

California Catastrophe Response Council Meeting Minutes

May 4, 2023

3:00 p.m.

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

Members of Council in Attendance:

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

*Participated remotely.

Members of CEA Staff in Attendance:

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

Speakers:

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

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

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

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

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

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

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

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

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

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

Discussion

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

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

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

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

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

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

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

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

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

Discussion

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

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

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

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

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

CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson began with an overview of the original focus of the Wildfire Fund Claims Administration Procedures and claims operations build-out to address the directives of the statute – to assess the utilities' reasonable business judgement in handling claims. She also briefly reviewed the claims review services provider's scope of work, noting that Phase 1 in the scope of

work is the claims review readiness stage and Phase 2 is for delivery-on-demand claims review services whenever the utilities submit claims to the Fund. She then invited the team from Sedgwick Claims Management Services, Inc. (Sedgwick), the claims review services provider for the Wildfire Fund, to present a summary of the year-long project to complete the Phase 1 scope of work and build out the claims operations.

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

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

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

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

Discussion

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

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

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

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

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

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

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

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

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

Presentation, continued

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

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

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

Public Comment

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

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

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

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

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

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

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

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

MOTION: Ms. Rossman motioned to approve and adopt the proposed amendments to the *Wildfire Fund Claims Administration Procedures*.

Mr. Rosenstiel seconded. The motion carried unanimously by roll call vote.

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

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

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

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

There was no Council Member discussion or public comment.

7. Administrator Evaluation: Council Members Juan Fernandez and Rhoda Rossman will present the results of the Council’s annual evaluation of the CEA’s performance as Administrator of the Wildfire Fund during 2022.

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

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

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

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

There was no Council Member discussion or public comment.

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

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

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

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

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

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

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

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

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

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

As climate continues to increase risk, SDG&E continues to modify and integrate that science and do more. SDG&E is currently looking at integrating AI. Sensors installed over a decade ago are now providing a data foundation that sophisticated AI networks can be built upon that can help anticipate when extreme fire weather is coming, process

satellite images to detect hotspots from space, and detect wildfires from mountaintops, helping SDG&E anticipate where a fire will go and how fast will it get there. One of the differentiators was getting the science into how risk- and data-driven decisions are made.

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

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

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

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

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

Discussion

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

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

There was no public comment.

10. Adjournment.

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