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## Global Listed Infrastructure: Thoughts on the California Wildfires

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For the second time in as many years, devastating wildfires in northern and southern California have led to significant losses for two of California's major utilities, PG&E Corporation (PCG) and Edison International (EIX).

We sold our positions of both PCG and EIX in our Global Listed Infrastructure strategy post the 2017 wildfires when we became increasingly concerned with the state's law concerning a utility's liability in the event of a natural disaster. Specifically, California has in place an Inverse Condemnation statute that leaves public utilities liable for damage if it is determined that a utility's equipment helped cause a fire, even if no gross negligence was involved. In other words, if a power line gets blown over as a result of heavy winds and sparks a fire, the utility is liable. Fires in the summer of 2017 showed the flaws in the statute as damage estimates from the fires quickly rose to the multiple billions of dollars for both PCG and EIX. Reflecting this uncertainty, PCG suspended its dividend in December of last year as it was awaiting clarification on what its liability might be for the 2017 fires.

This past summer, California passed legislation providing more protection for the utilities. However, the legislation did not go far enough as liability under Inverse Condemnation was not eliminated or revised. Perhaps most importantly, the legislation does not take effect until January 2019, thus leaving the utilities completely exposed to the recent devastating fires. This week, PG&E went so far as to draw against its revolving line of credit, a sign that it has concerns about its liquidity and the liabilities it faces.

Our Global Listed Infrastructure fundamental research process is underpinned by assessing the quality and regulatory certainty of the state in which a company operates. California's regulatory backdrop left us with a high degree of uncertainty, and, as a result, our strategy continues to avoid PCG and EIX.

We wish the first-responders and people of California well during this incredibly difficult time. We will remain engaged on the regulatory dynamics as they unfold. The recent volatility highlights the urgent need for stronger legislation to fully protect these companies from the risk of financial distress. Until this happens, our Global Listed Infrastructure strategy remains on the sidelines with respect to these two companies.

To learn more about the Duff & Phelps GLI Strategy visit [dpimc.com](http://dpimc.com).

### ***About the Author:***

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Eric Fogarty serves as a Managing Director and Senior Research Analyst within the Global Listed Infrastructure team at Duff & Phelps. Mr. Fogarty concentrates his research on the utilities sector. Prior to joining Duff & Phelps in November, 2018, he spent 18 years at Goldman Sachs Asset Management (“GSAM”). In his previous role, he served as an investment committee member and portfolio manager for the GSAM Global Infrastructure Fund. Mr. Fogarty also served as the Utilities and Consumer Staples sector specialist for GSAM’s Small, Mid, and Large Cap Value, and Income funds. Additionally, he was the lead portfolio manager for the US ESG Fund and was a senior member of the task force charged with integrating ESG factors into GSAM’s investment process. Mr. Fogarty also previously held roles as a derivatives specialist, equity fund risk manager, and trader at GSAM, and started his career at Chase Manhattan bank in New York. He holds a BS degree from Binghamton University and is a Chartered Financial Analyst (CFA).

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