PG&E Sees 'Significant Liability' in California Wildfire Report

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Practice Areas

Commercial Litigation

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PG&E Corp. pared losses as investors evaluated the potential impact of a state report that blamed the utility giant for fatal fires in Northern California wine country last year.

The company said Monday it expects to record a "significant liability" for fires, and the shares plunged the most in five months at the open. While some analysts concurred, Morgan Stanley's Stephen Byrd was skeptical that shareholders would end up liable for all the costs, and by midday in New York the shares had recovered about half of those earlier losses.

The down-and-up pattern indicates that investors aren't certain how much the deadly blazes will eventually cost, especially since the state has yet to complete its investigation into the causes of the Tubbs fire, the most destructive in state history with 22 casualties. Still, the findings in the June 8 report confirmed that PG&E equipment ignited some of the other destructive wildfires.

"All signs seem to point to PG&E being imprudent operators in the majority of instances, which would therefore mean it should assume liability," Shahriar Pourreza, a utility analyst for Guggenheim Securities

The shares plunged as much as 8.3 percent, the most intraday since Dec. 21, and were down 4.4 percent to $39.63 at 12:31 pm in New York.

While the state is now pinning some of the blame on PG&E, Morgan Stanley's Byrd doubts that will translate to the company bearing all of the costs. In some fires it may be tougher to determine the cause, and some of the losses will be covered by other parties.

"We believe it is unlikely PG&E shareholders will realize anywhere close to 100 percent of both causation and negligence for all 21 NorCal wildfires," he wrote in a research note Monday.

PG&E SEES 'SIGNIFICANT LIABILITY' IN CALIFORNIA WILDFIRE REPORT

In a filing released by the utility Monday, PG&E said it expects to bear significant liabilities for the Redwood and Nuns blazes. It does "not believe a loss is probable" for the Atlas and Highway 37 fires, though emerging facts may change that.

The company's bonds fell on the news, with its 6.05 percent bonds due 2034 dropping more than 3 cents on the dollar Monday morning, according to Trace bond-price data. Its 4.3 percent bonds due 2045 and 3.95 percent bonds due 2047 each fell more than 2 cents to trade at 93 cents and 86 cents respectively.

The evidence -- which California's fire agency has now sent to county prosecutors -- could make or break PG&E in the dozens of lawsuits over the Northern California fires that altogether killed 44 people, consumed thousands of homes and racked up an estimated $10 billion in damages. The alleged violations could also expose PG&E to criminal charges only two years after the San Francisco company was convicted of breaking safety rules that led to a deadly gas pipeline explosion in San Bruno, California.

'High Standards'

The company said in a statement that it continues to believe "our overall programs met our state's high standards."

The California Department of Forestry and Fire Protection said in its June 8 statement that PG&E equipment caused at least 12 of the wine country blazes, including the Redwood fire that killed nine; Atlas fire that burned 51,624 acres and claimed the lives of six; and Nuns fire that killed at least two.

Attorneys and politicians were already homing in on the alleged violations. They're "a wholesale indictment of the failure of PG&E risk management practices," said Frank Pitre, an attorney who represents fire victims suing PG&E. "I don't say that lightly."

Since the blazes broke out, San Francisco-based PG&E has lost almost $15 billion in market value. The utility suspended its dividend and withheld its 2018 profit guidance because of the uncertainty over how much it might have to pay for damages. Under California law, utilities including PG&E and Edison International may be held liable for costs if their equipment is found to have caused a fire, even if they followed safety rules.

While the state reports can't be used as evidence in court, the details in them may still provide fodder for lawyers to use in their cases against the company, said Steve Campora, a lawyer representing fire victims suing PG&E. Attorneys will interview witnesses identified in the reports, he said, calling them "a road map."

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California lawmakers were quick to blast PG&E. State Senator Bill Dodd, a Democrat from Napa, said the alleged violations referenced in the state's report were "disappointing and deeply concerning." He called on PG&E and other utilities to "step up" and maintain their power lines.

For its part, PG&E said in a statement that years of drought, extreme heat and millions of dead trees had created "a new normal" in California, contributing to more intense wildfires. It's a climate change-fueled situation that requires "comprehensive new solutions," the company said.

PG&E Chief Executive Officer Geisha Williams has called the California law that holds utilities liable for wildfire costs "deeply flawed." Along with California's other investor-owned utilities, the company is lobbying the state's lawmakers and regulators to change the law, which is based on a legal principle known as "inverse condemnation."

California Governor Jerry Brown said in March that he would work with state leaders to develop policies this year to update wildfire liability rules and regulations for utilities. Brown has said the state is at higher risk for more severe and frequent fires due to climate change... (*To read the entire article, please click **HERE***)