2023 Annual Report

on the California Wildfire Fund's Operations

CEA CALIFORNIA EARTHQUAKE AUTHORITY™ | Wildfire Fund Administrator

August 3, 2023

Pursuant to California Public Utilities Code section 3283, this annual report on the Wildfire Fund's operations has been prepared by the California Earthquake Authority in its capacity as the Wildfire Fund Administrator, approved by the California Catastrophe Response Council, and is hereby presented to the following committees of the California State Legislature:

Senate Energy, Utilities and Communications Committee
The Honorable
Steven Bradford, Chair
California State Senate
1021 O Street, Room 3350
Sacramento, California 95814

Assembly Utilities and Energy Committee
The Honorable
Eduardo Garcia, Chair
California State Assembly
LOB, Room 408
Sacramento, California 95814

California Catastrophe Response Council Members	
Governor	Gavin Newsom
State Treasurer	Fiona Ma
Insurance Commissioner	Ricardo Lara
Secretary of Natural Resources	Wade Crowfoot
Member appointed by the Speaker of the Assembly	Tracy Van Houten
Member appointed by the Senate Committee on Rules	Kathleen Ritzman
Member of the public	Paul Rosenstiel
Member of the public	Rhoda Rossman
Member of the public	Catherine Barna

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 fourth 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.

TABLE OF CONTENTS

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

[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).

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 arising from eligible claims resulting from covered wildfires, the Fund can issue 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 on page 4.

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 on page 7.

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) Administrative Actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund

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, starting on page 14.

(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: cawildfirefund.com/council.

(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.

2022 Annual Report

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: 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 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 1:
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.

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 on the following page.

[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.)

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% to 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

[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.

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, 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.

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.

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

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 on page 19), 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., 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]

[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.)
[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 provides an overview of the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund; provides a brief summary of the Council's public meetings during this reporting period; and 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.

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 State of California'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.

Overview of the Council's Public Meetings

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.

Claims Summary

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.

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;

[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.)

- 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 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]
- 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

[13]*Fitch Upgrades PG&E Corp.'s and Pacific Gas and Electric's IDR to 'BB+': Outlook Stable* (FitchRatings.com), March 20, 2023; *Fitch Rates Southern California Edison's First & Refunding Mortgage Bonds 'A-'* (FitchRatings.com), May 17, 2023; *Fitch Rates San Diego Gas and Electric Company's First Mortgage Bonds 'A'* (FitchRatings.com), March 8, 2023.
[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

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: 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: 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: 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 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.

GLENN POMEROY
Chief Executive Officer

SUSIE HERNANDEZ
Legislative Director
(916) 996-2970

California Earthquake Authority
Wildfire Fund Administrator
801 K Street, Suite 1000
Sacramento, CA 95814
(916) 325-3800