CEA CALIFORNIA EARTHQUAKE AUTHORITY™

Wildfire Fund Administrator

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August 3, 2023

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Notice Publication Date: July 24, 2023

PUBLIC NOTICE

A PUBLIC MEETING OF THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL

NOTICE IS HEREBY GIVEN that the California Catastrophe Response Council (Council) will conduct a public meeting as described in this Notice. Pursuant to California Government Code §11120 *et seq.*, the Bagley-Keene Open Meeting Act applies generally to meetings of the Council, and the meeting is open to the public – public participation, comments, and questions will be welcome for agenda items on which the Council is considering taking action. All items on the Agenda are appropriate for action if the Council wishes to take action. Agenda items may be taken out of order.

This meeting will be a hybrid meeting, with both a physical location and teleconference access for remote participation by members of the public. Each of the meeting locations noted below at which Council members will be present will be open to the public. The public may also participate remotely through the Zoom meeting link below.

DATE: **August 3, 2023**

TIME: **3:00 p.m.**

LOCATIONS:

Primary Location
California Earthquake Authority
801 K Street, 11th Floor
Sacramento, CA 95814

Secondary Location 1
Premier Workspaces
11400 W. Olympic Boulevard, Suite 200
Los Angeles, CA 90064

Secondary Location 2
Buzelli Loeb Conference Room
Scripps Institution of Oceanography
UC San Diego
8610 Kennel Way (formerly Discovery Way)
La Jolla, CA 92037

TELECONFERENCE ACCESS:

By Computer (Open the Zoom** App, or navigate to www.zoom.com):
Enter Meeting ID: 853 8021 9899
Direct Link: https://us02web.zoom.us/j/85380219899
By Phone: 1 (669) 900-6833
Enter Meeting ID: 853 8021 9899

Public Participation: The telephone lines and Zoom links of members of the public who dial into the meeting to observe or comment will initially be muted to prevent background noise from inadvertently disrupting the meeting. Phone lines and Zoom links will be unmuted upon request during all portions of the meeting that are appropriate for public comment. Please see additional instructions below regarding Public Participation Procedures.

NOTES: Neither the Council nor the California Earthquake Authority, as Administrator of the Wildfire Fund (Wildfire Fund), are responsible for technical difficulties that may occur with the Zoom platform or audio feed.

** Please also note that use of the Zoom platform to access the meeting may require the entry of an email address and may be subject to the Terms of Use and Privacy Policy of Zoom, which are outside the control of the Council or CEA. Anyone with concerns about the use of Zoom should use the phone access, and you can download any presentation materials used during the meeting at the website for the Wildfire Fund: www.cawildfirefund.com.

PUBLIC PARTICIPATION PROCEDURES: All members of the public shall have the right to observe the meeting and offer comments at this public meeting. The telephone lines and Zoom links of members of the public will initially be muted to prevent background noise from inadvertently disrupting the meeting. Phone lines and Zoom links will be unmuted upon request during all portions of the meeting that are appropriate for public comment.

The member of the Council acting as Chair of the meeting will indicate when a portion of the meeting is to be open for public comment. Members of the public attending via Zoom or phone must either press *9 on their phone or use the "Raise Hand" button on Zoom. This action will notify the meeting moderator that you wish to comment, and you will be placed in line to comment in the order in which requests are received. When it is your turn to comment, the moderator will unmute you and announce your opportunity to comment. The Chair of the meeting reserves the right to limit the time for comment. **Members of the public should be prepared to complete their comments within approximately 2 to 3 minutes.** More or less time may be allotted by the Chair in his or her sole discretion. Please take notice that this meeting may be recorded, and that making public comments at the meeting will indicate your consent to the recording and to all future use and distribution of the recording.

ACCESSIBILITY FOR DISABLED PERSONS: Persons who, due to a disability, need assistance in order to participate in this meeting should, prior to the meeting, contact CEA's ADA Coordinator either by phone by dialing (916) 661-5400, or by e-mail addressed to EEO@calquake.com and sjohnson@calquake.com. TTY/TDD and Speech-to-Speech users may dial 7-1-1 for the California Relay Service to submit comments on an agenda item or to request special accommodations for persons with disabilities. Persons with disabilities may request special accommodations at this or any future Council meeting or may request the accommodation necessary to receive agendas or materials prepared for Council meetings. Please contact Susan Johnson by telephone, toll free, at **(877) 797-4300,** or by email at sjohnson@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

MEETING MATERIALS: A copy of this Notice and Agenda has been posted on the Wildfire Fund website https://www.cawildfirefund.com/council. Prior to the meeting, the written materials that will be provided to members of the Council will also be posted on this website. Finally, on the day of the meeting, a copy of any presentation deck that the Council or the Administrator may use during the meeting will also be posted to this site.

AGENDA

1. Quorum: Call to order and member roll call:
   - Governor
   - Treasurer
   - Insurance Commissioner
   - Secretary for Natural Resources
   - Tracy Van Houten, Appointee of the Speaker of the Assembly
   - Kathleen Ritzman, Appointee of the Senate Rules Committee
   - Paul Rosenstiel, Public Member appointed by the Governor
   - Rhoda Rossman, Public Member appointed by the Governor
   - Catherine Barna, Public Member appointed by the Governor

   Establishment of a quorum

2. Minutes: Review and approve minutes of the meeting of the Council on May 4, 2023.

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

4. Plan of Operations (Annual Report): CEA Senior Counsel Suman Tatapudy will ask the Council to review and consider approval and adoption of the Administrator's Fourth Annual Plan of Operations (Annual Report) to the Legislature and, if approved, authorize the Administrator to deliver the Fourth Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

5. Council's Statutory Annual Report Template: Ms. Tatapudy will seek approval of revisions to the template for the Council's Statutory Annual Report to the Legislature and the Department of Finance under Public Utilities Code section 3287.

6. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of June 30, 2023.

7. 2023 CWF Mid-Year Budget Revision: Mr. Hanzel will seek approval of mid-year budget revisions for CCRC's Claims Administration Consultant, Sedgwick Claims Management Services, Inc.

8. Claims Administration Update: CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson will provide an update on Claims Administration.

9. Enterprise Risk Management: CEA Chief Risk & Actuarial Officer Shawna Ackerman will deliver a quarterly report on the Enterprise Risk Management program for the Wildfire Fund.

10. Public Comment: The Council will invite public comment on matters related to the Wildfire Fund that do not appear on this agenda, and to request that matters be placed on a future agenda.

11. Adjournment

For further information about this notice or its contents:

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To view this notice on the California Wildfire Fund website and to access meeting materials, please visit
https://www.cawildfirefund.com/council

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 2: Minutes

Recommended Action: Approve Minutes of May 4, 2023 Meeting

Attached is a draft of the minutes of the May 4, 2023 meeting of the California Catastrophe Response Council. CEA staff has reviewed these minutes and believe they accurately summarize and document the matters discussed and actions taken by the Council at that meeting. CEA staff recommends approval and adoption of the draft minutes as the official record of the May 4, 2023 meeting of the Council.

DRAFT
California Catastrophe Response Council Meeting Minutes

May 4, 2023
3:00 p.m.

Location: California Earthquake Authority
801 K Street, 11th Floor
Sacramento, CA 95814

Members of Council in Attendance:
Mark Ghilarducci, Chair, designee of Governor Gavin Newsom
Richard Gordon, Vice Chair, appointee of Speaker of the Assembly
Juan Fernandez, designee of State Treasurer Fiona Ma
Michael Martinez, designee of Insurance Commissioner Ricardo Lara*
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot*
Kathleen Ritzman, appointee of the Senate Rules Committee*
Paul Rosenstiel, Public Member
Rhoda Rossman, Public Member*
Catherine Barna, Public Member*

*Participated remotely.

Members of CEA Staff in Attendance:
Glenn Pomeroy, Chief Executive Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, General Counsel
Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer
Shawna Ackerman, Chief Risk & Actuarial Officer
Zerlinia "Z" Moore, Chief Administrative Officer
Suman Tatapudy, Senior Counsel
Susan Johnson, Governance Liaison

Speakers:
David Armstrong, Sedgwick Claims Management Services, Inc.
Brian D'Agostino, San Diego Gas & Electric
Antonio Figueroa, Sedgwick Claims Management Services, Inc.
Kevin Geraghy, San Diego Gas & Electric
Casie Hart, Sedgwick Claims Management Services, Inc.
Jonathan Woldemariam, San Diego Gas & Electric

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

Chair Mark Ghilarducci called the meeting to order at 3:01 p.m.

Ms. Johnson called the roll and stated a quorum was present.

2. <u>Minutes</u>: **Review and approve the minutes of the February 2, 2023, meeting of the Council.**

   MOTION: Vice Chair Gordon motioned to approve the February 2, 2023, meeting minutes as written. Mr. Fernandez seconded. The motion carried unanimously by roll call vote.

3. <u>Executive Report</u>: **CEA Chief Executive Officer Glenn Pomeroy will provide the Council with an executive report.**

Chief Executive Officer Glenn Pomeroy began by welcoming the CEA's new Chief Administrative Officer, Zerlinia ("Z") Moore.

He also thanked Chief Catastrophe Response and Resiliency Officer Dr. Laurie Johnson, who will be returning to her urban planning work with other governments around the world, for the work she has done for both the California Wildfire Fund and the CEA these past four years.

Mr. Pomeroy closed by stating that when the Council was created four years ago it had adopted the CEA Governance Procedures of meeting quarterly. He asked the Council to consider changing the meeting schedule to three times a year.

<u>Discussion</u>

Ms. Rossman agreed that changing the meeting schedule to three times a year was a worthwhile consideration and suggested putting it on the next meeting's agenda for discussion and a vote.

Chair Ghilarducci agreed and suggested adding the flexibility of adjusting the meeting schedule during event periods.

4. <u>Financial Report</u>: **CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of March 31, 2023.**

Chief Financial Officer Tom Hanzel began the quarterly financial report by highlighting that the $2 billion Surplus Money Investment Fund (SMIF) loan has been repaid. He also stated that non-bypassable charges (NBCs) will continue to build the claim-paying capacity and liquidity of the Wildfire Fund and the CEA and Department of Water Resources (DWR) are working to transition from a monthly to weekly transfer of NBCs to the Wildfire Fund. Weekly transfers are expected to begin in early July. This accelerated delivery of NBC receipts to CEA allows for more rapid reinvestment of those funds in higher yielding investments, thereby growing the ultimate claim-paying capacity of the Fund.

The CEA also instructed the Fund's investment managers to sell shorter-maturity securities and invest in longer-dated maturities to lock in higher yields. Over the past month, approximately $1 billion of securities was sold, which incurred an approximate $21 million realized loss, but much higher rates were then locked in that will benefit the Fund for the next decade. Additionally, work continues on establishing a benchmark for the Wildfire Fund's investment portfolio to create a performance index. A discussion and possible vote on the draft benchmark will be included at the next meeting.

Mr. Hanzel then provided an overview of the Wildfire Fund as of March 31, 2023 stating the Fund continues to be financially strong. The Total Net Position rose approximately 5 percent year-over-year, driven primarily by NBCs received and the change in the unrealized position of the Investment Portfolio. Monthly NBCs increased approximately $25 million for the first quarter of 2023 versus the same period year over year. However, it is anticipated that that number will end lower in 2023 than in 2022, due to a reset of the percentage charge due to an overcollection in prior years which will result in an under-collection for 2023.

Despite unrealized losses being incurred, investment income reinvested at maturity into higher-yielding securities has benefited the Fund and resulted in an increase of approximately $20 million for the first quarter over the prior year. It is anticipated that that number could double by the end of the year.

Mr. Hanzel stated that NBCs and investment income was slightly higher than anticipated, personnel expenses were lower than expected, and general and administrative expenses were overall as expected. Asset Manager fees to oversee the Investment Portfolio as a percentage of average Assets Under Management (AUM) annualizes to approximately 4 basis points or 0.04 percent.

Lastly, the portfolio had just under $800 million of unrealized losses as of the end of April of 2023, down from approximately $864 million at the end of January, which represents an approximate $65 million roll-off. A roll-off of approximately $90 million per quarter is anticipated going forward so that, in one year, unrealized losses will be just above $400 million. These numbers are interest-rate driven versus credit quality driven.

<u>Discussion</u>

Ms. Rossman stated the Council determined early last year to shorten duration down to 2.8 years. She noted that this strategy change prevented the unrealized losses from being much higher.

Mr. Hanzel agreed, stating the CEA is pleased with that change in strategy. He thanked the Council on behalf of the Administrator for Council Members' expert financial advice.

Chair Ghilarducci asked about the cap on funding taken in by the participating investor-owned utility companies (IOUs): San Diego Gas & Electric, PG&E, and Southern California Edison.

Mr. Hanzel replied that IOU funding caps out at $10.5 billion. The initial payment in 2019 was $7.5 billion with $300 million due annually for 10 years. He noted that NBCs started later and have a 15-year timeframe.

5. <u>Claims Administration Update</u>: CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson will seek Council approval of amendments to the Claims Administration Procedures.

CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson began with an overview of the original focus of the Wildfire Fund Claims Administration Procedures and claims operations build-out to address the directives of the statute – to assess the utilities' reasonable business judgement in handling claims. She also briefly reviewed the claims review services provider's scope of work, noting that Phase 1 in the scope of work is the claims review readiness stage and Phase 2 is for delivery-on-demand claims review services whenever the utilities submit claims to the Fund. She then invited the team from Sedgwick Claims Management Services, Inc. (Sedgwick), the claims review services provider for the Wildfire Fund, to present a summary of the year-long project to complete the Phase 1 scope of work and build out the claims operations.

David Armstrong, Senior Vice President, Sedgwick, thanked his team for the results accomplished over the last year and highlighted the outstanding working relationship his team has had with Dr. Johnson and her team as they literally started this work from the ground up.

Casie Hart, Project Manager, Sedgwick, provided an overview of the items and tasks completed during Phase 1 and the contents of the Claims Review and Operations Manual (Operations Manual). She stated Sedgwick worked with participating IOUs over the past year to understand their claims processes and build a provisional claims data template. The template is meant to be used for data intake, data validation, review for duplication, triage for claims, selection of statistical samples, and selection of outliers. Sedgwick also built claims review forms and questionnaires for the four claimant types – individuals, subrogation, public entity, and fire suppression – and published the March 2023 edition of the Operations Manual.

Antonio Figueroa, Director of Data Science, Sedgwick, then discussed the data management infrastructure, statistical approach principles, and testing principles. He stated Sedgwick feels confident that the right process has been developed and the right tools have been implemented for this work, adding the statistical approach will help to identify priority claims for review. Statistical sampling can also be used at certain times, such as during high-volume claim activity, to review a statistically representative sample of claims in order to reduce the cost and time required to perform claims review while still maintaining a high degree of accuracy. The tools and processes developed in Phase 1 have been tested to ensure resilient and comprehensive claims review.

Ms. Hart closed with an overview of the personnel plan, training program, and quality control, noting that the training program will be administered to leadership personnel who meet or exceed a set of nomination criteria to work on the project. Quality control will be based on claims audit and peer review processes and will be led and monitored by the project manager. Sedgwick is currently transitioning to Phase 2, which includes Standby Mode and Claims Review Mode. Sedgwick expects to remain in Standby Mode until notified by the CEA to transition into Claims Review Mode.

Discussion

In response to a question from Ms. Rossman, Dr. Johnson stated the team has been conducting many tests of the claims review forms, processes and systems. Additional testing will be done during the “bridge” period between Phases 1 and 2. Also, part of the proposed amendments to the Claims Administration Procedures, in consultation with participating IOUs, is to pre-test the operational approach once data has been received for a coverage year for each utility, to ensure that the operational approach is still appropriate given the new claims data received for a particular coverage year.

Dr. Johnson stated, because of possible long gaps of time between claims reviews, it is important to ensure that the system is still active and relevant, particularly as the utilities' claims-handling procedures evolve over time, such as was seen with the new procedures put in place by PG&E for expedited payments to claimants following fires in 2021 and 2022. The goal is to pre-test actual claims data once submitted and share those results with the Council and participating IOUs so adjustments can be made prior to actual claims review.

Mr. Rosenstiel stated attempts at customizations sometimes do not work out as expected and asked if what was developed is based on models and procedures that have been used in the past and tested out in practice or if new procedures were necessary. He asked how much has been customized for the Wildfire Fund.

Ms. Hart stated that much of the claims operational approach is primarily customized; however, things like the statistical approach follow general statistical standards. Some of the forms like the Provisional Claims Data Template have been built from scratch. The questionnaires built for subrogation and fire suppression claimants include insights from the participating IOUs and from what was learned from individuals who are skilled in those fields, but they were built from scratch, as were the Claims Review Forms for individuals and public entities. The form used for Sedgwick's Smart.ly web-based platform for this operation was customized to review individual claimants. Sedgwick created the various forms and templates based on working with the participating IOUs and experts within the industry, customized to the Wildfire Fund.

Mr. Figueroa added that the underlying technology on which these forms were created, such as the Smart.ly platform, is something that Sedgwick has used in the past. Also, the statistical methods being used are standard and accepted.

Dr. Johnson stated the importance of recognizing that the Council is being asked to evaluate something different than just a typical claims audit. The standard the Council is being asked to use is reasonable business judgment. It is an evaluation of the utilities' processes for how they settle claims as much as it is looking at the value. It is unique in that the evaluation cannot just use a typical numerical-based data management system. This is why some of the forms are more qualitative – because there needs to be an interview and a discussion about the process by which the utilities went through in valuing and settling the claims.

Mr. Rosenstiel asked if the testing in advance will flesh out difficulties, problems, or disagreements in the implementation.

Mr. Figueroa stated, when testing processes, Sedgwick tests for potential risks and issues that might come up ahead of time. Although it is not perfect and there may be things encountered later, flexibility has been included in the processes specifically for that possibility.

Dr. Johnson thanked the Sedgwick team for their presentations and their work, stating she feels confident that Sedgwick is the right team to take the Council forward with claims review.

<u>Presentation, continued</u>

Dr. Johnson then discussed the transition to the Phase 2 scope of work, wildfire monitoring and reporting, and the background and rationale of the proposed amendments to the Wildfire Fund Claims Administration Procedures. She stated the rebudgeting for Phase 2 will include a small “bridge” scope of work through August of 2023 as Sedgwick transitions from Phase 1 into a Standby Mode awaiting a claims submission to the Wildfire Fund. The bridge work will help develop dummy data to further test the operational approach for claims review services and build out of the operational procedures and personnel training for future pre-testing of the operational approach.

Dr. Johnson stated the National Interagency Fire Center (NIFC) released their fire season outlook, which stated that 2023’s fire season in California is likely to start slow with a low fire risk in early summer and increasing over the summer. While this may prevent an early start to the fire season, she noted that there have already been 640 fires this year, with 700 total acres and 0 structures burned and no fatalities according to the California Department of Forestry and Fire Protection (CAL FIRE). The NIFC forecast is calling for an average or slightly above average fire season in California, with 400,000 to 1 million acres potentially burned in 2023.

Chair Ghilarducci asked for a motion to approve and adopt the proposed amendments.

<u>Public Comment</u>

John Amodio, Tuolumne River Trust, asked Mr. Welsh to differentiate between non-bypassable charges (NBCs) and fees from the three participating IOUs.

Tom Welsh, General Counsel, stated there are two separate revenue sources that were created under Assembly Bill (AB) 1054, which created the Wildfire Fund that is now operated by the CEA under oversight of the Council. One revenue stream comes solely from the three participating IOUs. Those are not passed through to ratepayers; they come exclusively from the capital of those IOUs over the next ten years.

Mr. Welsh stated the second independent source of revenue is the NBCs, surcharges added onto monthly utility bills for 15 years based on a formula. The timing of that varies by utility usage. The function of the DWR is to monitor the surcharges as they are collected by the utility companies, remitted to the DWR, and then soon, on a weekly basis, transferred to the CEA for management as part of the Wildfire Fund.

Mr. Amodio stated 95 percent of what is now considered the first high-severity mega-fire occurred in the Tuolumne Watershed in 2013. Approximately 250,000 acres were burned, which, at the time, was the largest known wildfire in the history of the Sierra Nevada region. It was a wakeup call, but ten years later, despite intensified efforts at all levels of society, the reality is that things are now dire. It has been documented that reductions in wildfire greenhouse gas emissions have been achieved through the state’s globally recognized leadership in reducing emissions. Mr. Amodio stated that according to the American Lung Association, California’s steadfast progress in improving air quality is now being reversed by the massive biohazardous air from these larger fires.

The Council deals with part of the economic cost but the overall cost of wildfires now greatly exceeds the needed investments to reestablish wildfire resiliency and forest health. On the hopeful side, the leadership of the Governor created the Joint State

Federal Wildfire Task Force that allocated billions. Much has been learned about what works and about the needed approach. The bottom line is that California remains on the road to failure unless and until the fatal lack of significant, dedicated, sustained funding to restore wildfire resiliency and forest health is addressed. To the Legislature's and the Council's credit, such dedicated funding for catastrophe relief has been established. It is widely known that the state needs to establish similar sustained, dedicated funding for reducing mega-fires.

Mr. Amodio further stated Tuolumne River Trust has recruited over a dozen public finance experts to discuss and winnow out what they view as the best potential revenue stream to support this on a dedicated basis. After this is done, Tuolumne River Trust requests the opportunity to review options with the Council for establishing a cohesive, integrated approach to sustain dedicated funding for needed prevention in order to offer the Governor and the Legislature the best ideas on what is obviously a very challenging task of trying to dedicate significant funding on a sustained basis. There is growing evidence of the consequences of a warming climate; failure to act boldly now can all too easily result in a rapid spiral down into irreversible conditions.

Mr. Welsh asked Mr. Amodio to reach out to staff when Tuolumne River Trust is ready to discuss their findings.

> **MOTION**: Ms. Rossman motioned to approve and adopt the proposed amendments to the *Wildfire Fund Claims Administration Procedures*. Mr. Rosenstiel seconded. The motion carried unanimously by roll call vote.

6. <u>Enterprise Risk Management</u>: CEA Chief Risk & Actuarial Officer Shawna Ackerman will deliver a quarterly report on the Enterprise Risk Management program for the Wildfire Fund.

Ms. Ackerman discussed the quarterly Enterprise Risk Management (ERM) Risk Assessment scorecard stating the status for each priority risk was unchanged from the February report to the Council with one notable exception: due to the great work done by Dr. Johnson and her team, the Claims Management risk score has been moved from high to medium. Recent bank failures have had no effect on Wildfire Fund investments. Staff continues to review policies and make updates as needed.

Ms. Ackerman discussed Environmental, Social, and Governance (ESG) program development and stated ESG actions have become more prevalent and important in the insurance industry and generally. The CEA is both an investor and an entity that seeks investors. The CEA has issued bonds to support claim-paying capacity for insurance operations and may issue bonds in support of the Wildfire Fund, if needed. Consequently, it is important to note that ESG considerations have been embedded in the ERM program.

Ms. Ackerman stated another important aspect of looking at priority risks with ESG in mind is the workforce. In this competitive employment environment, it is important that the CEA is a place where individuals want to work and to be proud to do so because a diverse and inclusive environment is promoted, environmental or social harm is not contributed to in CEA investments, and the CEA seeks in the work it does to make California stronger.

There was no Council Member discussion or public comment.

7. **<u>Administrator Evaluation</u>: Council Members Juan Fernandez and Rhoda Rossman will present the results of the Council's annual evaluation of the CEA's performance as Administrator of the Wildfire Fund during 2022.**

Ms. Rossman stated revisions to the survey included shortening its length by removing a couple of categories to make it easier. She thanked Council Members for completing the survey and for providing rich feedback. She gave special thanks to Chair Ghilarducci and Ms. Ritzman, who responded to the survey while on vacation.

Ms. Rossman reviewed the Wildfire Administrator Performance Rating 2023 chart, which was included in the meeting materials. She stated there were seven categories with a 1.0 to 5.0 rating for each one for a total of 63 ratings. Only one rating was a 3.0 and the other 62 were all 4s and 5s for an average of 4.5. She stated it is tempting to do data analysis because there are separate averages for each category but this is micro-analyzing – the minimal differences between the categories would not be statistically significant. The results as a whole show that the Council Members are completely behind the CEA and did not have many criticisms of the way the CEA is operating on behalf of the Wildfire Fund.

Mr. Fernandez reviewed the anonymized and aggregated comments from all Council Members, which was also included in the meeting materials. He highlighted selected comments and stated all comments were consistent with the ratings in that they were positive throughout.

Mr. Pomeroy thanked Council Members for their comments and input and specially thanked Mr. Fernandez and Ms. Rossman for the time they spent analyzing the results and formulating the comments.

There was no Council Member discussion or public comment.

8. **<u>Informational Presentation</u>: San Diego Gas & Electric Chief Operating Officer and Chief Safety Officer Kevin Geraghty, Vice President of Wildfire and Climate Science Brian D'Agostino, and Director of Wildfire Mitigation Jonathan Woldemariam will provide an overview presentation on San Diego Gas and Electric's wildfire mitigation activities.**

Dr. Johnson introduced the San Diego Gas & Electric (SDG&E) team and asked them to present the SDG&E wildfire mitigation activities and how that relates to the fund and the fund's durability and risk reduction over time.

Kevin Geraghty, Chief Operation Officer & Chief Safety Officer, SDG&E, stated the reason that SDG&E has been so successful and has been recognized as a global leader in utility-caused wildfire risk mitigation is because of its focus on culture. That culture has been curated over 15 years and surrounds a mantra that SDG&E will never cause a major wildfire in the communities it serves. It is that commitment and passion that drives SDG&E to chase even more innovative solutions every year.

Mr. Geraghty stated SDG&E thinks about its ongoing commitment, and specifically its focus on solutions, in three investment areas: Situational Awareness, Infrastructure

Hardening, and Stakeholder and Community Outreach. He provided a slide presentation overview of SDG&E's measured response through these three investment areas and discussed Wildfire Mitigation Plan (WMP) programs that reduce risk events.

He stated a difference-maker at SDG&E is the intense and intentional collaboration with communities. SDG&E chooses to distinguish itself in how it works with the communities it serves far and beyond just utility-caused ignitions. It is a sharing of data and needs and an understanding of the future that will shape SDG&E's and its communities' success into the future.

Mr. Geraghty displayed a slide showing that SDG&E's WMP programs over the past 15 years have resulted in a reduction in risk events. He noted that those improvements mean that the chance of ignition from the system, even under the most extreme weather conditions, has been significantly reduced over the past 15 years and SDG&E continues focus on reducing it more. SDG&E does not believe that its historical programs, infrastructure, or results assure continued successes noting the ecosystem it operates in, customer behaviors, and the climate are all changing; the review of the risk must evolve daily. Challenging itself to find more, do more, and learn more is a way that SDG&E can continue to build upon the risk reduction successes it has had.

Brian D'Agostino, Vice President of Wildfire & Climate Science, SDG&E, agreed with Mr. Amodio regarding the increase in extreme weather conditions. Adding that SDG&E will continue to strive to be better tomorrow than it is today. Mr. D'Agostino continued the presentation and discussed how climate change continues to demand proactive measures, informing decisions and actions through the Situational Awareness investment area, and awareness enabled by data and artificial intelligence (AI).

He stated the mega-fire in San Diego County in 2003, which burned 13 percent of the SDG&E service territory, was supposed to be a once-in-a-hundred-year event. However, just four years later, 13 percent of the SDG&E service territory was burned again- largely due to drought conditions. At the start of this current water year, 94 percent of the state was in severe or higher drought conditions. While this year's rainfall improved the situation, a longer-term drought has been ongoing and has stressed the forests throughout the state and made the trees more susceptible to pests. Southern California goes through high-risk periods for wildfires during the fall, whether in a wet or dry year.

Mr. D'Agostino stated his team does extraordinary things with the Situational Awareness investment area, where SDG&E strives to know everything about the environment it operates in at any given moment and more importantly into the future. Well over a decade ago, SDG&E started building what quickly became the largest utility weather network in the world. Between 2010 and 2013, SDG&E installed well over 100 weather stations and began closely monitoring the meteorology, striving to understand the type of extreme weather that was impacting the service territory. SDG&E continues to expand on these systems every year.

As climate continues to increase risk, SDG&E continues to modify and integrate that science and do more. SDG&E is currently looking at integrating AI. Sensors installed over a decade ago are now providing a data foundation that sophisticated AI networks can be built upon that can help anticipate when extreme fire weather is coming, process satellite images to detect hotspots from space, and detect wildfires from mountaintops, helping SDG&E anticipate where a fire will go and how fast will it get there. One of the differentiators was getting the science into how risk- and data-driven decisions are made.

Jonathan Woldemariam, Director of Wildfire Mitigation, SDG&E, stated SDG&E uses data, models, and real-time tools to get better every year, and uses those tools and gained knowledge to be highly focused in deploying new infrastructure that reduces ignition risk by prioritizing and targeting the many ongoing programs that SDG&E has to reduce ignition risk most effectively and deliver public safety.

Mr. Woldemariam discussed risk modeling and SDG&E's risk-based, data-driven approach, the Infrastructure Hardening investment area, and enhancing customer preparedness through Stakeholder and Community Outreach. He stated SDG&E has further developed the risk models by not only increasing the inputs to include situational awareness data but also operational maintenance data such as vegetation as well as asset information. Customer input and data are part of the inputs that go into the risk models, which drive the outputs.

Risk models leverage the data and drive the operational, day-to-day business efforts and are used to focus and prioritize infrastructure investments such as vegetation management, including annual and biannual vegetation inspections, grid hardening, advance protection systems, and system inspections.

Mr. Woldemariam noted that customer preparedness is key. It ensures that SDG&E is not siloed in its thinking by soliciting input from public safety partners in order to develop programs to help specific communities to keep the lights on during Public Safety Power Shutoff (PSPS) and other critical services.

He further noted progress has been made in the Access and Functional Needs (AFN) populations by identifying customers vulnerable to wildfire risk who need additional attention and services during PSPS by providing apps and other forms of outreach and increasing services through partnerships with services that can access over 1,000 institutions to help support customers with transportation, portable generators, etc.

Discussion

Chair Ghilarducci recognized that, although it is still a work in progress, much has been accomplished in a relatively short amount of time. SDG&E has always been a leader in that endeavor. He thanked the SDG&E team for their presentation.

9. Public Comment: The Council will invite public comment on matters related to the Wildfire Fund that do not appear on this agenda, and to request that those matters be placed on a future agenda.

There was no public comment.

10. Adjournment.

There being no further business, Chair Ghilarducci adjourned the meeting at 4:49 p.m.

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 3: Executive Report

Recommended Action: No action required – Information only

CEA Chief Executive Officer Glenn Pomeroy will present his Executive Report to the California Catastrophe Response Council.

CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 4:	Plan of Operations (Fourth Annual Report)
Recommended Action:	Review and approve the Fourth Annual Report, and authorize the Administrator to deliver the Fourth Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

California Public Utilities Code §3282:

> *The council shall direct the administrator to prepare and present for approval a plan of operations related to the operation, management, and administration of the fund on an annual basis. At least annually, the council shall direct the administrator to present the plan of operations to the appropriate policy committees of the Legislature. The plan shall include, but not be limited to, reporting on the Wildfire Fund assets, projections for the durability of the Wildfire Fund, the success of the Wildfire Fund, whether or not the Wildfire Fund is serving its purpose, and a plan for winding up the Wildfire Fund if projections demonstrate that the Wildfire Fund will be exhausted within the next three years.*

Pursuant to section 3283, the Administrator has prepared its fourth annual Plan of Operations (Fourth Annual Report) and submits it to the Council for review and approval. Consistent with relevant statute, the Fourth Annual Report reports on Wildfire Fund assets, projections for the durability of the Wildfire Fund, the success of the Wildfire Fund, and whether or not the Wildfire Fund is serving its purpose. The Fourth Annual Report does not include a plan for winding up the Wildfire Fund because current projections do not show that the Wildfire Fund will be exhausted within the next three years. The information in the Fourth Annual Report covers the one-year period of July 12, 2022 through July 11, 2023.

On July 12, 2023, Administrator staff circulated a draft of the Fourth Annual Report to council members, a copy of which is attached to this memorandum. If approved by the Council, Administrator staff will re-format and transform the draft report into a final report, and submit to the appropriate committees in the Legislature, as specified in California Public Utilities Code section 3283.

WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE

ON
WILDFIRE FUND OPERATIONS

Report Period: July 12, 2022 – July 11, 2023
(Pursuant to Public Utilities Code section 3283)

Date of Report: August 3, 2023

Pursuant to Public Utilities Code section 3283, this Annual Report on Wildfire Fund Operations ("Annual Report") was prepared by the Wildfire Fund Administrator ("Administrator") and is presented to the Legislature at the direction of the California Catastrophe Response Council ("Council").[1] In accordance with that statute, this Annual Report includes information on Wildfire Fund ("Fund") assets, projections for the durability of the Fund, the success of the Fund, and whether or not the Fund is serving its purpose.

The information in this Annual Report covers the one-year period of July 12, 2022, through July 11, 2023.

[1] The Annual Report satisfies the Council and Administrator's statutory duty to annually report to the Legislature on the Wildfire Fund's "Plan of Operations" as specified in Public Utilities Code section 3283.

Executive Summary

On July 12, 2019, Governor Gavin Newsom signed AB 1054 and AB 111 (collectively, the "2019 Wildfire Legislation").[2] The 2019 Wildfire Legislation enacts a broad set of reforms and programs related to utility-caused wildfires in California, including establishing the Fund.

The purpose of the Fund is to provide a source of money to reimburse eligible claims arising from a covered wildfire caused by a utility company that participates in the Fund by assisting in capitalizing the Fund, and undertaking certain other obligations specified in the law.

Oversight of the administration of the Fund is the responsibility of the California Catastrophe Response Council ("Council"), created under AB 111. The Council has nine members, consisting of the Governor, the Insurance Commissioner, the Treasurer, and the Secretary for Natural Resources, each of whom may appoint designees to attend Council meetings in their place, as well as one member appointed by the Senate Committee on Rules, one member appointed by the Speaker of the Assembly, and three members of the public appointed by the Governor.

I. Fund Assets

The 2019 Wildfire Legislation created a capitalization structure that establishes multiple revenue streams flowing into the Fund to provide approximately $21 billion in claim-paying capacity to cover eligible claims arising from covered wildfires. The capitalization of the Fund's $21 billion in claim-paying capacity is split between contributions from the Fund's participating utility companies – San Diego Gas & Electric Company ("SDG&E"), Southern California Edison ("SCE"), and Pacific Gas & Electric Company ("PG&E") (collectively, the "IOUs") – and surcharges on the IOUs' non-exempt ratepayers, which surcharges are also referred to as Wildfire Non-bypassable Charges ("NBCs"). The contributions from the IOUs are not passed through to their ratepayers, so are effectively funded by the stockholders of those publicly traded IOUs.

The 2019 Wildfire Legislation also required that the Fund be initially capitalized in the form of a short-term $2 billion loan from the State of California's Surplus Money Investment Fund ("SMIF"), a fund within the State's Pooled Money Investment Account.

As of July 7, 2023, SDG&E, SCE, and PG&E have all provided their initial, 2019, 2020, 2021, and 2022 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.7 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. The Fund began receiving NBC funds in January 2021. The IOU contributions combined with the SMIF loan and the NBC funds received as of July 7, 2023, total $13,165,523,302. Should the Fund need additional capitalization to meet needs

[2] The 2019 Wildfire Legislation was subsequently amended in 2019 by AB 1513 (Holden, Chapter 396, Statutes of 2019), in 2020 by SB 350 (Hill, Chapter 27, Statutes of 2020), and in 2021 by AB 242 (Holden, Chapter 228, Statutes of 2021).

arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs. Additional detail regarding the Fund's contributions as of July 7, 2023, and audited financials as of December 31, 2022, can be found in *Section I: Fund Assets*.

II. Projections for the Durability of the Fund

Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. The Administrator relies on catastrophe-loss model output from the Verisk Worldwide Touchstone 8 model as a starting point for measuring the distribution of eligible claims to the Fund. The California Earthquake Authority ("CEA"), as Administrator, previously engaged both Filsinger Energy Partners ("Filsinger") and Guy Carpenter & Company ("Guy Carpenter"), a global reinsurance broker, and continues to rely on that work to aid CEA in monitoring Fund durability and exposure to losses. Additional detail regarding the test scenarios and durability analysis can be found in *Section II: Projections for the Durability of the Fund*.

III. The Success of the Fund

Assessing the success of the Fund during its fourth full year in existence requires examination of (1) the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) a brief summary of the Council's public meetings during this reporting period; and (3) whether the Fund had sufficient claim-paying capacity to cover any incurred or anticipated eligible claims from the 2022 wildfire season.

(1) <u>Administrative Actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund.</u>

During the report period, Administrator staff and the Council:

- Worked with Sedgwick Claims Management Services, the Administrator's claim review services provider to build out the necessary infrastructure for a successful and timely execution of the Administrator's claims review process, when activated, and amended the *Wildfire Fund Claims Administration Procedures* to be consistent with statutory changes and to reflect insights gained during the build-out of the claims operations.
- Continued to monitor active wildfires as well as the status of potentially covered wildfires in the 2019, 2020, 2021 and 2022 coverage years.
- Completed the Council's third annual review of the Administrator's performance.
- Fully repaid the $2 billion SMIF loan.

More detail on these milestones can be found in the full Report, *Section III: The Success of the Fund*.

(2) Meetings of the Council. The Council was successfully activated in October 2019, and currently has a full roster of active members. The Council met four times during the report period: July 28, 2022; October 27, 2022; February 2, 2023; and May 4, 2023. The Council is scheduled to meet on August 3, 2023, and November 2, 2023. Details of these future meetings will be included in the next Annual Report. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: www.cawildfirefund.com.

(3) Claims Summary. During the report period, no claims were made by any of the IOUs on the Fund.

IV. Whether or not the Fund is Serving its Purpose

During its fourth year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOU credit ratings, the continued participation of all IOUs in the Fund, and the Administrator's experience with the 2022 wildfire season and associated impacts on the Fund.

- IOU Credit Ratings. The 2019 Wildfire Legislation is viewed by the rating agencies as generally supportive of the IOUs' credit quality.
- Continued Participation of the three large IOUs in the Fund. All IOUs have made their initial, 2019, 2020, 2021, and 2022 contributions to the Fund. As we enter the 2023 wildfire season, the Fund is available to respond to covered wildfires caused by any of the IOUs. The existence and availability of the Fund as a source for paying eligible claims that may occur as a result of a catastrophic wildfire season, has allowed the IOUs to continue to invest in mitigation. In addition, the financial benefits of the Fund have incentivized the IOUs to pursue and obtain their 2022 safety certifications.
- The 2022 Wildfire Season. The work the Administrator and Council have performed over the past four years to operationalize the Fund puts the Administrator in a ready position to be able to discharge its statutory duties related to paying eligible claims for covered wildfires. To date, no IOU has made any claims on the Fund.

WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE
ON
WILDFIRE FUND OPERATIONS

REPORT PERIOD: JULY 12, 2022 – July 11, 2023
(Pursuant to Public Utilities Code section 3283)

Date of Report: August 3, 2023

I. Fund Assets

Public Utilities Code section 3280 defines "Wildfire Fund assets" as "the sum of all moneys and invested assets held in the fund which shall include, without limitation, any loans or other investments made by the state to the fund, all interest or other income from the investment of money held in the fund, any other funds specifically designated for the fund by applicable law, and the proceeds of any special charge (or continuation of existing charge) allocated to and deposited into the fund, reinsurance, and the proceeds of any bonds issue for the benefit of the fund."

As the Administrator, the CEA is custodian of the Fund's cash and investments. This requires the CEA to report those held assets as a segregated custodial fund in CEA's financial statements. Detailed information relevant to the Fund can be found in CEA's 2022 audited financial statements, available on this webpage: https://www.earthquakeauthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which covers calendar year 2022, along with supplemental unaudited information related to the Fund's contributions received through July 7, 2023.

California Earthquake Authority

Fiduciary Fund
Statement of Fiduciary Net Position
Fiduciary Fund of California Wildfire Fund

December 31, 2022 and 2021

	Custodial Fund	
	2022	2021
Assets		
Cash and investments:		
Cash and cash equivalents	$ 632,630,881	$ 494,362,365
Investments	9,478,138,463	9,825,798,581
Securities receivable	26,972,364	-
Total assets	10,137,741,708	10,320,160,946
Liabilities - Securities payable	96,965,250	94,001,434
Net Position - Restricted	$ 10,040,776,458	$ 10,226,159,512

The 2019 Wildfire Legislation created a capitalization structure that ultimately will result in a total claim-paying capacity for the Fund of approximately $21 billion. As noted above, the approximately $21 billion in claim-paying capacity is generated from two revenue streams: surcharges on ratepayers of IOUs; and contributions from the equity base of the IOUs. The 2019 Wildfire Legislation also required that the Fund be initially capitalized in the form of a short term $2 billion loan from the State's Surplus Money Investment Fund ("SMIF"), a fund within the State's Pooled Money Investment Account.

The 2019 Wildfire Legislation authorizes the IOUs to remit NBCs collected from their non-exempt ratepayers to the Department of Water Resources ("DWR") to support the Fund. The 2019 Wildfire Legislation also authorized DWR to issue revenue bonds ("Wildfire Revenue Bonds") after the legacy Power Supply Revenue Bonds have been paid or defeased in full to support the Fund. The NBCs are imposed by the CPUC on approximately 11.5 million customers in the service areas of the participating IOUs.

The CPUC Decision 19-10-056 adopted the Rate Agreement between DWR and the CPUC, established an "irrevocable financing order" under the CPUC code, and calculated the annual revenue requirement of $902.4 million to be collected through NBCs that shall remain in effect until January 1, 2036. NBCs will be used to secure Wildfire Revenue Bonds; NBCs in excess of those required to pay the Wildfire Revenue Bonds, replenish any bond-related reserves, and pay DWR administrative and operating expenses will be deposited in the Fund. Once deposited in the Fund, NBCs are no longer available to pay debt service on the Wildfire Revenue Bonds. The NBCs build upon the long and successful history of the collection of similar bond charges under the DWR Power Supply Revenue Bond Program through several economic cycles and two PG&E bankruptcies dating back to 2002.

Administrator staff continues to work with DWR and the State Treasurer's Office to evaluate the need for a bond issuance by DWR as a conduit, backed by a pledge of the NBCs as described above. There were no bonds issued or outstanding during the report period.

As the table on the following page shows, as of July 7, 2023, the Fund has received $13,165,523,302 in capitalization. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs.

California Wildfire Fund
Contributions & NBCs Received
As of July 7, 2023

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$ 2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SoCal Edison 2019 annual contribution	12/27/2019	94,500,000
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000
8.	IOUs 2020 annual contributions	December-20	300,000,000
9.	IOUs 2021 annual contributions	December-21	300,000,000
10.	IOUs 2022 annual contributions	December-22	300,000,000
		Total Contributions	10,700,000,000
1.	2021 NBC funds received	12-months of 2021	875,076,565
2.	2022 NBC funds received	12-months of 2022	1,116,593,213
3.	December 2022 NBC funds	1/30/2023	81,493,123
4.	January 2023 NBC funds	3/7/2023	77,023,056
5.	February 2023 NBC funds	3/30/2023	80,618,188
6.	March 2023 NBC funds	4/17/2023	65,946,899
7.	April 2023 NBC funds	5/25/2023	56,835,587
8.	May 2023 NBC funds	6/26/2023	68,778,997
9.	June 2023 NBC funds	**See Note 1**	43,157,674
		Total NBCs	2,465,523,302
		Total Funds Received	$ 13,165,523,302

Note 1:
As the CWF administrator, the CEA has requested and worked with the DWR to implement weekly payments of the NBC Charges to the CWF. The weekly payments began to be received by the CWF in June 2023. Four weekly checks were received and deposited into CWF's account. The first weekly check was received on 06/20/2023 and the last check was received on 07/05/2023.

Note 2:
NBC funds received by the CWF are net of DWR administrative and operating expenses.

The 2019 Wildfire Legislation also requires that all costs and expenses related to the administration and operation of the Fund be paid from the assets of the Fund. Because CEA is now obligated to administer two separate and segregated funds – the Earthquake Authority Fund and the Wildfire Fund – and is using its operating assets and employees for the benefit of both funds, the CEA continues to use a cost-allocation methodology to ensure that each of those funds bears its own administration expenses. This cost allocation methodology is reviewed periodically for accuracy by CEA staff and is within the scope of CEA's annual independent audit. The independent auditor did not raise any issues or concerns about the effectiveness of this cost-allocation methodology during the period covered by this report. In addition, Administrator staff periodically presents the cost-allocation methodology to the Council, including, but not limited to, as part of the Administrator's annual budget process, and the Council has reviewed and not raised any issues or concerns about the cost-allocation methodology.

II. Projections for the Durability of the Fund

This section provides the annual report on the Fund's projected durability. The Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund. If new claims are submitted to the Fund or existing claims, if any, develop adversely such that the projected durability of the Fund changes, the Council and Administrator will update this report.

The stated legislative intent and language of the 2019 Wildfire Legislation requires that the Fund be administered to maximize the durability of the Fund so that it provides protection and claim-paying resources to the IOUs while they continue to invest in safety measures designed to reduce the frequency and severity of utility-caused wildfires. For example, Public Utilities Code section 3281(e) authorizes the Administrator, subject to the oversight of the Council, to "buy insurance or take other actions to *maximize the claims paying resources of the fund*."

"Durability" Defined. Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. For example, if the projected Fund durability is 90% for 2035, that would mean there would be a 90% probability that the Fund will have endured to 2035, while paying eligible claims as and when they arise. Conversely, there would be a 10% chance that the Fund would not have had sufficient funds to pay all eligible claims arising during that time period. Durability is a cumulative measure and is expected to decline over any specific number of years as money is periodically drawn from the Fund to pay eligible claims.

Dependencies / Key Factors Influencing Durability. At its simplest, durability depends on the amount of losses flowing to the Fund and the amount of money the Fund has, or will have, to pay eligible losses. Larger more frequent losses, which exceed the annual aggregate IOU retention of $1 billion, potentially exhaust the Fund more quickly. The larger the amount of available Fund sources to pay losses (initial capital, investment income, IOU annual contributions, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses. Of these funding sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund by adding to the claim-paying capacity of the Fund. However, it will only enhance durability if the expected benefit exceeds the cost of obtaining the risk transfer. The annual aggregate IOU retention can also increase the durability of the Fund because raising the retention reduces Fund losses. As described below, during the report period, the Administrator did not purchase risk transfer or change the annual aggregate $1 billion IOU retention. Investment income and the timing of the receipt of the ratepayer funds can also influence durability inasmuch as higher investment returns and timely receipt of the NBCs increases available funds.

The key factors influencing durability are:

- the dollar amount of wildfire losses,
- a determination of prudency,
- the subrogation settlement rate,
- successful mitigation measures,
- climate change,
- exposure growth, which is the increase in the value of the property at risk for wildfire damage,
- the annual aggregate individual IOU loss retention, which is currently $1 billion, and
- funding.

Estimating Fund Losses – Catastrophe-Loss Models. Using catastrophe-loss models to assess the loss potential from hurricanes and earthquakes has been commonplace in the insurance industry for underwriting risk and understanding loss potential since the early 1990s. Catastrophe-loss models are also used for assessing risk at the local, state, and national level and for emergency planning scenarios. In comparison, catastrophe-loss models for wildfire risk are newer, have not been as widely tested in the market, and have significant differences in the approaches used and the modeled results from one model to the next. Nevertheless, the models can be useful in developing a range of potential wildfire losses. The Administrator relies on catastrophe-loss model output from the Verisk (formerly AIR Worldwide) Touchstone 8 model as a starting point for measuring the potential distribution of eligible claims to the Fund. The Administrator also considers historical losses potentially attributable to IOUs and payable by the Fund in assessing durability.

Modeling wildfire risk is a complex process. The Verisk Touchstone 8 model considers such factors as ignition, weather and fuels, topography, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 8 includes individual event scenario losses that can be accumulated and ranked to form a distribution of loss by size of loss. Losses from the Verisk Touchstone 8 model are built on an industry exposure database representing insurable California property valued at 2020, making two adjustments necessary. The first adjustment is to increase the modeled losses by 25% to reflect increases in construction costs from 2020 through 2022.[3] The second adjustment is to increase the modeled losses by 50% to approximate total losses (not just insurable property losses). Additionally, the Verisk model does not consider who is responsible for causing a wildfire. Therefore, modeled losses are attributed to the IOU as part of the financial modeling, which is described below.

[3] Data from the California Department of General Services indicates construction costs for California rose 13.4% in 2021 and 9.3% in 2022. DGS California Construction Cost Index CCCI (last checked 7/3/2023.)

There are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. It must be recognized that actual losses to the Fund will vary, perhaps significantly, from the estimated adjusted modeled losses.

Financial Models. Because the Fund is a complex mechanism dependent on largely uncertain events, a typical best case, worst case, expected case type of pro-forma analysis is not sufficient to understand the potential range of outcomes. Using the catastrophe loss models and the Fund's financial status as the starting point, a stochastic financial model is built to project the Fund's durability probability for the current period. The financial model used by the Administrator is similar to those developed when the Fund's structure and mechanics were established. Specifically, the Governor's Office engaged a team of experts, including Filsinger and Guy Carpenter, to develop financial models of the Fund to assess durability during the development of the 2019 Wildfire Legislation. CEA, as Administrator, previously engaged both Filsinger and Guy Carpenter and worked with them to make further refinements to the models to aid CEA in monitoring Fund durability.

As noted above, the catastrophe-loss model does not consider who or what is responsible for a wildfire. Modeled losses are attributed to a specific IOU using an attribution rate methodology developed by Guy Carpenter. This is the same methodology used when the Fund was initially created. Guy Carpenter attributes the loss to each IOU in a two-step process. First, the modeled loss is assigned to a specific IOU based on the location of the ignition and the IOU service area. Second, the loss is attributed to the specific IOU based on size and the probability that the modeled loss was caused by an IOU. The probability is based on a review of available data from 2001 – 2019 of total fire ignitions.

The financial model uses the actual financial position of the Fund for the most recent year-end and considers all available Fund sources to pay eligible claims. As noted above, there are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. Scenario testing provides an opportunity to measure the relative impact of key factors. A summary of three test scenarios and results are displayed in the table on the following page. A fourth scenario tests the impact of a $500 million claim to the Fund as discussed below.

	Scenario	Estimated Fund Durability for 2023[4]
1.	Base - 60% & 40% settlement rate - 10% mitigation credit -100% prudency	99.5% - 99.7%
2.	Mitigation/Climate Change - 40% settlement rate - Mitigation gains offset by climate change -100% prudency	99.6%
3.	High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency	99.3%
4.	Base Adjusted - $500 million loss incurred - 70% & 40% settlement rate - 10% mitigation credit -100% prudency	99.3% - 99.7%

Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[5] Because a higher settlement rate means more losses are paid from the Fund, the 60% settlement rate is associated with a slightly lower durability estimate in the current year. However, the difference is small because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection

[4] The estimated one-year Fund durability for 2023 ranges from 99.3% - 99.7% across the first three scenarios. This can alternatively be stated as a range of 1-in-150 to 1-in-310 chance that the Fund will suffer losses in 2023 that will ultimately exhaust all sources of claim-paying capacity. This is somewhat lower from last year's assessment (1-in-170 to 1-in-340) due to the impact of inflation on exposure growth. Due to the length of time from when a wildfire occurs, if it is determined to have been caused by an IOU, the IOU has settled or adjudicated third-party claims that exceed the $1 billion annual aggregate retention and eligible claims ultimately flow to the Fund, the likelihood that all sources of claim-paying capacity will be exhausted in 2023 is 0%. In other words, on a paid basis, the Fund will most certainly have cash remaining at the end of 2023. However, on an incurred basis, there is a small probability that the losses that occurred to date or will occur in 2023 could ultimately exhaust the Fund. For the fourth scenario the one-year durability can similarly be stated as a range of a 1-in-145 to 1-in-290 chance.

[5] The term "subrogation settlement rate" refers to settlements between an IOU that caused a covered wildfire, and the insurance companies that initially paid insured losses from the fire, and later seek reimbursement of some or all of their aggregate claim payments from the IOU by way of "subrogation claims." Historically, the insurance companies and IOUs negotiate aggregated settlements for a percentage of the amounts paid out by the insurers.

period, a consistently higher settlement rate has a compounding negative effect on Fund durability. In the base scenario, modeled losses are adjusted for a 10% mitigation credit to reflect the Administrator's estimate of mitigation effects based on a review of the IOU mitigation plans and the estimates contained therein along with State and local mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is done for two specific reasons:

- First, there is no historical basis upon which to estimate the likelihood that a particular wildfire caused by an IOU would have been deemed to be imprudent. The concept of, and criteria for, imprudence is created by the 2019 Wildfire Legislation and depends on the CPUC's prudency review.
- Second, assuming 100% prudency presents a more conservative view of durability. If the CPUC's prudency review determines that the IOU was not prudent, the IOU must reimburse the Fund, subject to statutory limits, and there is less loss to the Fund. While this is not a desirable result – better that the IOUs act prudently – the effect is that the Fund has more resources and higher durability when prudency is low.

Mitigation/Climate Change – 2: This scenario is the same as Base – 1 with the mitigation credit removed. The intent of this scenario is not to imply that mitigation efforts have been, or will be, ineffective. Rather, it is intended to provide a means to compare the results of this scenario to the Base – 1 scenario and demonstrate the beneficial effects of mitigation on Fund durability. The results can be viewed as a scenario where beneficial mitigation effects are offset by adverse impacts of climate change. This scenario also assumes 100% prudency and likewise presents a more conservative view of durability. The results are shown using a 40% subrogation settlement rate.

High Settlement Rate – 3: This scenario is provided to further explore the effects of settlement rates on Fund durability. This scenario is the same as Base – 1 with the settlement rate set at 70%. A 70% settlement rate is associated with a slightly lower durability estimate in the current year. However, as noted above, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability.

Base Adjusted - 4: This scenario tests the impact on Fund durability assuming that eligible claims in the amount of $500 million have been incurred but not reported. This amount is used to test the impact of potential eligible claims from prior years. As noted below, to date no IOU has made a claim on the Fund. However, as of March 31, 2023, PG&E has recorded a Wildfire Fund receivable of $175 million for the 2021 Dixie Fire based on estimated losses that represent the lower end of the range of reasonably estimable probable losses.[6]

Frequency of Review. The financial models are updated each year to reflect the most recent year-end financial status of the Fund including any claim activity, change in the risk transfer program or change in key assumptions such as growth and mitigation impacts. The financial models can also be used and updated throughout the year to measure the impact of anticipated or actual changes. Additionally, the models may be used throughout the year as a planning tool to test alternative strategies and what-if scenarios.

Enhancing Durability Using Risk Transfer. As noted above, risk transfer is a flexible source of claim-paying capacity that has the potential to enhance the durability of the Fund, depending on the structure and price. Consistent with prior years, Administrator staff determined that the market pricing and structure did not meet the goal of enhancing the Fund's durability and, therefore, did not engage the market for a risk transfer program for the 2023 wildfire season.

Enhancing Durability through the annual aggregate IOU retention. Public Utilities Code section 3293 requires that each of the IOUs "maintain reasonable insurance coverage." Section 3293 also requires the Administrator to periodically review the IOUs' insurance programs and make recommendations to each IOU "as to the appropriate amount of insurance coverage required," taking into account a list of enumerated risk factors and any other factors deemed appropriate by the Administrator.

As the IOU retention increases, Fund durability increases. The California Legislature expressed a general expectation that the Fund would remain durable for the 10-to-15-year period during which the IOUs would be making enhanced investments in infrastructure safety. Section 3293 can assist the Administrator in managing the durability of the Fund through upward adjustments to the minimum $1 billion retention amount.

Based on the Administrator's review, coupled with the facts that there have not yet been claims on the Fund and no material changes have emerged since July 2019, there is currently no indication that the retention amount needs to be raised. The current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent – exceeding the targets of 75% and 65% for 10 and 15 years, respectively – unless the average annual eligible claim level exceeds $1.5 billion.

[6] PGE-03.31.23-10Q (q4cdn.com) See page 13.

Plan for Winding up the Fund. Current projections do not demonstrate that the Fund will be exhausted within the next three years. Accordingly, this Annual Plan does not include a plan for winding up the Fund.

Comparison to Prior Year. The financial model used to assess Fund durability begins with the Verisk Touchstone 8 wildfire model which is unchanged from the prior review. Updates to the financial model include reflecting the most recent year-end financial status, advancing the starting point one year (from 2022 to 2023) and updating the exposure growth assumption from 15% to 25%, to reflect two years of growth in the underlying industry exposure database of insurable property losses. As noted later in this report (see *The 2022 Wildfire Season*) no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund from past wildfire seasons, in particular, as a result of the 2019 Kincade Fire and the 2021 Dixie Fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2023, notes that it has recorded an aggregate liability of $1.02 billion in connection with the 2019 Kincade Fire (an increase of $220 million from March 2022) and $1.175 billion for claims in connection with the 2021 Dixie Fire (an increase of $25 million from March 2022). Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[7] For example, fire suppression costs are not included in the estimates. PG&E reported that the Cal Fire Investigation Report estimates over $650 million of costs suppressing the 2021 Dixie Fire.

Because PG&E was the subject of an insolvency proceeding at the time of the ignition of the Kincade Fire and had not yet emerged from bankruptcy, the Fund will not pay more than 40 percent of the allowed amount of a claim arising from the Kincade Fire. See Cal. Pub. Utilities Code §3292(e). PG&E may also be eligible to make a claim to the Fund for losses in excess of $1 billion resulting from the 2021 Dixie Fire. The model will be updated when PG&E makes a claim on the Fund.

IOU Measures of Durability. The Fund does not have a specified term and it will continue until the assets of the Fund are exhausted and the Fund is terminated, in which case, any remaining funds will be transferred to California's General Fund to be used for wildfire mitigation programs. Because the term is not specified, each of the IOUs has estimated and reports their own assessment of Fund durability in terms of years of coverage. This is necessary to amortize the Fund asset over the useful life of the Fund.

In estimating the life of the Fund, each IOU reviewed historical data from wildfires caused by electrical utility equipment and similar categories of assumptions as the Administrator (e.g.,

[7] PGE-03.31.23-10Q (q4cdn.com) (See pages 67 – 73 for a discussion of the 2019 Kincade, 2020 Zogg, 2021 Dixie and 2022 Mosquito Fires.)

mitigation effectiveness, settlement rates, climate change.) They, too, note the high degree of uncertainty related to the estimates. Each IOU has estimated a period of coverage of 15 years.[8,9,10]

[8] PGE-03.31.23-10Q (q4cdn.com) See page 50.
[9] Form 10-K for Edison International filed 02/23/2023 (quotemedia.com) See page 78.
[10] 2022 Sempra Annual Report See page F-34.

III. The Success of the Fund

This Section III: (1) provides an overview of the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) provides a brief summary of the Council's public meetings during this reporting period, and (3) provides a summary of incurred claims.

Administrative Actions taken by the Administrator, under the Oversight of the Council, to Further Operationalize the Fund

Claims Administration Procedures

Public Utilities Code section 3284(g) requires that the Administrator, with the approval of the Council, establish procedures for the review, approval and timely funding of eligible claims.

The Council adopted the *Wildfire Fund Claims Administration Procedures* (*Procedures*) on July 22, 2021, and authorized the Administrator to make periodic non-discretionary, conforming changes to the *Procedures* as necessary to ensure that the *Procedures* conform to any statutory amendments that may be enacted in the future. The Administrator entered into an agreement with Sedgwick Claims Management Services, Inc. (Sedgwick) effective as of January 24, 2022, to provide claims review services for the Fund.

During the report period, the Administrator worked with Sedgwick to build out the infrastructure and make necessary preparations for the successful and timely execution of the Administrator's claims review process. This work included development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The operational approach, including the data management structure and claims review forms, was then tested before finalization.

At its May 4, 2023 meeting, the Council adopted amendments to the *Procedures* to primarily help ensure consistency between the *Procedures* and the more detailed operational approach developed during Sedgwick's work, and to make conforming non-discretionary changes to ensure that the *Procedures* conform with recent legislative changes to the Public Utilities Code. A copy of the *Procedures* can be found in the Council's May 4, 2023 meeting materials: CCRC May 4, 2023 Meeting Materials.

Internal Protocols, Templates, and Tools for Wildfire Monitoring and Notification

The Administrator continues to monitor active wildfires and IOUs' reporting about the potential involvement of their equipment in causing wildfires, and report on these occurrences using pre-approved templates to notify council members. Protocols are now in place to monitor the websites of the CPUC and the IOUs so that the Administrator has prompt notice when an IOU has filed electrical incident reports on incidents with the CPUC, as required under Public Utilities Code section 315. The Administrator is particularly focused on enhancing the Council's timely access to current, substantive and detailed wildfire and claims information.

Annual Review of the Administrator's Performance

During the report period, the Council completed its third annual review of the Administrator. The purpose of this process is to ensure that the Administrator is conducting its activities in a manner consistent with the directions and desires of the Council. Council Members Juan Fernandez and Rhoda Rossman served on the third Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the third annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across six accountability areas and on an overall evaluation, with that feedback being submitted solely to the Subcommittee. Numerical scores from 1 (Does Not Meet Expectations) to 5 (Exceeds Expectations) were provided for each area by all members of the Council. Administrator staff has developed plans to respond to specific feedback as part of the on-going performance improvement effort.

Category	Averaged Council Member Performance Rating
Leadership and Culture	4.7
Financial Leadership	4.8
Strategic Development	4.3
Council Relations	4.5
Claims Administration	4.2
Enterprise Risk Management	4.3
Overall Evaluation	4.5

Non-bypassable Charges and Repayment of the $2 billion SMIF Loan

The Fund was initially capitalized with a short-term loan in the amount of $2 billion from the California Treasurer's Surplus Money Investment Fund, which accrued interest at the rate of 2.35%. DWR was authorized under the 2019 Wildfire Legislation to collect and administer NBCs starting in October 2020.

DWR is required to allocate and distribute the NBCs for specified priority purposes, including, but not limited to, paying its own administrative and overhead expenses and facilitating the prompt repaying of the SMIF Loan. Amounts of NBCs not allocated to a priority purpose (e.g., paying off the SMIF Loan) are to be transferred to the Fund where the funds may be used to pay eligible claims following a covered wildfire. In addition to administering the collection of the NBCs through the IOUs, DWR is also empowered to issue revenue bonds and to pledge the NBC revenues to the repayment of those bonds.

DWR, working with the Administrator, the State Treasurer's Office (STO), and the Department of Finance (DOF), was preparing to issue bonds in late Fall 2020 to generate proceeds to fully repay the SMIF Loan. The parties collectively determined to delay the issuance of the DWR revenue bonds and instead allocate the collected NBCs to the repayment of the SMIF Loan pursuant to an amortization schedule negotiated among the parties. The amortization schedule provides for the Administrator to pay monthly principal payments of $70 million, and quarterly interest payments. Principal payments began on December 29, 2020, and the SMIF Loan was fully paid off on April 25, 2023. Since the $2 billion SMIF Loan has been fully repaid, NBCs now flow directly into the Fund to provide claim-paying capacity.

<u>Overview of the Council's Public Meetings</u>

The Council met four times during the report period: July 28, 2022; October 27, 2022; February 2, 2023; and May 4, 2023.

During its July 28, 2022 meeting, the Council, among other matters, heard a presentation from PG&E executives, who provided an overview of PG&E's wildfire mitigation activities. The Council also discussed and adopted the Third Annual Report and authorized the Administrator to deliver the Report to the Senate Committee on Energy, Utilities, and Communications and Assembly Committee on Utilities and Energy. Administrator staff also presented on various topics, including the Fund's financial report, a claims administration update and an update on the Wildfire Fund Enterprise Risk Management Program Framework.

During its October 27, 2022 meeting, the Council, among other matters, adopted a revised Conflict-of-Interest Code, and heard presentations from Administrator staff on various topics, including the Fund's financial report, claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its February 2, 2023 meeting, the Council, among other matters, approved the proposed 2023 Fund budget and directed staff to operate Fund business operations within the total approved budget amounts. The Council heard from representatives from Southern California Edison regarding its Community Wildfire Safety Program. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, an update on claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its May 4, 2023 meeting, the Council, among other matters, presented the results of the Council's annual evaluation for 2022 of the CEA's performance as Administrator of the Fund, and heard a presentation from SDG&E executives regarding SDG&E's wildfire mitigation activities. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, an update on claims administration, including a recommendation from the CEA to adopt the proposed amendments to the *Wildfire Fund Claims Administration Procedures*, and the Wildfire Fund Enterprise Risk Management Program Framework.

The Council is scheduled to meet on August 3, 2023, and November 2, 2023. Information about those future meetings will be included in the next Annual Report.

<u>Claims Summary</u>

While to date no IOU has made any claims on the Fund, there is the potential for claims to the Fund from past wildfire seasons, in particular, as a result of the 2019 Kincade Fire and the 2021 Dixie Fire, both of which fires CAL FIRE has determined were caused by electrical equipment owned by PG&E. Since it has been determined that PG&E was at fault, these fires will become covered wildfires and loss claims in excess of PG&E's $1 billion annual retention may be submitted to the Fund.[11]

PG&E's Form 10-Q for the quarterly period ending March 31, 2023, notes that it has recorded an aggregate liability of $1.02 billion in connection with the 2019 Kincade Fire (an increase of $220 million from March 2022) and $1.175 billion for claims in connection with the 2021 Dixie Fire (an increase of $25 million from March 2022). Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[12] For example, fire suppression costs are not included in the estimates. PG&E reported that the Cal Fire Investigation Report estimates over $650 million of costs suppressing the 2021 Dixie Fire.

[11] Because PG&E was the subject of an insolvency proceeding at the time of the ignition of the Kincade Fire and had not yet emerged from bankruptcy, the Fund will not pay more than 40 percent of the allowed amount of a claim arising from the Kincade Fire. *See* Cal. Pub. Utilities Code §3292(e).

[12] PGE-03.31.23-10Q (q4cdn.com) (See pages 67 – 73 for a discussion of the 2019 Kincade, 2020 Zogg, 2021 Dixie and 2022 Mosquito Fires.)

The Administrator continues to closely monitor PG&E's 2019 and 2021 losses and plans for the potential submission of claims. If either fire results in a claim, details will be included in a subsequent annual report.

IV. Whether or not the Fund Is Serving its Purpose

The 2019 Wildfire Legislation's stated goals for the Fund are to benefit California ratepayers by:

- Reducing costs to ratepayers in addressing utility-caused catastrophic wildfires.
- Limiting the electrical corporations' exposure to financial liability resulting from wildfires that were caused by the utility and/or its equipment.
- Increasing electrical corporations' access to capital to fund ongoing operations and to make new investments to promote safety, reliability, and California's clean energy mandates.
- Supporting electrical corporations' credit worthiness so they can attract capital for investments in safe, clean, and reliable power for California at a reasonable cost to ratepayers.

See AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019), Section 1.

To assess whether or not the Fund is serving its purpose, this Section IV examines the rating stability of the IOUs, the incentives AB 1054 creates for the IOUs to invest in mitigation, the continued participation of all three large IOUs in the Fund, and the Administrator's experience with the 2022 wildfire season and associated impacts on the Fund.

Rating Stability of the IOUs

Prior to the Fund, the IOUs experienced increased pressure and, in some cases, action by the rating agencies. While numerous factors are considered in determining a credit rating and outlook, both S&P Global and Fitch have specifically noted elements that are directly related to the Fund and indicative of its success in enhancing the credit quality of the IOUs. Several examples are noted below:

- In its March 2023 rating action commentary related to a PG&E rating and SDG&E rating, and its May 2023 rating action commentary related to a SCE rating, Fitch reiterated AB 1054 as a credit-supportive piece of legislation supporting each of the IOUs' current ratings and Stable Rating Outlooks.[13]

[13] *Fitch Upgrades PG&E Corp.'s and Pacific Gas and Electric's IDR to 'BB+': Outlook Stable;* Fitch Ratings, March 20, 2023, available at Fitch Upgrades PG&E Corp.'s and Pacific Gas and Electric's IDRs to 'BB+'; Outlook Stable; *Fitch Rates Southern California Edison's First & Refunding Mortgage Bonds 'A-',* Fitch Ratings, May 17, 2023, available at Fitch Rates Southern California Edison's First & Refunding Mortgage Bonds 'A-'; *Fitch Rates San Diego Gas and Electric Company's First Mortgage Bonds 'A',* Fitch Ratings, March 8, 2023, available at Fitch Rates San Diego Gas and Electric Company's First Mortgage Bonds 'A'
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- In June 2021, S&P Global issued a FAQ update on their assumptions and analysis in which they specifically noted that "we view AB 1054 as generally supportive of the IOUs' credit quality."[14]

AB 1054 Creates Incentives for the IOUs to Invest in Mitigation

Increased investments in electric utility grid hardening, situational awareness, and, in the near-term, the use of public safety power shutoffs, may help to significantly reduce the risk of utility-caused catastrophic wildfires. AB 1054 requires $5 billion in the aggregate for utility wildfire safety investments with no return on equity for the utility. AB 1054 requires electrical corporations to file Wildfire Mitigation Plans with the CPUC. These Wildfire Mitigation Plans must cover at least a three-year period and describe a utility's plans to implement preventive strategies and programs to minimize the risk of its electrical lines and equipment causing catastrophic wildfires, including consideration of dynamic climate change risks. More information on PG&E, SCE, and SDG&E 2023 Wildfire Mitigation Plans and Related Documents is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2023-wildfire-mitigation-plans/.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from OEIS. Safety certifications encourage an IOU to invest in safety and improve safety culture to limit wildfire risks and reduce costs. During the report period, PG&E, SCE, and SDG&E all received their 2022 safety certifications from OEIS. More information on these safety certificates is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/safety-certifications/.

The 2022 Wildfire Season

Amidst the ongoing drought, 2022 was another active wildfire season. Detailed information about the 2022 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2022/.

During the report period, there have been two wildfires –Fairview Fire (September 5, 2022) and Mosquito Fire (September 6, 2022) – that may have been caused by IOUs that have been

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[14] Gabe Grosberg, David N Bodek, Paul J Dyson, *Credit FAQ: How Are California's Wildfire Risks Affecting Utility Credit Quality?*, S&P Global Ratings, June 3, 2021, available at https://www.spglobal.com/ratings/en/research/articles/210603-credit-faq-how-are-california-s-wildfire-risks-affecting-utility-credit-quality-11954953.

reported to CAL FIRE or in the IOUs' CPUC incident records.[15] On September 5, 2022, SCE filed an electric safety incident report with the California Public Utilities Commission for the Fairview Fire, which as of July 10, 2023, was 100% contained, having burned 28,098 acres in Riverside County. On September 8, 2022, PG&E filed an electric safety incident report with the California Public Utilities Commission for the Mosquito Fire, which as of July 10, 2023, was 100% contained, having burned 76,778 acres in El Dorado and Placer Counties.

[15] This list is based on public information available on CAL FIRE, SCE, and PG&E's websites. SDG&E and its parent company Sempra currently do not have a section of their website or other provisions for public notifications of Electric Safety Incident Reports that it files with the CPUC.

CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 5: Council's Statutory Annual Report Template

Recommended Action: Review and approve revisions to the CCRC 3287 Annual Report Template

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California Public Utilities Code §3287:

> *(a) On January 1, 2021, and annually thereafter, the council, with the assistance of the administrator, shall prepare and file with the Legislature and the Department of Finance periodic reports regarding the formation, administration, and disposition of the fund, as the council deems appropriate.*
> *(b) A report submitted to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.*

At its October 28, 2021 meeting, the Council approved a new template and procedures for annual completion and filing of the reports required by California Public Utilities Code section 3287. Based on the template the Council approved, Administrator staff completed and filed Section 3287 annual reports in 2022 and 2023.

There are two attachments to this memorandum. The first attachment is a marked copy of the report template that shows proposed changes to enhance the information provided under "Fund Assets." The second attachment is a clean copy of the proposed revised report template that Administrator staff now seeks approval of from the Council.

If the Council approves the revised report template, the Administrator will use the revised template to fulfill the procedures the Council adopted during its October 28, 2021 meeting, which are summarized as follows. The Administrator will complete a draft of the report on an annual basis, and will circulate the draft via individual emails to the Council for review each December. If the draft report is approved without material edits, the CEA will file the finalized Section 3287 Statutory Report with the Legislature and the Department of Finance during the following January. If comments on the draft report indicate that further discussion by the Council is necessary, the draft report will be placed on the agenda for the Council at the next available meeting.

CEA staff recommends approval of the revised report template for annual Section 3287 Statutory Reports.

California Catastrophe Response Council

Report to the Legislature and Department of Finance

on the

Formation, Administration, and Disposition of the Wildfire Fund
("Statutory Report")

January [X], [20XX]

[INSERT MEMBERSHIP OF THE COUNCIL]

~~Governor Gavin Newsom, Chair~~

~~Appointee Richard Gordon, Vice Chair~~

~~State Treasurer Fiona Ma~~

~~Insurance Commissioner Ricardo Lara~~

~~Secretary of Natural Resources Wade Crowfoot~~

~~Appointee Paul Rosenstiel~~

~~Appointee Rhoda Rossman~~

~~Appointee Catherine Barna~~

~~Appointee Kathleen Ritzman~~

Background

On July 12, 2019, Governor Gavin Newsom signed Assembly Bill ("AB") 1054 and AB 111 (collectively, the "2019 Wildfire Legislation)").[1] The 2019 Wildfire Legislation enacts a broad set of reforms and programs related to utility-caused wildfires in California, including establishing the Wildfire Fund ("Fund").

Pursuant to California Public Utilities Code section 3287, this Statutory Report on the formation, administration, and disposition of the Wildfire Fund has been prepared by the California Catastrophe Response Council ("Council"), with the assistance of the California Earthquake Authority in its capacity as the Wildfire Fund Administrator ("Administrator") and is hereby filed with the Legislature and the Department of Finance. The information in this Statutory Report is similar, but not identical to, the information contained in the [20XX] Annual Report on the California Wildfire Fund's Operations (available electronically at www.cawildfirefund.com/annual-legislative-report). The [20XX] Annual Report covers the period of [July 12, 20XX], through [July 11, 20XX], and is incorporated into this Statutory Report.

Fund Assets

The 2019 Wildfire Legislation created a capitalization structure that establishes multiple revenue streams flowing into the Fund to provide approximately $21 billion in claim-paying capacity to cover eligible claims arising from covered wildfires. The approximately $21 billion in claim-paying capacity is generated from two revenue streams: surcharges on non-exempt ratepayers of IOUs, which are also referred to as Wildfire Nonbypassable Charges ("NBCs"), and contributions from the equity base of the IOUs. The 2019 Wildfire Legislation also required that the Fund be initially capitalized in the form of a short-term $2 billion loan from the SMIF, a fund within the State's Pooled Money Investment Account.

As the Administrator, the CEA is custodian of the Fund's cash and investments. This requires the CEA to report those held assets as a segregated custodial fund in CEA's financial statements. Detailed information relevant to the Fund can be found in CEA's [20XX] audited financial statements, available at this website: EarthquakeAuthority.com/About-CEA/Financials/Financial-Statements. Following is an excerpt of that financial information, which covers calendar year [20XX], along with supplemental unaudited information related to the Fund's contributions received through January [X], [20XX].

[INSERT STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND OF CALIFORNIA WILDFIRE FUND FROM CEA'S AUDITED FINANCIAL STATEMENT]

As the table [on the following page] shows, as of January [X], [20XX], the Fund has received $[XX,XXX,XXX] in capitalization. Should the Fund need additional capitalization to meet needs

[1] The 2019 Wildfire Legislation was subsequently amended in 2019 by AB 1513 (Holden, Chapter 396, Statutes of 2019), in 2020 by SB 350 (Hill, Chapter 27, Statutes of 2020), and in 2021 by AB 242 (Holden, Chapter 228, Statutes of 2021).~~AB 1054 was subsequently amended by AB 1513 (Holden, Chapter 396, Statutes of 2019).~~

arising from eligible claims resulting from covered wildfires, the Fund can issue debt backed by the NBCs.

[INSERT TABLE SHOWING CONTRIBUTIONS & NBCS RECEIVED AS OF JANUARY X, 20XX]

NBCs and Repayment of the $2 billion SMIF Loan

The Fund was initially capitalized with a short-term loan in the amount of $2 billion from the SMIF, which is accruing interest at the rate of 2.35%. The Department of Water Resources ("DWR") was authorized under the 2019 Wildfire Legislation to collect and administer NBCs starting in October 2020.

DWR is required to allocate and distribute the NBCs for specified priority purposes, including paying its own administrative and overhead expenses and facilitating the prompt repaying of the SMIF loan. Amounts of NBCs not allocated to a priority purpose are to be transferred to the Fund where the funds may be used to pay eligible claims following a covered wildfire. In addition to administering the collection of the NBCs through the IOUs, DWR is also empowered to issue revenue bonds and to pledge the NBC revenues to the repayment of those bonds.

CEA in its role as the Administrator, DWR, the State Treasurer's Office, and the Department of Finance collectively determined to allocate the collected NBCs to the repayment of the SMIF loan pursuant to an amortization schedule negotiated among the parties. The amortization schedule provides for the Administrator to pay monthly principal payments of $70 million, and quarterly interest payments. ~~Principal payments began on December 29, 2020 and will end in April 2023. Once the $2 billion SMIF loan is repaid, the NBCs will flow directly into the Fund to provide claim-paying capacity.~~Principal payments began on December 29, 2020, and the SMIF Loan was fully paid off on April 25, 2023. Since the $2 billion SMIF Loan has been fully repaid, NBCs now flow directly into the Fund to provide claim-paying capacity.

Claims Summary.

[Insert status of any claims that were made or paid against the Fund, and/or any wildfires the Administrator is monitoring for potential claims made on the Fund].

Attachment B

California Catastrophe Response Council

Report to the Legislature and Department of Finance

on the

Formation, Administration, and Disposition of the Wildfire Fund
(“Statutory Report”)

January [X], [20XX]

[INSERT MEMBERSHIP OF THE COUNCIL]

Background

On July 12, 2019, Governor Gavin Newsom signed Assembly Bill ("AB") 1054 and AB 111 (collectively, the "2019 Wildfire Legislation)").[1] The 2019 Wildfire Legislation enacts a broad set of reforms and programs related to utility-caused wildfires in California, including establishing the Wildfire Fund ("Fund").

Pursuant to California Public Utilities Code section 3287, this Statutory Report on the formation, administration, and disposition of the Wildfire Fund has been prepared by the California Catastrophe Response Council ("Council"), with the assistance of the California Earthquake Authority in its capacity as the Wildfire Fund Administrator ("Administrator") and is hereby filed with the Legislature and the Department of Finance. The information in this Statutory Report is similar, but not identical to, the information contained in the [20XX] Annual Report on the California Wildfire Fund's Operations (available electronically at www.cawildfirefund.com/annual-legislative-report). The [20XX] Annual Report covers the period of [July 12, 20XX], through [July 11, 20XX], and is incorporated into this Statutory Report.

Fund Assets

The 2019 Wildfire Legislation created a capitalization structure that establishes multiple revenue streams flowing into the Fund to provide approximately $21 billion in claim-paying capacity to cover eligible claims arising from covered wildfires. The approximately $21 billion in claim-paying capacity is generated from two revenue streams: surcharges on non-exempt ratepayers of IOUs, which are also referred to as Wildfire Nonbypassable Charges ("NBCs"), and contributions from the equity base of the IOUs. The 2019 Wildfire Legislation also required that the Fund be initially capitalized in the form of a short-term $2 billion loan from the SMIF, a fund within the State's Pooled Money Investment Account.

As the Administrator, the CEA is custodian of the Fund's cash and investments. This requires the CEA to report those held assets as a segregated custodial fund in CEA's financial statements. Detailed information relevant to the Fund can be found in CEA's [20XX] audited financial statements, available at this website: EarthquakeAuthority.com/About-CEA/Financials/Financial-Statements. Following is an excerpt of that financial information, which covers calendar year [20XX], along with supplemental unaudited information related to the Fund's contributions received through January [X], [20XX].

[INSERT STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND OF CALIFORNIA WILDFIRE FUND FROM CEA'S AUDITED FINANCIAL STATEMENT]

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DWR is required to allocate and distribute the NBCs for specified priority purposes, including paying its own administrative and overhead expenses and facilitating the prompt repaying of the SMIF loan. Amounts of NBCs not allocated to a priority purpose are to be transferred to the Fund where the funds may be used to pay eligible claims following a covered wildfire. In addition to administering the collection of the NBCs through the IOUs, DWR is also empowered to issue revenue bonds and to pledge the NBC revenues to the repayment of those bonds.

CEA in its role as the Administrator, DWR, the State Treasurer's Office, and the Department of Finance collectively determined to allocate the collected NBCs to the repayment of the SMIF loan pursuant to an amortization schedule negotiated among the parties. The amortization schedule provides for the Administrator to pay monthly principal payments of $70 million, and quarterly interest payments. Principal payments began on December 29, 2020, and the SMIF Loan was fully paid off on April 25, 2023. Since the $2 billion SMIF Loan has been fully repaid, NBCs now flow directly into the Fund to provide claim-paying capacity.

Claims Summary.

[Insert status of any claims that were made or paid against the Fund, and/or any wildfires the Administrator is monitoring for potential claims made on the Fund].

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 6:	Financial Report
Recommended Action:	No action required – information only

CEA Chief Financial Officer Tom Hanzel will provide the California Response Council with a financial report on the Wildfire Fund as of June 30, 2023 and 2022.

CALIFORNIA EARTHQUAKE AUTHORITY

Wildfire Fund Administrator

FINANCIAL REPORT

June 30, 2023

Financial Report Table of Contents

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Financial Statements

California Wildfire Fund
Balance Sheets

UNAUDITED

Assets	June 30, 2023	June 30, 2022
Cash and investments:		
Cash and cash equivalents	$ 153,108,997	$ 455,627,542
Investments	10,208,447,437	9,293,304,591
Total cash and investments	10,361,556,434	9,748,932,133
Interest receivable	59,431,250	43,469,173
Prepaid expenses	-	41,666
Total assets	$ 10,420,987,684	$ 9,792,442,972
Liabilities and Net Position		
Securities payable	$ -	$ 39,416,548
SMIF loan interest payable	-	4,718,671
Accounts payable and accrued expenses	1,130,356	1,529,115
Related party payable - CEA	218,873	477,145
Total liabilities	1,349,229	46,141,479
Net position:		
Restricted for CWF	10,419,638,455	9,746,301,493
Total net position	10,419,638,455	9,746,301,493
Total liabilities and net position	$ 10,420,987,684	$ 9,792,442,972

California Wildfire Fund
Statements of Revenues, Expenses and Changes in Net Position

UNAUDITED

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Additions to fund assets:		
Rate payer monthly NBCs	$ 449,877,247	$ 537,593,385
Total contributions	449,877,247	537,593,385
Investment income & expenses	79,603,033	53,329,321
Change in unrealized gain/(loss)	59,646,300	(671,028,163)
Net investment income	139,249,333	(617,698,842)
Total additions to fund assets	589,126,580	(80,105,457)
Deductions to fund assets:		
SMIF loan principal payments	250,000,000	420,000,000
SMIF loan interest expense	1,093,877	10,565,985
General and administrative expenses	812,667	1,182,019
Personnel expenses	185,913	269,582
Total deductions to fund assets	252,092,457	432,017,586
Increase/(decrease) in net position	337,034,123	(512,123,043)
Net position, beginning of year	10,082,604,332	10,258,424,536
Net position, end of period	$ 10,419,638,455	$ 9,746,301,493

California Wildfire Fund
2023 Approved Budget vs 2023 Actual Activity
as of June 30, 2023

	Actual Activity for Six Months Ended June 30, 2023	Approved Budget for Six Months Ended June 30, 2023	Actual Activity for Six Months Ended June 30, 2022	Approved Budget for FYE 2023
Additions to fund assets:				
Rate payer monthly NBCs, net	$ 449,877,247 *	$ 409,706,406	$ 537,593,385	$ 875,069,919 **
Utility annual contributions	-	-	-	300,000,000
Investment income (net of expenses)	79,603,033	96,744,598	53,329,321	213,439,076
Total additions to fund assets	**$ 529,480,280**	**$ 506,451,004**	**$ 590,922,706**	**$ 1,388,508,995**
Deductions to fund assets:				
SMIF - principal payment	$ 250,000,000	$ 250,000,000	$ 420,000,000	$ 250,000,000
SMIF - loan interest	1,093,877	1,093,877	10,565,985	1,093,877
Personnel expenses:				
Personnel expenses - allocated from CEA	185,913	330,000	269,582	660,000
Total personnel expenses	185,913	330,000	269,582	660,000
General and administrative expenses:				
Other contracted and consulting services	296,806	225,714	689,918	451,428
Direct legal services-general	-	75,000	16,138	150,000
Financial services consulting	143,907	140,940	137,500	285,402
Bank fees	115,367	119,398	120,011	243,546
G&A expenses - allocated from CEA	250,556	261,700	216,677	523,400
Travel	-	8,240	-	19,110
Software and licenses	708	600	844	1,200
Direct IT services	-	600	-	1,200
Audit fees	4,000	4,000	-	4,000
Printing & stationary	197	300	-	600
Governing board meeting expenses	1,126	900	931	1,800
Total general and administrative expenses:	812,667	837,392	1,182,019	1,681,686
Total deductions to fund assets	**$ 252,092,457**	**$ 252,261,269**	**$ 432,017,586**	**$ 253,435,563**
Change in unrealized gain/(loss)	59,646,300	- ***	(671,028,163)	-
Increase/(decrease) in net position	**$ 337,034,123**	**$ 254,189,735**	**$ (512,123,043)**	**$ 1,135,073,432**

* - NBC funds received by CWF in 2023 are net of DWR administrative and operating expenses of $4.2mm. The $4.2mm is made up of $2.2mm of DWR A&O expenses paid from Dec'22 through May'23 and $2.0mm of funds retained in the DWR Charge Fund to pay future A&O expenses.

** - Budgeted NBC funds to be received by CWF in 2023 are net of $5.2mm for DWR administrative and operating expenses.

*** - Unrealized gain/loss is not budgeted for CWF

California Wildfire Fund
Cost Allocation Methodology and Calculation for the Six Months Ended June 30, 2023 and 2022
06/30/2023

Note 1: Cost Allocation Approach

CEA's Cost Allocation Plan is based on the Direct Allocation Method. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

The general approach of the CEA in allocating costs to the CWF is as follows:
A. All direct costs that are incurred directly by the CWF.
B. All other general and administrative costs (costs that benefit both Funds and cannot be identified to a specific Fund) are allocated to each Fund using a base that results in an equitable distribution. Costs that benefit more than one Fund will be allocated to each Fund based on the ratio of each Fund's salaries/benefits to the total of such salaries/benefits

Essentially, CWF cannot operate without administrative functions and these areas touch every aspect of the business and this is the justification for allocation. A continuing review of cost allocation will be a policy and more importantly, it will not be a standard and may change from time to time.

Note 2: Direct and Indirect Costs

Starting in July 2019, the CEA, acting as the interim administrator of the CWF, started tracking employees who were working directly on the CWF. These hours were tracked in a time tracking software that is on CEA's SharePoint intranet site.
The following hours were captured and the CEA applied each employees hourly rate + the predetermined burden rate to come up with the direct labor charge for the CWF for the Six Months Ended June 30, 2023 and 2022.

	Six Months Ended June'23		Six Months Ended June'22	
Department	**Hours**	**Salaries & Benefits**	**Hours**	**Salaries & Benefits**
1. Comms	36.0	4,303	128.3	12,728
2. Exec	62.0	17,531	166.5	39,691
3. Finance	461.8	61,015	927.9	88,281
4. IT	1	108	16.5	1,072
5. Internal Ops	-	-	6.5	1,154
6. Insurance Ops	129.0	25,998	206.2	40,415
7. Legal	532.0	60,724	573.3	63,937
Total Direct Hours/Costs	1,221.7	169,678	2,025.0	247,277

	June'23		June'22
CWF Salary & Benefit costs =	169,678	A	247,277
CEA Salary & Benefit costs =	12,323,977	B	13,140,749
	12,493,655	C	13,388,026
Allocation % =	1.36%	= A/C	1.85%

All other indirect costs were allocated to the CWF based on the 1.36% and 1.85% allocations noted above. The following indirect expenses were charged to the CWF:

Account Name	Acct #	Amount	Amount
Rent-Office and Parking	86400-16	8,873	11,403
Rent-Office Equip/Furniture	86450-16	116	551
Building Maintenance and Repairs	86475-16	39	227
Furniture/Equipment <$5000	86500-16	33	72
EDP Hardware <5000	86505-16	2,989	861
EDP Software <5000	86506-16	21,057	29,321
Office Supplies	86510-16	186	61
Postage	86530-16	9	19
HR and IT staff allocation	85101-16	16,235	22,305
Telecommunications	86550-16	2,213	2,021
Insurance Expense	86600-16	5,139	7,442
Other Administration Services	88175-16	268	516
Direct Investment Technology Support	89805-16	209,634	164,183
	Total Indirect Costs	266,791	238,982
	Total Costs	436,469	486,259

Contributions & NBCs Received

California Wildfire Fund
Contributions & NBCs Received
As of June 30, 2023

	Description	Date Received	Amount	
1.	SMIF Loan Proceeds	8/15/2019	$ 2,000,000,000	
2.	SDG&E initial capital contribution	9/9/2019	322,500,000	
3.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000	
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000	
5.	SoCal Edison 2019 annual contribution	12/27/2019	94,500,000	
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000	
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000	
8.	IOUs 2020 annual contributions	December-20	300,000,000	
9.	IOUs 2021 annual contributions	December-21	300,000,000	
10.	IOUs 2022 annual contributions	December-22	300,000,000	
		Total Contributions	10,700,000,000	
1.	2021 NBC funds received	12-months of 2021	875,076,565	
2.	2022 NBC funds received	12-months of 2022	1,116,593,213	*
3.	December 2022 NBC funds	1/30/2023	81,493,123	
4.	January 2023 NBC funds	3/7/2023	77,023,056	
5.	February 2023 NBC funds	3/30/2023	80,618,188	
6.	March 2023 NBC funds	4/17/2023	65,946,899	
7.	April 2023 NBC funds	5/25/2023	56,835,587	
8.	May 2023 NBC funds	6/26/2023	68,778,998	
9.	June 2023 NBC funds	**	19,181,396	
		Total NBCs	2,441,547,025	
		Total Funds Received	$ 13,141,547,025	

Note 1:
Amounts highlighted in blue represent funds received subsequent to the May 4, 2023 CCRC meeting.

Note 2:
NBC funds received by CWF in 2023 are net of DWR administrative and operating expenses of $4.2mm. The $4.2mm is made up of $2.2mm of DWR A&O expenses paid from Dec'22 through May'23 and $2.0mm of funds retained in the DWR Charge Fund to pay future A&O expenses.

* - NBC funds received by CWF in 2022 are net of DWR administrative and operating expenses of $5.5mm. The $5.5mm is made up of $4.3mm of DWR A&O expenses paid from Nov'21 through Nov'22 and $1.2mm of funds retained in the DWR Charge Fund to pay future A&O expenses.

** - As the CWF administrator, the CEA has requested and worked with the DWR to implement weekly payments of the NBC Charges to the CWF. Two weekly checks were received and deposited into CWF's account in June'23. The first weekly check was received on 06/20/2023.

Investment Analsyis

California Wildfire Fund

CWF Portfolio Overview

6/30/2023

June 30, 2023

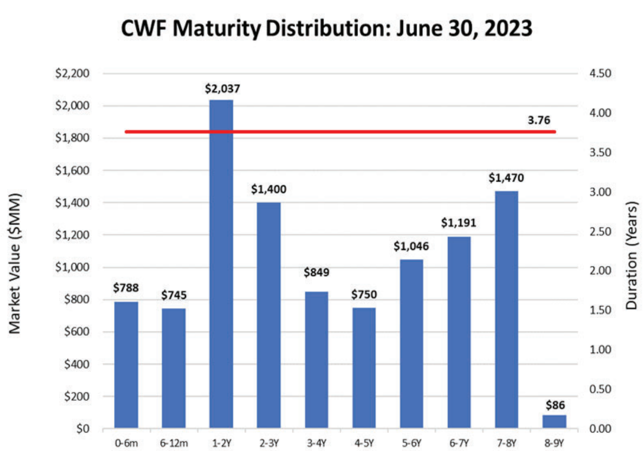
The CWF's total portfolio market value for June 2023 was $10.36 billion with an average duration of 3.76 years and average credit ratings of "AA+".

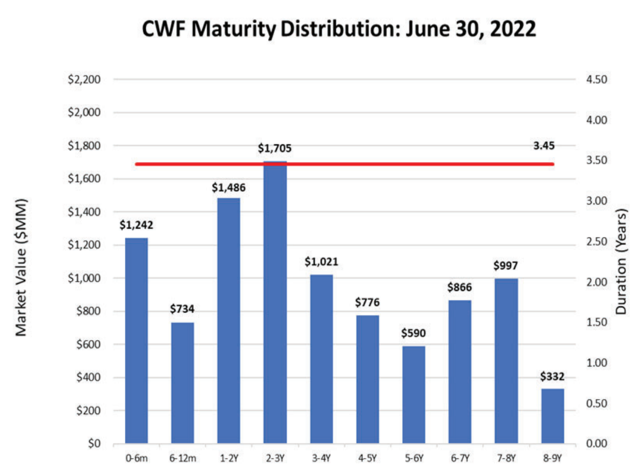
CWF Investment Portfolio as of March 31, 2023				
Sector	**Value ($MM)**	**% of Portfolio**	**Avg Credit Rating**	**Duration (Yrs)**
U.S. Treasury	$ 5,463	52.7%	AAA	3.38
U.S. Agency & Supranational	1,195	11.5%	AAA	3.31
Corporates	3,588	34.6%	A+	4.6
U.S. TSY MMF	116	1.1%	AAA	0.00
Total	**$ 10,362**	**100.0%**	**AA+**	**3.76**

June 30, 2022

The CWF's total portfolio market value for June 2022 was $9.75 billion with an average duration of 3.45 years and average credit ratings of "AA+".

CWF Investment Portfolio as of March 31, 2022				
Sector	**Value ($MM)**	**% of Portfolio**	**Avg Credit Rating**	**Duration (Yrs)**
U.S. Treasury	$ 5,537	56.8%	AAA	2.49
U.S. Agency & Supranational	1,062	10.9%	AAA	3.66
Corporates	3,078	31.6%	A+	5.14
U.S. TSY MMF	72	0.7%	AAA	0.00
Total	**$ 9,749**	**100.0%**	**AA+**	**3.45**



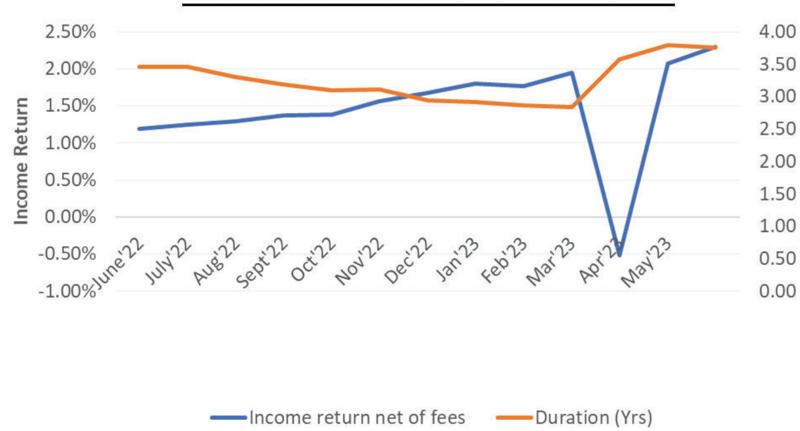


California Wildfire Fund
CWF Portfolio 12-Month History
6/30/2023

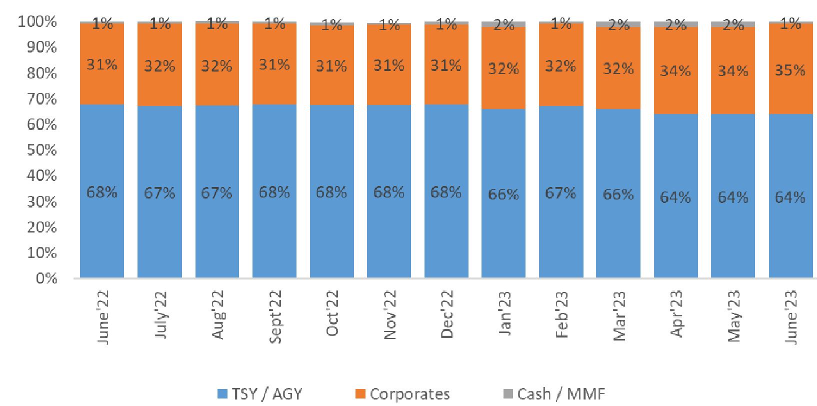
CWF Investment Portfolio Overview	June'22	July'22	Aug'22	Sept'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23	Apr'23	May'23	June'23
Total Portfolio													
Market Value - Cash & Investments ($MM)	$9,749	$9,826	$9,731	$9,550	$9,542	$9,693	$10,111	$10,204	$10,022	$10,292	$10,299	$10,362	$10,362
Investment income ($MM) *	10.09	10.45	10.89	11.33	11.27	12.83	14.16	15.55	15.23	16.78	(4.14)	18.10	20.01
Change in unrealized gain/(loss) ($MM)	(99.44)	136.38	(177.51)	(228.17)	(38.82)	152.47	(29.26)	137.94	(144.51)	169.85	57.89	(88.63)	(72.89)
Investment management fees and bank fees ($MM)	0.33	0.33	0.33	0.32	0.27	0.32	0.34	0.34	0.33	0.32	0.32	0.32	0.32
fees as a % of average AUM	0.0034%	0.0034%	0.0033%	0.0033%	0.0028%	0.0034%	0.0034%	0.0033%	0.0033%	0.0032%	0.0031%	0.0031%	0.0031%
Income return gross of fees	1.23%	1.28%	1.34%	1.41%	1.42%	1.60%	1.72%	1.84%	1.81%	1.98%	-0.48%	2.11%	2.33%
Income return net of fees	1.19%	1.24%	1.30%	1.37%	1.38%	1.56%	1.68%	1.80%	1.77%	1.94%	-0.52%	2.07%	2.29%
Yield to Maturity	3.13%	2.98%	3.52%	4.26%	4.59%	4.38%	4.48%	4.27%	4.79%	4.30%	4.11%	4.47%	4.72%
Duration (Yrs)	3.45	3.46	3.30	3.18	3.09	3.11	2.94	2.91	2.87	2.84	3.57	3.80	3.76
Portfolio Composition (%)													
TSY / AGY	68%	67%	67%	68%	68%	68%	68%	66%	67%	66%	64%	64%	64%
Corporates	31%	32%	32%	31%	31%	31%	31%	32%	32%	32%	34%	34%	35%
Cash / MMF	1%	1%	1%	1%	1%	1%	1%	2%	1%	2%	2%	2%	1%

* - Investment income does not include bank and investment manager fees. The amount includes the following: (1) interest income and interest purchased (2) Accretion - discount (3) Amortization - premium (4) Realized gain/(loss)

Income Return and Duration



Sector Composition



CWF Portfolio Analysis – Benchmarks

The CEA and Raymond James evaluated various alternative benchmarks as a reference point for the CWF portfolio. We have selected the following based on the CWF's current investment policy. The composite benchmark for the CWF is based on multiple ICE Bank of America ("BofA") indices and reflects the CWF's Investment Policy from a credit and duration perspective. The composite benchmark reflects our investment policy and is derived from a combination of different individual benchmarks and is comprised of 55% in U.S. Treasury Securities, 15% in Federal Agency Securities, and 30% in Corporate Notes.

The version noted below is based on the long-term goal of the portfolio with an overall target duration of approximately 4.4 years. It is also based on the long-term intent of the policies, and is focused on 1-10- and 7-10-year indices for U.S. Treasuries and Corporates. The intended purpose of the reference benchmark is to follow the long-term intent of the portfolios and not to make modifications based on short-term strategies driven by current market conditions.

Sector	Index Ticker	Index Name	Composition	Yield as of 06/30/2023	1-Month Total Return	3-Month Total Return	6-Month Total Return	Duration (Years)
Treasury	G5O2	ICE BofA 1-10 Yr UST	55%	4.49%	-0.92%	-1.29%	1.08%	3.68
Agency	GVP0	ICE BofA 1-5 Yr US Agy	15%	4.99%	-0.18%	-0.39%	1.29%	2.04
Corporate	C510	ICE BofA 1-10 Yr AAA-A US Corp	10%	5.36%	-0.38%	-0.25%	2.15%	3.94
Corporate	C410	ICE BofA 7-10 Yr AAA-A US Corp	20%	5.21%	-0.24%	-0.65%	3.27%	7.01
Total/Avg			**100%**	**4.80%**	**-0.62%**	**-0.92%**	**1.66%**	**4.13**
CWF Total			**100%**	**4.73%**	**-0.50%**	**-0.66%**	**1.46%**	**3.76**

ICE BofA data as of June 30, 2023
CWF portfolio data as of June 30, 2023

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 7: 2023 CWF Budget: Mid-Year Revision to CWF Budget for Sedgwick Consulting

Recommended Action: Approve 2023 CWF Mid-Year Budget Revision for Sedgwick Consulting

Background:

At the May 4, 2023 CCRC meeting, CEA's Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson noted the following in her Claims Administration Update Memo (Agenda Item 5):

> *During the "bridge" period between Phase 1 and 2, estimated to last approximately four months, Sedgwick will be developing dummy data to further test the operational approach for claims review services, and building out the operational procedures and personnel training for future pre-testing of the operational approach, both of which are tasks that were not anticipated during the initial contracting with Sedgwick. If these contract adjustments materially increase the total budgeted consulting services spend, the Administrator will update the 2023 budget and present it to the Council at its next meeting in August.*

Sedgwick completed their Phase 1 scope of work by March 31, 2023 and at CEA's request, they developed a "bridge" budget and scope of work to run through August 31, 2023 before transitioning into Phase 2 of their contract, and going into standby mode until claims are submitted to the Fund. In building out the claims operations as part of Phase 1, the staff of the CEA and Sedgwick made some significant changes in the claims operational approach to include a new task of pre-testing any future claims submissions. The CEA, Sedgwick and the Participating Utilities have agreed to test the claims review systems and operational documentation before the start of any future claims review process. This allows for actual claims data to be used to periodically test the operational approach and will help ensure confidence for all parties that the operational approach is fully functional and up-to-date, even when there are potentially long gaps of time between actual claims reviews. The amended *Wildfire Fund Claims Administration Procedures* that the Council approved on May 4, 2023 refer to the new task of pre-testing the operational approach ahead of future claims submissions. During the “bridge” period between Phase 1 and 2, estimated to last approximately four months, Sedgwick will be developing dummy data to further test the operational approach for claims review services, and building out the operational procedures and personnel training for future pre-testing of the operational approach, both of which are tasks that were not anticipated during the initial contracting with Sedgwick.

Analysis:

CWF’s 2023 original budget spend for Sedgwick included the following:

Sedjwick Phase 1 work that was originally budgeted for FY 2023 (rolled off from 2022)	$206,280
Maintenance mode Phase 2 that was originally budgted for FY 2023	65,150
Total Sedgwick original budget spend for FY 2023	$271,430

The new projected 2023 spend for Sedgwick is $558,435, an increase of $287,005. This increase is related to the additional time needed to develop dummy data to test the claims operations and build the operational procedures and personnel training for future pre-testing of the operational approach. There will be no Phase 2 expenses incurred by CWF until fiscal year 2024.

Recommendation:

The CWF recommends that the CCRC approve the 2023 budget revision for Sedgwick.

CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 8: Claims Administration Update

Recommended Action: No action required – Information only

Background

The California Catastrophe Response Council (Council) adopted amendments to the *Wildfire Fund Claims Administration Procedures* (*Procedures*) on May 4, 2023. It also authorized the Administrator to make periodic non-discretionary, conforming changes to the *Procedures* as necessary to ensure that the *Procedures* conform to any statutory amendments that may be enacted in the future. The Administrator entered into an agreement with Sedgwick Claims Management Services, Inc. (Sedgwick) effective as of January 24, 2022, to provide claims review services for the Wildfire Fund.

These actions are in keeping with Public Utilities Code section 3284(g), which requires that the Administrator prepare and seek Council approval for written procedures for the review, approval, and timely funding of eligible claims. The Council's adoption of the *Procedures* is also in keeping with the Articles of Governance, in which the Administrator is authorized to operate the Wildfire Fund within the framework established by law and in accordance with the *Procedures* approved by the Council.

Bridge Period to Enhance Buildout of the Claims Administration Operations

In Q1-2023, Sedgwick completed the scope of work for Phase 1, Claims Review Readiness, of its contract. Phase 1 focused on building out the infrastructure and completing the preparations necessary for the successful and timely execution of the Administrator's claims review process. Their work included development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The operational approach, including the data management structure and claims review forms for the Threshold Claims and Eligible Claims review processes, was then tested before finalization.

Starting April 1, 2023, Sedgwick began a new, short-term scope of work to run through August 31, 2023, as a "bridge" period before Sedgwick transitions into hibernation mode awaiting a claims submission to the Fund. During this time, Sedgwick is developing dummy data to further test the operational approach for claims review services, and building out the operational procedures and personnel training for future pre-testing of the operational approach, both of which are tasks that were not anticipated during the initial contracting for Phase 1 with Sedgwick. This contract adjustment has increased the total budgeted consulting services spend for 2023, and the Administrator has updated the 2023 budget accordingly.

Phase 2, Delivery-on-Demand of Claims Review Services

The Administrator also worked with Sedgwick to revise its scope of work for Phase 2, Delivery-on-Demand of Claims Review Services, to include a new task of pre-testing the operational approach ahead of any future claims submission. The Administrator, Sedgwick and the Participating Utilities have agreed to test the claims review systems and operational documentation before the start of any claims review process. This allows for actual claims data to be used to periodically test the operational approach and will help ensure confidence for all parties that the operational approach is fully functional and up-to-date, even when there are potentially long gaps of time between actual claims reviews. The amended *Procedures* that the Council approved on May 4, 2023 refer to the new task of pre-testing the operational approach ahead of future claims submissions.

Sedgwick's revised scope of work for Phase 2 runs to January 23, 2027 (5 years from the date of execution). The Phase 2 scope of work and budget are structured around two modes of work: "standby mode" and "claims review mode". Sedgwick will be in "standby mode" once it completes the short-term "bridge" scope of work until claims are submitted to the Fund. The annual scope of work for the "standby mode" includes execution of a maintenance services plan to ensure that, if claims are not submitted for an extended period of time over the life of the contract, the claims review personnel and infrastructure will remain trained and ready to provide on-demand claims review services whenever claims are submitted.

Wildfire Monitoring and Notification

The Administrator continues to monitor and report to the Council on active wildfires as well as the status of potentially Covered Wildfires in the 2019 through 2023 coverage years. In particular, the Administrator is tracking the reported losses for four major fires—

the October 2019 Kincade Fire, September 2020 Zogg Fire, July 2021 Dixie Fire, and September 2022 Mosquito Fire. PG&E's 10-Q report to the SEC for the quarterly period ending March 31, 2023 reports aggregate liabilities of $1.025 billion, $400 million, $1.175 billion and $100 million for the 2019 Kincade Fire, 2020 Zogg Fire, 2021 Dixie Fire and 2022 Mosquito Fire, respectively. Of these, PG&E has recorded a potential recovery of $175 million from the Fund for the 2021 Dixie Fire.

Although Participating Utilities are eligible to make claims against the Fund for wildfire-related losses exceeding $1 billion in any coverage year, PG&E reported that it has not recorded a potential recovery from the Fund for the 2019 Kincade Fire. It also noted that the 2019 Kincade Fire is subject to a 40% limitation on the allowed amount of claims arising before emergence from bankruptcy.

The Administrator continues to closely monitor PG&E's 2021 losses and plan for the potential submission of claims.

Next Steps

Staff from CEA will report on the status of work by the claims review services provider, wildfire monitoring, and the execution of other elements of the *Procedures* during this Council meeting.

California Catastrophe Response Council Memorandum

August 3, 2023

Agenda Item 9: Enterprise Risk Management Program

Recommended Action: No action required – information only

Risk Reporting

The 3rd quarter 2023 scorecard is presented below and provides the status of each priority risk. The column named Residual Risk Score indicates the current risk status after controls have been applied.

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
Wildfire Modeling	Distorted or incorrect view of Wildfire Fund durability due to invalid, inaccurate, or outdated methods or assumptions in external or internal wildfire models	High	Strong	Medium
Workforce	Adverse impacts to the administration of the Wildfire Fund that occur due to a workforce issue or constraint at CEA	Medium	Strong	Low
Mitigation	Durability of the Wildfire Fund is dependent on successful mitigation activities which are outside the direct control of CEA as the Wildfire Fund Administrator but that must be monitored	Medium	Medium	Medium

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
Risk Transfer	Reasonably priced risk transfer products for wildfire cover are not available when needed	Medium	Strong	Low
Reputation	Public's loss of confidence in CEA as Administrator of the Wildfire Fund or loss of confidence in the ability of the Wildfire Fund to meet its objectives	Medium	Strong	Low
Legislative/ Regulatory	Legislative, regulatory, or political actions that materially change the Wildfire Fund Administrator and/or Council's ability to fulfill its current obligations or mission	Medium	Strong	Low
Legal	Harm to the Wildfire Fund resulting from (a) disputes with third parties, (b) regulatory/legislative enforcement actions, and/or (c) compliance lapses	Medium	Strong	Low
Investments	Losses to the Wildfire Fund due to failure to adhere to established investment guidelines and/or performance objectives not achieved	Medium	Strong	Low
Information Security	Losses due to unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of information and/or accessibility of IT systems	Medium	Strong	Low
Financial Reporting	Inaccurate financial accounting or reporting or inadequate controls that result in a material	Medium	Strong	Low

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
	error in published financial statements			
Claims Management	Issues, conflicts, or delays arising from or associated with IOU claims management	Medium	Medium	Medium
Business Continuity	Loss of business systems causing limited or delayed continuity of the California Wildfire Fund essential business functions	Medium	Medium	Medium

Risk and Compliance

CEA's Risk and Compliance Committee (RCC) continues to work with Business Units to update current and review new policies submitted. The RCC is currently revising its Charter to include an Internal Audit function. The main objective is to improve productivity, efficiency, and effectiveness of compliance in functional areas. The Internal Audit team will be embedded under the Risk and Compliance purview and among other things, will review and track staff adherence to reading policies and mandatory training.

ERM

Next quarter, the ERM Committee will conduct its annual review of the California Wildfire Fund risks listed above. The annual assessment consists of re-evaluating the risks for each business unit that have been previously identified and whether they are adequate and current. The ERM team will also look at the controls put in place for each risk and evaluate their effectiveness. The annual assessment also looks at any possibly emerging risks and current projects underway that might pose future risk impacts.