2024 Annual Report

on the California Wildfire Fund's Operations

CEA CALIFORNIA EARTHQUAKE AUTHORITY™ | Wildfire Fund Administrator

August 12, 2024

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
Steven Bradford, Chair
California State Senate
1021 O Street, Room 3350
Sacramento, California 95814

Assembly Utilities and Energy Committee
The Honorable
Cottie Petrie-Norris, Chair
California State Assembly
1020 N Street, Room 408A
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	Tracy Van Houten
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, 2023 – July 11, 2024
(Pursuant to Public Utilities Code section 3283)

Date of Report: August 12, 2024

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 fourth Annual Report covers the one-year period of July 12, 2023, through July 11, 2024.

[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 Non-bypassable 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. The SMIF Loan was fully paid off on April 25, 2023.

As of June 13, 2024, SDG&E, SCE, and PG&E have all provided their initial, 2019, 2020, 2021, 2022, and 2023 annual financial contributions. The IOU contributions total $9 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056

[2]Since its enactment, the 2019 Wildfire Legislation has been subsequently amended through legislation. Amendments impacting the Wildfire Fund and/or the California Catastrophe Response Council were contained in AB 1513 (Holden, Chapter 396, Statutes of 2019), in SB 350 (Hill, Chapter 27, Statutes of 2020), in AB 913 (Calderon, Chapter 253, Statutes of 2020), and in AB 242 (Holden, Chapter 228, Statutes of 2021).

operationalized the collection of the NBCs. The Fund began receiving NBC funds in January 2021. The IOU contributions combined with the NBC funds received as of June 13, 2024, total $12,253,324,105. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue debt backed by the NBCs. Additional detail regarding the Fund's contributions as of June 13, 2024, and audited financials as of December 31, 2023, 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 Verisk Worldwide Touchstone 8 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 fifth full year in existence requires examination of (1) the administrative actions taken by the Administrator, under the oversight of the Council, during this reporting period; (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 2023 wildfire season.

(1) Administrative Actions taken by the Administrator, under the oversight of the Council

During the report period, Administrator staff and the Council:

- Completed additional work with Sedgwick Claims Management Services ("Sedgwick"), the Administrator's claim review services provider to further test the operational approach for claims review services, and build out the operational procedures and personnel training for future testing of the operational approach;
- Continued to monitor active wildfires as well as the status of potentially covered wildfires in the 2019 – 2023 coverage years;
- Completed the Council's fourth annual review of the Administrator's performance.

More detail on these milestones can be found in the full Report, 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. The Council met three times during the report period: August 3, 2023; November 2, 2023; and February 29, 2024. The Council is scheduled to meet on August 12, 2024, and November 14, 2024. Details of these future meetings, will be included in the next Annual Report. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: cawildfirefund.com.

(3) Claims Summary

During the report period, the Administrator received written notice from PG&E, as required by the *Wildfire Fund Claims Administration Procedures ("Procedures")*, that PG&E anticipates that claim settlements will exceed a total of more than $750 million in the aggregate for third-party claims resulting from the 2021 Dixie Fire. In accordance with the *Procedures*, the Administrator authorized Sedgwick to commence its review of those claims, and Sedgwick, at the direction of the Administrator, is actively reviewing claims submissions from PG&E. As of the date of this report, the Administrator has not yet reimbursed PG&E, or any other IOU, for eligible claims arising from a covered wildfire.

IV. Whether or Not the Fund Is Serving Its Purpose

During its fifth 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 2023 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 made their initial capital contributions to the Fund, and each of the IOUs have remitted their respective allocations of the required $300 million aggregate annual contributions for 2019 – 2023. As we enter the 2024 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 2023 safety certifications.
- **Operational Readiness**
  The work the Administrator and Council have performed over the past five years to operationalize the Fund puts the Administrator in a ready position to discharge all statutory duties related to paying eligible claims for covered wildfires that have occurred or may occur in future wildfire seasons.

2024 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 2023 audited financial statements, available on this webpage: EarthquakeAuthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which covers calendar year 2023, along with supplemental unaudited information related to the Fund’s contributions received through June 13, 2024.

California Earthquake Authority

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

December 31, 2023 and 2022

	Custodial Fund	
	2023	2022
Assets		
Cash and investments:		
Cash and cash equivalents	$ 357,485,746	$ 632,630,881
Investments	11,055,244,876	9,478,138,463
Securities receivable	26,875,400	26,972,364
Total assets	11,439,606,022	10,137,741,708
Liabilities - Securities payable	-	96,965,250
Net Position - Restricted	$ 11,439,606,022	$ 10,040,776,458

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 IOUs to remit NBCs collected from their non-exempt ratepayers to the Department of Water Resources (“DWR”) 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 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 June 13, 2024, the Fund has received $14,253,324,105 in capitalization. This capitalization figure includes the $2 billion SMIF loan that was received by the fund in August 2019, and repaid in full in April 2023. The SMIF loan funds are therefore no longer available to pay eligible claims. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue revenue bonds through the DWR, secured by future NBC revenues.

CALIFORNIA WILDFIRE FUND
Contributions & NBCs Received
As of June 13, 2024

	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.	SoC al 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.	IOUs 2020 annual contributions	December-20	300,000,000
9.	IOUs 2021 annual contributions	December-21	300,000,000
10.	IOUs 2022 annual contributions	December-22	300,000,000
11.	IOUs 2023 annual contributions	December-23	300,000,000
		Total SMIF Loan Proceeds & IOU Contributions	11,000,000,000
1.	2021 NBC funds received	12-months of 2021	875,076,565
2.	2022 NBC funds received	12-months of 2022	1,116,593,213
3.	2023 NBC funds received	12-months of 2023	888,460,572
4.	January 2024 NBC funds	Jan ‘24 weekly ACHs	80,814,233
5.	February 2024 NBC funds	Feb ‘24 weekly ACHs	60,106,717
6.	March 2024 NBC funds	March ‘24 weekly ACHs	64,597,509
7.	April 2024 NBC funds	April ‘24 weekly ACHs	63,268,813
8.	May 2024 NBC funds	May ‘24 weekly ACHs	76,433,521
9.	June 2024 NBC funds	June ‘24 weekly ACHs	27,972,962
		Total NBCs	3,253,324,105
		Total Funds Received	$ 14,253,324,105

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, 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 develop adversely such that the projected durability of the Fund changes, the Council and Administrator will note the developments in a subsequent 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 *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 the projected Fund durability is 90% for 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 by adding to the claim-paying capacity of the Fund. However, it will only enhance durability if the expected benefit exceeds the cost of obtaining the risk transfer. The annual aggregate IOU retention can also increase the durability of the Fund because raising the retention reduces Fund losses. As described below, during the report period, the Administrator did not purchase risk transfer or change the annual aggregate $1 billion IOU retention. 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 NBCs 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 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 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 Verisk Touchstone 8 model as a starting point for measuring the potential distribution of eligible claims to the Fund. The Administrator also considers existing claims and historical losses potentially attributable to IOUs and payable by the Fund in assessing durability.

Modeling wildfire risk is a complex process. The Verisk 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 Verisk Touchstone 8 model are built on an industry exposure database representing insurable California property valued at 2020, making two adjustments necessary. The first adjustment is to increase the modeled losses by 36% to reflect increases in construction costs from 2020 through 2023.[3] The second adjustment is to increase the modeled losses by 50% to approximate total losses (not just insurable property losses). Additionally, the Verisk 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.

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 adjusted 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 includes a $600 million reserve based on the amount that PG&E has recorded as a Wildfire Fund receivable for the 2021 Dixie Fire.[4] The model considers all available Fund sources to pay eligible claims including future IOU and ratepayer contributions. As noted

[3]Data from the California Department of General Services indicates construction costs for California rose 13.4% in 2021 and 9.3% in 2022. DGS California Construction Cost Index CCCI (last checked 6/11/2024.)
[4]The Administrator's practice is to reserve against eligible claims in the amount publicly disclosed by any IOU that has given notice to the Administrator that it will be asserting a claim to the Fund. In the case of PG&E's claim based on the 2021 Dixie Fire, the Administrator relied upon PG&E's 2023 Joint Annual Report to Shareholders (q4cdn.com) p. 157 (last checked 6/11/24). Please note, however, that the total amount of PG&E's eligible claims associated with the 2021 Dixie Fire may be significantly higher or lower, depending on events yet to occur (e.g., prudency determination).

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 three test scenarios and results are displayed in the table on the following page. A fourth scenario tests the impact of an additional $1 billion claim to the Fund as discussed below.

Scenario	Estimated Fund Durability for 2024[5]
1. Base - 60% & 40% settlement rate - 10% mitigation credit - 100% prudency	99.1% – 99.5%
2. Mitigation/Climate Change - 40% settlement rate - Mitigation gains offset by climate change - 100% prudency	99.3%
3. High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency	98.9%
4. Base Adjusted - $1 billion loss incurred - 60% & 40% settlement rate - 10% mitigation credit - 100% prudency	98.9% – 99.4%

[5]The estimated one-year Fund durability for 2024 ranges from 98.9% - 99.5% across the first three scenarios. This can alternatively be stated as a range of 1-in-90 to 1-in-190 chance that the Fund will suffer losses in 2024 that will ultimately exhaust all sources of claim-paying capacity. This is lower from last year's assessment (1-in-150 to 1-in-310) due to reducing the available funds by a $600 million reserve for potential losses associated with prior years as well as the impact of inflation on exposure growth. Due to the length of time from when a wildfire occurs, if it is determined to have been caused by an IOU, the IOU has settled or adjudicated third-party claims that exceed the $1 billion annual aggregate retention and eligible claims ultimately flow to the Fund, the likelihood that all sources of claim-paying capacity will be exhausted in 2024 is 0%. In other words, on a paid basis, the Fund will most certainly have cash remaining at the end of 2024. However, on an incurred basis, there is a small probability that the losses that occurred to date or will occur in 2024 could ultimately exhaust the Fund. For the fourth scenario the one-year durability can similarly be stated as a range of a 1-in-95 to 1-in-165 chance.

Base — 1

The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[6] 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, a consistently 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 – 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

[6]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.

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.

Base Adjusted — 4

This scenario tests the impact on Fund durability assuming that eligible claims in the amount of $1 billion have been incurred but not reported. This amount is used to test the impact of potential eligible claims from prior years. As noted above, the Fund has recorded a $600 million reserve associated with potential losses from the 2021 Dixie Fire. In its March 31, 2024 10-Q report, PG&E has recorded a Wildfire Fund receivable of $600 million for the 2021 Dixie Fire based on estimated losses that represent the lower end of the range of reasonably estimable probable losses.[7]

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. Consistent with prior 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 2024 wildfire season.

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.

As the IOU retention increases, Fund durability increases. The California Legislature expressed a general expectation that the Fund would remain durable for 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.

[7] PG&E - March 31 ,2024 Form 10-Q See page 13, (last checked 6/13/2024). The report makes note that the accrued estimated losses do not include, among other things, state or federal fire suppression costs and damages related to federal land.

Based on the Administrator's review, coupled with the facts that there have been limited claims on the Fund and no material changes have emerged since July 2019, 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 – exceeding the targets of 75% and 65% for 10 and 15 years, respectively – unless the average annual eligible claim level exceeds $1.5 billion.

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 Verisk Touchstone 8 wildfire model which is unchanged from the prior review. Updates to the financial model include reflecting the most recent year-end financial status, advancing the starting point one year (from 2023 to 2024) and updating the exposure growth assumption from 25% to 36%, to reflect three years of growth in the underlying industry exposure database of insurable property losses. As noted above the Wildfire Fund has recorded a $600 million reserve associated with potential eligible claims to the Fund from the 2021 Dixie Fire.

IOU Measures of Durability

The Fund does not have a specified term and it will continue until the assets of the Fund are exhausted and the Fund is terminated, in which case, any remaining funds will be transferred to California's General Fund to be used for wildfire mitigation programs. Because the term is not specified, each of the IOUs has estimated and reports their own assessment of Fund durability in terms of years of coverage. This is necessary to amortize the Fund asset over the useful life of the Fund.

In estimating the life of the Fund, each IOU reviewed historical data from wildfires caused by electrical utility equipment and similar categories of assumptions as the Administrator (e.g., mitigation effectiveness, settlement rates, climate change.) They, too, note the high degree of uncertainty related to the estimates. In the first quarter of 2024, PG&E's annual assessment "resulted in the expected life of the Wildfire Fund increasing to 20 years after incorporating 2023 loss information into the dataset of events with no events triggering a claim against the Wildfire Fund."[8] Southern California Edison likewise increased their estimate from 15 to 20 years for similar stated reasons.[9] SDG&E maintained their estimated period of benefit at 15 years.[10]

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, during this reporting period; provides a brief summary

[8] PG&E - March 31, 2024 Form 10Q see page 50 (last checked 6/13/2024).
[9] Edison International & SCE - March 31, 2024 Form 10-Q see page 31 (last checked 6/13/24).
[10] Sempra - 2023 Annual Report see page F-38.

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

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.

The Council adopted the *Wildfire Fund Claims Administration Procedures ("Procedures")* on July 22, 2021, and authorized the Administrator to make periodic non-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. The Administrator entered into an agreement with Sedgwick Claims Management Services, Inc. ("Sedgwick") effective as of January 24, 2022, to provide claims review services for the Fund.

During the report period, Sedgwick completed a short-term scope of work which involved developing dummy data to further test the operational approach for claims review services, and building out the operational procedures and personnel training for future pre-testing of the operational approach.

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

The Administrator continues to monitor active wildfires and IOUs' reporting about the potential involvement of their equipment in causing wildfires, and report 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 fourth 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 were asked to evaluate the Administrator's ongoing performance of core competencies across five accountability areas and on an overall evaluation, with that feedback being submitted solely to the Administrator. 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	4.4
Financial Leadership	4.6
Council Relations	4.6
Claims Administration	4.2
Enterprise Risk Management	4.8
Overall Evaluation	4.4

Overview of the Council's Public Meetings

The Council met three times during the report period: August 3, 2023; November 2, 2023; and February 29, 2024.

During its August 2, 2023 meeting, the Council, among other matters, discussed and adopted the Fourth Annual Report and authorized the Administrator to deliver the Report to the Senate Committee on Energy, Utilities, and Communications and Assembly Committee on Utilities and Energy. The Council also reviewed and approved revisions to the template used for completion and filing of its annual statutory report required by Public Utilities Code section 3287, and approved mid-year budget revisions for work done by Sedgwick. Administrator staff also presented on various topics, including the Fund's financial report, a claims administration update, and an update on the Wildfire Fund Enterprise Risk Management Program.

During its November 2, 2023 meeting, the Council, among other matters, heard a presentation from Forest Schafer, the State Coordinator for the Governor's Wildfire and Forest Resilience Task Force, on statewide efforts to align the fire mitigation activities of federal, state, local, private, and tribal organizations. Administrator staff also presented on various topics, including the Fund's financial report, claims administration update, and an update on the Wildfire Fund Enterprise Risk Management Program.

During its February 29, 2024 meeting, the Council, among other matters, approved the proposed 2024 Fund budget and directed staff to operate Fund business operations within the total approved budget amounts. Administrator staff also made presentations on a variety of topics, including the plan for preparing the evaluation of CEA as the Administrator for 2023, the Fund's financial report, an update on claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

The Council has elected to decrease the frequency of its meetings to three meetings per year, absent developments that make it necessary for the Council to meet more often. The Council is currently scheduled to meet on August 12, 2024, and November 14, 2024. Information about those meetings will be included in the next Annual Report.

Claims Summary

The Fund will reimburse IOUs for "eligible claims," as defined by the 2019 Wildfire Legislation. Eligible claims are those claims that are a result of a "covered wildfire," as that term is defined in the 2019 Wildfire Legislation, and are in excess of the IOUs annual threshold retention, which is currently set at $1 billion.

2021 Dixie Fire: Since it has been determined that PG&E's equipment caused the 2021 Dixie Fire, this fire is a "covered wildfire" and loss claims in excess of PG&E's $1 billion annual retention may be submitted to the Fund for review and reimbursement. While PG&E continues to settle outstanding claims, as of July 11, 2024, it has submitted claims documentation to meet the $1 billion annual retention amount (Threshold Claims). Sedgwick is currently reviewing the Threshold Claims, in accordance with the *Procedures*, to determine if those claims were settled using reasonable business judgment, a standard set by the 2019 Wildfire Legislation. Once the Threshold Claims determination has been met, Sedgwick will review claims documentation for claims in amounts in excess of the $1 billion threshold amount (eligible claims), and if the Administrator determines the eligible claims have been settled using reasonable business judgment, will reimburse PG&E for those claims.[11] PG&E's Form 10-Q for the quarterly period ending March 31, 2024 notes that it has recorded an aggregate liability of $1.6 billion in connection with the 2021 Dixie Fire. As noted above, the Fund has set a reserve of $600 million associated with potential eligible claims from the 2021 Dixie Fire.

2019 Kincade Fire: While PG&E has not made a claim in connection with the 2019 Kincade Fire, since CAL FIRE has determined that PG&E was at fault, this fire would become a covered wildfire and loss claims in excess of PG&E's $1 billion annual retention could be submitted to the Fund if PG&E elects to make a claim.[12] PG&E's Form 10-Q for the quarterly period ending March 31, 2024, notes that it has recorded an aggregate liability of $1.125 billion in connection with the 2019 Kincade Fire.

For both the 2021 Dixie Fire and the 2019 Kincade Fire, PG&E Corporation and the Utility state that "[t]hese liability amounts correspond to the lower end of the range of reasonably

[11]Once the Administrator has paid an IOU for eligible claims, the IOU must go through a catastrophic wildfire proceeding before the CPUC. If the CPUC finds that the IOU acted prudently, the IOU does not have to reimburse the Fund for eligible claims covered by the Fund. If the IOU is found imprudent, or partially imprudent, the IOU must reimburse the Fund for the portion of the eligible claims covered by the Fund to the extent of the IOU's imprudence, up to a statutorily defined liability cap. The liability cap does not apply if the IOU either did not have a valid safety certification at the time of the covered wildfire, or if the Administrator finds that the IOU acted with conscious or willful disregard of the rights and safety of others.

[12]Because PG&E was the subject of an insolvency proceeding at the time of the ignition of the Kincade Fire and had not yet emerged from bankruptcy, the Fund will not pay more than 40 percent of the allowed amount of a claim arising from the Kincade Fire. See Cal. Pub. Utilities Code §3292(e).

estimable probable losses…but do not include all categories of potential damages and losses."[13] For example, fire suppression costs are not included in the estimates. PG&E reported that the Cal Fire Investigation Report estimates over $650 million of costs suppressing the 2021 Dixie Fire.

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 2023 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 its April 2024 rating action commentary related to a PG&E rating, March 2024 rating commentary related to SDG&E, and its May 2024 rating commentary related to a SCE rating, Fitch reiterated AB 1054 as a credit-supportive piece of legislation supporting each of the IOUs' current ratings and Rating Outlooks.[14]

[13]PG&E - March 31, 2024 Form 10-Q, see page 13; also see pages 66 – 72 for a discussion of the 2019 Kincade, 2020 Zogg, 2021 Dixie and 2022 Mosquito Fires.

[14]*Fitch Revises PG&E Corp.'s & Pacific Gas and Electric's Outlooks to Positive; Ratings Affirmed* (FitchRatings.com), April 12, 2024; *Fitch Rates San Diego Gas and Electric Company's First Mortgage Bonds 'A,'* (FitchRatings.com), March 18, 2024; *Fitch Rates SCE Trust VIII Preference Securities 'BBB-'* (FitchRatings.com), May 7, 2024.

- 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."[15]

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 2023 Wildfire Mitigation Plans and Related Documents is available at the California Office of Energy Infrastructure Safety ("OEIS") website: energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2023-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 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 2023 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 2023 Wildfire Season

2023 was another active wildfire season, but did not include wildfires caused by an IOU that were of sufficient magnitude that they appear likely to give rise to claims against the Fund. Detailed information about the 2023 wildfire season is available at CAL FIRE'S website: fire.ca.gov/incidents/2023. This observation that the 2023 wildfire season is not expected to give rise to claims on the Fund is not intended to preclude an IOU from submitting a claim. Should that occur, the Administrator will review any such claims in accordance with its *Procedures*.

[15] 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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