

California Catastrophe Response Council Meeting Minutes

Teleconference Meeting
Thursday, January 28, 2021
2:00 p.m.

Members of Council in Attendance:

Mark Ghilarducci, Chair, designee of Governor Gavin Newsom
Richard Gordon, Vice-Chair, appointee of Speaker of the Assembly
Michael Martinez, designee of Insurance Commissioner Ricardo Lara
Kasey O'Connor, designee of State Treasurer Fiona Ma
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot
Michael Wara, appointee of Senate Rules Committee Chairman
Rhoda Rossman, Public Member
Catherine Bando, Public Member
Paul Rosenstiel, Public Member

Members of CEA Staff in Attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk and Actuarial Officer
Dr. Laurie Johnson, CEA's Chief Catastrophe Response & Resiliency Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, General Counsel
Susan Johnson, Governance Liaison

Speakers:

Matthew Cohen, AIR Worldwide
Shelly Yerkes, CoreLogic
Michael Young, Risk Management Solutions

1. **QUORUM: Call to Order and Member Roll Call**

Chairman Ghilarducci called the meeting, held via Zoom, to order at 2:02 p.m. Susan Johnson, CEA Governance Liaison, called the roll and stated that a quorum was present.

2. **MINUTES: Review and approve minutes of the October 22, 2020 meeting of the Council.**

MOTION: Ms. O'Connor motioned to approve the October 22, 2020 meeting minutes as written. Mr. Gordon seconded. The motion carried unanimously.

3. EXECUTIVE REPORT: CEA CEO Glenn Pomeroy provided the Council with an executive report.

Mr. Pomeroy reported on recent weather and wildfire events and activity across the state of interest to the Council. Mr. Pomeroy noted that CEA, as Wildfire Fund Administrator, does not currently anticipate that any of the recent wildfires will result in claims against the Wildfire Fund. Staff continues to closely monitor the following events for potential claim exposure: Kincaid Fire (October 2019), Bobcat Fire (September 2020), Zogg Fire (September 2020), Silverado Fire (October 2020), and other fires that occurred in December 2020 and January 2021.

4. WILDFIRE MODELING: Representatives from AIR Worldwide, CoreLogic, and Risk Management Solutions (RMS) provided the Council with presentations of their wildfire models and modeling capabilities.

Chief Risk and Actuarial Officer Shawna Ackerman introduced representatives from wildfire modeling firms AIR, CoreLogic and RMS, who briefed Council members on wildfire modeling.

Wildfire Modeling: Matthew Cohen, AIR Worldwide, explained his firm's Catastrophe Modeling Framework and discussed the hazard components used in the model. Mr. Cohen said the modeling framework uses weather conditions- temperature, precipitation, and drought- as the basis of their model and noted that climate and vegetation are key drivers of a fire's behavior. Mr. Cohen also stated that their model captures ignition locations, likelihood of an area to burn, how a fire spreads against a given landscape and all the ways a fire can spread. He added that AIR provides real time hazards and loss estimates.

Shelly Yerkes, CoreLogic, said her firm models wildfire risks from utility caused fires, noting that forests in California are becoming denser and climate change is acting as a "stressor." She stated the state's population dynamics continue to change, and with more Californians choosing to live in wildfire areas, CoreLogic wildfire models provide a compass for forward views of wildfire risks. Ms. Yerkes also stated that there are an average of 8,500 wildfires annually in California with weather being a key influence on the ultimate size of a fire. CoreLogic's wildfire risk models can determine the probability of utility caused fires and determine the areas of greatest exposure.

Michael Young, RMS, said the four ways to reduce wildfire exposure are to reduce ignition, reduce fuel, fight the fire and hardening. RMS wildfire model is aimed at assessing the hazard, apply exposure, calculate the damage, and quantify the financial loss. He described wildfires as the "canary in the coal mine for climate change." He further noted that 84 percent of wildfires are related to human ignitions and that managing the wildfire risk is heavily dependent on human response. RMS strongly advocates the concept of defensible space because reducing fuel near a structure can reduce the wildfire risk.

Questions and Discussion

Mr. Martinez thanked the three representatives for their presentations and asked if their models factor in prescribed firefighting efforts such as planned burns.

The representatives replied that prescribed burns affecting an individual property can be accommodated in their models. Michael Young of RMS noted there is no master database of prescribed fires and it is uncertain how long the benefit lasts.

Mr. Martinez also asked how transparency for insurance policyholders and regulators can be built into their models.

Mr. Cohen of AIR and Ms. Yerkes of CoreLogic replied that modelers attempt to be as transparent as they can considering the technical nature of the models and the proprietary nature of the models. Mr. Young noted that RMS has supplied model documentation to the NAIC (National Association of Insurance Commissioners.)

Mr. Rosenstiel asked if the models can determine which large fires can cause enough destruction to result in claims against the Wildfire Fund.

Mr. Cohen of AIR replied that the models can determine such large fires and Mr. Young of RMS and Ms. Yerkes of CoreLogic said the modelers simulate large events to establish the most credible scenarios.

Mr. Wara asked about the impact of climate change when it comes to the growing number of wildfires in California.

All three modelers indicated that climate change is an active area of research.

Note: During this Agenda item, Chair Ghilarducci was called away on urgent State business and Vice Chair Gordon assumed the duties of chairing the remainder of the meeting.

5. ADMINISTRATOR EVALUATION: Mr. Pomeroy asked the Council to consider the creation of, and appointment to, an Administrator Evaluation Subcommittee for the purpose of the 2021-2022 Wildfire Administrator Evaluation.

Mr. Pomeroy asked the Council to consider creating an Evaluation Subcommittee to annually assess and provide feedback to CEA regarding its performance as Wildfire Fund Administrator. He suggested that two Council members volunteer to serve on the subcommittee, with the responsibility to rotate annually. After discussion, the Council agreed that this process would assist both the Counsel and the Administrator. Vice Chair Gordon called for volunteers, and Council members Catherine Bando and Paul Rosenstiel volunteered to serve on the subcommittee, and they were duly appointed.

6. CLAIMS ADMINISTRATION: Dr. Laurie Johnson, CEA's Chief Catastrophe Response & Resiliency Officer, presented and requested adoption of an Expanded Summary of Procedures for Wildfire Claims Administration.

Dr. Johnson presented to the Council for consideration and adoption the Expanded Summary of Procedures for Wildfire Claims Administration, which provides definitions and an outline of procedures to be carried out by the Administrator in the handling of claims submitted by Participating Utilities for reimbursement by the Wildfire Fund. Dr. Johnson stated that the Expanded Summary is an interim step in the development of more detailed claims administration procedures and that a team of multi-disciplinary consultants, including claims adjusting experts, are involved in the development of the complete claims procedures. Dr. Johnson assured Council member Paul Rosenstiel that the claim administration procedures will be consistent with the standards of claim file review set forth in Assembly Bill 1054, including the legislative intent encouraging lower subrogation settlement targets.

Council member Rosenstiel acknowledged Dr. Johnson and her team for the excellent work to date.

MOTION: Mr. Rosenstiel moved to approve the Wildfire Claims Administration – Expanded Summary of Procedures. Ms. Bando seconded. After a call for public comment, and hearing none, the motion passed with no nay votes with the Governor’s designee absent for the vote.

Note: In order to ensure that remaining Agenda Items requiring action by the Council could be taken up before additional Council members may be required to depart, Vice Chair Gordon deferred Agenda Item 7 and called Items 8 and 9 for discussion and action.

8. FINANCIAL REPORT: Chief Financial Officer Tom Hanzel provided the Council with financial report on the Wildfire Fund as of December 31, 2020.

Highlighting the Wildfire Fund’s balance sheet, Mr. Hanzel reported that \$300 million of additional Investor-Owned Utility (IOU) contributions were added to the Wildfire Fund’s balance sheet since the last Council meeting. With this contribution, the Wildfire Fund ended 2020 with a net position of \$10.1 billion.

Mr. Hanzel also stated that Wildfire Fund investment income totaled \$83 million in 2020. He also presented an investment analysis, noting that the Wildfire Fund’s investments felt the pressure of low Treasury rates, but reminded the Council members that the preservation of capital “first and foremost” remains the Wildfire Fund’s investment policy.

9. California Wildfire Fund 2021 Budget: Mr. Hanzel presented and requested approval of the California Wildfire Fund’s proposed 2021 budget.

Mr. Hanzel presented for discussion and approval the proposed 2021 administrative budget, set forth as follows:

	Proposed 2021 Budget	Actual Activity for FY 2020	Variance \$	%
Additions to fund assets:				
Rate payer monthly NBCs, gross	\$ 902,400,000	\$ -	\$ 902,400,000	100.0%
Utility annual contributions	300,000,000	300,000,000	-	0.0%
Investment income (net of expenses)	81,937,986	82,955,099	(1,017,113)	-1.2%
Initial contribution - PG&E	-	4,815,000,000	(4,815,000,000)	-100.0%
2019 annual contribution - PG&E	-	192,600,000	(192,600,000)	-100.0%
Total additions to fund assets	\$ 1,284,337,986	\$ 5,390,555,099	\$ (4,106,217,113)	-76.2%
Deductions to fund assets:				
SMIF - principal payment	\$ 840,000,000	\$ 70,000,000	\$ 770,000,000	1100.0%
SMIF - loan interest	36,106,945	47,064,736	(10,957,791)	-23.3%
DWR administrative and operating costs	12,000,000	-	12,000,000	100.0%
Reinsurance expenses	-	26,208,000	(26,208,000)	-100.0%
Reinsurance broker commissions	-	486,000	(486,000)	-100.0%
Personnel expenses:				
Personnel expenses - allocated from CEA	1,462,596	916,878	545,718	59.5%
Direct expenses from CWF temps	-	174,994	(174,994)	-100.0%
General and administrative expenses:				
Other contracted services	1,100,200	295,638	804,562	272.1%
Direct legal services-general	700,000	625,250	74,750	12.0%
Consulting fees - financial services	300,000	300,000	-	0.0%
Bank fees	248,638	179,039	69,599	38.9%
G&A expenses - allocated from CEA	234,624	124,028	110,596	89.2%
Travel	20,000	6,407	13,593	212.1%
Software and licenses	12,000	25,912	(13,912)	-53.7%
Direct IT services	12,000	9,372	2,628	28.0%
Advertising administration - RFP	10,000	-	10,000	100.0%
Audit Fees	6,000	6,732	(732)	-10.9%
Printing & stationary	1,200	751	449	59.8%
CCRC meeting expenses	1,200	1,509	(309)	-20.5%
Total deductions to fund assets	\$ 892,215,403	\$ 146,425,246	\$ 745,790,157	509.3%
Increase in net position	\$ 392,122,583	\$ 5,244,129,853	\$ (4,852,007,270)	-92.5%

MOTION: Mr. Rosenstiel moved to adopt the Wildfire Fund’s 2021 budget. Mr. Cash seconded. After a call for public comment, and hearing none, the motion passed with no nay votes (8-0) with the Governor’s designee absent for the vote.

7. NON-BYPASSABLE CHARGES: CEA’s General Counsel, Tom Welsh, and Mr. Hanzel, provided an update on the status and administration of non-bypassable charges (NBCs) currently being collected by the California Department of Water Resources (DWR).

CEA General Counsel Tom Welsh provided a brief history of the administration of the utility ratepayer NBCs by the DWR. He explained the DWR, among other things, provides accounting and record-keeping functions and that the DWR’s administrative expenses are paid from the NBCs, thus those costs impact the claim paying capacity and durability of the Wildfire Fund. Accordingly, CEA continues to work with DWR, Department of Finance and other government officials to press for maximizing efficiency and minimize administrative expenses. Those discussions include continuing exploration of options to achieve efficiency.

Questions and Discussion

Council members Ms. Bando and Ms. Rossman asked staff to continue strong efforts try and limit, to the extent possible, the DWR’s expenses and resulting financial impact on the Wildfire Fund budget.

Regarding the NBCs, Mr. Welsh confirmed that staff would continue its efforts to work with DWR and other appropriate officials to ensure there is efficiency in the administration of the NBCs in order to maximize funds to pay claims arising from covered wildfires.

10. TAX STATUS: Mr. Welsh provided an update on work related to the federal tax status of the Wildfire Fund.

Mr. Welsh explained that revenues collected by the Wildfire Fund are exempt from California taxation under express provisions of AB 1054, and CEA staff are working to obtain legal and tax compliance opinions from nationally recognized federal tax experts confirming the Wildfire Fund is similarly exempt from federal income taxation, given that the Wildfire Fund is an integral part of the State of California. That legal and federal tax work should be completed by the April Council meeting. Mr. Welsh will report back to the Council on this matter at that meeting. There were no questions from the Council on this topic.

11: INSURANCE EVALUATION: Mr. Welsh and Mr. Hanzel briefed the Council on the Administrator’s statutory duty under Public Utilities Code section 3293 to periodically review and make recommendations on the IOUs’ wildfire insurance coverage.

Mr. Welsh and Mr. Hanzel reported that CEA, as Wildfire Fund Administrator, is developing a framework and process for conducting periodic evaluations of Investor-Owned Utilities (IOUs) wildfire insurance coverage plans in compliance with Public Utilities Code section 3293, which was enacted as part of AB 1054. CEA is supplementing its earthquake related insurance and reinsurance market expertise with similar energy sector expertise to work on this project. There were no questions from Council members on this topic.

12. Public Comment: Public comment opportunity on matters that do not appear on the agenda and requests by the public that those matters be placed on a future agenda.

There was no public comment.

13. Adjournment.

There being no further business, Vice-Chair Gordon adjourned the meeting at 4:11 p.m.