

CALIFORNIA CATASTROPHE RESPONSE COUNCIL MINUTES

Teleconference Meeting
Thursday, January 27, 2022
2:00 p.m.

Members of the Council in Attendance:

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

Members of the CEA Staff in Attendance:

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

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.

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

2. Minutes: Review and approve minutes of the October 28, 2021 meeting of the Council.

MOTION: Mr. Cash motioned to approve the October 28, 2021 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.

Mr. Pomeroy reported that Michael Wara, designee for the Senate Committee on Rules, has indicated that he is stepping down from serving on the Council. A replacement has

not yet been appointed. Vice-Chair Gordon requested Mr. Pomeroy draft a letter to Mr. Wara thanking him for his service on the Council.

Mr. Pomeroy then provided a brief review of the Administrator's Wildfire Fund activities in 2021. Highlights he reported to the Council included:

- Development of a performance evaluation process for the CEA, as Wildfire Fund Administrator.
- Management of \$21 billion in claim-paying capacity, which includes current and future collections by DWR of the ratepayer Non-Bypassable Charges (NBCs), and the CEA's collections of annual contributions from the investor-owned utilities (IOUs).
- The Council approved the Wildfire Fund Claims Administration Procedures, which was then followed by an RFP process to secure the services of a claims service provider.
- The Administrator's activities related to the Wildfire Fund were incorporated into the CEA's Enterprise Risk Management framework, and a schedule for quarterly ERM reports to the Council was established.
- A process for monitoring, evaluating, and reporting to the Council on the projected durability of the Wildfire Fund has been established.
- Efficient and effective Wildfire Fund administration is evidenced by the fact that 2021 actual expenditures came in at approximately 70 percent of the 2021 budget forecast.
- Administratively:
 - The Memorandum of Coverage to the three IOUs has been finalized.
 - The annual review of loss retentions for the IOU is underway.
 - The Plan of Operations and all other statutory reporting is in place.
 - Processes are in place for monitoring all wildfires in California, with emphasis on wildfires with a potential to be "covered wildfires" that could produce claims on the Fund.

4. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of November 30, 2021.

Mr. Hanzel reported to the Council that through November 30, 2021, the Wildfire Fund had a total net position of \$9.95 billion, which is relatively flat compared to last year. Additions to the fund included almost \$800 million in payments from non-bypassable charges, while approximately \$800 million in payments and interest was repaid on the SMIF loan.

Mr. Hanzel noted the Wildfire Fund's investment income stood at \$89 million for this year, up approximately \$15 million from a year ago, adding that approximately 65% of

the investment portfolio is in U.S. Treasuries and Agencies. SMIF loan payments of \$70 million per month continue, putting the fund on track to extinguish it in April 2023.

Mr. Hanzel then listed the annual contributions from the investor-owned utilities as well as the non-bypassable charges flowing from ratepayers through the Department of Water Resources and into the Wildfire Fund. He concluded by showing the investment numbers noting the market value of the portfolio is roughly the same as a year ago, and the investment portfolio maintains a healthy average credit rating of “AA”. He then displayed the portfolio’s monthly activity noting that Asset manager fees have been added into the table as “Income return gross of fees”.

Ms. Rossman applauded Mr. Hanzel and his team on the overall investment results and the low asset management fees.

5. California Wildfire Fund 2022 Budget: Mr. Hanzel will seek approval of the proposed 2022 California Wildfire Fund Budget.

Mr. Hanzel noted that this is the second time he has brought a proposed budget to the Council seeking the Council’s approval. He stated he is pleased that the Wildfire Fund came in under last year’s budget and that his team hopes to have a similar outcome in 2022.

Mr. Hanzel then presented the proposed 2022 budget, including both additions and deductions from the fund. The projected net additions to the fund in 2022 are \$528,652,719, which is up from the 2021 budget of \$392,122,592. Regarding the deductions, he noted that Personnel costs are projected to decrease from the prior year approved budget but be slightly higher than 2021 actual costs. Additionally, General and Administrative expenses are expected to increase compared to prior year budget and actuals, which he attributed to the selection of a new Claims Review Services Provider, additional contracted services, an investment in new Wildfire Fund investment software and personnel expenses.

Questions and Discussion

Ms. Rosenstiel congratulated Mr. Hanzel and his team on bringing in the 2021 spending under budget and asked if any budget line items might decrease over time and if the Wildfire Budget will increase in future years if there are wildfire claims against the Fund.

Mr. Hanzel replied that we are still building infrastructure; once we get through that, those numbers will come down. If there are claims against the fund, all numbers would be elevated.

Mr. Gordon added his congratulations to Mr. Hanzel and team for their budget management.

Public Comment

There was no public comment.

MOTION: Ms. Rossman motioned to approve proposed budget. Mr. Rosenstiel seconded. The Motion carried unanimously by roll call vote.

6. Administrator Evaluation: Mr. Pomeroy will ask the Council to appoint two members to the informal Administrator Evaluation Subcommittee for the purpose of preparing the evaluation of CEA as the Wildfire Fund Administrator for 2021.

Mr. Pomeroy stated that last year, Mr. Rosenstiel and Ms. Barna served on a Council subcommittee to begin the process of developing an evaluation form that could be used going forward in which they solicited input from the entire Council and aggregated the information received to compile an evaluation of CEA as the Wildfire Fund Administrator.

Mr. Pomeroy suggested a similar approach be taken this year to evaluate the Wildfire Fund Administrator's performance in 2021. Mr. Gordon and Mr. Rosenstiel agreed to serve on the Council subcommittee and will begin the process of preparing the 2021 evaluation of CEA as Wildfire Fund Administrator.

7. Fund Administration Update: CEA General Counsel Tom Welsh will provide an update on two matters related to the administration of the Wildfire Fund: (a) the Memorandum of Insurance Coverage to be delivered to the three participating investor-owned utility companies (IOUs), and (b) the Administrator's framework for periodically reviewing and making recommendations to each IOU on its wildfire insurance coverage, pursuant to Public Utilities Code section 3293.

(a) Memorandum of Coverage: Mr. Welsh reported first on the Memorandum of Coverage. When CEA was first appointed as the interim administrator of the Wildfire Fund under AB 1054, the CEA determined it would be beneficial to prepare a uniform document to be delivered to the three participating IOUs setting forth the terms and conditions under which they may assert claims on the Fund. The result was a draft "Memorandum of Coverage." Following the approval of the Claims Procedures in mid-2021, the form of Memorandum of Coverage was finalized in the fourth quarter of 2021, following review by and input from the IOUs.

The last item to be completed on the Memorandum of Coverage is to allow the IOUs to define the 12-month period during which they can aggregate wildfire losses for purposes of meeting their respective \$1 billion annual retention before they can start submitting claims to the Fund for reimbursement.

Questions and Discussion

Mr. Rosenstiel asked if once the investor-owned utilities determine their insurance coverage levels in a given year, are the IOUs subsequently able to change their coverage period to retroactively impact what claims are incurred in the coverage year for purposes of meeting their \$1 billion retention? Mr. Welsh replied that while the utility companies can change their coverage levels in *future* years, they cannot go back and retroactively change coverage levels for past years.

(b) Section 3293 Framework: Mr. Welsh and Ms. Ackerman also provided background and an update on the Section 3293 framework. Ms. Ackerman explained that the framework developed for this annual review of the IOUs' insurance programs is meant to aid the Administrator in managing the durability of the Wildfire Fund over a number of years.

Both Mr. Welsh and Ms. Ackerman advised the Council that as a result of the 3293 Framework development, and the absence of claims since 2019, the IOUs have been advised that their insurance coverage levels for the upcoming wildfire season will remain at the statutory \$1 billion retention level.

8. Claims Administration: CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson will provide an update on the implementation of the Claims Administration Procedures for the Wildfire Fund

Dr. Johnson reported that after a thorough selection process, Sedgwick had been chosen as the Wildfire Fund's claims review services provider. Sedgwick has approximately 30,000 employees with offices around the world, including trained claims adjustors skilled at handling wildfire claims.

Ms. Rossman asked if Sedgwick is a West Coast firm and Dr. Johnson replied they are a global company and have a West Coast office. Dr. Johnson added that the Administrator had been particularly impressed with Sedgwick's data analytics capability and deep bench of subject matter experts.

She then described the two phases of the claims review services provider's scope of work for the Council and noted that during the first year of their contract, Sedgwick will focus on building out the infrastructure and completing necessary preparations for the successful and timely execution of the Administrator's claims review process. She explained that the second phase of Sedgwick's work will be to provide delivery-on-demand of claims review services for a period of up to 3 years, and that the Administrator has the option to extend their contract up to 5 years from the date of execution.

Dr. Johnson also reported that there have been no formal notifications of any claims filed against the Wildfire Fund; and that there have been no new wildfire incident notifications since the last meeting of the Council in October 2021.

9. ERM Framework: CEA Chief Risk & Actuarial Officer Shawna Ackerman will provide an update on the development of the Enterprise Risk Management program for the California Wildfire Fund.

Ms. Ackerman reported to the Council on her team's ongoing work to integrate the 12 identified priority risks associated with the administration of the Wildfire Fund into CEA's existing Enterprise Risk Management (ERM) program. She added that she expects to present to the Council at its next meeting a new dashboard as part of her update.

Council member Gordon stated that he looks forward to seeing the new dashboard.

10. 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.

11. Adjournment

There being no further business, Vice-Chair Gordon adjourned the meeting at 3:03 p.m.