

California Catastrophe Response Council Meeting Minutes

Teleconference Meeting

Thursday, July 28, 2022

2:00 p.m.

Members of Council in Attendance:

Richard Gordon, Vice-Chair, appointee of Speaker of the Assembly
Kasey O'Connor, 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

Members of CEA Staff in Attendance:

Glenn Pomeroy, Chief Executive Officer
Dr. Laurie Johnson, CEA's Chief Catastrophe Response & Resiliency Officer
Suman Tatapudy, Senior Counsel
Ben Kirwan, Controller
Shawna Ackerman, Chief Risk and Actuarial Officer
Joe Zuber, Deputy General Counsel for Risk Transfer
Susan Johnson, Governance Liaison

Speakers:

Sumeet Singh, PG&E
Stephen Cairns, PG&E
Casie Hart, Sedgwick
David Armstrong, Sedgwick
Antonio Figueroa, Sedgwick
Caroline Albertson, Sedgwick

1. Quorum: Call to Order and Member Roll Call

Vice-Chair Richard Gordon called the meeting, held via Zoom, to order at 2:02 p.m. and welcomed new Council Member Kathleen Ritzman.

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

2. **Minutes: Review and approve minutes of the April 28, 2022 meeting of the Council.**

MOTION: Ms. Barna motioned to approve the April 28, 2022 meeting minutes as written. Ms. O'Connor seconded. The motion carried unanimously by roll call vote.

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

CEA Chief Executive Officer Glenn Pomeroy welcomed Council Member Kathleen Ritzman noting that her background and experience will be an asset to the Council.

Mr. Pomeroy then presented his report:

- The Wildfire Fund has recently completed its third year of operation and the fourth wildfire season is now underway.
- No claims have been received to date.
- The claims administration process continues to develop.
- An enterprise risk management system is in place.
- A process has been established for fulfilling reporting responsibilities to the Legislature.
- CEA Legislative staff are also conducting legislative outreach.

He concluded that these actions have resulted in financial stability and given the investor-owned utilities the time and resources to invest in wildfire safety and mitigation, which ultimately benefits their customers.

4. **Informational Presentation: PG&E Executive Vice President, Chief Risk Officer and Interim Safety Officer Sumeet Singh, and PG&E Vice President and Chief Audit Officer Stephen Cairns will provide an overview presentation on PG&E's wildfire mitigation activities.**

Sumeet Singh, Executive Vice President, Chief Risk Officer, and Interim Safety Officer, PG&E, provided a slide presentation overview of the risk and the layers of protection in the multiprong wildfire mitigation approach undertaken by PG&E. He noted that 2022 is the driest year to date over the last 128 years and that approximately 65 percent of California's High Fire-Threat Districts (HFTDs) are currently in PG&E's service area. He stated that PG&E actions have mitigated approximately 90 percent of wildfire risk.

Mr. Singh said that the company has continued to adapt to California's changing wildfire risk profile through various measures that include:

- Enhanced vegetation management

- System hardening of overhead utility lines
- The installation of underground utility lines
- Use of Public Safety Power Shutoffs (PSPS)

He also explained that there has been a dramatic shift since 2020 in the causes of wildfires. Prior to 2020, most California wildfires were wind driven, whereas currently many wildfires are now fuel-driven as a result of California's terrain and topography. He added that so far in 2022, PG&E has recorded 52 wildfire ignitions, which is a 45 percent reduction compared to 2021. Lastly, he credited the company's enhanced safety and mitigation measures with fewer power outages and fewer customers impacted.

Stephen Cairns, Vice President and Chief Audit Officer, PG&E, continued the slide presentation and discussed the impact of the mitigation approach and how PG&E is thinking about insurance in relation to the Wildfire Fund. He stated PG&E is proposing to transition over time to a customer-funded self-insurance model, which would enable customers to benefit by retaining premiums for future use in those years where no or limited liabilities are incurred.

Discussion

In response to a question from Mr. Rosenstiel, Mr. Singh said, the company's Public Safety Power Shutoff (PSPS) system is the driving force and a main reason why PG&E has improved its ability to mitigate wildfire risk.

Mr. Cairns focused his remarks on how PG&E's \$1 billion insurance investment in the Wildfire Fund's has enabled PG&E to invest in the various mitigation measures outlined by Mr. Singh. Mr. Cairns added that insurance protection provided by the Wildfire Fund has negated the need for PG&E to purchase additional insurance.

In response to a question from Ms. Rossman regarding whether the CCRC has the authority to decide if the investor-owned utilities have sufficient insurance, CEA Senior Counsel Suman Tatapudy explained that the CCRC's statutory role is to periodically review whether the investor-owned utilities have an adequate amount of insurance.

Replying to a question from Ms. Ritzman, Mr. Singh told the Council that PG&E intends to continue to invest in wildfire safety and mitigation measures, including the use of artificial intelligence to determine the correlation between wind speeds and power outages.

There was no public comment.

- 5. Plan of Operations: CEA Senior Counsel Suman Tatapudy will ask the Council to review and consider approval and adoption of the Third Annual Report and, if approved, authorize the Administrator to deliver the Third Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.**

CEA Senior Counsel Suman Tatapudy provided an overview of the requirements in California Public Utilities Code section 3283 for the Council to direct the Administrator to prepare and present for approval a Plan of Operations related to the operations, management and administration of the Wildfire Fund on an annual basis. The Third Annual Report, covering the time period of July 12, 2021 through July 11, 2022 includes the following:

- Wildfire Fund Assets
- Projections for the Durability of the Wildfire Fund
- Success of the Fund
- Whether or not the Wildfire Fund is serving its purpose

The Third Annual Report does not include a plan for winding up the Wildfire Fund because projections do not demonstrate the Fund will be exhausted within the next three years.

Motion: Mr. Rosenstiel moved to approve and adopt the staff recommendation as written and to authorize the Administrator to present the Third Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy. Ms. Barna seconded. There was no public comment. The motion carried unanimously by roll call vote.

6. Financial Report: CEA Controller Ben Kirwan will provide the Council with a financial report on the Wildfire Fund as of June 30, 2022.

CEA Controller Ben Kirwan provided a financial report of the Wildfire Fund as of June 30, 2022. Referring to the Balance Sheets slide, he noted that cash and investments had decreased approximately \$200 million from September 2021 to September 2022. The main contributor of this decrease is related to the mark-to-market adjustments that were made to the investment portfolio of the CWF. Mr. Kirwan explained that mark-to-market is an accounting practice that involves adjusting the value of an asset to reflect its value as determined by current market conditions.

As of June 30, 2022, unrealized losses in CWF's investment portfolio totaled \$835 million, however no realized losses are anticipated for the following reasons:

1. 57% of the portfolio is made up of U.S. Treasuries, which do not pose a credit risk.
2. The investment management team at the CWF maintains a buy and hold strategy, which helps to ensure that losses will not be recognized.
3. The Unrealized Losses in the portfolio will decrease as securities mature and the proceeds are reinvested in short duration securities in a rising interest rate environment, leading to higher investment income.

Mr. Kirwan referred to the Statements of Revenues, Expenses, and Changes in Net Position slide and noted that the rate payer monthly non-bypassable charges (NBCs) increased in the first six months of 2022 compared to the first six months of 2021 by approximately \$150 million. This increase is related to the following:

1. California Public Utilities Commission (CPUC) increased the rate amount for Wildfire Fund NBCs for fiscal year 2022.
2. The DWR has shortened its turnaround time in sending monthly NBCs received from the IOUs to the CWF from 45 days after month end to 27 days after month-end in fiscal year 2022.

Mr. Kirwan also noted that the SMIF loan interest expense has decreased approximately 50% in the first nine months of 2022 compared to the first nine months of 2021 due to the pay down of the \$2 billion SMIF loan. The SMIF loan will be fully paid off in April of 2023. The Wildfire Fund is trending to be underbudget in both personnel and administrative expenses.

The composition of the Wildfire Fund portfolio has stayed relatively stagnant. The average credit rating of CWF's portfolio is AA+ and the overall duration of the portfolio as of June 30, 2022 has decreased to 3.44 years compared to 3.97 years as of June 30, 2021. Investment and bank fees make up a small percentage of CWF's overall spend. All fourteen of the contracted investment managers of the CWF charge monthly fees of approximately four annual basis points of assets under management, which is low compared to the industry standard rate. Mr. Kirwan noted that the yield to maturity has increased from 0.81 percent in July 2021 to 3.10 percent in June 2022. The investment portfolio is trending in the right direction.

7. Claims Administration Update: Dr. Johnson will provide an update on Claims Administration for the Wildfire Fund.

CEA Chief Catastrophe Response and Resiliency Officer Dr. Laurie Johnson provided an update on the development of the Wildfire Fund's claims administration operations including key milestones. She noted that the development of a Claims Operations Manual will ensure consistency in the claims review process. She also reported on the Administrator's ongoing monitoring of wildfires and potential claims, with PG&E projecting a potential claim of \$150 million on the Fund for the 2021 coverage year.

Dr. Johnson introduced Casie Hart, Project Manager from Sedgwick, contracted to provide claims review services to the CEA. Ms. Hart then introduced members of the Sedgwick team. The team provided a slide presentation update of the Phase 1 work program status, including the development of an Operations Manual, quality control plan, claims review processes and forms, data management structure, data management and data security, and statistical analysis.

Dr. Johnson stated the next steps are to complete the initial draft of the Operations Manual for claims review services, conduct annual reviews with each of the participating utilities, and continue build out of wildfire monitoring and notification tools, protocols, and procedures to enhance timely access to current, substantive, and detailed wildfire and claims information.

Questions and Discussion:

Mr. Rosenstiel asked if the computer programs will be off-the-shelf or created to meet specific needs.

Antonio Figueroa, Director of Data Science, Sedgwick, stated data and computer work, as well as any development and testing, is being performed in-house. Sedgwick is confident in these programs due to their experience in both technology and claims, which is Sedgwick's core competency. Implementation of claims review programs the size of the Wildfire Fund are bound to run into challenges along the way, but Sedgwick is experienced and comfortable with tackling those challenges as they come to find the best solutions.

Dr. Johnson stated that Sedgwick is working with the investor-owned utilities to gain a better understanding of their computer systems so that the Wildfire Fund and the investor-owned utilities can interface when the need arises to handle claims.

She concluded her report by noting that there have been four new wildfires since the Council's last meeting, but so far no claims have been filed against the Wildfire Fund.

8. Enterprise Risk Management: CEA Chief Risk & Actuarial Officer Shawna Ackerman will provide an update on the Enterprise Risk Management program for the California Wildfire Fund.

Chief Risk & Actuarial Officer Shawna Ackerman reported that the integration of the risks associated with the administration of the Wildfire Fund into the existing Enterprise Risk Management (ERM) framework has been completed and is now in a monitor and control stage.

She also reported on the status of the 12 priority risks that have been identified by the ERM Committee and CEA's internal risk owners, noting no change in risk status since the Council's last meeting. Ms. Ackerman stated the Staff Memo routinely calls out specific risks of interest. This quarter, the Staff Memo makes note of the Wildfire Mitigation Plans (WMP), which investor-owned electrical corporations are required to submit, assessing their level of wildfire risk and providing plans for wildfire risk reduction. She concluded by reviewing the status of the current Wildfire Mitigation Plans.

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

There was no public comment.

10. Adjournment.

There being no further business. Mr. Gordon adjourned the meeting at 3:31 p.m. p.m.