2021 Annual Report

on the California Wildfire Fund's Operations

CEA CALIFORNIA EARTHQUAKE AUTHORITY™ | Wildfire Fund Administrator

July 22, 2021

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 Ben Hueso, Chair
California State Senate
State Capitol, Room 4035
Sacramento, California 95814

Assembly Utilities and Energy Committee
The Honorable Chris R. Holden, Chair
California State Assembly
State Capitol, Room 5132
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	Richard Gordon
Member appointed by the Senate Committee on Rules	Michael Wara
Member of the public	Paul Rosenstiel
Member of the public	Rhoda Rossman
Member of the public	Catherine Barna

WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT on the
CALIFORNIA WILDFIRE FUND'S OPERATIONS

Report Period: July 12, 2020 – July 11, 2021
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 22, 2021

Pursuant to Public Utilities Code section 3283, this *Annual Report to the California Catastrophe Response Council and the Legislature on the Wildfire Fund's 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 the Wildfire Fund's ("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 Annual Report covers the one-year period of July 12, 2020, through July 11, 2021.

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[1]The Annual Report is submitted in compliance with the Council's 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.

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Executive Summary

On July 12, 2019, Governor Gavin Newsom signed Assembly Bill ("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 Wildfire Fund ("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 $21 billion in claim-paying capacity is split between contributions from the Fund's participating investor-owned utility companies ("IOUs")—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 are also referred to as Wildfire Nonbypassable Charges ("NBCs"). The contributions from the IOUs are not passed through to their ratepayers, so they 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 11, 2021, SDG&E, SCE, and PG&E have all provided their initial, 2020, and 2021 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.1 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. The Fund began receiving NBC funds in January 2021. The IOU contributions combined with the SMIF loan and the NBC funds received as

[2] AB 1054 was subsequently amended by AB 1513 (Holden, Chapter 396, Statutes of 2019).

of July 11, 2021, total $10,488,410,208. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs. Additional detail regarding the Fund's contributions as of July 11, 2021, and audited financials as of December 31, 2020, 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 AIR Worldwide Touchstone 7 model ("AIR 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 second full year in existence requires examination of (1) the 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 2020 wildfire season.

(1) 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:

- Adopted revised Articles of Governance to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities.
- Continued working toward establishing the Fund's claims administration procedures, including detailed interim steps such as drafting and adopting the *Wildfire Fund Claims Administration — Provisional Policy Statement and Summary of Procedures* and the *Wildfire Fund Claims Administration — Expanded Summary of Procedures*.
- Developed a framework for, and completed, the Council's first annual review of the Administrator's performance.
- Commenced the process to repay the $2 billion SMIF loan.

- Worked with outside counsel and tax consultants to confirm and validate the administration of the Wildfire Fund as a tax-exempt integral part of the State of California.

- Began the process of creating a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund.

More detail on these milestones can be found in Section III: The Success of the Fund, starting on page 12.

(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 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021. The Council is scheduled to meet on July 22, 2021 and October 28, 2021. Details of these future meetings will be included in the third Annual Report, in 2022. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: cawildfirefund.com/council.

(3) Claim 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 second year of existence, the Fund furthered its statutorily defined goals to benefit ratepayers via its impact on IOU credit ratings, the continued participation of all IOUs in the Fund, and the Administrator's experience with the 2020 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 three large IOUs have made their initial, 2020, and 2021 contributions to the Fund. As California enters its 2021 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 2020 safety certifications.

- **The 2020 Wildfire Season**
  The work the Administrator and Council have performed over the past two 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.

2021 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, CEA is custodian of the Fund’s cash and investments. This requires 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 2020 audited financial statements, available at this website: EarthquakeAuthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which cover calendar year 2020, along with supplemental unaudited information related to the Fund’s contributions received through July 11, 2021.

California Earthquake Authority

Fiduciary Funds

Statement of Fiduciary Net Position - Fiduciary Fund of California Wildfire Fund

December 31, 2020 and 2019

	Custodial Funds	
	2020	2019
Assets		
Cash and investments:		
Cash and cash equivalents	$ 511,921,154	$ 170,912,277
Investments	9,583,274,855	4,599,954,544
Total assets	10,095,196,009	4,770,866,821
Liabilities - Securities payable	387,224	447,511
Net Position		
Restricted - Restricted for CWF	10,094,808,785	4,770,419,310
Total net position	**$ 10,094,808,785**	**$ 4,770,419,310**

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 SMIF, a fund within the State's Pooled Money Investment Account.

The 2019 Wildfire Legislation authorizes the Department of Water Resources ("DWR") to receive from the IOUs collections by the IOUs from their non-exempt ratepayers of NBCs 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 to be 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 into the Fund. Once deposited into 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, the State Treasurer's Office, the Department of Finance, the CPUC, municipal advisors, underwriters, and law firms to prepare for the issuance of bonds by DWR, backed by a pledge of the NBCs as described above. There were no bonds issued during the report period.

As the table on the following page shows, as of July 11, 2021, the Fund has received $10,488,410,208 in capitalization. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs.

CALIFORNIA WILDFIRE FUND

Contributions & NBCs Received

As of July 11, 2021

	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.	SCE initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SCE 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.	SDG&E 2020 annual contribution	12/16/2020	12,900,000
9.	SCE 2020 annual contribution	12/28/2020	94,500,000
10.	PG&E 2020 annual contribution	12/30/2020	192,600,000
		Total Contributions	10,100,000,000
1.	October 2020 NBC funds	1/19/2021	4,529,887
2.	November 2020 NBC funds	1/19/2021	49,757,447
3.	December 2020 NBC funds	2/9/2021	69,351,495
4.	January 2021 NBC funds	3/15/2021	59,438,336
5.	February 2021 NBC funds	4/8/2021	73,956,153
6.	March 2021 NBC funds	5/7/2021	66,094,647
7.	April 2021 NBC funds	6/16/2021	65,282,244
		Total NBCs	388,410,208
		Total Funds Received	$ 10,488,410,208

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, 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

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.*" Additionally, the Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability 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 Fund durability is 90% at 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 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 sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund, depending on the structure and price.

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.
- 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 levels and for emergency planning scenarios. In contrast, catastrophe-loss models for wildfire risk are relatively new, have not been 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 AIR Worldwide Touchstone 7 model ("AIR 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 in assessing durability. As noted below, for the current durability projections, it is assumed that losses potentially attributable to the IOUs occurring in the 2019 and 2020 wildfire seasons will not reach the annual $1 billion IOU retention and thus have no impact on Fund durability.

Modeling wildfire risk is a complex process. The AIR model considers such factors as ignition, fuel and fuel characteristics, terrain, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from the AIR model includes individual event scenario losses that can be accumulated and ranked to form a distribution of loss by size of loss. Losses from the AIR model are specific to insurable property losses only. Additionally, the AIR 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. Modeled losses are also scaled up as needed to reflect total wildfire losses and exposure growth. For the current estimate of durability and consistent with last year's durability estimate, modeled losses are increased by 50% to approximate total losses and are increased an additional 7% for exposure growth to reflect increases in insured values and reconstruction costs. 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 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 has worked with them to make further refinements to the models to aid CEA in monitoring Fund durability and exposure to losses. The key differences in the two financial models are the wildfire losses used and the incident rate or attribution to the IOUs. These differences are discussed in turn.

Wildfire Losses

Guy Carpenter relies on the AIR model and increases output by a factor of 1.5 to approximate total loss. Filsinger considers two views of losses. In the first view, Filsinger, too, looks at the AIR model output. For the second view, Filsinger relies on historical total losses potentially attributable to the IOUs.

Attribution

Filsinger uses the loss-allocation percentages in the 2019 Wildfire Legislation to attribute losses to each IOU. 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's 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 to 2019 of total fire ignitions.

The Administrator relies upon the loss and attribution rate methodology from Guy Carpenter to develop potential wildfire losses. 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 previously, 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 the test scenarios and results are displayed in the table below.

Scenario	Estimated Fund Durability for 2021[3]
1. Base - 60% & 40% settlement rate - 10% mitigation credit - 100% prudency	99.9%
2. Phased Mitigation - 40% settlement rate - Mitigation credits postponed to 2024 - 100% prudency - Base risk	99.9%
3. High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency - Base risk	99.9%

[3]Estimated one-year Fund durability for 2021 is approximately 99.9% across all scenarios. This can alternatively be stated as a 1-in-1,000 chance that the Fund will suffer losses in 2021 that will ultimately exhaust all sources of claim-paying capacity.

Base — 1

The Base scenario is the current view of risk considering subrogation settlement rates from 40% to 60%.[4] 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 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. 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 IOUs' mitigation plans and the estimates contained therein, along with State mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is made 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.

Phased Mitigation — 2

This scenario is the same as the Base scenario with the mitigation credit postponed. The intent of this scenario is not to imply that mitigation efforts have been or will be postponed; it is intended to provide a means to compare the results of this scenario to the Base scenario and demonstrate the beneficial effects of mitigation on Fund durability. 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 the Base scenario with the settlement rate 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.

[4] 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 that 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.

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. Changes to the model are described below.

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.

- **2020 Risk-Transfer Program**
  Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk-transfer program for the 2020 wildfire season.
- **2021 Risk-Transfer Program**
  Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk-transfer program for the 2021 wildfire season.

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 Report does not include a plan for winding up the Fund.

Comparison to Prior Year
The model and methods used to assess Fund durability are essentially unchanged from the prior year. Necessary updates included reflecting the most recent year-end financial status, advancing the starting point one year (from 2020 to 2021), and an assumption that prior-year wildfires will result in no claims to the Fund. As noted later in this report (see The 2020 Wildfire Season on page 19), no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund, in particular, as result of the 2019 Kincade fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2021, notes that it has recorded an aggregate liability of $800 million (before insurance) in connection with the 2019 Kincade fire. Additionally, PG&E Corporation and the IOU state that they "currently believe that it is reasonably possible that the amount of loss could be greater than $800 million (before available insurance) but are unable to reasonably estimate the additional loss and the upper end of the range because [...] there are a number of unknown facts and legal considerations that may impact the amount of any potential liability, including the total scope and nature of claims that may be asserted against PG&E Corporation and the Utility and the outcome of the criminal proceedings initiated against the Utility by the Sonoma County District Attorney's Office." [5]

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[5]PGE-03.31.21-10Q (q4cdn.com) (See pages 46 – 51 for a discussion of the 2019 Kincade and 2020 Zogg fires.)

If the liability for the 2019 Kincade fire were to exceed $1 billion, it is possible that PG&E would be eligible to make a claim to the Wildfire Fund for the excess amount, subject to the 40% limitation on claims arising before emergence from bankruptcy. For the purposes of projecting the durability for the current period, the model assumes that neither the 2019 Kincade fire nor the 2020 Zogg fire will result in claims to the Fund. The model will be updated as needed, should this assumption prove to be incorrect.

III. The Success of the Fund

This section provides an overview of the 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; includes information on the Administrator's commencement of repaying the $2 billion SMIF loan; and provides a summary of incurred claims.

Actions Taken by the Administrator, Under the Oversight of the Council, to Further Operationalize the Fund

Revised Articles of Governance

The Articles of Governance delineate specific procedures and processes for use by the Council and the Administrator in fulfilling their respective statutory responsibilities. At its October 22, 2020, meeting, the Council adopted a revised Articles of Governance. A copy of the revised Articles of Governance can be found in the Council's October 22, 2020 meeting materials.

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.

At its October 22, 2020, meeting, the Council adopted a *Wildfire Fund Claims Administration — Provisional Policy Statement and Summary of Procedures* for the claims administration of the Fund. A copy of the *Wildfire Fund Claims Administration — Provisional Policy Statement and Summary of Procedures* can be found in the Council's October 22, 2020, meeting materials.

At its January 28, 2021, meeting, the Council adopted a *Wildfire Fund Claims Administration — Expanded Summary of Procedures* that built upon the previously approved *Wildfire Fund Claims Administration — Provisional Policy Statement and Summary of Procedures*, providing staff with essential policy direction and the Council with an interim opportunity to weigh in on key elements of the claims administration process as it had taken shape. A copy of the *Wildfire Fund Claims Administration — Expanded Summary of Procedures* can be found in the Council's January 28, 2021, Meeting Materials.

During the first two quarters of 2021, Administrator staff worked to develop more detailed procedures for each aspect of the claims administration process, including pre-claim quarterly and triggered reporting requirements, specific information requirements for the submission of claims and procedures for the submission of confidential information, processes for the evaluation and payment of third-party claims submitted by an IOU for review and reimbursement from the Fund, and guidelines for quality control and independent auditing of the claims review process. To perform this work, the Administrator has engaged outside counsel with expertise in wildfire liability litigation and mediation, and the handling of confidential information; a team of subject-matter experts to advise on statistical sampling and claims validation, valuation, and review processes; and claims adjusting and auditing experts to help draft the detailed claim procedures. Outreach has also been conducted with the three IOUs, claims data specialists, reinsurers and intermediary brokers, and subject-matter experts on various aspects of wildfire liability assessment to better understand claim handling and auditing processes. In late June, staff presented the full draft procedures to individual Council members and the IOUs to review. All feedback was integrated into the final draft procedures, which will be presented to the Council for approval at its next meeting on July 22, 2021.

Annual Review of the Administrator's Performance

During the report period, the Council adopted a framework to annually review the performance of the Administrator and completed its first annual review. 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 Catherine Barna and Paul Rosenstiel served on the first Administrator Evaluation Subcommittee, which entailed aggregating Council member responses and delivering the first annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across nine categories, with that feedback being submitted solely to the Subcommittee. The Administrator's performance for each category was evaluated using the scale outlined below:

5— **Exceeds Expectations**
The Administrator performs above and beyond these accountabilities. The Administrator's performance in this area is outstanding and exceeds my expectations.

4— **Meets All Expectations**
The Administrator always practices these accountabilities. The Administrator's performance in this area meets all of my expectations.

3— **Meets Most Expectations**
The Administrator often practices these accountabilities, but not always. The Administrator's performance in this area generally meets my expectations.

2— **Meets Some Expectations**
The Administrator inconsistently practices these accountabilities. The Administrator's performance in this area only meets some of my expectations.

1— **Does Not Meet Expectations**
The Administrator rarely or never practices these accountabilities.
The Administrator does not perform well in this area.

N/A—**Not Applicable**
Not applicable or has not been observed.

Category	Averaged Councilmember Performance Rating
Leadership and Culture	4.6 (Range 4-5)
Financial Leadership	4.3 (Range 4-5)
Strategic Development	4.4 (Range 4-5)
Council Relations	4.6 (Range 3-5)
Council Governance and Compliance	4.7 (Range 4-5)
Claims Administration	4.3 (Range 3-5 and N/A)
Enterprise Risk Management	4.3 (Range 3-5 and N/A)
Stakeholder Engagement	4.4 (Range 3-5 and N/A)
Overall Evaluation	4.4 (Range 3-5)

Nonbypassable 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 SMIF, which is accruing 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 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 CEA in its role as the Administrator, the State Treasurer's Office, and the Department of Finance—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 will end in April 2023.

In December 2020, CEA executed a SMIF loan repayment agreement with DWR. CEA agreed to and established a SMIF payment account with one of its investment managers to receive NBC funds from the DWR Charge Fund and take reasonable steps to ensure that funds in the SMIF payment account are (a) segregated from the Wildfire Fund general account from which eligible claims against the Fund are paid and (b) are applied for the sole and exclusive purpose of holding funds allocated to the repayment of principal and interest on the SMIF loan until the SMIF loan is paid in full. Once the $2 billion SMIF loan is repaid, the NBCs will flow directly into the Fund to provide claim-paying capacity.

Fund as a Tax-Exempt Integral Part of the State of California

In creating the Fund, the Legislature specifically exempted income of the Fund from taxation by the State of California (Public Utilities Code section 3297). In addition, the Legislature made the IOUs' contributions tax deductible for the purposes of their tax compliance obligations. This exemption of the Fund from state taxation demonstrates, among many other things included in the 2019 Wildfire Legislation, the deep integration of the Fund into the State's overall approach to ensuring California residents have access to stable and affordable energy, that the state maintain a stable energy marketplace, and that state residents be protected from the direct and indirect impacts of IOU-caused wildfires. The fact that the Fund is an integral part of the state is key to the ability to operate the Fund as exempt from federal taxation as well.

The Internal Revenue Service has a longstanding and extensively applied doctrine, generally referred to as the "integral part doctrine," that exempts from federal taxation the income of any entity that is an integral part of a state government. During the report period, Administrator staff worked with a nationally recognized law firm and an international tax compliance firm to obtain formal opinions that the Council and CEA, as the Fund Administrator, may reply upon in operating the Fund as an integral part of the State of California exempt from federal income tax. Both firms have delivered their opinions, which are briefly summarized below.

The core opinion of both firms, although worded slightly differently in each opinion, is that all Fund income should be exempt from federal income taxation because all such income should be treated as income earned by an integral part of the State of California. The delivery of these opinions, together with the statutory exemption from California state taxation, collectively provide a clear basis and strong comfort that the Fund may be operated, administered, and overseen as a fully tax-exempt statutory fund.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

The 2019 Wildfire Legislation established that each participating IOU is required to retain and pay the first $1 billion of losses incurred during each wildfire season before submitting reimbursement claims from covered wildfires to the Fund. (Public Utilities Code section

3280(f)). The legislation also enacted Public Utilities Code section 3293, which requires that each IOU "shall maintain reasonable insurance coverage" against wildfire losses and requires the Administrator to periodically review each IOU's insurance program taking into consideration a variety of IOU-specific factors that are relevant to the Fund's exposure to claims from that IOU.

During the report period, Administrator staff retained a consultant with expertise in the energy sector (Scidan Consulting) to assist in the development of a framework for conducting these periodic reviews of the IOUs' insurance programs. In addition to beginning work on constructing a framework, Administrator staff determined that, given the lack of claims against the Fund to date, the basic durability status of the Fund is unchanged from when the Legislature fixed the annual IOU retention at $1 billion, and therefore recommended no change in the annual IOU retention. More detail about the developing framework can be found in the Council's April 22, 2021 Meeting Materials.

Overview of the Council's Public Meetings

The Council met four times during the report period: July 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021.

During its July 23, 2020, meeting, the Council, among other matters, discussed and adopted Articles of Governance to set out the role and responsibilities of the Council and the Administrator; reviewed and approved the 2019-2020 Plan of Operations; and authorized the Administrator to deliver the Plan of Operations to the Senate Committee on Energy, Utilities, and Communications and the Assembly Committee on Utilities and Energy. Administrator staff also presented on various topics, including the Fund's financial report, PG&E joining the Fund, and the status of the Administrator's preparation for post-event claims policies and procedures that will govern post-wildfire claims functions. The Council also discussed the development of a process for annual evaluations of the performance of the Fund Administrator, protocols for Council members who receive speaking engagement requests regarding the work of the Council, and the Council's interest in receiving periodic presentations at future Council meetings from subject-matter experts on various topics relevant to the Fund.

During its October 22, 2020, meeting, the Council, among other matters, heard presentations by SDG&E, PG&E, and SCE on their respective wildfire mitigation activities; adopted a revised Articles of Governance; and considered and adopted a *Wildfire Fund Claims Administration — Provisional Policy Statement and Summary of Procedures*. Administrator staff also made presentations on a variety of topics, including the Fund's financial report; the Annual Report the Council is required to file with the Legislature and the Department of Finance pursuant to Public Utilities Code section 3287; and a proposed process under which the Council may conduct annual evaluations of the performance of CEA, as Fund Administrator.

During its January 28, 2021, meeting, the Council, among other matters, heard presentations by Administrator staff and by representatives from AIR, CoreLogic, and

RMS on wildfire modeling; created and appointed members to an Administrator Evaluation Subcommittee for the purpose of the first annual Fund Administrator evaluation; adopted a *Wildfire Fund Claims Administration — Expanded Summary of Procedures*; and approved the proposed 2021 Wildfire Fund budget. Administrator staff also made presentations on a variety of topics, including an update on the status and administration of NBCs being collected by DWR, a financial report on the Fund, an update on work related to the federal tax status of the Fund, and a briefing on the Administrator's statutory duty under Public Utilities Code section 3293 to periodically review and make recommendations on the IOUs' wildfire insurance coverage.

During its April 22, 2021, meeting, the Council, among other matters, heard presentations by Administrator staff and by California Natural Resources Agency Deputy Secretary, Forest Resources Management, Jessica Morse on California's Wildfire and Forest Resilience Action Plan. Council members Paul Rosenstiel and Catherine Barna presented the first Annual Administrator Evaluation. In addition, Administrator staff briefed the Council on a variety of topics, including a financial report on the Fund; an update on the progress and timeline for the Council's review of the complete draft *Wildfire Fund Claims Administration Procedures*; a brief overview of CEA's current Enterprise Risk Management program and a plan to incorporate the Fund into the existing framework; an update on the development of a framework for the Administrator's periodic review, pursuant to Public Utilities Code section 3293, of the insurance programs of the participating IOUs; and an update on the federal tax status of the Fund.

The Council is scheduled to meet on July 22, 2021, and October 28, 2021. Information about those future meetings will be included in the third Annual Report.

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

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.
- 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 2020 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 the May 2021 rating action commentary related to a PG&E rating, Fitch noted "the dual effects of the reduction in the number of utility-triggered firestorms in 2019 and 2020 and *implementation of the wildfire insurance fund and other aspects of AB 1054* and other legislative initiatives are key elements supporting PG&E's ratings and the Stable Rating Outlook.[6] (Emphasis added.)
- In the June 2021 rating action commentary related to a SCE rating, Fitch reiterated the dual effects as key elements supporting SCE's current ratings and Stable Rating Outlook and noted that "Fitch believes enactment of A.B. 1054 was a significant, credit-supportive event." [7]
- In June 2021, S&P Global issued a frequently asked question update on its assumptions and analysis, in which it specifically noted, "[We] view AB 1054 as generally supportive of the IOUs' credit quality." [8]

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 Office of Energy Infrastructure Safety. These Wildfire Mitigation 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

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[6]*Fitch Affirms PG&E Corp. and Pacific Gas and Electric's Ratings at 'BB'; Outlook Stable* (FitchRatings.com), last checked June 28, 2021.
[7]*Fitch Rates Southern California Edison Co.'s Floating Rate and Sustainability FMBs 'BBB+'* (FitchRatings.com), June 9, 2021.
[8]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.

climate change risks. More information on PG&E, SCE, and SDG&E 2021 Wildfire Mitigation Plans and related documents is available at the Office of Energy Infrastructure Safety website: energysafety.ca.gov/what-we-do/wildfire-mitigation-and-safety/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 the Office of Energy Infrastructure Safety. 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 2020 safety certifications. More information on these safety certificates is available at the Office of Energy Infrastructure website: energysafety.ca.gov/what-we-do/wildfire-mitigation-and-safety/safety-certifications.

The 2020 Wildfire Season

The 2020 wildfire season was one of the most destructive wildfire seasons on record. However, a relatively small percentage of the destruction was caused by wildfires that may be attributable to the Fund's participating IOUs. Detailed information about the 2020 wildfire season is available at the California Department of Forestry and Fire Prevention's ("CAL FIRE'S") website: fire.ca.gov/incidents/2020. During the report period, there have been nine wildfires that may have been caused by IOUs that have been reported to CAL FIRE or reported in the IOUs' CPUC incident records: the Shirley fire (July 31, 2020), the Bobcat fire (September 6, 2020), the Zogg fire (September 27, 2020), the Silverado fire (October 26, 2020), the Cerritos fire (December 3, 2020), the Cornell fire (December 7, 2020), the Old fire (January 18, 2021), the Freedom fire (January 19, 2021), and the Slope fire (May 31, 2021).[9] There has been one wildfire, the Zogg fire (September 27, 2020), that CAL FIRE has determined was caused by PG&E. With the exceptions of the Bobcat, Silverado, and Zogg fires, all these actual and potential IOU-caused fires resulted in minimal structural damage, with fewer than five structures damaged in each case. The Bobcat fire resulted in the damage or destruction of 217 structures and six injuries; the Silverado fire resulted in the damage or destruction of 14 structures and two injuries; and the Zogg fire resulted in the damage or destruction of 231 structures, one injury, and four deaths.

While, to date, no IOU has made any claims on the Fund, the Administrator is aware that on March 22, 2021, CAL FIRE determined that the Zogg fire was caused by a pine tree contacting electrical distribution lines owned and operated by PG&E. Since it has been determined that PG&E was at fault, the fire will become a covered wildfire, and loss claims in excess of PG&E's $1 billion annual retention may be submitted to the Fund. If the Zogg fire results in a claim, details will be included in a subsequent Annual Report.

[9]This list is based on public information available on CAL FIRE's, SCE's, and PG&E's websites. SDG&E and its parent company, Sempra, currently do not have sections of their websites or other provisions for public notifications of Electric Safety Incident Reports that SDG&E files with the CPUC.

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