

**CALIFORNIA CATASTROPHE RESPONSE COUNCIL MEETING
MINUTES**

**February 29, 2024
2:00 p.m.**

Location: 400 Capitol Mall, Suite 670
Sacramento, CA 95814

Members of Council in attendance:

- Mark Ghilarducci, Chair, designee of Governor Gavin Newsom
- Khaim Morton, designee of State Treasurer Fiona Ma
- Lisbeth Landsman-Smith, designee of Insurance Commissioner Ricardo Lara
- Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot
- Tracy Van Houten, appointee of the Speaker of the Assembly
- Kathleen Ritzman, appointee of the Senate Committee on Rules*
- Rhoda Rossman, Public Member
- Catherine Barna, Public Member*

*Participated remotely.

Paul Rosenstiel, Public Member, was unable to attend.

Members of CEA Staff in Attendance:

- Tom Welsh, Interim Chief Executive Officer
- Tom Hanzel, Chief Financial Officer
- George Sittner, Chief Insurance and Claims Officer
- Suman Tatapudy, General Counsel
- Andrea Wheeler, Enterprise Risk Manager
- Susan Johnson, Governance Liaison

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

Chair Mark Ghilarducci called the meeting to order at 2:00 p.m.

Ms. Tatapudy provided an overview of the new requirements for public meetings held via teleconference under Senate Bill (SB) 544.

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

2. Minutes: Review and approve the minutes of the November 2, 2023, meeting of the Council.

Mr. Welsh noted a correction to the minutes on page 4 in the paragraph regarding out-of-compliance securities and stated “\$740 million” has been corrected to “\$742,000.”

MOTION: Mr. Cash moved to approve the November 2, 2023, minutes of the California Catastrophe Response Council. Ms. Van Houten seconded. There was no public comment on the motion. The motion passed unanimously by roll call vote.

3. Executive Report: CEA Chief Executive Officer (Interim) Tom Welsh will provide the Council with an executive report.

Interim Chief Executive Officer Tom Welsh stated former Chief Executive Officer Glenn Pomeroy stepped down in January and the CEA Governing Board had designated him as the Interim CEO. A national search is under way to secure a replacement. A subcommittee to facilitate the anticipated six-month search is made up of CEA Governing Board members Lloyd Dixon and Michael Martinez. The search firm will consider both inside and outside candidates.

Mr. Welsh stated, in his interim role, he will principally focus on the pillars of the CEA's operations, which remain stable and unchanged: continuing operational excellence, prudent financial management, and event readiness. He stated the CEA will continue to engage and collaborate with the three investor-owned utilities (IOUs) to ensure statutory alignment, and plan for the eventual depletion of the California Wildfire Fund (CWF).

Discussion

Ms. Rossman asked if the plan for the eventual depletion of the CWF will be presented to the Council. Mr. Welsh stated regular progress reports will be presented to the Council on plans for the CWF.

Chair Ghilarducci stated it is important for the Council to understand what is happening in the field. He asked staff to regularly invite the IOUs to present at future meetings on their mitigation efforts, challenges, and current conditions.

Public Comment

There was no public comment.

4. Administrator Evaluation: Mr. Welsh will ask the Council to appoint two members to the informal Administration Evaluation Subcommittee for the purpose of preparing the evaluation of the CEA as the Wildfire Fund Administrator for 2023.

Mr. Welsh explained the function of the informal Administration Evaluation Subcommittee.

Discussion

Chair Ghilarducci suggested, instead of a subcommittee, sending out an online survey to council members to be summarized at the next Council meeting. He asked for a volunteer to review the survey questions before they go out, to ensure the questions meet the intent of the Administration Evaluation. Staff can then review the results and present a summary of the findings to the Council.

Mr. Morton volunteered to work with CEA staff on the annual evaluation survey.

Public Comment

There was no public comment.

5. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of December 31, 2023.

Chief Financial Officer Tom Hanzel reviewed financial highlights from the past quarter.

Balance Sheets:

- Total assets increased year-over-year by approximately \$1.3 billion to approximately \$11.5 billion as of the end of the year. The increase was primarily driven by the receipt of non-bypassable charges (NBCs) from ratepayers and remitted to the Fund by the IOUs, together with other additions and net of budgeted deductions.
- There was also an increase in liabilities this year. \$600 million in loss reserves was put up for the Dixie Fire related to Pacific Gas and Electric Company (PG&E), based on their current public financials. This is \$600 million in excess of the \$1 billion deductible. It would not be included in the audited financials since no cash has been paid out but it will be adjusted up or down as needed in the future.
- The Wildfire Fund's Total Net Position of \$10.9 billion as of December 31, 2023, increased approximately \$821 million year-over-year.

Statements of Revenues, Expenses, and Changes in Net Position:

- There were \$1.7 billion of additions to the CWF this year, the vast majority of which came from contributions, with approximately \$888 million coming from the NBCs, which is from ratepayers, and \$300 million in annual contributions from the IOUs. This totaled approximately \$1.2 billion in net additions.
- The CWF has both investment income and unrealized losses and gains. Investment Income and Expenses was approximately \$210 million during 2023, after the prior year of \$122 million. This is due to the higher reinvestment rate. It will take time, but every month sees an improvement in returns.
- The Change in Unrealized Gains was approximately \$275 million in 2023, as compared to the prior year's change in unrealized loss position of \$856 million. The benefit of rates modestly moving down from their peak is being seen in the unwinding of some of last year's unrealized loss position.
- Balance sheet deductions to Fund Assets were approximately \$850 million in 2023, the vast majority being the \$600 million reserve for PG&E's claim for losses from the Dixie Fire. Additionally, the Surplus Money Investment Fund (SMIF) loan repayments of \$250 million were completed with the SMIF loan paid in full in April of 2023

Contributions and NBCs Received:

- The annual \$300 million contributions from the IOUs came in at the end of 2023. These funds were kept in short-term mutual funds until the new year and then the cash was deployed.

- \$888 million in NBC funds were received in 2023 from the Department of Water Resources (DWR) which collects the funds from the IOUs. A change from paper-based monthly payments to electronic weekly payments began in January of 2024 with approximately \$81 million received so far this year.

Investment Analysis:

- The CWF's total portfolio market value for December 2023 was \$11.41 billion, with an average duration of 3.47 years and average credit ratings of "AA." There was no movement on credit quality. The CWF is still focused on the preservation of principal, not bringing in additional credit risk.
- There was a 6-month extension of the duration, as more funds were received and maturities were reinvested for a longer term. This will extend further as more maturities are reinvested at higher rates for longer periods of time.
- The Income Return Net of Fees moved from 1.68 percent to 2.53 percent – nearly a 100 basis point improvement year-over-year. This improvement continues to be seen every month.
- Monthly Investment Income increased from \$14.2 million to \$23.8 million, almost doubling per month year-over-year. This is expected to continue.

Unrealized Losses:

- The CWF portfolio currently has \$744 million of unrealized losses, down from October's \$1.22 billion unrealized loss position. This amount will continually fluctuate with the underlying treasury rate. Unrealized losses in the portfolio will decrease over time as bonds mature and the proceeds are reinvested in a rising interest rate environment.

2024 Requests for Qualifications (RFQs):

- CEA staff issued RFQs for investment managers for the CEA and the CWF to down-select the number of current investment managers, and for a financial advisor for the CEA and the CWF. It is anticipated that the selected candidate(s) will be presented for approval at the June 11, 2024, CEA Governing Board meeting. CEA staff will subsequently provide the Council with an update on the contracting status at the July 11, 2024, CCRC meeting.

Discussion

Chair Ghilarducci asked if the set-aside for the Dixie Fire was estimated. Mr. Hanzel deferred to George Sittner to respond to that question. CEA Chief Insurance and Claims Officer George Sittner stated the amount of the reserves for the Dixie was taken directly from PG&E's reported loss estimate.

Chair Ghilarducci stated he liked the idea of reevaluating the number of asset managers to streamline the process of managing Wildfire Fund assets.

Public Comment

There was no public comment.

6. Proposed 2024 CWF Budget: Mr. Hanzel will seek approval of the proposed 2024 California Wildfire Fund Budget.

Mr. Hanzel reviewed the proposed 2024 CWF budget.

Budget Process:

- The annual CWF budget process completed in the spring incorporates within the CEA budget process, with initial activities starting in the summer and extending into the fall, with ultimate approval from the CEA Governing Board in December. It is a bottom-up budget going through each department, line item by line item, identifying the costs of the CEA and concurrently building out the CWF budget, including direct and indirect expenses.
 - The larger direct expenses include consulting and legal services as well as financial services consulting and bank fees.
 - Indirect expenses include allocations of CEA staff time spent working on the CWF. This is continually monitored.
 - Other indirect expenses include overhead, rent, and IT costs that are allocated to the CWF.
- The financials are closed monthly and CEA staff analyze actions taken versus budget projections and document variances. Any material variances are dealt with in a mid-year budget revision to be approved by the CCRC.
- This year's budget includes an estimated increase in expenses, as there has been an early indication that there may be claims to process this year. The CEA Claims team, third-party consultants, and legal teams will help CEA staff understand and review those claims.

2024 Proposed Budget vs 2023 Actual Activity as of December 31, 2023:

Net additions to Fund Assets expected in 2024 total approximately \$1.5 billion:

- Approximately \$890 million of rate payer NBCs has been budgeted for 2024, based on projections and expectations from the DWR.
- \$300 million in annual IOU contributions will be received towards the end of the year.
- Approximately \$300 million of investment income (net of expenses) has been budgeted for 2024.

Deductions to Fund Assets total approximately \$10 million (excluding paid claims for the Dixie Fire) in 2024:

- \$350 million in wildfire paid claims has been estimated for 2024. Based on PG&E reporting, the CEA reserved a total balance of \$600 million in 2023 related to the Dixie Fire.
- \$5.37 million for DWR expenses has been budgeted for 2024.
- Just under \$500,000 in personnel expenses has been budgeted for 2024.

- The largest of the General and Administrative Expenses are approximately \$2.5 million for Other Contracted Services, which is up from approximately \$800,000 over last year, and \$150,000 in Direct Legal Services, which is up from approximately \$2,000 last year, driven by the expectation of working with consultants to work through the Dixie Fire claims.
- All other expenses are reasonably close to prior years. A small increase in G&A Expenses Allocated from the CEA has been included because more staff time results in a larger allocation of overhead, rent, and IT costs.
- Approximately \$4.3 million is expected between personnel and G&A expenses, versus \$2.2 million last year. The \$2.1 million net increase is driven by the processing of potential claims coming from the Dixie Fire.

DWR Administrative and Operating Expense Breakdown:

- The DWR Labor line item increased approximately \$700,000 year-over-year. The expectation is that it will not be that high but will be closer to the 2023 amount plus inflationary pressure. It is budgeted higher, given the DWR and state budget processes to put aside more funds should DWR be called upon to issue debt for the benefit of the Fund. These expenses would arise from work by Bond Counsel, Disclosure Counsel, and Municipal Advisor services. Although Wildfire Fund debt is not expected to be issued this year, the DWR allocated funds in its budget for these potential expenses.
- The IOUs Costs line item is related to the ability for the IOUs to request reimbursement to manage the NBC collection and remittance program. The expectation from DWR is that they may see an increase in IOU reimbursement requests in 2024.

Staff Recommendations:

- Approve the proposed 2024 CWF budget as presented; and
- Direct staff to operate the CWF within the total approved budget amounts.

Discussion

Ms. Rossman asked where the DWR administrative expenses come from and why \$500,000 is necessary for a municipal advisor when issuing debt is not planned. She suggested inviting the DWR to present their budget at the future CCRC meeting prior to the next budget approval.

Mr. Welsh suggested that the DWR be invited to present at the last CCRC meeting of this year. Ms. Rossman agreed. She offered to assist staff with what should be included in the DWR presentation.

Mr. Cash asked for verification that the IOUs only spent \$1,681 in 2022. Mr. Hanzel noted that that was the amount asked for by DWR for reimbursement in 2022.

Mr. Cash stated systems work that is part of the IOUs costs should be low since it only involves logging in and changing how the IOUs charge.

Ms. Rossman agreed that systems work should not cost that much. Mr. Welsh stated staff will ask the IOUs for a summary on what goes into that expense reimbursement request that goes to the DWR and why there are large variances year-on-year. He stated this information will help staff predict further into the future.

Ms. Van Houten asked that those summaries be made available by the July CCRC meeting. Mr. Welsh stated staff will include that deadline in their request to the IOUs.

Ms. Rossman suggested including that the reason for the request was that the Council asked why it was so expensive.

Ms. Van Houten stated she questioned what was behind the DWR numbers and asked if the same line items have been presented every year and if the process of creating and reviewing the budget has reached a level of consistency that Council members are comfortable with.

Mr. Hanzel stated the line items remain the same and noted that CEA staff became comfortable after the initial years of setting up the CWF processes. He stated the DWR personnel costs were higher in the early years as NBC infrastructure was being set up. It is now more routine. With regard to CEA's internal budget process, staff continues to go through the same rigor of reporting their Wildfire Fund hours weekly as part of building the budget. He stated staff is open to suggestions on how to present this report differently for clarity.

Chair Ghilarducci agreed that additional clarity is required on the DWR budget and what their thought process is in reporting their expenses.

Chair Ghilarducci asked for a motion to approve the proposed 2024 CWF budget.

MOTION: Ms. Van Houten moved to approve the staff recommendations.

Ms. Rossman seconded. There was no public comment on the motion. The motion passed unanimously by roll call vote.

7. Claims Administration Update: CEA Chief Insurance and Claims Officer George Sittner will provide an update on Claims Administration.

Mr. Sittner presented his report.

Wildfire Monitoring and Reporting:

- Not much has changed since the last meeting in terms of CWF exposure.
- The CEA Claims team has been monitoring the Kincade, Zogg, Dixie, and Mosquito Fires – the fires with ignition dates after the CWF was stood up. Staff also continues to monitor other wildfires from 2022, even though they were smaller than the Dixie Fire and have no exposure to the CWF.
- The exposure to the CWF from the Dixie Fire is approximately \$600 million, based on the financial report submitted by PG&E. PG&E estimates losses in excess of \$1.6 billion to settle claims as a result of the fire.
- There were no wildfire-related notifications in 2023 or, so far, in 2024.

Implementation of Wildfire Fund Claims Administration Procedures (Dixie Fire):

- The *Amended Wildfire Fund Claims Administration Procedures* include that an IOU must put the CEA on notice any time they believe that there is an exposure to them of over \$750 million. Such a notice came late last year from PG&E.
- The CEA then switched from Phase 1 of the claim administration process (the claims review readiness stage) to Phase 2 (the delivery-on-demand claims review services stage). Sedgwick Claims Management Services, Inc. (Sedgwick) is the claims review services provider for the CWF to help the CEA review these claims and determine if the claims have been settled using “reasonable business judgment.”
- Claim data submittal began toward the end of last year and continues to date. The CEA provided PG&E with a 40-question “Personal Claim Template” so PG&E can provide the CEA with information on every claim individually. A statistical analysis will be done on claim settlement using all information gathered. Nothing is payable until the threshold amount of \$1 billion, which is estimated to be reached during the second quarter of 2024. Funding is paid as claims come in. An estimated \$50 million per month has been budgeted for six to seven months.

Discussion

Ms. Rossman asked about the process. Mr. Sittner stated CEA staff communicates with Sedgwick weekly and PG&E every other week, and Sedgwick and PG&E communicate frequently during the week. The CEA and PG&E are implementing a data validation process to ensure accuracy. Sedgwick will use executive or managing general adjusters.

Ms. Rossman asked if claims will be paid 100 cents on the dollar or at some discount. Mr. Sittner stated this is yet unknown. The goal is to pay 100 cents on the dollar, provided the claims were settled based on using “reasonable business judgment.”

Mr. Welsh added that subrogation claims will require additional scrutiny, according to statute, if they settle at more than 40 cents on the dollar from the insurance industry, which they typically will.

Chair Ghilarducci stated, if insurance covers some of the claims, then the insurance company would come to the CEA for that subrogation. He noted that each individual claim could be in the millions of dollars.

Mr. Sittner noted that insurance only covers physical damage. It does not cover loss of market value or injuries. There are tools and controls in place to ensure that there is no duplication or fraud.

Chair Ghilarducci asked if tribal governments or other entities impacted by a wildfire could make a claim regarding loss of property of cultural significance. Mr. Sittner stated he has not heard of those claims being brought forth but stated he would follow up with PG&E. Timber companies have filed claims due to losing hundreds of acres of timber. The statute of limitations has ended for injury; the statute of limitations for physical damage will end this July.

Chair Ghilarducci asked if an individual must be a citizen of the United States to file a claim. He stated the need for all claimants to be reimbursed equally. Mr. Sittner stated he will look into this and report back. Ms. Tatapudy added that individual claimants will not be reimbursed directly by the CWF. All claims will be first submitted to and paid by the IOUs, after which the IOUs seek reimbursement from the CWF.

Chair Ghilarducci noted that there is a review process to ensure that the CWF side of the claim is a legitimate payable claim, even though claims have already gone through the process on the utility side.

Ms. Tatapudy agreed and stated the CEA will perform a thorough audit function, consistent with the Council-approved *Claims Administration Procedures* to ensure that, after the utility settled the claim, CEA must be satisfied that the claims was resolved through the exercise of “reasonable business judgment,” which is the statutory standard of review; this would include confirming that the claim is real and it is not a duplicate.

Ms. Rossman suggested reviewing the decision-making process that determines whether PG&E will later be required to reimburse the CWF for the claims paid.

Ms. Tatapudy stated there is a timing element for this. We are currently at the beginning stages of getting initial claims data to see whether and when PG&E will meet the threshold. Once the CWF begins reimbursing claims, the utility is required to file an application with the California Public Utilities Commission (CPUC) to commence a catastrophic wildfire proceeding. As part of that proceeding, the CPUC will decide whether the IOU acted prudently in how they handled the fire. That prudence determination will ultimately feed into whether the IOU needs to reimburse the CWF for any claims that were paid out. If it is determined that the utility acted prudently, they do not need to give anything back to the CWF. If imprudence is found, the utility must pay the CWF back up to a cap that is defined by formula in the statute. At that point, the administrator is also tasked with determining whether the IOU acted with disregard to the health and safety of the public, and, if they did, then the cap will not apply.

Chair Ghilarducci asked who makes that determination. Ms. Tatapudy stated the statute vests that with CEA as the Administrator, serving under the oversight of the Council.

Chair Ghilarducci stated this is why it is important that the CCRC gets updates on what the utilities are doing – to learn if the utilities have demonstrated an effort to mitigate the threat and done whatever they could to minimize damage, versus the woeful disregard for public safety of having power lines that are so old that they collapse, for example.

Chair Ghilarducci stated the Dixie Fire was one of the most unique in the state’s history in that it started on the Western slope of the Sierras and literally went all the way over to the other side into Nevada and looped back around again. It was a catastrophic fire in many ways.

Chair Ghilarducci asked staff to make a flowchart for the Council on what Ms. Tatapudy just explained and shows what happens at the various levels. A flowchart is something the Council can refer to regularly moving forward.

Public Comment

There was no public comment.

8. Enterprise Risk Management: CEA Enterprise Risk Manager Andrea Wheeler will deliver a quarterly report on the Enterprise Risk Management program for the Wildfire Fund.

CEA Enterprise Risk Manager Andrea Wheeler presented her report.

Risk Assessment Scorecard:

- The quarterly status for each priority risk was unchanged from the November report to the Council. As tracking indicates, a majority of the CWF risk is mitigated with current controls that are in place.

Information Security:

- In November 2023, the CEA was notified by a third-party vendor that it was a victim of a ransomware attack that resulted in the loss of control over a significant amount of its customer data, including some CEA data. The CEA activated its cybersecurity response and commenced a prompt and thorough investigation to determine whether the incident resulted in the actual release of privacy-protected customer data.
- The investigation results indicated that no consumer personally identifiable information was accessed. While no CWF-related data was involved in the breach, the incident and quick response by CEA staff in collaboration with the cyber insurer increases confidence that strong controls are in place.

Mitigation:

- IOUs are required to submit Wildfire Mitigation Plans (WMPs) to the Office of Energy Infrastructure Safety assessing their level of wildfire risk and providing plans for wildfire risk reduction. The Office of Energy Infrastructure Safety released its evaluation and approval of PG&E 2023-25 WMP on December 29, 2023. All three IOUs now have approved WMPs for 2023-25.
- Additionally, each of the IOUs has received safety certifications as follows: San Diego Gas & Electric and Southern California Edison, issued December 7, 2023, and PG&E, issued January 22, 2024.

Discussion

Chair Ghilarducci stated he was glad to hear that the cybersecurity response procedures and protocols in place worked and that the relationship with the vendor is strong. This verifies why this is such an important topic area.

Ms. Wheeler stated the CEA Information Security (InfoSec) team is now under the management of Shawna Ackerman, Chief Risk and Actuarial Officer, which gives the InfoSec team a broader enterprise focus and reach to protect CEA and the CWF.

Mr. Morton thanked Ms. Wheeler for bringing up the internal movement of the InfoSec Team, because there have been discussions to ensure that these security positions were elevated. He also stated it would be important for the Council to understand the WMPs, the process, what was approved, and if the IOU actually acted on their Plans.

Mr. Welsh agreed and stated the IOUs can discuss their WMPs when they present at a future CCRC meeting. The WMPs dovetail closely with the Infrastructure Safety Plans.

Public Comment

There was no public comment.

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 matters be placed on a future agenda.

There were no requests for public comment.

10. Adjournment.

Chair Ghilarducci thanked everyone and adjourned the meeting at 3:24 p.m.