



Drexel GPS: Geopolitical Update
Maui Wildfires- Utilities Face Future of Increased Liability Risk
08/18/23

As the full extent of the damage and loss of life due to the recent wildfires in Maui remain to be determined, the increased potential for financial liability by utility companies due to increasingly severe changes in global weather patterns comes into focus. A tenet of the U.S. defense strategy is the recognition of 16 critical infrastructure sectors whose assets, systems, and networks, whether physical or virtual, are considered so vital to the United States that attacks/incapacitation of them would have a debilitating effect on the national security of the country.

Recognition of the need to prepare for these changing weather patterns and its impacts has been recognized as a priority by the U.S. Department of Defense. In 2021's **Climate Risk Assessment** Secretary of Defense Austin wrote: "Climate change is reshaping the geostrategic, operational, and tactical environments with significant implications for U.S. national security and defense. Increasing temperatures; changing precipitation patterns; and more frequent, intense, and unpredictable extreme weather conditions caused by climate change are exacerbating existing risks and creating new challenges for U.S. interests."

Expect to see similar considerations increasingly be a focus for U.S. utilities to proactively make financial investments to harden their infrastructures against these weather-related events to avoid and mitigate the impact of potentially catastrophic financial liabilities arising from litigation and penalties as the frequency and severity of these types of events occur.

Meanwhile the Ukraine war plods on with neither side making noticeable gains in territory. Currently, Russia has taken a largely defensive posture which suits Putin's needs and agenda for the moment while Ukraine has not been able to make any "significant" gains in what has been dubbed its counteroffensive over the last few months. Ukraine, unable to make major gains of territory on the main battlefield, has largely taken to attempting to strike Russian rear-echelon supply lines and depots. There is also an uptick of drones being sent into Russian cities with the latest landing three miles from the Kremlin. However, aside from having a destabilizing psychological effect on the Russian civilian population, it is not at this time a tactic seen to decisively shift the advantage of the war for Ukraine.

In two months Ukraine will be undergoing what is known as the Rasputista or "muddy season". This season in the region of Russia has been known as a great defensive advantage in

wartime in particularly for the defender which in this case would be Russian forces. During the Second World War, the month-long muddy period slowed down the German advance during the Battle of Moscow and may have helped save the Soviet capital. Expect that Putin will attempt to appeal to the pride of nationalists in Russia with this historical perspective during this period to draw attention away from what will likely be no significant gains in territory by the Russian army into Ukraine either.

Maui Wildfires

- The wildfires started on August 8th, 2023, and have killed at least 99 people.
- The fires have destroyed more than 2,700 structures in Lahaina.
- Several branches of the U.S. military have been mobilized in Maui to help with search and rescue missions and firefighting efforts.

Drexel GPS Assessment:

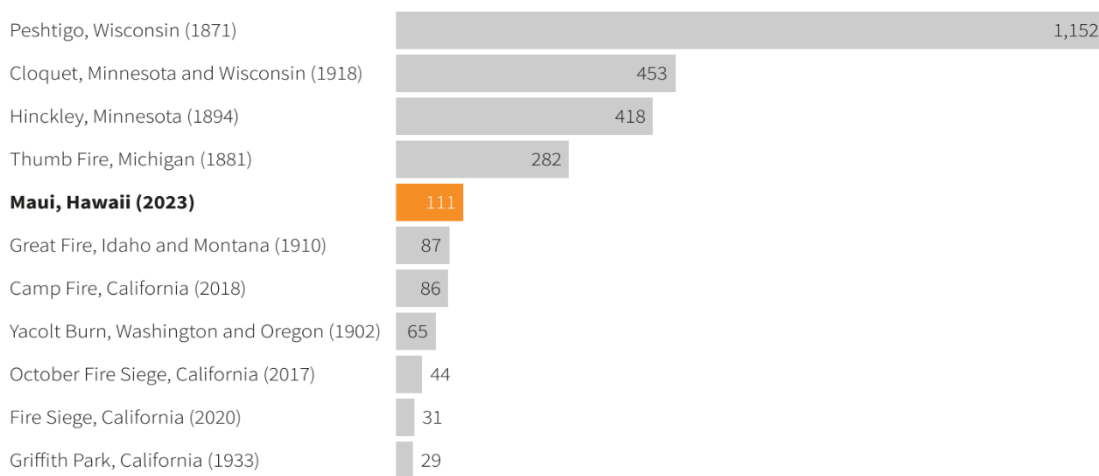
- While still undetermined, an increasing amount of evidence is pointing towards downed “unhardened” power lines being the cause of many of the fires in Maui. As a result, the energy provider Hawaii Electric faces at least 4 lawsuits and that number will almost certainly climb. Financial investment in capital projects to harden utilities against such events will likely prove to be much more cost-effective than paying potential fines and settlements which in past incidents have exceeded \$25bn in one case alone.
- The ability for much of the necessary improvements to be funded through a combination of increased rates to the consumer, and by tapping into the capital markets through existing legislative programs such as Disaster Recovery Bonds makes proactively tackling the issue a more palatable option than reactively addressing future incidents.
- System hardening as it pertains to utilities and in this case the energy sector, is the installation of equipment designed and built to be more resistant to severe weather and to reduce wildfire risk.
- This work may include Installing stronger and more resilient poles with wider cross-arms to increase the separation of powerlines.

- Powerlines with additional sheathing and insulation to prevent electrical arcs in the event of downing would also be considered a form of “hardening”. It is alleged that many of the Maui fires started when downed power lines sparked fires.
- Moving some power lines underground is also considered a part of the hardening process.
- In the face of potential liability and litigation Hawaii Electric has been downgraded to a “junk-bond” rating.
- Climate is affecting the way in which war-planners and nation-states are positioning themselves globally.
- Using a similar focus and adding the increasing severity and impact of climate change-related weather events expect to see an increasing number of utilities invest in the "hardening" power lines and other equipment that could cause fires or at least be pointed at as a likely cause. There is precedent for this: PG&E was found liable in 2020 for the "Campfires" which killed 85 people in California and has since taken steps to harden.
- While there is no way to prevent some catastrophic weather-related events, if utilities can show that "best and reasonable efforts" to proactively address them to mitigate the negative effects will potentially offload a great deal of financial and legal liability away from these companies.

Maui Wildfires Historical Perspective.

Deadliest US wildfires

The Maui wildfires in Hawaii have killed at least 111, making it the deadliest U.S. wildfire in more than a century, with the total likely to rise as cadaver dogs sift through the ruins of Lahaina.



Note: Hawaii death toll as of 3 p.m. ET on Aug. 17

Source: National Fire Protection Association | Reuters, Aug. 17, 2023

Maui Wildfires



Drexel Hamilton will continue to monitor these situations as they develop.

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