2022 Annual Report

on the California Wildfire Fund's Operations

CEA CALIFORNIA EARTHQUAKE AUTHORITY™

Wildfire Fund Administrator

July 28, 2022

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
1021 O Street, Room 3350
Sacramento, California 95814

Assembly Utilities and Energy Committee
The Honorable Eduardo Garcia, Chair
California State Assembly
LOB, Room 408
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	Kathleen Ritzman
Member of the public	Paul Rosenstiel
Member of the public	Rhoda Rossman
Member of the public	Catherine Barna

WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT to the
CALIFORNIA CATASTROPHE RESPONSE COUNCIL and
THE LEGISLATURE on
WILDFIRE FUND OPERATIONS

Report Period: July 12, 2021 – July 11, 2022
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 28, 2022

Pursuant to Public Utilities Code section 3283, this *Annual Report on Wildfire Fund 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 Wildfire Fund ("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 third Annual Report covers the one-year period of July 12, 2021, through July 11, 2022.

[1] The Annual Report satisfies the Council 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 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 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 capitalization of the Fund's $21 billion in claim-paying capacity is split between contributions from the Fund's participating utility companies—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 surcharges are also referred to as Wildfire Nonbypassable Charges ("NBCs"). The contributions from the IOUs are not passed through to their ratepayers, so 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, 2022, SDG&E, SCE, and PG&E have all provided their initial, 2020, 2021, and 2022 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.4 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] The 2019 Wildfire Legislation was subsequently amended in 2019 by AB 1513 (Holden, Chapter 396, Statutes of 2019), and in 2021 by AB 242 (Holden, Chapter 228, Statutes of 2021).

of July 11, 2022 total $11,812,669,950. 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, 2022 and audited financials as of December 31, 2021 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 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 third full year in existence requires examination of (1) the administrative 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 2021 wildfire season.

(1) Administrative 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:

- Established the *Wildfire Fund Claims Administration Procedures* and onboarded Sedgwick as the Administrator's claims review services provider;
- Continued to build out internal protocols, templates, and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment causing covered wildfires;
- Completed the Council's second annual review of the Administrator's performance;
- Continued to repay the $2 billion SMIF loan;
- Created a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund;
- Finalized and issued the uniform Memorandum of Coverage to all three IOUs.

More detail on these milestones can be found in Section III: The Success of the Fund, starting on page 13.

(2) Meetings of the Council

The Council was successfully activated in October 2019, and currently has a full roster of active members. On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022. The Council is scheduled to meet on July 28, 2022, and October 27, 2022. Details of these future meetings will be included in the Fourth Annual Report. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: cawildfirefund.com/council.

(3) 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

During its third year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOU credit ratings, the continued participation of all IOUs in the Fund, and the Administrator's experience with the 2021 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 IOUs have made their initial, 2020, 2021, and 2022 contributions to the Fund. As we enter the 2022 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 2021 safety certifications.
- **The 2021 Wildfire Season**
  The work the Administrator and Council have performed over the past three 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.

2022 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, the CEA is custodian of the Fund's cash and investments. This requires the 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 2021 audited financial statements, available at this website: EarthquakeAuthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which covers calendar year 2021, along with supplemental unaudited information related to the Fund's contributions received through July 11, 2022.

California Earthquake Authority

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

December 31, 2021 and 2020

	Custodial Fund	
	2021	2020
Assets		
Cash and investments:		
Cash and cash equivalents	$ 494,362,365	$ 511,921,154
Investments	9,825,798,581	9,583,274,855
Total assets	10,320,160,946	10,095,196,009
Liabilities - Securities payable	94,001,434	387,224
Net Position - Restricted - Restricted for CWF	**$ 10,226,159,512**	**$ 10,094,808,785**

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 State's Surplus Money Investment Fund ("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 Wildfire Nonbypassable Charges ("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 in the Fund. Once deposited in 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 and the State Treasurer's Office to evaluate the need for a bond issuance by DWR as a conduit, backed by a pledge of the NBCs as described above. There were no bonds issued or outstanding during the report period.

As the table on the following page shows, as of July 11, 2022, the Fund has received $11,812,669,950 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, 2022

	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.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SoCal Edison 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.	SoCal Edison 2020 annual contribution	12/28/2020	94,500,000
10.	PG&E 2020 annual contribution	12/30/2020	192,600,000
11.	SDG&E 2021 annual contribution	12/15/2021	12,900,000
12.	SoCal Edison 2021 annual contribution	12/27/2021	94,500,000
13.	PG&E 2021 annual contribution	12/30/2021	192,600,000
		Total Contributions	10,400,000,000
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
8.	May 2021 NBC funds	7/14/2021	66,147,221
9.	June 2021 NBC funds	8/5/2021	72,966,332
10.	July 2021 NBC funds	9/15/2021	74,019,191
11.	August 2021 NBC funds	10/7/2021	90,363,775
12.	September 2021 NBC funds	11/10/2021	94,059,781
13.	October 2021 NBC funds	12/7/2021	89,110,057
14.	November 2021 NBC funds	1/10/2022	76,880,056
15.	December 2021 NBC funds	2/10/2022	72,253,134
16.	January 2022 NBC funds	3/7/2022	64,527,643
17.	February 2022 NBC funds	4/7/2022	78,912,451
18.	March 2022 NBC funds	5/10/2022	72,132,388
19.	April 2022 NBC funds	5/27/2022	85,856,764
20.	May 2022 NBC funds	6/27/2022	87,030,949
		Total NBCs	1,412,669,950
		Total Funds Received	$ 11,812,669,950

Note 1: NBC funds received by the Fund 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, the 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

This section provides the annual report on the Fund's projected durability. The Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund. If new claims are submitted to the Fund or existing claims, if any, develop adversely such that the projected durability of the Fund changes, the Council and Administrator will update this report.

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.*"

"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 which exceed the annual aggregate IOU retention of $1 billion 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 funding 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. Investment income and the timing of the receipt of the ratepayer funds can also influence durability inasmuch as higher investment returns and timely receipt of the non-bypassable charges increases available funds.

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,
- the annual aggregate individual IOU loss retention, which is currently $1 billion, and
- funding.

Estimating Fund Losses—Catastrophe-Loss Models

Using catastrophe-loss models to assess the loss potential from hurricanes and earthquakes has been common-place 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 level and for emergency planning scenarios. In comparison, catastrophe-loss models for wildfire risk are newer, have not been as 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 8 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 and payable by the Fund in assessing durability. As noted below, as of June 2022 no IOU has requested reimbursement from the Fund. Consequently, the current durability projections assume that losses attributable or potentially attributable to the IOUs that occurred in the 2019 - 2021 wildfire seasons will not reach the annual aggregate $1 billion IOU retention and thus have no impact on Fund durability.

Modeling wildfire risk is a complex process. The AIR Touchstone 8 model considers such factors as ignition, weather and fuels, topography, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 8 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 (not just insurable property losses) and increased an additional 15% for exposure growth to reflect increases in construction costs.[3] 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 estimated 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 worked with them to make further refinements to the models to aid CEA in monitoring Fund durability.

As noted above, the catastrophe-loss model does not consider who or what is responsible for a wildfire. Modeled losses are attributed to a specific IOU using an attribution rate methodology developed by Guy Carpenter. This is the same methodology used when the Fund was initially created. 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 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 – 2019 of total fire ignitions.

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 above, 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 on the following page.

[3]Data from California Department of General Services indicates construction costs for California rose 13.4% in 2021 and continue to climb in 2022. DGS California Construction Cost Index CCCI (last checked 6/14/2022).

Scenario	Estimated Fund Durability for 2022[4]
1. Base - 60% & 40% settlement rate - 10% mitigation credit - 100% prudency	99.5% – 99.7%
2. Mitigation/Climate Change - 40% settlement rate - Mitigation gains offset by climate change - 100% prudency	99.6%
3. High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency	99.4%

Base — 1

The base scenario is the current view of risk considering subrogation settlement rates from 40% to 60%.[5] 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 small 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 IOU mitigation plans and the estimates contained therein along with State and local mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is done 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.

Mitigation/Climate Change — 2

This scenario is the same as Base scenario 1 with the mitigation credit removed. The intent of this scenario is not to imply that mitigation efforts have been or will be ineffective. Rather, it is intended to provide a means to compare the results of this scenario to the Base –1 scenario and demonstrate the beneficial effects of mitigation on Fund durability. The results can be viewed as a scenario where beneficial mitigation effects are offset by adverse impacts of climate change. 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 Base –1 with the settlement rate set 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.

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.

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. As with the prior two years, Administrator staff determined that the market pricing and structure did not meet the goal of enhancing the Fund's durability and, therefore, did not engage the market for a risk transfer program for the 2022 wildfire season.

[4]The estimated one-year Fund durability for 2022 ranges from 99.4% to 99.7% across the scenarios. This can alternatively be stated as a range of 1-in-170 to 1-in-340 chance that the Fund will suffer losses in 2022 that will ultimately exhaust all sources of claim-paying capacity. Due to the length of time from when a wildfire occurs, it is determined to have been caused by an IOU and eligible claims ultimately flow to the Fund, the likelihood that all sources of claim-paying capacity will be exhausted in 2022 is 0%. In other words, on a paid basis, the Fund will most certainly have cash remaining at the end of 2022. However, on an incurred basis, there is a small probability that the losses that occurred (or will occur) in 2022 could ultimately exhaust the Fund.

[5]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 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.

Enhancing Durability through the annual aggregate IOU retention

Public Utilities Code section 3293 requires that each of the IOUs "maintain reasonable insurance coverage." Section 3293 also requires the Administrator to periodically review the IOUs' insurance programs and make recommendations to each IOU "as to the appropriate amount of insurance coverage required," taking into account a list of enumerated risk factors and any other factors deemed appropriate by the Administrator.

Section 3293 has the potential to increase Fund durability, if needed, by recommending higher retentions. Based on the Administrator's review, there is currently no indication that the retention amount needs to be raised. The current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent. More information on the analysis of long-term durability is included in Section "Administrator's Periodic Review of the IOU Wildfire Insurance Programs" on page 15.

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

Comparison to Prior Year

The financial model used to assess Fund durability begins with the AIR Touchstone 8 wildfire model whereas last year the AIR Touchstone 7 wildfire model served as the starting point. Each catastrophe-loss model update includes more recent historical wildfires, updated fuels data and weather predictions. Additional updates to the financial model include reflecting the most recent year-end financial status, advancing the starting point one year (from 2021 to 2022) and updating the exposure growth assumption from 7% to 15%. The results above maintain the assumption that prior year wildfires will result in no claims to the Fund. As noted later in this report (see The 2021 Wildfire Season on page 19), no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund from past wildfire seasons, in particular, as a result of the 2019 Kincade fire and the 2021 Dixie fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire (unchanged from last year) and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[6]

If the ultimate liability for the 2019 Kincade fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount, subject to the 40% limitation on claims arising before emergence from bankruptcy. Similarly, if the ultimate liability for the 2021 Dixie fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount. For the purposes of projecting the durability for the current period, the model assumes that wildfires from past seasons will not result in claims to the Fund. The model will be updated if PG&E makes a claim on the Fund.

[6] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade, 2020 Zogg and 2021 Dixie fires.)

III. The Success of the Fund

This section provides an overview of the administrative 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; and provides a summary of incurred claims.

Administrative Actions taken by the Administrator, under the Oversight of the Council, to Further Operationalize the Fund

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 July 22, 2021 meeting, the Council adopted the final draft *Wildfire Fund Claims Administration Procedures* (Procedures) and authorized the Administrator to make periodic no-discretionary, conforming changes to the Procedures as necessary to ensure that the Procedures conform to any statutory amendments that may be enacted in the future. A copy of the *Wildfire Fund Claims Administration Procedures* can be found in the Council's July 22, 2021, Meeting Materials.

On August 17, 2021, the Administrator issued a Request for Proposal (RFP #06-21) for a Claims Review Services Provider. The Administrator responded to a round of questions on the RFP and received four proposal submissions by its deadline of October 7, 2021. The Administrator's proposal review panel evaluated the proposals and identified three finalists that were invited to make presentations. The company with the highest overall average scores from the review panel was invited on October 27, 2021 to advance to the contract negotiation stage. The Administrator entered into a contract with Sedgwick on January 27, 2022 to serve as the claims review services provider for the Wildfire Fund.

During the report period, the Administrator has been working with Sedgwick to build out the infrastructure and make necessary preparations for the successful and timely execution of the Administrator's claims review process. This work includes development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The Administrator anticipates that this work will be completed by no later than the first quarter of 2023. However, the Administrator and Sedgwick have built in flexibility to be able to undertake the review of any claims that might be submitted in 2022.

Internal Protocols, Templates, and Tools for Wildfire Monitoring and Notification

The Administrator continues to work with the IOUs to develop protocols, templates and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment in causing wildfires, and reporting on these occurrences using pre-approved templates to notify council members. Protocols are now in place to monitor the websites of the CPUC and the IOUs so that the Administrator has prompt notice when an IOU has filed electrical incident reports on incidents with the CPUC, as required under Public Utilities Code section 315. The Administrator is particularly focused on enhancing the Council's timely access to current, substantive and detailed wildfire and claims information.

Annual Review of the Administrator's Performance

During the report period, the Council completed its second annual review of the Administrator. 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 Rich Gordon and Paul Rosenstiel served on the second Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the second annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across seven accountability areas and on an overall evaluation, with that feedback being submitted solely to the Subcommittee. Numerical scores from 1 (Does Not Meet Expectations) to 5 (Exceeds Expectations) were provided for each area by all members of the Council. Administrator staff has developed plans to respond to specific feedback as part of the on-going performance improvement effort.

Category	Averaged Council Member Performance Rating
Leadership and Culture	4.38 (Range 4-5)
Financial Leadership	4.63 (Range 4-5)
Strategic Development	4.13 (Range 3-5)
Council Relations	4.25 (Range 2-5)
Council Governance and Compliance	4.5 (Range 4-5)
Claims Administration	4.29 (Range 4-5)
Enterprise Risk Management	4.38 (Range 3-5)
Overall Evaluation	4.31 (Range 3-5)

Non-bypassable 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 California Treasurer's Surplus Money Investment Fund, 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, but not limited to, 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 the Administrator, the State Treasurer's Office (STO), and the Department of Finance (DOF), 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, the CEA executed a SMIF Loan Repayment Agreement with the DWR. The 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 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.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

As noted above, 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 IOUs' insurance program taking into consideration a variety of IOU-specific factors that are relevant to the Fund's exposure to claims from that IOU.

As the IOU retention increases, Fund durability increases. The California Legislature expressed a general expectation that the Fund would remain durable during the 10-to-15-year period during which the IOUs would be making enhanced investments in infrastructure safety. Section 3293 can assist the Administrator in managing the durability of the Fund through upward adjustments to the minimum $1 billion retention amount.

During the report period, Administrator staff worked with 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. The framework is designed to indicate whether an upward adjustment in retention may be needed to achieve the Fund durability goals. If an upward adjustment is indicated, then the factors enumerated in Section 3293 will enter the analysis.

Based on the results of its assessment coupled with the facts that there have not yet been claims on the Fund and no material changes have emerged since July 2019, the Administrator informed the IOUs that there will be no changes to the IOUs' $1 billion loss retention for the 2022-2023 wildfire season. Based on the results of the framework, the current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent, unless the average annual eligible claim level exceeds $1.5 billion.

The testing framework will be updated periodically to reflect the total amount of eligible claims paid (or payable) by the Fund as well as changes in the view of wildfire risk consistent with those used for shorter-term durability assessments (see Section II: Projections for the Durability of the Fund on page 7 for more information about durability). The Administrator will report updated assessments to the Council and communicate the recommended loss retention to the IOUs so that the information is available for planning their annual insurance programs. More detail about the framework can be found in the Council's April 28, 2022 Meeting Materials.

Memorandum of Coverage

The Memorandum of Coverage is a uniform document, akin to an insurance policy, that sets forth the scope of coverage from the Fund and the conditions for submitting claims, consistent with the Claims Administration Procedures approved by the Council in 2021. The Memorandum of Coverage was carefully drafted to ensure consistency with the 2019 Wildfire Legislation, while filling in administrative details not expressly covered in those statutes. A principle goal of the Memorandum of Coverage is to ensure that each of the three IOUs share a common understanding of the terms and conditions related to their ability to submit eligible claims to the Fund after a covered wildfire. This document will also assist the Administrator in ensuring that the IOUs are treated equally and fairly as they draw on Fund assets when necessary.

Another function of the Memorandum of Coverage is to document each IOUs' "coverage year" — the 12-month period during which an IOUs' wildfire liabilities are aggregated to meet their $1 billion per year liability retention.[7] The Memorandum of Coverage will remain in effect for the duration of the life of the Fund but will be updated annually to reflect each IOUs' "coverage year." In addition, the Memorandum of Coverage will be amended as necessary to conform to any future relevant statutory amendments.

[7]During the report period, the Legislature enacted AB 242 (Holden, Chapter 228, Statutes of 2021). That bill, among other things, changed the "coverage year" for an IOU to submit eligible claims to the Fund from a 12-month January 1 to December 31 "calendar" year to any 12-month period. This change allows each IOU to align its Fund coverage year with its underlying insurance program.

A copy of the final version of the Memorandum of Coverage can be found in the Council's January 27, 2022 Meeting Materials.

Overview of the Council's Public Meetings

On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022.

During its July 22, 2021 meeting, the Council, among other matters, heard a presentation from Caroline Thomas Jacobs, the Director of the Office of Energy Infrastructure Safety (OEIS) within the California Natural Resources Agency. Ms. Thomas Jacobs provided the Council with an overview of the roles and responsibilities of the newly established OEIS, as successor to the Wildfire Safety Division of the CPUC. The Council also discussed and adopted the *Wildfire Fund Claims Administration Procedures*, the 2020-2021 Plan of Operations (Second Annual Report) and authorized the Administrator to deliver the Second Annual Report 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, a legislative update (concerning AB 242, Holden), and the Wildfire Fund Enterprise Risk Management Program Framework.

During its October 28, 2021 meeting, the Council, among other matters, discussed and adopted a report template and procedures for completion and filing of its Section 3287 Statutory Annual Reports. Administrator staff also presented on various topics, including the Fund's financial report, claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its January 27, 2022 meeting, the Council, among other matters, approved the proposed 2022 Fund budget and directed staff to operate Fund business operations within the total approved budget amounts, and appointed two members to the informal Administrator Evaluation Subcommittee for the purpose of preparing the evaluation of CEA as the Administrator for 2021. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, a Fund administration update concerning the Memorandum of Coverage and PUC Section 3293 Framework, an update on claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its April 28, 2022 meeting, the Council, among other matters, presented the results of the Council's evaluation for 2021 of the CEA's performance as Administrator of the Fund, and heard a presentation from Caroline Thomas Jacobs, the Director of OEIS within the California Natural Resources Agency on the scope of OEIS's review of IOU Wildfire Mitigation Plans and issuance of Safety Certifications. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, which included a shift in investment management to emphasize shorter term bonds to preserve capital because of the trend towards increasing interest rates, an update on claims administration, including the onboarding of Sedgwick as the Administrator's Claims Review Services Provider and their scope of work, establishment of the PUC Section 3293 Framework and the determination of the IOUs' liability retention for the 2022-23 wildfire season, and the Wildfire Fund Enterprise Risk Management Program Framework.

The Council is scheduled to meet on July 28, 2022 and October 27, 2022. Information about those future meetings will be included in the Fourth 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 IV 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 2021 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 on the following page:

- In its June 2022 rating action commentary related to a PG&E rating, and its May 2022 rating action commentary related to a Southern California Edison rating, Fitch reiterated AB 1054 as a credit-supportive piece of legislation supporting both IOUs' current ratings and Positive Rating Outlooks.[8]
- In June 2021, S&P Global issued a FAQ update on their assumptions and analysis in which they specifically noted that "we view AB 1054 as generally supportive of the IOUs' credit quality."[9]

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 CPUC. 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 climate change risks. More information on PG&E, SCE, and SDG&E 2022 Wildfire Mitigation Plans and Related Documents is available at OEIS's website: energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2022-wmp.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from OEIS. 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 2021 safety certifications from OEIS. More information on these safety certificates is available at OEIS's website: energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/safety-certifications.

The 2021 Wildfire Season

Amidst the ongoing drought, 2021 was another active wildfire season. Detailed information about the 2021 wildfire season is available at CAL FIRE'S website: fire.ca.gov/incidents/2021. During the report period, there have been five wildfires — Dixie Fire (July 13, 2021), Fly Fire (July 22, 2021 and which subsequently merged with the Dixie Fire), Coastal Fire (May 11, 2022), Old Fire (May 31, 2022), and Edgewood Fire (June 21, 2022) — that may have been caused by IOUs that have been reported to CAL FIRE or in the

[8] *Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings* (FitchRatings.com), June 2, 2022; *Fitch Assigns a 'BBB+' Rating to Southern California Edison's First & Refunding Mortgage Bonds* (FitchRatings.com), May 18, 2022.

[9] 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

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IOUs' CPUC incident records.[10] There has been one wildfire, the Dixie Fire (July 13, 2021), that CAL FIRE has determined was caused by PG&E. With the exceptions of the Dixie and Coastal fires, all these actual and potential IOU-caused fires resulted in minimal structural damage. The Dixie Fire burned a total of 963,309 acres, destroyed 1,329 structures and damaged 95 additional structures, and the Coastal fire burned 200 acres and destroyed at least 20 structures.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on January 4, 2022, CAL FIRE determined that the Dixie Fire was caused by a 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 Dixie Fire results in a claim, details will be included in a subsequent annual report.

PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire, $375 million in connection with the 2020 Zogg Fire, and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[11] If the ultimate liability for any of these fires and their corresponding 2019, 2020, and 2021 coverage years exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount.

[10] 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.

[11] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade, 2020 Zogg and 2021 Dixie fires.)

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