

## California Catastrophe Response Council Meeting Minutes

Thursday, February 2, 2023

3:00 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  
Juan Fernandez, designee of State Treasurer Fiona Ma  
Lisbeth Landsman-Smith, designee of Insurance Commissioner Ricardo Lara  
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot  
Kathleen Ritzman, appointee of the Senate Rules Committee  
Paul Rosenstiel, Public Member  
Rhoda Rossman, Public Member  
Catherine Barna, Public Member

### **Members of CEA Staff in Attendance:**

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

### **Speakers:**

Kapil Bhatia, Raymond James  
David Heller, Southern California Edison (SCE)  
Erik Takayesu, Southern California Edison (SCE)

#### **1. Quorum: Call to Order and Member Roll Call**

Chair Ghilarducci called the meeting, held via Zoom, to order at 3:02 p.m.

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

#### **2. Minutes: Review and approve minutes of the October 27, 2022 meeting of the Council.**

**MOTION:** Ms. Barna motioned to approve the October 27, 2022, meeting minutes as written. Paul Rosenstiel seconded. The motion carried unanimously by roll call vote.

**3. Executive Report: CEA Chief Executive Officer Glenn Pomeroy will provide the Council with an executive report.**

Mr. Pomeroy reported that Chair Ghilarducci, although retiring as Director of OES, will stay on as Chair of the CCRC.

He then introduced and welcomed Juan Fernandez, who is replacing Kasey O'Connor as designee of the State Treasurer. Mr. Pomeroy thanked Ms. O'Connor in absentia for her work on the Council and congratulated her on her position as the first executive director of the newly created California Hope, Opportunity, Perseverance and Empowerment (HOPE) for Children Trust Account Program.

Mr. Pomeroy noted that the CCRC, created by the State Legislature in July 2019, is approaching its fourth year of existence with CEA being designated as Administrator of the Wildfire Fund. He added that staff is planning to report to members of the Legislature via webinar on the progress of the Wildfire Fund, as administered by CEA, with oversight by the CCRC, currently scheduled for February 24.

**4. Administrator Evaluation: Mr. Pomeroy will ask the Council to appoint two of its members to the informal Administrator Evaluation Committee for the purpose of preparing the evaluation of CEA as the Wildfire Fund Administrator for 2022.**

Mr. Ghilarducci asked for two CCRC members to volunteer for the Administrator Evaluation Committee. Council members Rhoda Rossman and Juan Fernandez volunteered to serve. Mr. Pomeroy said he would reach out to Ms. Rossman and Mr. Fernandez to begin the Administrator Evaluation process.

**5. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of December 31, 2022.**

Mr. Hanzel stated that the high inflationary environment continues to create financial headwinds, but the Wildfire Fund remains financially strong and will be prepared if, and when, claims are filed against the Fund.

He noted two factors impacting the CEA: the increase of exposures and the impact of the unrealized loss position. One benefit of the increased rate environment is that investment income is up over 25% year-over-year. As our securities mature, they are reinvested at a higher yield.

Mr. Hanzel reported the Fund's 2022 year-end assets stood at \$10.18 billion, down \$178 million year-over-year. Inflows of \$1.4 billion were offset by SMIF loan repayments of \$840 million last year and the unrealized losses caused a reduction to the Fund's net position. The SMIF loan balance of \$180 million will be fully repaid in April 2023.

Non-bypassable charges collected for 2022 increased to \$1.1 billion compared to \$875 million in 2021. The increase was due to both a higher usage and a higher rate charge during the year to make up for under-collection in the prior year and a half to two years.

However, an over-collection at the end of 2022 resulted in a slightly below average target of \$902.4 million in 2023.

Mr. Hanzel noted that the CEA has been working successfully with the Department of Water Resources (DWR), the Treasurer's Office, and the Controller's Office to accelerate the transfer of non-bypassable charges by about 15 days during 2022. He added there is an opportunity to further accelerate those transfers by reducing the average daily balance of the non-bypassable charges at DWR and bringing them to the Wildfire Fund sooner.

Ms. Rossman noted that assets in the Fund can earn twice the interest rate compared to funds held at the DWR, and asked how much of the Fund's assets are at that lower rate. Mr. Hanzel answered that it is in the \$140 million dollar range for average daily balance, adding there is a possibility of increasing investment income by up to \$3 million annually for the Fund.

Mr. Hanzel then introduced Kapil Bhatia, of Raymond James, who is a financial advisor for the Fund, to provide additional details on the Fund's portfolio.

Mr. Bhatia began with an overview of the U.S. economic and financial markets noting that inflationary pressure has started to recede. We are far from the Federal Reserve's target rate of 2% and expect the inflation rate to come down to 3-3.5% in the next six months. Unemployment remains very low at 3.5%. U.S. economic growth has slowed significantly. We expect equity markets to start recovering in the first half of this year.

Mr. Bhatia explained how increased interest rates impact the Fund's portfolio, noting the vast majority of the portfolio is invested in short-term, duration bonds with 67% of the portfolio invested in U.S. Treasury and agency securities and 33% in corporate securities with an average duration of 2.92 years, significantly down from 3.99 years at the start of the year. For the last 12 months, we have reinvested our maturing securities to between two to three years and not extended the duration which helps manage unrealized losses. Because of the Fund's investment strategy, unrealized losses will evaporate over time.

Mr. Bhatia recommends that the Fund maintain its current investment strategy for the first half of 2023 and then re-evaluate based on current economic conditions. He projected that the Fund's gross investment return for 2023 will be \$213 million.

### Questions and Discussion

Ms. Rossman commented that short-term maturities in the portfolio would be available to pay clients; but we know from how the pipeline looks that there are no claims that will be paid anytime soon.

Mr. Rosenstiel asked if we should extend the maturities when rates are high, adding unrealized losses are an accounting measure but really do not have anything to do with giving us resources to pay claims. Mr. Bhatia answered that we are waiting for the yield curve to become more normalized and with the SMIF loan repayment over the next 90 days, we will have additional funds coming which we can reinvest at the long end.

Mr. Fernandez asked about the \$1 billion maturing in the next three months: what are we doing with that? Mr. Bhatia answered that we are rolling it down – everything that is maturing is going into a three-year window which is why our projected income for 2023 is \$213 million: we are investing and taking advantage of the yield curve by going long.

In response to related questions from Ms. Rossman, Mr. Rosenstiel and Mr. Fernandez, Mr. Bhatia assured the Council that he will recommend changing investment strategies in 2023 if economic conditions warrant such changes.

**6. California Wildfire Fund 2023 Budget: Mr. Hanzel will seek approval of the proposed 2023 California Wildfire Fund Budget.**

Mr. Hanzel presented the numbers for the proposed budget, noting that the non-bypassable charges are down about \$240 million year-over-year, related to the change in the rate from the DWR. He also noted that the largest 2023 deduction is the repayment of the \$250 million SMIF loan, which will be completed this April. The Operating Expenses are split between DWR and CEA administrator activities. Mr. Hanzel stated that we expect about a \$1.1 billion increase in fund assets, without accounting for any change in the unrealized position.

Ms. Rossman expressed her appreciation to CEA for lowering their administrative charges to the Wildfire Fund.

Mr. Hanzel recommended that the Council approve the proposed 2023 California Wildfire Fund Budget, and direct staff to operate the Wildfire Fund's businesses within that total approved budget amount.

**MOTION:** Ms. Rossman motioned to approve the 2023 Wildfire Fund budget and Mr. Gordon seconded. The motion carried unanimously by roll call vote.

**7. Claims Administration Update: CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson will provide an update on Claims Administration.**

Dr. Johnson stated that from a wildfire perspective, the entire state of California has benefitted from recent rains.

For 2022, the last fire for which the Council received a wildfire-related notification was the Mosquito Fire in September. CEA has not as yet received any formal notification from a participating utility of a potential claim submission to the Wildfire Fund, which is a requisite in the claims administration procedures approved by the Council. Nonetheless, staff continues to monitor what they are publicly reporting.

For the Mosquito Fire, PG&E estimated losses in excess of \$100 million. That number may go up. The investigation into whether the utility was at cause is ongoing.

For the claims administration procedures build-out, staff is in the final stages of wrapping up Phase 1. They are at the stage of testing the whole operational approach, and then will be finalizing the Operations Manual.

Phase 2 is called Delivery on Demand of Claims Review Services. Under the current contract with Sedgewick, we have an option to extend that up to five years. They will be developing a plan for executing on-demand review services.

**8. Enterprise Risk Management Update: CEA Chief Risk & Actuarial Officer Shawna Ackerman will deliver a quarterly report on the Enterprise Risk Management (ERM) program for the Wildfire Fund.**

Ms. Ackerman reported that there have been no changes to the ERM scorecard since October. For this quarter, Ms. Ackerman addressed two of the priority risks: Business Continuity and Mitigation.

- Business Continuity: Staff has made significant progress in 2022 in updating and building out the program including a succession Plan that covers every executive and management position. The overall goal of the program is to give confidence that we can perform essential functions when there are disruptions in the availability of facilities, systems, or personnel.
- Mitigation: The memo makes note of the PG&E Wildfire Mitigation Plan update for 2022, which was approved by the Office of Energy and Infrastructure Safety in November. The Office has published the 2023 schedule, and the new plans are due March 27. These filings will include plans for both 2023 and 2024.

**9. Informational Presentation: Edison International Vice President of Enterprise Risk Management (ERM) and General Auditor David Heller and Senior Vice-President of Asset Planning and Strategy Erik Takayesu will provide an informational presentation on Southern California Edison's wildfire mitigation activities.**

Ms. Tatapudy introduced the representatives from Southern California Edison (SCE) who would be speaking about the Community Wildfire Safety Program: David Heller and Erik Takayesu.

Mr. Heller and Mr. Takayesu focused their comments on Southern California Edison's ongoing grid hardening and overall wildfire mitigation efforts, noting the company's comprehensive strategy is to prevent, combat and respond to wildfires by hardening their electric grid; enhancing their operational practices; and bolstering their situational awareness capabilities.

Mr. Takayesu said by the end of 2023 about 50% of the company's 50,000-square-mile service area will be hardened by covered conductor. Undergrounding systems is extremely effective mitigation and SCE identifies where undergrounding makes sense from a cost and feasibility perspective and analysis, comparing that with covered conductor.

Other mitigation activities include vegetation management and equipment inspections using technologies such as Jones helicopters, high-definition images, and infrared technologies to advance how SCE looks at risk on their system, focusing on the most critical areas. Mr. Takayesu stated that over the course of time the company has learned the value of top to bottom inspections, adding many anomalies are difficult to detect from the ground.

SCE plans to deploy 1,600 weather stations and 180 high-definition cameras in 2023 for situational awareness, allowing more granular and precise information when conditions exist in real-time and potentially in the future. He concluded by stating that Public Safety Power Shutoffs (PSPS) measures are a measure of last resort, used when all information and situational awareness indicate imminent safety hazards.

Mr. Takayesu then reviewed new technologies that SCE is piloting and testing in some way, evaluating effectiveness, maturity levels, and outcomes. Those technologies include:

- Early Fault Detection, which uses listening devices that can notify SCE if something could fail within a year or so.
- Fault Detection, where in a situation where wire is parting, technologies can detect that before it hits the ground.
- High Impedance Detection, where when a fault happens, enough energy needs to be delivered through the fault to be detected and cleared by a circuit breaker. These systems go above and beyond typical protection systems.
- Asset Defect Detection, which uses Artificial Intelligence/Machine Learning. SCE is currently collecting thousands of images via inspection, and creating training models to look for anomalies – things that a computer algorithm can do more efficiently than a human.
- Fire Detection, where SCE couples satellite technology with high-definition cameras to provide greater fire detection and notification.

Mr. Heller said that the company estimates that its wildfire mitigation measures and PSPS measures have reduced the probability of losses of \$1 billion or more from catastrophic wildfires by 65 to 70 percent.

### Questions and Discussion

Mr. Rosenstiel and Mr. Ghilarducci asked about the company's wildfire plans going forward. Mr. Heller said the wildfire mitigation programs already in place will continue.

Chair Ghilarducci commented that the percentage reductions seem high in this short period of time. Mr. Heller responded that SCE is confident in the high numbers because the company has not had a catastrophic fire above the billion dollar threshold in the last

four years. Mr. Takayesu added that SCE has seen year-over-year reductions in the number of ignitions in high fire risk areas.

Mr. Heller stressed that smaller fires are not unimportant and are being addressed by SCE's mitigation efforts.

Chair Ghilarducci asked how SCE aligns its predictions with fire service analysis teams in the National Weather Service to ensure that when they are driving PSPS action, it is in alignment with the other cooperators. Mr. Takayesu answered that when they begin to forecast conditions, typically five days in advance, their meteorology team and fire experts reach out to the other agencies to ensure that they are aligned in the conditions that are existing.

**10. Public comment: The Council will invite public comment on matters related to the Wildfire Fund that do not appear on this agenda, and to request that matters be placed on a future agenda.**

There was no public comment.

## **11. Adjournment**

There being no further business, Chair Ghilarducci adjourned the meeting at 4:39 p.m.