

California Catastrophe Response Council Meeting Minutes

November 2, 2023

3:00 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*
Michael Martinez, designee of Insurance Commissioner Ricardo Lara*
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot*
Tracy Van Houten, appointee of Speaker of the Assembly*
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
Suman Tatapudy, General Counsel
Shawna Ackerman, Chief Risk & Actuarial Officer
Tom Hanzel, Chief Financial Officer
George Sittner, Chief Insurance & Claims Officer
Susan Johnson, Governance Liaison

Speakers:

Forest Schafer, State Coordinator for the Governor's Wildfire & Forest Resilience Task Force

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

Chair Mark Ghilarducci called the meeting to order at 3:02 p.m.

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

2. Minutes: Review and approve the minutes of the August 3, 2023, meeting of the Council.

MOTION: Mr. Rosenstiel motioned to approve the August 3, 2023, meeting minutes as written. Ms. Van Houten 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 noting the CEA will be moving its offices next summer to today's meeting location. He then provided a brief background overview of the CCRC. He stated a claim is soon expected from a fire that occurred a couple of years ago, adding 2023 was a favorable year in terms of fire activity.

Mr. Pomeroy then announced that Suman Tatapudy, lead legal advisor to the CCRC and the CEA as Administrator of the Wildfire Fund, has become CEA's General Counsel and Tom Welsh has moved into a new role as the CEA Chief Legal and Compliance Officer.

Mr. Pomeroy asked Ms. Tatapudy to brief the Council on new rules taking effect January 1, 2024 impacting public meetings conducted via teleconference.

Ms. Tatapudy stated Senate Bill (SB) 544 was signed into law on September 22, 2023, and goes into effect on January 1, 2024. SB 544 establishes new procedures for how state bodies may conduct public meetings using teleconference while staying in compliance with the Bagley-Keene Open Meeting Act. She provided a high-level summary of the bill's requirements.

Council Members asked clarifying questions.

There was no public comment.

4. Proposed 2024 Council Meeting Dates: Mr. Pomeroy will present for discussion the proposed 2024 Council meeting dates.

Mr. Pomeroy reviewed the proposed 2024 CCRC Meeting Schedule, which was included in the meeting materials.

There was no discussion and 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 September 30, 2023.

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

Balance Sheet:

- The CWF remains financially strong.
- The biggest challenge of 2023 continues to be the broad investment markets, specifically related to treasury rates as they continue to rise and are at historically elevated levels.
- Unrealized losses total approximately \$1 billion driven primarily by the higher treasury rates; however, these unrealized losses are offset by higher reinvestment rates which will result in increased investment income.

Net position stands at \$10.5 billion, up approximately \$950 million year-over-year.

- Year-over-year, the CEA received \$300 million of Investor-Owned Utility (IOU) annual payments, \$960 million in non-bypassable charges (NBCs) and approximately \$180 million of investment income.

- Offsetting that has been about \$460 million of repayment for the Surplus Money Investment Fund (SMIF) loan, which is now fully repaid. This nets out to approximately \$950 million and an increase in net position year-over-year.

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

- NBCs of \$657 million are down approximately \$150 million year-over-year, driven by an overcollection in 2022.
 - The NBC rate charged was increased in 2022 due to under collections in 2020 and 2021. Warmer weather during the summer of 2022 also impacted collections.
 - The Department of Water Resources (DWR) reduced the NBC rate for 2023 and is now more in line with the summation of \$902.4 million of collections per year on average.
- Investment income is up 67 percent year-over-year from \$57 million to \$142 million, driven by the higher reinvestment rates.
- This is the final year that the SMIF loan repayments will be seen on the Income Statement and Balance Sheet.

2023 Approved Budget versus Actual Expenditures Statement:

- NBCs are down year-over-year but up versus budget, driven by more usage this year than expected. The DWR continues to look every quarter at the rates and charges to ensure the fund meets Assembly Bill (AB) 1054 mandates and collects on average the required \$902.4 million per year.
- Personnel expenses, allocated from the CEA to run the Wildfire Fund, are approximately \$300,000. This is down from the expected \$500,000 per year and down from about \$370,000 in the prior year.
- Potential claims coming in may increase the Personnel Expenses and General and Administrative Expenses Line Items if contracting and consulting expenses are required.
- General and Administrative Expenses are slightly under budget and staff expect expenses to be within budget for the year.

SMIF Loan & IOU Contributions Received:

- No contributions have occurred since the last meeting.
- The December collection of the \$300 million in IOU annual contributions are on track.

NBCs Received:

- NBC funds are now being received weekly rather than monthly. The DWR, State Controller's Office, and CEA's internal Finance team have worked together on the faster turnaround and continue to look for greater efficiency.

Investment Analysis:

- The CWF's total portfolio market value is up approximately \$900 million year-over-year to \$10.44 billion as of September 2023 with an average duration of 3.67 years and average credit ratings of "AA."
- The income return, net of fees, moved from 1.37% a year ago to 2.36%. This percent will continue to climb due to higher reinvestment rates.

Unrealized Losses

The current CWF portfolio has a market value of \$10.5 billion with unrealized losses of \$1.1 billion. Approximately \$400 million of that will be recovered over the next two years if rates stay the same. If rates go down, some of the recoveries may be accelerated on those unrealized losses.

Out-of-Compliance Securities

All out-of-compliance securities, due to a rating below the "A-" level, accounted for 0.3% of total market value of the portfolio. The unrealized loss portion of that accounted for 0.03% of the portfolio. The team and the investment managers monitor this daily. Changes in the ratings were driven by the increase in interest rates and the pressure put from the increased interest rates on regional banks. Opportunities to reduce banking and financial sector exposure were identified and \$13.4 million of out-of-compliance holdings in KeyBank and \$7.2 million of holdings in M&T were sold. Due to the Hawaii fires, Allstate was also downgraded so \$2.9 million in Allstate was sold to reduce exposure to insurance assets in the portfolio. Managers have been directed not to buy into property and casualty insurance.

This strategy will allow the CWF to recoup over 40% of its realized losses of \$742,000 by investing in higher-yielding assets.

3M and Oracle continue to be monitored. These were both downgraded and are out-of-compliance, but the policy the Council approved a number of years ago gives the Administrator authority to hold and monitor investments.

Discussion

In response to a question from Ms. Rossman, Mr. Hanzel stated funds are usually invested immediately. Given that the CWF receives \$70 to \$80 million per month on the NBCs and with the receipt of the \$300 million coming in December, they will likely be targeted to work longer-term. He added it is important to consider the timing and size of the claim that might come from PG&E and the speed of maturities in determining how to invest the \$300 million. \$1.7 billion will mature in the next 12 months and another \$2 billion in the following year, which is 35% of the portfolio in the next two years.

Ms. Rossman stated there is so much coming in every week, it is important not to leave too much cash on the table. She asked when the IOU annual contributions will be received.

Mr. Hanzel stated it is usually received in the final two to three days of December.

Ms. Rossman asked if yearend is a good time for investing.

Mr. Hanzel stated that historically there is downward pressure on yields in the final days of the year and therefore there are funds that the cash can be invested in, such as a government money market fund, while waiting until the new year for better timing for investment.

Ms. Rossman agreed and stated the end of the year can be tricky for trading. The investment managers should not feel that they need to fully invest the cash immediately.

Mr. Hanzel agreed and stated there is not enough information yet to determine the timing or the size of upcoming claims. Barring unusual activity, it is expected that those claims can be paid out of maturities or at least hold some of them in high-yielding money market funds.

There was no public comment.

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

Chief Insurance & Claims Officer George Sittner provided an overview of the Administrators work to date with Sedgwick Claims Management Services (Sedgwick, the Administrator's claims review services provider) on the implementation of the Council-approved *Wildfire Fund Claims Administration Procedures*. Phase 1, building the claims manual and procedures, and testing data and statistical methodology to review claims to ensure reasonable business judgement to reimburse claims, is complete.

Mr. Sittner stated Phase 2, delivery-on-demand of claims review services, is now going into effect as PG&E recently provided written notice to the CEA that they will be settling claims from the 2021 Dixie Fire that will exceed \$750 million. This settlement value is a trigger in the *Claims Administration Procedures* intended to put the Administrator and Sedgwick on notice that a claim is likely to be submitted imminently. PG&E has begun to submit claims settlement data to Sedgwick, and it is possible that by the end of this year or early first quarter of next year, PG&E claims settled will reach the \$1 billion threshold mark for access to the Wildfire Fund. He also stated PG&E's third quarter report raised their estimated loss from \$1.175 billion to \$1.6 billion for the 2021 Dixie Fire, which does not include fire suppression costs, and recorded a CWF receivable of \$600 million for probable recoveries.

Mr. Sittner reported on continued wildfire monitoring and reporting, noting that 2023 was a slower year in terms of wildfires with less than average acreage burned.

Discussion

Ms. Rossman asked if there are cases where PG&E will reimburse the CWF for claims.

Ms. Tatapudy stated that AB 1054 created a two-step process. First, PG&E must send the Administrator their information for all settled claims and the CEA will reimburse them for anything that meets the reasonable business judgment standard above the \$1 billion threshold that they retain. Second, PG&E must initiate a catastrophic wildfire proceeding before the California Public Utilities Commission (CPUC). As part of that proceeding, the CPUC will determine whether PG&E acted prudently, which will directly impact whether or not the CWF must be paid back for reimbursed claims.

Mr. Cash stated his understanding that the CEA needs to be informed when claim settlements reach \$750 million, but the reimbursement is for claims above \$1 billion.

Ms. Tatapudy stated that is correct.

Mr. Martinez asked if the CEA is prepared and ready to go on the CWF claims process structure and oversight.

Mr. Sittner stated it is. The processes that have been set up are strong. The template asks for detailed information which will provide rich data for statistical review.

Mr. Martinez asked, since this is the first claims review potential payoff since the inception of the CWF, if a high-level report on recent activity can be given to the legislative committees and administration entities who would be interested prior to the year-end report.

Mr. Sittner agreed and stated that the CEA would conduct some outreach along the lines of Mr. Martinez's suggestion.

Mr. Martinez asked about anticipation of exceeding the current-year budget due to the work that Sedgwick is now starting with respect to the claims reviews, such as a supplemental appropriation or additional budget for Sedgwick to continue their claims work.

Mr. Sittner stated Phase 2 has begun earlier than anticipated.

Mr. Hanzel added the current estimate is that it may exceed by \$50,000; however, that can be offset by additional consulting work that was planned for later this year that will be postponed.

Mr. Rosenstiel stated his understanding that once the \$1 billion level is reached, utility companies can begin asking for money from the Council. The whole purpose of the CWF is to give utility companies cashflow relief so they avoid bankruptcy.

Ms. Tatapudy stated that is correct.

Ms. Rossman stated one of the challenges will be managing expenses and encouraged carefully negotiating contracts for outsourced work.

There was no public comment.

7. 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.

Chief Risk & Actuarial Officer Shawna Ackerman reported that there have been no changes to the Enterprise Risk Management (ERM) Risk Assessment scorecard priority risks since the last meeting. She stated CEA cyber insurance was successfully renewed at 5.5% lower than last year. During that process, it was noted that the CEA security team is excellent and continues to enhance the CEA's data security. The IT security program is going through a SOC2 Type 2 certification process to ensure that the CEA's internal controls over data and security processes are effective.

Ms. Ackerman stated investor-owned electrical corporations are required to submit three-year Wildfire Mitigation Plans (WMP) to the Office of Energy Infrastructure Safety (OEIS). All WMPs have been submitted for the 2023-25 period.

Discussion

Ms. Van Houten stated many government agencies are currently going through significant overhauls of their cyber security protocols. She asked if anything is foreseen that may be impactful in the future.

Ms. Ackerman stated she would take that question to the security team and will report back at the next meeting.

There was no public comment.

8. Informational Presentation: Forest Schafer, State Coordinator for the Governor's Wildfire and Forest Resilience Task Force, will provide an overview of the statewide efforts to align the fire mitigation activities of federal, state, local, private, and tribal organizations.

Mr. Schafer provided an overview of the background, purpose, goals, and progress on key actions of the Governor's Wildfire and Forest Resilience Task Force (Task Force). He noted there is more opportunity today for efficiency, addressing capacity challenges and limitations, and realigning strategically around what organizations are doing collectively to reduce impacts of wildfires.

Mr. Schafer discussed the alignment, capacity, and resources of the Task Force, including the Regional Resource Kits to provide seamless data across the state to help regions and partnerships align their strategies to the goals of the state, and to also adapt the goals and direction of the state to keep those regional priorities. He reviewed California's Wildfire and Forest Resilience Action Plan, a comprehensive strategy developed by the Task Force that guides its work. He stated the California Wildfire and Landscape Resilience Interagency Treatment Dashboard, which is in the beta stage, gives a picture for the first time of the mitigation happening statewide across all jurisdictions, although there is still a long way to go to get a complete picture. He shared his screen and provided a live demonstration of the Interagency Treatment Dashboard.

Mr. Schafer stated the Task Force is hosting a virtual public workshop on the California Wildfire and Landscape Resilience Interagency Treatment Dashboard on Tuesday, November 14th to gather input from those using the Treatment Tracking System and Dashboard to improve how data is accessed and displayed.

Discussion

Ms. Van Houten stated she is impressed by the monumental shift in how the state is addressing wildfires and expressed her appreciation for how strategically the state is attacking this problem.

Mr. Rosenstiel asked if other levels of government and businesses see the value of the Task Force.

Mr. Schafer stated many individuals see the value but the reason they see the value is that the Task Force is focused on demonstrating value, providing resources and tools,

and helping to align on budgets and strategies. On the other hand, many individuals do not know about the Task Force and its work. And yet, if individuals are aligning strategically, it does not matter if anyone knows of the existence of the Task Force.

Mr. Rosenstiel asked how to align individuals when they do not know that the Task Force's goals are about alignment.

Mr. Schafer stated there are great funding sources from the state, such as competitive grant programs and directed grant programs. Grant programs often work to align their requirements with the state.

Chair Ghilarducci stated the Task Force presently seems to be focused on resource agencies. There are much broader grants and activities available, such as the Federal Emergency Management Agency (FEMA) grants through the California Governor's Office of Emergency Services (Cal OES) for wildfire mitigation. He asked how these are being dovetailed into the overall success.

Mr. Schafer stated that has been a gap. In terms of alignment, the Task Force has been more heavily focused on the landscape for restoration, such as forestry projects and wildfire prevention; yet, fire adaptation in communities is intrinsically tied to the health of the landscapes. The Task Force is a part of a workgroup to think about going beyond forest restoration to thinking how that is connected to home hardening, defensible space, smoke preparedness and public health, power shutoffs, and evacuation impacts.

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 was no public comment.

10. Adjournment.

There being no further business, Chair Ghilarducci adjourned the meeting at 4:23 p.m.