

CALIFORNIA CATASTROPHE RESPONSE COUNCIL MINUTES

Hybrid Meeting
Thursday, April 28, 2022
2:00 p.m.

Location: California Office of Emergency Services (Cal OES)
3650 Schriever Ave
Mather, CA 95655
Room MPR-1

Members of the Council in Attendance:

Mark Ghilarducci, Chair, designee of Governor Gavin Newsom
Rich Gordon, Vice-Chair, appointee of the Speaker of the Assembly
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot
Michael Martinez, designee of Insurance Commissioner Ricardo Lara
Kasey O'Connor, designee of State Treasurer Fiona Ma
Catherine Barna, Public Member
Rhoda Rossman, Public Member

Due to unforeseen circumstances, Public Member Paul Rosenstiel was unable to attend the meeting in person but monitored some or all of the meeting via remote access. Member Rosenstiel is reflected as "not present" at the meeting, did not actively participate in the meeting, nor did he participate in any formal actions taken by the Council during the meeting.

Members of the CEA Staff in Attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk & Actuarial Officer
Tom Hanzel, Chief Financial Officer
Laurie Johnson, PhD, Chief Catastrophe Response & Resiliency Officer
Tom Welsh, General Counsel
Susan Johnson, Governance Liaison

Speakers:

Kapil Bhatia, Financial Advisor, Raymond James
Caroline Thomas Jacobs, Director, Office of Energy Infrastructure Safety, California
Natural Resources Agency
David Armstrong, Senior Vice President of Operations, Sedgwick
Casie Hart, Project Manager, Sedgwick
Nathan Pollack, Scidan Consulting Group

1. Quorum: Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 2:03 p.m.

Susan Johnson called the roll and announced that a quorum was present.

2. Minutes: Review and approve the minutes of the January 27, 2022, meeting of the Council.

MOTION: A motion was made and seconded to approve the January 27, 2022 meeting minutes as written. The motion carried unanimously with no abstentions.

3. Executive Report: CEA Chief Executive Officer Glenn Pomeroy will provide the Council with an executive report.

Chief Executive Officer Glenn Pomeroy stated that the upcoming quarter will mark the final quarter of the third year of the Council and the California Wildfire Fund (CWF). He further stated that as a result of the pandemic, this is the first in-person meeting of the Council in 2 ½ years. He thanked the Council and Administrator staff for their work over the past three years.

Mr. Pomeroy then reviewed the meeting agenda and stated today's agenda items are all informational, adding that the informational presentation section is a standing agenda item for the Council to hear from independent experts on wildfire and related issues. Past presentations have focused on wildfire risk modeling, wildfire safety and related efforts by Investor-Owned Utilities (IOUs), as well as activities by the Department of Natural Resources, and the Office of Energy Infrastructure Safety (OEIS.)

4. Administrator Evaluation: Council Members Rich Gordon and Paul Rosenstiel will present the results of the Council's evaluation for 2021 of the CEA's performance as Administrator of the Wildfire Fund.

Vice-Chair Rich Gordon thanked Mr. Rosenstiel for his help in overseeing the evaluation process and Council Members for participating in the evaluation survey. The following areas of performance were considered and evaluated: leadership and culture, financial leadership, strategic development, Council relations, Council governance and compliance, claims administration, and enterprise risk management. An overall evaluation category was also included. He presented the following findings:

- On average, all seven performance areas and the overall evaluation came in with a score of "meets expectations."
- The lowest performance area was in strategic development.
- The highest performance area was in financial leadership.
- The widest divergence among Council Members was in the area of Council relations.

The least divergence among Council Members was in the areas of leadership and culture, Council governance and compliance, and claims administration.

Vice-Chair Gordon stated the report, which was anonymized, was sent to all Council Members, and details the scoring and includes anonymized Council Member comments.

Mr. Pomeroy highlighted Council Member feedback received during the evaluation process such as expanding services provided, making the informational presentation section a standing agenda item, and increasing the level of engagement beyond administration of the fund to public issues relative to wildfire in general in the state of California. He asked for further direction from the Council in these areas. He then reiterated that his team's most important priorities are managing the Wildfire Fund and paying claims against the Wildfire Fund when they are presented.

5. Informational Presentation: Dr. Laurie Johnson, CEA Chief Catastrophe Response & Resiliency Officer, will present a proposed schedule for discussion of utility wildfire mitigation and safety programs, starting with OEIS Director Caroline Thomas Jacobs's presentation on wildfire safety plan review and safety certifications.

Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer, introduced Caroline Thomas Jacobs, stating that Ms. Thomas Jacobs presented at a previous Council meeting on the roles and responsibilities of the newly-established Office of Energy Infrastructure Safety (OEIS).

Ms. Thomas Jacobs provided a slide presentation overview explaining her agency's legislative mandate, key responsibilities, wildfire mitigation plan (WMP) evaluation, compliance assurance, safety certification, and key activities of the OEIS. She noted that the statutory compliance assessment timeline is a multi-year process with the first compliance reports for 2020 WMPs to be published this fall. She added that safety certifications are in effect for 12 months from the date of issue.

Discussion

Ms. O'Connor asked if the compliance reports will be issued every three years after this fall, based on the timeline of the plans.

Director Thomas Jacobs stated, even though the base plan is a three-year plan, annual updates are submitted and compliance is reviewed at each annual update.

Vice-Chair Gordon stated concern that the statutory criteria for safety certification does not include backwards-looking compliance assessments.

Director Thomas Jacobs confirmed that, as the statute is currently written, a safety certificate is a forward-looking document in terms of compliance. One challenge when implementing a backwards-looking compliance review is the time delay in terms of the compliance assessment. There would need to be a policy decision as to whether safety certification should be a punitive tool for past actions or an incentive

to encourage future investments. She confirmed that a safety certification is not a validation that past activities of the Investor-Owned Utilities (IOUs) have been safe but instead is about whether the IOUs are planning to make future investments and take future actions that improve safety.

Mr. Martinez asked if the OEIS's compliance review shows that an IOU substantially complied with their WMP, or if the OEIS is entirely precluded from any backwards-looking assessments.

Director Thomas Jacobs stated the compliance process looks at follow-through of the WMP. She noted that the OEIS does not hold penalty enforcement authority but is focused on driving safety improvement. All compliance activities at the OEIS are focused on facilitating change in behavior to address safety risk. At the same time, there may need to be other types of consequences, such as penalty enforcement.

Vice-Chair Gordon asked if a utility can still get a safety certificate because they plan to do better in the future, even when they did not follow through with their WMP in the past.

Ms. Thomas Jacobs confirmed that this is the way it is set up in statute.

Ms. O'Connor asked for additional detail on the revocability of safety certification.

Director Thomas Jacobs stated that although the OEIS does not have authority to revoke a safety certification, it does have a change order process for WMPs to allow plans that have already been approved to be updated.

Vice-Chair Gordon expressed concern for the need to clarify this difficult concept to better understand how an IOU can get a safety certification when they started a fire.

Ms. Thomas Jacobs agreed that it is an extremely technical and complex issue.

Dr. Johnson clarified the point made by Director Thomas Jacobs that the safety certificate does not affect whether the IOUs can access the Wildfire Fund, but does affect the amount, if any, an IOU must repay the Wildfire Fund for costs and expenses associated with a covered wildfire. The question of whether they had a valid safety certificate comes after the IOUs receive payments from the Fund and then undergo a catastrophic wildfire proceeding with the California Public Utilities Commission (CPUC). IOUs that are found to have acted reasonably by the CPUC do not have to repay the Fund. In general, the IOU must prove that its conduct was "reasonable." However, according to statute, an IOU that received a safety certification for the period in which the covered wildfire ignited is presumed to have acted reasonably unless demonstrated otherwise. A safety certification also may limit the amount the IOU will be required to repay the Fund if it is found to have acted unreasonably.

Ms. O'Connor asked, if the safety certification, which cannot be revoked for one year, indemnifies the company from liability from any fires that they may start.

Ms. Thomas Jacobs stated the purpose of the safety certification as written in statute is to provide coverage for the next 12 months for any fires they potentially start.

Chair Ghilarducci stated it is important for the Council to clearly understand the safety certification for questions on Fund durability in the future.

6. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of March 31, 2022.

Chief Financial Officer Tom Hanzel provided an overview of the Wildfire Fund financial information as of March 31, 2022, which was included in the meeting materials.

The CEA's financial advisor, Kapil Bhatia of Raymond James, provided the Council with an investment analysis of the Wildfire Fund, including an overview of the financial markets, interest rates and the Wildfire Fund's own investments portfolio as of March 31, 2022. He also provided an analysis of the Wildfire Fund's reinvestment strategy, which was included in the Council's meeting materials.

Mr. Bhatia stated that the Wildfire Fund's portfolio currently totals \$9.8 billion and its net position and balance sheet are flat this year compared to last year. The U.S. Federal Reserve's recent actions to raise rates to manage inflation has resulted in the Fund's investment portfolio to be in an unrealized loss position but predicted the current unrealized losses in its portfolio will decrease over time as its bonds mature and the proceeds are invested in a rising interest rate environment. Mr. Bhatia described the Wildfire Fund's investment portfolio as stable.

Mr. Hanzel closed the financial presentation by stating that the Wildfire Fund's investment income stands at approximately \$25 million through March 31, 2022 and that he expects the Wildfire Fund's actual expenses to come in as planned by the end of this year.

Discussion

Ms. Rossman agreed with the financial team's investment strategy, stating it is wise to take advantage of higher interest rates when they occur.

7. Claims Administration Update: Dr. Johnson will introduce the team from Sedgwick, which is contracted as claims review services provider to CEA, and provide an update and overview of the CEA's preparations and readiness to administer claims on the Wildfire Fund.

Dr. Johnson stated Sedgwick signed a contract with CEA on January 27, 2022 and began work as the claims review services provider in February. She outlined Sedgwick's scope of work and the claims review readiness timeline for 2022. Sedgwick will provide a progress update at the July CCRC meeting. She then asked the representatives from Sedgwick to introduce themselves.

David Armstrong, Sr. Vice President of Operations, introduced members of his team and provided an overview of Sedgwick, its history, size, experience, specialty services, and commitment to diversity. Mr. Armstrong introduced Project Manager Casie Hart, Sedgwick's primary contact person for the CEA/Wildfire Fund.

Dr. Johnson reviewed the status of wildfire monitoring and reporting and noted that there has been little change since her last report. While PG&E has stated in its financial filings that it anticipates incurring wildfire losses exceeding the \$1 billion threshold for the 2021 Dixie Fire, it has not formally put the Fund on notice, as required by the Claims Administration Procedures. She stated her team's next steps are to complete the initial draft of the Operations Manual for claims review services, conduct annual reviews with each of the participating utilities, and continue the build-out of wildfire monitoring and notification tools, protocols, and procedures to enhance the Council's timely access to current, substantive, and detailed wildfire and claims information.

8. Section 3293 Insurance Framework: CEA Chief Risk & Actuarial Officer Shawna Ackerman and Nathan Pollack of Scidan Consulting will present the final framework (model) that will aid the Administrator in making periodic adjustments to the \$1 billion per year IOU liability retention.

Chief Risk & Actuarial Officer Shawna Ackerman provided an overview of the background and analysis of the Section 3293 Insurance Framework. She stated the key question is if the minimum \$1 billion retention per IOU needs to be raised to protect the durability of the Wildfire Fund. The analysis and framework are consistent with the Council's view of durability. She stated the analysis to date shows that the \$1 billion retention does not need to be raised.

Nathan Pollack of Scidan Consulting Group provided an overview, with a slide presentation, of the background, scenario analysis objectives, development, input summary, initial scenario results summary, and key takeaways from initial and subsequent scenario modeling of the Wildfire Liability Retention Recommendation Framework. He stated the statutory retention threshold of \$1 billion is adequate for the 2022 wildfire season to support durability targets of 75 percent in 2030 and 65 percent in 2035. He noted that in a future scenario with extreme Wildfire Fund drawdown, the recommendation could require liability retention policy changes. Mr. Pollack stated that while future wildfire losses are highly uncertain, there is no need to increase the \$1 billion retention at this time.

9. Enterprise Risk Management: Ms. Ackerman will provide an update on the Enterprise Risk Management (ERM) program for the California Wildfire Fund.

Ms. Ackerman presented an overview of the Wildfire Fund ERM program timeline, risk appetite, and tolerance statements; and the new risk identification and prioritization dashboard, which was included in the meeting materials.

She stated there is a cautious risk appetite and a very limited risk tolerance in almost every case with two exceptions: claim handling, where there is a cautious

risk appetite and no risk tolerance; and financial reporting, where there is an averse risk appetite and no risk tolerance.

10. Public Comment: Public comment opportunity on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.

There was no public comment.

11. Adjournment.

There being no further business, Chair Ghilarducci adjourned the meeting at 3:58 p.m.