30] Declaration of Stephen J. Cairns at 7.

[31] Declaration of Stephen J. Cairns at 7.

carriers exit the market. Self-insurance can reduce exposure to this volatility otherwise faced by both PG&E and its ratepayers.

An additional benefit is provided by PG&E paying the first 2.5 percent of Layer 2 claims (up to $11.5 million). This provision benefits ratepayers and provides an additional incentive for PG&E to mitigate the risk of non-wildfire losses due to its operations and equipment.

The Commission is persuaded by the Settling Parties that there is the potential for significant savings under the self-insurance proposal stated in the Agreement. The Settling Parties show that in a scenario with annual claim payouts of $50 million each year from 2025 through 2028, the fund is projected to grow to $460 million by 2029, achieving the target.[32]

Despite these positive scenarios, the Settling Parties point out that forecasted amounts for the self-insurance fund can be negative if there are significant, unforeseen liabilities that are out of line with recent historical claim trends. A single large claim, or high volume of multiple claims, could potentially deplete the self-insurance fund and delay achieving a fully funded program of $460 million in financial protection. Until full funding is achieved, PG&E will continue to request a cost recovery from ratepayers.[33]

The Commission also agrees with the Settling Parties that there is no absolute certainty of ratepayer savings. That is, the Settling Parties clearly point out that the Agreement does not reduce costs for 2025 and 2026 and, should the

---

[32] Petition at 8-9 (referring to Appendix A of the Agreement at Tabs B and C).

[33] Petition at 9.

Agreement be continued in the TY 2027 GRC cycle, does not guarantee PG&E customers will pay any less for non-wildfire insurance than would be the case if PG&E continued to rely on commercial insurance. The total cost to ratepayers will depend upon the total amount of eligible non-wildfire liability claims that PG&E incurs during this and the next GRC period. That is, if these claims are, on average, below the cost of equivalent market-based insurance, then customers will pay less under the self-insurance approach. However, if these claims, on average, exceed the amount PG&E would have paid for market-based insurance during each of those years, then PG&E's customers could pay more for self-insurance than they might have for third-party insurance during this period.[34] Nonetheless, the Settling Parties conclude that there is the potential for significant savings through a self-insurance framework, particularly given PG&E's non-wildfire liability claims payment history. The Commission agrees. That history shows no claim within the last 15 years reaching into the Layer 2 coverage, even at the lower limit of $75 million, with one exception. (See Attachment B.) In fact, in nine of the 15 years claims were zero, and in 11 of the 15 years they were less than $5 million. On balance, PG&E's ratepayers are likely to benefit by PG&E establishing a self-insurance framework as described herein.

4.6. Conclusion

The Petition meets the content requirements of Rule 16.4(b). The Agreement is reasonable in light of the whole record, consistent with law, and in the public interest. The Petition should be granted.

---

[34] Petition at 19.

5. Petition for Modification Within One Year and No Deadlines for Commission Action

Petitions for modification must be filed within one year or must explain why there is a delay. Specifically, Rule 16.4(d) states:

> Except as provided in this subsection, a petition for modification must be filed and served within one year of the effective date of the decision proposed to be modified. If more than one year has elapsed, the petition must also explain why the petition could not have been presented within one year of the effective date of the decision. If the Commission determines that the late submission has not been justified, it may on that ground issue a summary denial of the petition.

The Petition reasonably explains why the Petition was not presented within one year of the effective date of D.23-11-069. The Settling Parties explain, for example, that the adoption of a self-insurance approach for wildfire claims in two decisions in 2023, and one in 2024, presented an important framework to consider how self-insurance for non-wildfire liability claims could be restructured to better serve both utility and consumer interests.[35] PG&E says it began earnestly exploring the possibility of creating a self-insurance framework for non-wildfire liabilities after the Commission's third decision endorsing self-insurance for wildfire liability in July 2024 along with PG&E's first year of experience with its own operation of wildfire self-insurance. PG&E approached Cal Advocates and TURN regarding this issue in August 2024, less than one year after D.23-11-069. The Settling Parties undertook a careful examination of the

[35] Petition at 22 citing D.23-01-005, D.23-05-013, and D.24-07-016.

approach over five months and successfully reached an Agreement. The Settling Parties filed the Petition only a few weeks after the one-year requirement in Rule 16. 4(d).

The Commission agrees with the Settling Parties that the Petition merits our consideration because it presents an opportunity to examine the use of an already authorized $156 million cost for a potential future reduction in customer rates. The Commission also finds that the Petition satisfactorily explains the delay in filing the Petition to a date slightly beyond one year of the effective date of D.23-11-069.

Similarly, settlements should ordinarily not include a deadline for Commission action or must fully justify the deadline. Specifically, Rule 12.1(c) states:

> Settlements should ordinarily not include deadlines for Commission approval; however, in the rare case where delay beyond a certain date would invalidate the basis for the proposal, the timing urgency must be clearly stated and fully justified…

The Settling Parties assert that the circumstances here represent a rare case. The Commission agrees. Given that the basis of the proposal is to maximize cost saving and to do so as soon as possible, delay would essentially invalidate that basis. The benefits of adopting the structure and framework of self-insurance can be maximized only by prompt action.

6. Modification of D.23-11-069

The Petition proposes the specific wording necessary to carry out requested modifications, as required by Rule 16.4(b). The Commission adopts the modification to D.23-11-069 proposed by Settling Parties in the Findings of Fact, Conclusions of Law and Ordering Paragraphs.

7. Conclusion

The Commission grants the petition for modification of D.23-11-069 and adopts the proposed modifications to D.23-11-069.

The proceeding remains open.

8. Comments on Proposed Decision

The proposed decision of ALJ John Larsen in this matter is published in accordance with Pub. Util. Code Section 311 of the Public Utilities Code. In accordance with the Commission's Rules of Practice and Procedure, Rule 14.6(c)(2), comments were waived based on the Petition being uncontested and the proposed decision granting the requested relief.

9. Assignment of Proceeding

John Reynolds is the assigned Commissioner and John Larsen and Justin Regnier are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. The cost of procuring commercial insurance to cover PG&E's non-wildfire liabilities has increased since 2020, and is forecasted to continue to increase.

2. Unlike with commercial insurance, under a self-insurance framework, if funds are not needed to cover losses in a given year, the self-insurance cost remains available to the utility for subsequent years.

3. PG&E's use of the alternative risk transfer instrument of self-insurance under the circumstances is reasonable.

4. PG&E, Cal Advocates, and TURN met and conferred regarding non-wildfire liability self-insurance coverage issues in August, September, October, November, and December 2024, and entered into an Agreement on December 16, 2024.

5. PG&E may establish a self-insurance program for non-wildfire liability coverage for claims between $75 million and $535 million by using a maximum of $96 million of the authorized cost for 2025 and a maximum of $96 million of the authorized cost for 2026.

6. The $156 million annual forecast for PG&E to procure insurance up to a target of $700 million will not be revised for program years 2025 or 2026 because of the Settlement among PG&E, TURN, and Cal Advocates.

7. The Risk Transfer Balancing Account (RTBA) will continue to be used to track the costs incurred for non-wildfire liability insurance. The RTBA will be revised as necessary to reflect establishment of a self-insurance program, and to reflect continued purchase of commercial insurance. The operation of the RTBA to allow for an application requesting recovery of commercial insurance costs incurred that are above the current authorized cost for 2025 and 2026 will not be revised.

8. The Settling Parties have agreed to a 2.5% shareholder contribution for annual losses exceeding $75 million but not exceeding $535 million (i.e. the contribution applies to losses between $75 million and $535 million). The shareholder contribution will not be included for recovery in customer rates.

Conclusions of Law

1. The Joint Petition for Modification should be granted without modification.

2. The December 16, 2024 Agreement among PG&E, TURN, and Cal Advocates, to establish a self-insurance framework for a portion of PG&E's non-wildfire coverage, is reasonable in light of the record, consistent with the law, in the public interest, and should be adopted.

3. The December 16, 2024 Agreement is reasonable in light of the record because, among other reasons, PG&E, TURN and Cal Advocates possess a sound and thorough understanding of the issues in the Petition and conducted arms-length negotiations to reach the Agreement, and the underlying assumptions and data in the record, as augmented by the declaration attached to the Petition, support the Petition.

4. The December 16, 2024 Agreement is consistent with the law because, among other reasons, it complies with all applicable statutes and prior Commission decisions.

5. The December 16, 2024 Agreement is in the public interest because, among other reasons, it commands broad support among participants that are reflective of affected consumer interests, reflects a measure reasonably anticipated to result in lower customer rates, therefore addressing affordability concerns, and does not contain terms contrary to law or current policy interests.

6. Hearings on the Agreement and the Joint Petition for Modification are not necessary.

O R D E R

IT IS ORDERED that:

1. The December 20, 2024, "Joint Petition for Modification of Decision 23-11-069 for Implementation of an Agreement Among Pacific Gas & Electric Company, The Public Advocates Office at the California Public Utilities Commission, and The Utility Reform Network on Non-Wildfire Liability Insurance" is granted without modification.

2. The December 16, 2024, "Agreement Among Pacific Gas and Electric Company, The Utility Reform Network and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.23-11-069 on Non-Wildfire Liability Insurance" is approved.

3. Pacific Gas and Electric Company shall give effect to the terms of the December 16, 2024, "Agreement Among Pacific Gas and Electric Company, The Utility Reform Network and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.23-11-069 on Non-Wildfire Liability Insurance" (Agreement) as soon as practicable with regard to each term and/or condition of the Agreement.

4. To implement the December 16, 2024, "Agreement Among Pacific Gas and Electric Company, The Utility Reform Network and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.23-11-069 on Non-Wildfire Liability Insurance" (Agreement), Pacific Gas and Electric Company shall file advice letters as necessary or permitted to give effect to the terms of the Agreement and to implement a self-insurance program for non-wildfire liability insurance.

5. Application 21-06-021 remains open.

This order is effective today.

Dated ___________, at Santa Clara, California.

ATTACHMENT A

AGREEMENT AMONG PACIFIC GAS AND ELECTRIC COMPANY, THE UTILITY REFORM NETWORK AND THE PUBLIC ADVOCATES OFFICE AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION TO JOINTLY PETITION TO MODIFY D.23-11-069 ON NON-WILDFIRE LIABILITY INSURANCE

(See separate document)

ATTACHMENT B

NON-WILDFIRE LIABILITY CLAIMS HISTORY

Source: Agreement, Appendix A, Tab A

LINE NO	YEAR	PAYMENT ($ MILLLIONS)
1	2010/11	$517
2	2011/12	0
3	2012/13	0
4	2013/14	3
5	2014/15	0
6	2015/16	35
7	2016/17	74
8	2017/18	0
9	2018/19	0
10	2019/20	0
11	2020/21	4
12	2021/22	0
13	2022/23	35 [a]
14	2023/24	0
15	2024/25	0
16	Total	668
17	Average over 15 years	45

This is PG&E's non-wildfire claims payment history with the commercial markets for losses of more than $10 million (which is PG&E's historic self-insured retention under the program).

[a] Estimated claim recoveries on open matters as of 11/22/2024.

(END OF ATTACHMENT B)

Attachment 1:

Attachment A.pdf

Attachment 2:

Redline - (A.21-06-021) PGE Non-Wildfire Self-Insurance Petition.pdf