CALIFORNIA CATASTROPHE RESPONSE COUNCIL MEETING

THURSDAY, JULY 23, 2020

2:00 P.M.

Teleconference Meeting
per Executive Order N-29-20, issued March 17, 2020

Date of Notice: **Monday, July 13, 2020**

PUBLIC NOTICE

A PUBLIC MEETING OF THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL

NOTICE IS HEREBY GIVEN that the California Catastrophe Response Council (Council) will conduct a **teleconference meeting**. Pursuant to California Government Code §11120 *et seq.*, the Bagley-Keene Open Meeting Act applies generally to meetings of the Council, and the meeting is open to the public – public participation, comments, and questions will be welcome for agenda items on which the Council is considering taking action. All items are appropriate for action if the Council wishes to take action. Agenda items may be taken out of order.

Pursuant to Governor Newsom's Executive Order N-29-20, issued March 17, 2020, certain provisions of the Bagley-Keene Open Meeting Act are suspended or waived during the declared State of Emergency in response to the COVID-19 pandemic. Consistent with the Executive Order, in order to promote and maximize social distancing and public health and safety, this meeting will be conducted by teleconference only. None of the locations from which the Council members will participate will be open to the public. All members of the public shall have the right to observe the meeting and offer comment at this public meeting as described in this Notice.

DATE: **Thursday, July 23, 2020**

TIME: **2:00 p.m.**

TELECONFERENCE ACCESS: *

Dial-in Number: **+1 (669) 900-6833**
Enter Access code: **810 4607 8900#**

Public Participation: The telephone lines of members of the public who dial into the meeting to observe or comment will initially be muted to prevent background noise from inadvertently disrupting the meeting. Phone lines will be unmuted during all portions of the meeting that are appropriate for public comment to allow members of the public to comment. Please see additional instructions below regarding Public Participation Procedures.

*** Neither the Council nor the California Earthquake Authority, as Administrator of the Wildfire Fund, are responsible for unforeseen technical difficulties or connectivity issues that may occur in the audio feed.**

PUBLIC PARTICIPATION PROCEDURES: All members of the public shall have the right to observe the meeting and offer comment at this public meeting. The member of the Council acting as Chair of the meeting will indicate when a portion of the meeting is to be open for public comment. **At that point, any member of the public wishing to comment must press *9 on their phone.** Pressing *9 will notify the call moderator that you wish to comment, and you will be placed in line to comment in the order in which requests are received by the moderator. When it is your turn to comment, the moderator will unmute your line and announce your opportunity to comment by referencing your telephone number. The Chair of the meeting reserves the right to limit the time for comment. **Members of the public should be prepared to complete their comments within approximately 2 to 3 minutes.** More or less time may be allotted by the Chair in his or her sole discretion.

In addition, members of the public may submit comments in writing by emailing comments to PublicComment@calwildfire.com.

ACCESSIBILITY FOR DISABLED PERSONS: Persons who, due to a disability, need assistance in order to participate in this meeting should, prior to the meeting, contact CEA's ADA Coordinator either by phone by dialing (916) 661-5400, or by e-mail addressed to EEO@calquake.com and smceuen@calwildfire.com. TTY/TDD and Speech to-Speech users may dial 7-1-1 for the California Relay Service to submit comments on an agenda item or to request special accommodations for persons with disabilities. Persons with disabilities may request special accommodations at this or any future Council meeting or may request the accommodation necessary to receive agendas or materials prepared for Council meetings. Please contact Shannon McEuen by telephone, toll free, at **(877) 797-4300** or by email at smceuen@calwildfire.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

MEETING MATERIALS: A copy of this Notice and Agenda has been posted on the website of the California Wildfire Fund (Wildfire Fund), at the following link:

https://www.cawildfirefund.com/california-catastrophe-response-cou

Prior to the meeting, the written materials that will be provided to members of the Council will also be posted on the Fund's website. Finally, on the day of the meeting, a copy of any presentation deck that the Council or the Administrator may use during the meeting will also be posted to this site.

AGENDA

1. Quorum: Call to order and member roll call:

Governor
Treasurer
Insurance Commissioner
Secretary for Natural Resources
Appointee of the Speaker of the Assembly
Appointee of the Senate Rules Committee
Public Member Paul Rosenstiel
Public Member Rhoda Rossman
Public Member Catherine Bando

Establishment of a quorum

2. Minutes: Review and approve minutes of the April 23, 2020 meeting of the Council.

3. Executive Report: CEA CEO, Glenn Pomeroy will provide the Council with an executive report on the status of CEA's administration of the Wildfire Fund.

4. Legislative Update: CEA CEO, Glenn Pomeroy will report to the Council on AB 2167 (Daly & Cooley) and SB 292 (Rubio), legislation pending in the California State Legislature that may impact the Council, and, if appropriate, propose the Council discuss and consider adopting formal positions on each bill.

5. Financial Report: CEA CFO, Tom Hanzel, will provide the Council with a financial report on the Wildfire Fund, including (a) a status report on the issuance of DWR Bonds for purposes of repayment of the $2 billion loan from the State's Surplus Money Investment Fund; (b) a status report on the Wildfire Fund's risk transfer and reinsurance program for the 2020 wildfire season; (c) an update on CEA's budget process for annual administration expenses for the Wildfire Fund; and (d) the status of implementing the revised Investment Policy for the Wildfire Fund.

6. Update on Status of PG&E: CEA CFO, Tom Hanzel, will provide the Council with an update on the Wildfire Fund's receipt of approximately $5 billion in capitalization from PG&E.

7. Articles of Governance: Discuss and consider adoption of Articles of Governance to set out the role and responsibilities of the Council and the Administrator.

8. 2019 – 2020 Plan of Operations: Review and consider approval and adoption of Plan of Operations and, if approved, authorize the Administrator to deliver the Plan of Operations to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

9. Claims Administration: Dr. Laurie Johnson, CEA's Chief Catastrophe Response & Resiliency Officer, will provide an update on the status of CEA's preparation of post-event claims policies and procedures that will govern CEA's post-wildfire claims functions.

10. General Discussion: The Council will have an opportunity to discuss and give general direction to the Administrator regarding the following:
    a. Development of a process for annual evaluations of the performance of the Wildfire Fund Administrator
    b. Protocols for Council Members who receive speaking engagement requests regarding the work of the Council in general or the Wildfire Fund in particular
    c. The Council's interest in receiving periodic presentations at future Council meetings from subject matter experts on various topics relevant to the Wildfire Fund

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

12. Adjournment.

For further information about this notice or its contents:

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To view this notice on the California Wildfire Fund website and to access meeting materials, please visit
https://www.cawildfirefund.com/california-catastrophe-response-cou

CALIFORNIA EARTHQUAKE AUTHORITY

Wildfire Fund Administrator

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July 23, 2020

Agenda Item 2: Minutes

Recommended Action: Approve Minutes

Review and approve minutes of the April 23, 2020 meeting of the California Catastrophe Response Council.

DRAFT

CALIFORNIA CATASTROPHE RESPONSE COUNCIL (WILDFIRE FUND)

TELECONFERENCE MEETING MINUTES

Thursday, April 23, 2020
2:00 p.m.

+1 (669) 900-6833; Access Code 867 405 553#

Members of the Council (via teleconference):

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

Members of the California Earthquake Authority (CEA) Staff (via teleconference):

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk and Actuarial Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, General Counsel and Acting Chief Operations Officer
Tracy Palombo, Reinsurance and Risk Transfer Director
Shannon McEuen, Governance Liaison

Additional Speakers (via teleconference):

Michael Aguirre, Aguirre & Severson LLP

1. Quorum

Call to Order and Member Roll Call.

Glenn Pomeroy, Chief Executive Officer, CEA, called the meeting to order at 2:00 p.m., welcomed everyone, and reviewed the meeting protocols.

Vice Chair Richard Gordon called the roll and established that a quorum was present.

2. Minutes

Review and approve minutes of the January 16, 2020 meeting of the California Catastrophe Response Council (CCRC or Council).

Vice Chair Gordon stated a revised copy of the minutes correcting minor typos was recently sent out to Council Members. He asked for a motion to approve the revised minutes.

> **MOTION**: Ms. Rossman moved to approve the minutes of the January 16, 2020, meeting as revised. Mr. Rosenstiel seconded. Motion carried unanimously.
>
> Motion carried 7 yes, 0 no, and 0 abstain, per roll call vote as follows:
>
> The following Council Members voted "Yes": Council Members O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.
>
> Audio difficulties prevented Bando from being able to record her vote.

3. Statement of Incompatible Activities

Adopt the revised Statement of Incompatible Activities, and authorize CEA to manage the adoption process, including any necessary future revisions, requested by CalHR pursuant to Cal. Gov. Code Section 19990.

Tom Welsh, General Counsel and Acting Chief Operations Officer, CEA, stated the California Department of Human Resources (CalHR) requested several clarifying revisions to the Statement of Incompatible Activities document, which was approved at the January CCRC meeting. The requested changes were summarized in the meeting documents, including clarifying that the Statement of Incompatible Activities applies to Council Members, Designees, and employees of the Administrator, and adding a standard appeal provision.

Public Comment

No public comment.

MOTION: Mr. Martinez moved to adopt the revised Statement of Incompatible Activities, and authorize CEA to manage the adoption process, including any necessary future revisions, requested by CalHR pursuant to Cal. Gov. Code Section 19990. Ms. Rossman seconded. Motion carried unanimously.

Motion carried 7 yes, 0 no, and 0 abstain, per roll call vote as follows:

The following Council Members voted "Yes": Council Members O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.

Audio difficulties prevented Bando from being able to record her vote.

4. Executive Report

Report by CEA Executive Staff regarding current financial status and CEA's recent activities as Interim Administrator of the California Wildfire Fund.

Mr. Pomeroy stated that CEA staff were working completely remotely by March 17th. He stated the COVID-19 pandemic has not impacted staff's ability to continue CEA earthquake insurance activities and California Wildfire Fund (CWF) administration. He asked Mr. Hanzel to update the Council on the current CWF financial status.

Tom Hanzel, Chief Financial Officer, CEA, provided an overview, with a slide presentation, of the unaudited CWF financial information as of February 29, 2020, and December 31, 2019. He stated the CEA independent financial auditor, Plante Moran, PLLC, will review the cost allocation methodology as part of their external audit this year to ensure that both funds bear the cost related to each fund.

Mr. Pomeroy suggested a discussion of the Council's role with respect to the CWF operation and the Council's relationship with the CWF Administrator. He reviewed the statutory framework for the Council and the Administrator set forth in Assembly Bill (AB) 1054 last July. He noted that the duties assigned to the Administrator are highlighted in yellow on the presentation slides and they are subject to the oversight of the

Council. The duties assigned to the Council were highlighted in gray on the presentation slides as follows:

- The Council shall appoint the Administrator.
- The Council shall oversee the Administrator's operation, management, and administration of the CWF.
- The Council shall oversee the specific enumerated duties of the Administrator as outlined in Public Utilities Code section 3281.
- The Council shall direct the Administrator to prepare an Annual Plan of Operations.
- The Council shall direct the Administrator to present the Annual Plan of Operations to the Legislature.
- The Council shall prepare and file with the Legislature and the Department of Finance periodic reports regarding the formation, administration, and disposition of the CWF, as the Council deems appropriate.

Mr. Pomeroy stated the Legislature clearly contemplated a strong partnership between this Council and the Administrator to work together to adopt a Plan of Operations, and the Council will oversee the Administrator's work in carrying out that plan as this goes forward.

Questions and Discussion

Vice Chair Gordon asked for clarification of the Administrator duties that are subject to oversight, such as, when the Administrator enters into contracts, if they would not be required to seek approval of the Council but would inform Council.

Ms. Rossman stated that is correct. She stated one of the important things that will happen this year is the issuance of debt. This decision will be made jointly between the Administrator and the Council. The amount of debt to be financed is an important decision that should not be made by an Administrator alone. She stated the need to define how involved the Council should be.

Mr. Rosenstiel asked if there is anything that the Administrator needs the approval of the Council to do. He asked for clarification of the term "oversight" and if the Council can make recommendations to the Administrator on possible actions to seek approval on.

Mr. Welsh stated the Plan of Operations is important and the expectations of the Council can be included in it, along with the issuance of debt through the Department of Water Resources (DWR). The Legislature created a statutory framework where the Council acts as a state body to oversee the Wildfire Fund Administrator. The statute enumerates several actions that the Council is obligated to take, which were highlighted in gray on the presentation slides. The day-to-day operations of the CWF are fundamentally the responsibility of the Administrator, subject to the Council's oversight.

Mr. Cash stated the CEA reports earthquake matters to the Governing Board. He asked if there are parallels between the roles of the CEA Governing Board and this Council.

Mr. Welsh stated there are. He stated the legislation that created the CEA is similar to what is seen on presentation slide 21 under Public Utilities Code (PUC) Section 3281, yet it is very different in a material respect. When the CEA was created, the Legislature enumerated the powers and business activities that would be entered into by the CEA, but all those powers are vested in the Governing Board. The CEA's operations have always been by way of delegation of authority from the Governing Board to the management to run the business.

Mr. Welsh stated the Legislature used the CEA's statute as a model for the creation of the Council and the CWF but they made a different choice. They decided that the day-to-day operations that are enumerated in PUC Section 3281 would be the responsibility of the Administrator as the operator of the business, subject to the oversight of the Council. He stated the role of the Council is more like a traditional board of directors. The Council will set the results to be achieved on behalf of the CWF and the Administrator performs the activities necessary to achieve those desired results.

Mr. Rosenstiel stated his understanding that, for example, the question of how much debt to issue is a decision that can be made by the Council, if the Council chooses to make that decision. He asked, as the relationship between the Council and the Administrator is defined in the law, how to indicate to the Administrator that the Council would like this decision to be subject to its approval and how to ensure that this decision will come before the Council. He noted that the next Council meeting is the last opportunity for the Council to weigh in prior to the issuance of the bonds.

Ms. Rossman suggested creating a subcommittee of the Council to be consulted closer to the time of financing.

Mr. Welsh stated the statute does not impose an obligation on the Council to be involved in that transaction. The statute states that the DWR bond issuance must be used first to pay that debt and any other outstanding obligations. The statute does not answer the question of how the Council could get involved. The Plan of Operations outlines the rules of the operations of the CWF. He stated it is reasonable for the Council to ask to be included in the issuance of debt process.

Mr. Martinez stated the Plan of Operations can be used as the vehicle to provide the Council's expectations – to seek approval first, seek guidance, or inform the Council of action currently being taken – and guiding principles and to define what oversight looks like. The Council should be seen as the final overseer of what occurs. He stated the need to be as clear as possible with the Administrator so they will know exactly what they can and cannot do.

Chair Ghilarducci stated the financial aspects, particularly in issuing bonds, is the function that the Administrator can do and does well; however, he agreed that the Council should have the opportunity to weigh in.

Vice Chair Gordon suggested that one of the first tasks of the Administrator would be to develop the Annual Plan of Operations that will add clarity to the roles of the Administrator and Council. The fact that it is an annual plan will allow for adjustments over time as the roles become better understood.

Public Comment

Michael Aguirre, Aguirre & Severson LLP, stated $900 million will be taken from utility customers at a time when individuals are experiencing unprecedented unemployment to pay the debt service on bonds. The speaker stated that blaming the equipment of the utilities for starting a fire is like blaming the tree, when it is actually the executives of the utilities that are responsible. Utility executives are responsible for causing these fires by not abiding by safety rules. Utility customers have been cut out of the process of creating the CWF. The speaker summarized a pending court case involving PG&E and victims of the fires.

Michael Aguirre stated a wildfire fund was proposed in 2009. It did not pass because there was no limit established on claims.

5. **Wildfire Fund Durability Analysis and Management**

   Discussion of the Administrator's analysis and management of the durability of the Wildfire Fund through, among other things, modeling and risk transfer/reinsurance.

   Shawna Ackerman, Chief Risk and Actuarial Officer, CEA, provided an overview, with a slide presentation, of the durability analysis of the CWF, financial modeling approaches, key factors impacting durability, and lessons learned.

   Tracy Palombo, Reinsurance and Risk Transfer Director, CEA, continued the slide presentation and discussed reinsurance as a durability management tool, including principles of reinsurance, 2019 reinsurance program placement highlights, and 2020 reinsurance program considerations.

   Questions and Discussion

   Mr. Martinez stated the CEA Governing Board has the 1- and 400-year claims-paying capacity as a benchmark. He suggested determining a benchmark for the Council and including that conversation as a permanent part of the Annual Plan of Operations discussion.

   Chair Ghilarducci agreed that having that metric would help the Council in the decision-making process, such as when thinking about the amount of reinsurance to recommend.

   Public Comment

   Michael Aguirre stated it would take billions of dollars for PG&E to come into compliance with General Order 95, which is a basic safety standard. The speaker suggested a briefing on the Judge Donato case and the challenge to AB 1054. The speaker cautioned against moving forward and incurring more debt that may not have a way to be repaid, depending on the outcome of the court case.

6. **Investment Policies**

   Discussion and consideration of potential revisions to the Investment Policy for the Wildfire Fund to provide flexibility to expand duration limits and credit diversification.

   Mr. Hanzel provided an overview, with a slide presentation, of the investment guidelines, proposed revisions, and a sample proposed investment portfolio showing current market conditions.

Questions and Discussion

Ms. Rossman stated the proposed revisions are minor in terms of additional risk and result in extra income for the CWF. The extra income will help the Fund grow organically and, with the compounding of the interest and reinvestment over time, will become valuable.

Mr. Martinez stated his understanding that the two investment policies were approved and adopted when the CEA Governing Board was acting as Interim Acting Council. He requested that the revised consolidated investment policy be sent to this Council for review, should the Council approve the proposed changes.

Mr. Welsh stated staff will circulate the revised blended investment policy with additional modest flexibility to Council Members.

Public Comment

No public comment.

7. Claims Administration

Discussion of the Administrator's procurement of consulting and claims administration services for post-event functions.

Mr. Welsh provided an overview, with a slide presentation, of the claims administration responsibilities, sequence of events following a covered wildfire, and claim-paying process as outlined in AB 1054. He stated a consultant will be secured to develop claim standards and procedures, which will be presented at a future Council meeting for approval.

Questions and Discussion

Mr. Martinez asked about the type of consultant that will be secured.

Mr. Welsh stated it will be a contract consultant to confer with staff independently over a short period of time to ensure that the right things are being considered and the right standards and procedures are being built.

Mr. Martinez noted that this action was prudent considering the wider range and complexity of claims with the CWF.

Public Comment

No public comment.

8. Administrator

Discussion of selecting an Administrator of the Wildfire Fund.

Mr. Pomeroy stated AB 1054 assigned the Council the responsibility of appointing the CWF Administrator. The CEA has served as Interim Administrator since July 12, 2019. He stated the Council asked staff, at the January meeting, to put together a framework and a set of core competencies to be used during the Administrator selection process. Mr. Pomeroy provided an overview, with a slide presentation, of those core competencies, options and factors to consider when selecting an Administrator, and the legal status and operating structure of the CEA should the Council determine to name the CEA as the Administrator of the CWF.

Mr. Hanzel continued the slide presentation and discussed financial considerations, CEA/CWF cost allocation methodology, and actual and projected operating expenses.

Mr. Welsh continued the slide presentation and discussed lead times for payouts in the case of simultaneous wildfire and earthquake catastrophic events.

Questions and Discussion

Mr. Cash moved to appoint the CEA as the Administrator of the CWF.

Ms. Rossman seconded.

Vice Chair Gordon suggested a friendly amendment to clarify that the Council has reviewed the required core competencies of the Administrator of the CWF and that it finds that the CEA meets those core competencies.

Mr. Cash and Ms. Rossman agreed to amend their motion to include Vice Chair Gordon's friendly amendment.

Public Comment

No public comment.

> **MOTION**: Mr. Cash moved to appoint the CEA as the Administrator of the CWF with the clarification that the Council has reviewed the required core competencies of the Administrator of the CWF and finds that the CEA meets those core competencies. Ms. Rossman seconded. Motion carried unanimously.

Motion carried 8 yes, 0 no, and 0 abstain, per roll call vote as follows:

The following Council Members voted "Yes": Council Members Bando, O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.

9. Public Comment.

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

There was no public comment.

10. Adjournment.

There being no further business, Chair Ghilarducci adjourned the teleconference meeting at 4:01 p.m.

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 3: Executive Report

Recommended Action: No action required—information only

Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Council.

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 4:	Legislative Update
Recommended Action:	Discuss AB 2167 and SB 292, and consider adoption of formal position on proposed amendments to SB 292

Background

AB 2167, jointly authored by Assembly members Tom Daly and Ken Cooley, and SB 292, authored by Senator Susan Rubio, are currently pending in the California State Legislature. In their current forms, each bill's operation is contingent on the passage of the other. The authors' stated intention of these bills are to make homeowners insurance more available in the high-risk fire areas of the state. The CEA has not been involved in the development or progress of either of these bills to date. As these bills are complex, the summaries below are not intended to be comprehensive, but rather to focus on components of the bills that are most relevant to the Council.

AB 2167 would establish the Insurance Market Action Plan (IMAP) Program under which an insurer may make an IMAP filing with the Insurance Commissioner seeking approval of rates that could enable it to write more insurance in high-risk regions of the state. Currently, Department of Insurance regulations prohibit the inclusion of reinsurance costs in rate filings. The IMAP Program would change that by allowing for the inclusion of reinsurance costs in rate filings associated with insurer IMAP filings. The bill would also require the Insurance Commissioner to act on an IMAP filing within 120 days, providing the filing meetings specified criteria. If the Insurance Commissioner approves an IMAP filing, the insurer accepts a legal mandate to write more insurance in high-risk locations in the state, at the approved rates.

SB 292 implements the wildfire mitigation provisions for the IMAP Program, including a process for identifying IMAP eligible counties, and establishes advisory and other committees to address wildfire mitigation issues and complex catastrophic modeling issues. Among other things, this bill would allow an insurer to include a rate request as part of its IMAP filing that is based on a complex catastrophe model, so long as, (1) the model is based on the best available scientific information, (2) the projected losses derived from the model meet all applicable statutory standards, and (3) the model includes both parcel-level and regional mitigation. Relatedly, SB 292 would create the Catastrophic Modeling Advisory Committee to be chaired jointly by the Insurance Commissioner and the Director of Emergency Services, or their designees. The bill would prescribe the membership of the advisory committee and would require the advisory committee to, among other things, deliver to the Office of Emergency Services, on or before July 1, 2024, a comprehensive report detailing a plan for the Office of Emergency Services to, upon appropriation by the Legislature, establish and operate a public catastrophic loss model.

Relevance to the Council

On July 11, 2020, CEA staff received an email from the consultant of the Senate Insurance Committee with proposed amendments to SB 292. The consultant was requesting stakeholder input for consideration prior to submission of the proposed amendments to the Assembly Governmental Organization Committee for inclusion into the bill.

Based on the impact to the Council as summarized below, the Council may want to adopt a formal position, or provide feedback to the consultant, on the proposed amendments.

Pertaining to the Council, the proposed amendments to SB 292 would:

- Task the **California Catastrophe Response Council** with oversight of the Catastrophic Modeling and Mitigation Advisory Committee. The Advisory Committee's purpose is to develop comprehensive recommendations on the use of loss modeling and mitigation strategies for managing catastrophic risk and preventing wildfire losses.
- The Advisory Committee would have an Executive Board responsible for conducting the business of the Advisory Committee and coordinating the work of the advisory members.
    - The Executive Board would consist of the Insurance Commissioner, the Director of Emergency Services, the Executive Director of the California Building Standards Commission, the State Fire Marshall, and the Director of the Department of Housing and Community Development.
    - The Executive Board would be required to conduct **in person**, **monthly** meetings.
    - The Advisory Committee would be required to meet **quarterly**.

- The Advisory Committee would have 14 nonvoting members responsible for assisting in collaborating and producing a comprehensive plan for the state to develop a public catastrophe loss model.
    - Members are variously appointed by the Governor, the Senate Committee on Rules, and the Speaker of the Assembly. Relevant to the Council, one of the named 14 nonvoting members would be **the chief risk and actuarial officer of the CEA**.
- In addition to providing oversight to the Advisory Committee, the **California Catastrophe Response Council** is specifically tasked with supervising the development of the Advisory Committee's comprehensive plan, and is also charged with approving or denying the recommendations for the establishment and operation of a public catastrophic loss model and a proprietary loss model approval process, which shall be implemented upon appropriation by the Legislature.

CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 5: Financial Report

Recommended Action: No action required—information only

Financials Update

Wildfire Fund financials as of December 31, 2019 and June 30, 2020 will be presented.

Overview of Wildfire Revenue Bonds

AB 1054 authorizes the California Department of Water Resources ("DWR") to receive from the Investor Owned Utilities ("IOUs") collections by the IOUs from their non-exempt ratepayers of Wildfire Nonbypassable Charges ("NBCs") to support the Wildfire Fund. AB 1054 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 Wildfire Fund as described below. The NBCs are to be imposed by the California Public Utilities Commission ("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 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 Wildfire Fund. Once deposited in the Wildfire 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.

DWR intends to issue Wildfire Revenue Bonds secured by the NBCs from ratepayers to:

- Repay the $2 billion Surplus Money Investment Fund ("SMIF") loan and $9 million to the General Fund,
- Provide additional liquidity to the Wildfire Fund, as necessary,
- Fund the Liquidity Account in an amount equal to the Minimum Liquidity Amount (Set at 25% of debt service for the upcoming calendar year (3 months of debt service)), and
- Pay costs of issuance related to the financing.

Transaction Summary

- Par Amount – Approximately $2 billion (may be increased based on certain criteria listed below)
- Maturity – Reviewing options for maturity including short-term (e.g. 3 years) through level debt service over 15 years
- The Wildfire Revenue Bonds will be Federally taxable and State of California tax-exempt

AB 1054 permits issuance of bonds up to a maximum par amount of $10.5 billion. At a minimum, the Administrator recommends issuing the amount required to repay the SMIF loan and the General Fund loan (~$2 billion). The decision to issue only $2 billion is based on two primary factors:

- A goal to avoid negative carry (this occurs when investment yield on bond proceeds is less than the true interest cost of the bonds issued).
- If a potential eligible claim arises as a result of a covered wildfire, the CWF will have approximately 1.5 years to prepare for payment. This provides sufficient time to prepare a new bond issuance program. Additionally, the eligible claim payment would need to exceed ~$10 billion before additional funds are needed (as of today).

However, the Administrator may consider increasing the par amount beyond $2 billion if the projected investment yield on the incremental funds meets or exceeds the borrowing costs of the additional funds. Additional considerations potentially supporting issuing more than the minimum required to repay the state include: (i) locking in debt at current low borrowing costs (even if this creates negative carry) and (ii) concerns regarding market access at a later issuance date.

Parties to the bond sale:

Department of Water Resources (Issuer, Party to the Rate Agreement)
State Treasurer's Office (Agent for Sale / Trustee)
State Attorney General's Office (State's Legal Counsel)
Department of Finance (Fiscal / Policy Oversight)
California Earthquake Authority (Wildfire Fund Administrator)
Hawkins Delafield & Wood LLP (Bond Counsel)
Orrick, Herrington & Sutcliffe LLP (Disclosure and Special Counsel)
Montague DeRose and Associates, LLC (Municipal Advisor)
Goldman Sachs & Co. LLC, Morgan Stanley, UBS (Joint Bookrunners)

Timeline

January to September 2020 – Document preparation, structuring decisions, rating agency engagement
Approx. September 30, 2020 – Power Supply Revenue Bonds Defeased, Power Bond Charge "Turned Off"
Approx. October 1, 2020 – NBCs "Turned On"
October TBD – Post Preliminary Offering Statement
October TBD – Price Transaction
October TBD – Close Transaction

Risk Transfer Update

The process of the reinsurance placement closely followed the process as outlined at the April 23rd Council meeting.

The week of June 15th, the Administrator team and the Guy Carpenter broker team hosted Zoom-enabled reinsurer marketing presentations, to provide the reinsurance market with information sufficient to allow them to begin their analysis. The meetings included both one-on-one presentations with larger individual lead-market reinsurers, as well as some larger group meetings each attended by a number of reinsurers. The presentations were made by the Administrator and by Guy Carpenter to more than 200 individuals representing more than 50 reinsurers located in the U.S. and elsewhere in the Americas, Bermuda, London, Europe, and Asia.

The reinsurance program that was presented had similar terms to the 2019 Wildfire Fund reinsurance placement and included only Southern California Edison and San Diego Gas & Electric. It should be noted that certain comments from reinsurers did seem to suggest that the worldwide reinsurance market continues to be quite price-sensitive and is looking to see rate increases in general across most or all of its reinsurance portfolio.

The week of June 22nd, the broker team issued more detailed placement and modelling information to the reinsurers to enable them to formulate their actual quotes. Only reinsurers who signed a nondisclosure agreement were permitted to access that information, and yet some of this confidential and proprietary information was later reported in the media.

The Administrator and Guy Carpenter developed ranges for pricing and capacity to model the durability of the fund and received lead market quotes on June 30th. After considerable analysis and great consideration, Administrator staff determined the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability. Staff will continue to evaluate and analyze the risk, pricing, and structural alternatives to enhance the claims paying capacity and durability of the Fund and may engage the market if a program later developed can achieve the durability goals of the Fund. If in the future, a program is developed that can achieve the durability goals of the Fund, we will engage the market.

Budget Process Update

Each year, the Wildfire Fund Administrator will prepare and submit to the Council a proposed annual budget, based on all anticipated expenses for the next calendar year.[1] The 2021 budget will be presented at the January 2021 Council Meeting for approval.

With the recent inclusion of PG&E as a participant in the CWF and CEA being appointed Administrator of the CWF in April 2020, the CEA is now able to make prudent, longer term staffing and resource decisions with respect to its Wildfire Fund Administrator duties and responsibilities.

[1] The CWF fiscal year is the calendar year.

Budget Preparation

Given that potentially more than 50% of the CWF's annual operating expenses will be driven by costs allocated from CEA, the finalization of the CWF budget will follow CEA's budget process. Following is a suggested timeline of the budget process to be followed:

August
- CEA finance team prepares budget templates and hosts budget kick-off meetings with relevant staff to discuss the upcoming budget year regarding all earthquake and wildfire responsibilities.

September
- Initial budget templates are due from department heads to CEA finance team.
- CEA finance team reviews initial budgets, and reviews questions and comments with departments.

October & November
- Department and consolidated budgets are reviewed by CFO and CEO.
- Revisions to budgets are communicated to relevant staff.
- Proposed annual budget is finalized and budget memo prepared for CEA Governing Board.

December
- CEA staff presents annual CEA budget to Governing Board for approval.
- CEA Governing board approves or provides changes to be implemented.

January
- CEA staff presents annual CWF budget to Council for approval.
- Council approves or provides changes to be implemented.

Monthly Budget Monitoring

After each month-end close, the CEA finance team will compare actual expenses to budget expenses, document variances and meet to review the budget for any errors or misclassifications, discuss YTD expenses, and review any unexpected variances.

Following this, the CEA finance team including the CFO will meet to review the budget and monthly finance statements.

Mid-Year Budget Revision

In mid-August 2021, the CEA finance budget team will update the consolidated budget projections with the most recent data from the departments' monthly projection schedules. The consolidated budget projection will be used as the source data for the mid-year budget revision. The mid-year budget revision will be reviewed by the CEA finance team and presented to the CFO and CEO for approval.

After the mid-year budget revision is approved by the CFO and CEO, the CEA finance budget team will prepare the mid-year budget revision memo and supporting documents, to be presented to the Council by the CFO. Council approval of the mid-year budget revision is needed if the total budget is increased. If the Council proposes revisions to the proposed budget increase, the finance team will revise the budget as requested and present a new budget for approval at the next Council meeting.

Cost Allocation

CEA's Cost Allocation Plan is based on the Direct Allocation Method. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

Direct hours worked on CWF by CEA employees are documented with electronic timesheets that CEA employees fill out on a daily/monthly basis, and the corresponding salaries and wages are charged directly to the Fund. Indirect costs that benefit more than one fund are allocated to each fund based on the rate of each fund's salaries/benefits to the total of such salaries/benefits.

Direct costs are those costs that can be identified as only providing benefit to the CWF. Examples of these costs are CWF legal fees, travel costs incurred on behalf of the CWF, CWF reinsurance costs, insurance needed for CWF operations, etc.

Indirect costs are those that have been incurred for common or joint objectives (costs that benefit both funds' and cannot be identified to a specific fund). Examples of these costs are rent, facilities expenses, office supplies, human resource costs, utilities, etc.

Implementation of Investment Policy Update

The CEA staff has worked with the Council members over the last four months in the development of the revised investment policy, which combined two separate original policies into one for efficient execution. The revised investment policy became effective on June 22, 2020 and will allow the CWF to increase its income return by taking advantage of credit diversity and composition along with an increased duration while still meeting its goal of preserving principal and liquidity due to its unknown liability structure.

The revised policy increases duration from 3 years to 7 years and increases the maximum maturity from 5 years to 12 years. The revised policy also allows for additional agency securities and governmental securities along with more corporate exposure. The revised investment policy is included in the attachment to this agenda item and the portfolio is expected to be fully transitioned into the new investment policy by September 30, 2020.

FINANCIAL REPORT

June 30, 2020

Financial Report Table of Contents

Financial Statements

California Wildfire Fund
Balance Sheets

		June 30, 2020		December 31, 2019
Assets				
Cash and investments:				
Cash and cash equivalents	$	236,351,845	$	170,912,277
Investments		4,681,445,308		4,599,954,544
Total cash and investments		4,917,797,153		4,770,866,821
Interest receivable		18,477,295		17,942,466
Prepaid reinsurance premium		-		162,000
Total assets	$	4,936,274,448	$	4,788,971,287
Liabilities and Net Position				
Accounts payable and accrued expenses	$	820,334	$	667,651
Related party payable - CEA		565,508		736,882
Securities payable		33,012,329		447,511
SMIF loan interest payable		11,557,377		11,814,207
Total liabilities		45,955,548		13,666,251
Net position:				
Unrestricted		4,890,318,900		4,775,305,036
Total net position		4,890,318,900		4,775,305,036
Total liabilities and net position	$	4,936,274,448	$	4,788,971,287

Unaudited

California Wildfire Fund
Statements of Revenues, Expenses and Changes in Net Position

	Six Months Ended June 30, 2020	Six Months Ended December 31, 2019
Additions:		
Utility contributions	$ -	$ 2,792,400,000
SMIF loan proceeds	-	2,000,000,000
Total contributions	-	4,792,400,000
Investment income & expenses	35,217,752	25,173,641
Unrealized gain/(loss)	130,852,971	(9,809,764)
Net investment income	166,070,723	15,363,877
Other income	-	8,330
Additions to Fund Assets	166,070,723	4,807,772,207
Operating expenses		
Reinsurance expenses	26,208,000	13,104,000
Reinsurance broker commissions	324,000	412,000
SMIF loan interest expense	23,243,169	17,849,726
Personnel expenses	610,353	582,177
General and administrative expenses	671,337	519,268
Total operating expenses	51,056,859	32,467,171
Increase in net position	115,013,864	4,775,305,036
Net position, beginning of year	4,775,305,036	-
Net position, end of year to date	$ 4,890,318,900	$ 4,775,305,036

Unaudited

Contributions Received

California Wildfire Fund
Contributions Received
As of July 11, 2020

	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
		Total	9,800,000,000

Personnel and G&A Expenses

California Wildfire Fund
Operating Expenses

Personnel expenses

	Description	Six Months Ended June 30, 2020	Six Months Ended December 31, 2019	Total
1.	Amounts allocated from CEA employee time	469,551	438,067	907,618
2.	Direct expenses from CWF temps	140,802	144,110	284,912
	Total Personnel expenses	610,353	582,177	1,192,530

General and administrative expenses

	Description	Six Months Ended June 30, 2020	Six Months Ended December 31, 2019	Total
1.	Travel	6,407	3,934	10,341
2.	Office Rent, Parking, and Maint	26,534	22,032	48,566
3.	Equipment, Hardware, and Software expense	48,925	66,329	115,254
4.	Office Supplies	845	959	1,804
5.	Telecom Expense	5,161	4,679	9,840
6.	Consulting - Financial Services	327,958	170,242	498,200
7.	Outside Legal Expense	176,555	170,780	347,335
8.	IT Services	9,371	28,818	38,189
9.	Bank Fees	63,761	45,079	108,840
10.	RFQ Expense	-	5,500	5,500
11.	Audit Fees	4,758	-	4,758
12.	Misc Expense	1,062	916	1,978
	Total G&A expenses	671,337	519,268	1,190,605
	Total Operating Expenses	1,281,690	1,101,445	2,383,135

Investment Analsyis

California Wildfire Fund
Investment Analysis
6/30/2020

California Wildfire Fund Investment Analysis												
Amount (as of June 30, 2020)			Yields		Total Return (Gross of Fees)			Income Return (Net of Fees)			Effective Duration (Years)	Actual Mark-to-Market ($000's)**
	Par Value ($000's)*	Market Value ($000's)	Yield At Acquisition	Yield To Maturity	1-Month (June)	1-Month Prior (May)	3-Month	1-Month (June)	1-Month Prior (May)	3-Month	June 2020	Jun-20
Primary Fund Managers	*$1,956,316*	*$2,048,006*	*1.459%*	*0.199%*	*0.063%*	0.142%	0.295%	*0.160%*	0.166%	0.487%	*2.39*	*59,520*
Claims-Paying Fund	*$2,724,553*	*$2,810,074*	*1.322%*	*0.199%*	*0.057%*	*0.107%*	*0.250%*	*0.119%*	*0.127%*	*0.373%*	*1.94*	*62,058*
All Funds Total	***$4,680,869***	***$4,858,080***	***1.38%***	***0.20%***	***0.060%***	***0.122%***	***0.269%***	***0.136%***	***0.143%***	***0.421%***	***2.13***	***121,578***

California Wildfire Fund
Investment Analysis
12/31/2019

California Wildfire Fund Investment Analysis												
Amount (as of December 31, 2019)			Yields		Total Return (Gross of Fees)			Income Return (Net of Fees)			Effective Duration (Years)	Actual Mark-to-Market ($000's)**
	Par Value ($000's)*	Market Value ($000's)	Yield At Acquisition	Yield To Maturity	1-Month (December)	1-Month Prior (November)	3-Month	1-Month (December)	1-Month Prior (November)	3-Month	December 2019	Dec. 2019
Primary Fund Managers	*$1,960,019*	*$1,988,420*	*1.544%*	*1.607%*	*0.122%*	-0.080%	0.344%	*0.162%*	0.152%	0.466%	*2.54*	*(6,909)*
Claims-Paying Fund	*$2,739,949*	*$2,755,682*	*1.641%*	*1.598%*	*0.137%*	*-0.024%*	*0.374%*	*0.123%*	*0.111%*	*0.343%*	*1.77*	*(2,903)*
All Funds Total	***$4,699,968***	***$4,744,102***	***1.60%***	***1.60%***	***0.130%***	***-0.048%***	***0.361%***	***0.139%***	***0.128%***	***0.395%***	***2.09***	***(9,811)***

Notes:

* Par value does not include amortization of premiums or accretion of discounts.

** Mark-to-market values are per BondEdge and may differ from mark-to-market values as shown in financials due to the timing differences of security valuations.

Cost Allocation

California Wildfire Fund
Cost Allocation Methodology and Calculation for the Six Months Ended June 30, 2020 and for the Six Months Ended December 31, 2019
06/30/2020

Note 1: Cost Allocation Approach

CEA's Cost Allocation Plan is based on the Direct Allocation Method. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

The general approach of the CEA in allocating costs to the CWF is as follows:
A. All direct costs that are incurred directly by the CWF.
B. All other general and administrative costs (costs that benefit both Funds and cannot be identified to a specific Fund) are allocated to each Fund using a base that results in an equitable distribution. Costs that benefit more than one Fund will be allocated to each Fund based on the ratio of each Fund's salaries/benefits to the total of such salaries/benefits

Essentially, CWF cannot operate without administrative functions and these areas touch every aspect of the business and this is the justification for allocation. A continuing review of cost allocation will be a policy and more importantly, it will not be a standard and may change from time to time.

Note 2: Direct and Indirect Costs

Starting in July 2019, the CEA, acting as the interim administrator of the CWF, started tracking employees who were working directly on the CWF. These hours were tracked in a time tracking software that is on CEA's SharePoint intranet site.
The following hours were captured and the CEA applied each employees hourly rate + the predetermined burden rate to come up with the direct labor charge for the CWF for the Six Months Ended June'20 and for the Six Months Ended Dec'19.

	6 months ended June'20		6 months ended Dec'19	
Department	**Hours**	**Salaries & Benefits**	**Hours**	**Salaries & Benefits**
1. Comms	227.2	14,656	81.6	5,790
2. Exec	312.7	74,309	217.9	48,680
3. Finance	1,526.3	191,300	1,588.2	204,993
4. IT	12.5	1,087	294.0	37,078
5. Internal Ops	71.5	4,976	298.3	39,973
6. Insurance Ops	33.3	5,384	-	-
7. Legal	1,028.6	164,641	591.4	101,553
Total Direct Hours/Costs	3,212.1	456,353	3,071.3	438,067

	June'20		Dec'19
CWF Salary & Benefit costs =	456,353	**A**	438,067
CEA Salary & Benefit costs =	13,456,624	**B**	13,506,594
	13,912,977	**C**	13,944,661
Allocation % =	3.28%	**= A/C**	3.14%

All other indirect costs were allocated to the CWF based on the 3.28% and 3.14% allocations noted above. The following indirect expenses were charged to the CWF:

Account Name	**Acct #**	**Amount**	**Amount**
Rent-Office and Parking	86400-16	22,213	19,882
Rent-Office Equip/Furniture	86450-16	2,032	1,715
Building Maintenance and Repairs	86475-16	2,288	435
EDP Hardware <5000	86505-16	2,706	17,050
EDP Software <5000	86506-16	33,223	1,421
Furniture/Equipment <$5000	86500-16	413	73
Office Supplies	86510-16	845	845
Printing & Stationery	86520-16	-	14
Postage	86530-16	-	30
HR and IT staff allocation	85101-16	13,198	-
Telecommunications	86550-16	4,548	4,629
IT Services	88195-16	4,535	12,700
	Total Indirect Costs	86,000	58,793
	Total Costs	542,354	496,860

California Wildfire Fund

Investment Policy

Adopted: June 22, 2020 (Final Version - July 6, 2020)

DEFINITIONS

"Applicable Laws and Regulations" or "Legal Restrictions" means Public Utilities Code section 3281, subdivision (C) and section 3284 subdivision (e) for un-invested monies, California Government Code section 16430, Wildfire Fund section 3284 (e), as well as any amendments or successor provisions to those sections.

"Business Day" or "Business Days" means a day or days other than Saturdays, Sundays, or state holidays.

"California Wildfire Fund" means the Wildfire Fund created pursuant to Section 3284 for California Wildfire Fund

"Covered Wildfire" means any wildfire ignited on or after effective January 1, 2019 caused by an electrical corporation as determined by the governmental agency responsible for determining causation

"Daily" refers to Business Days.

"Investment Consultant" means a firm contracted by the Wildfire Fund to provide as needed investment analysis for the Fund and to provide services related to selection and oversight of the Fund's Investment Managers.

"Investment Manager" means a firm or firms contracted by the Wildfire Fund to invest monies on its behalf, in accordance with all Applicable Laws and Regulations and the Wildfire Fund's Investment Policy.

"Investment" refers to a Security purchased for, and owned by, the Wildfire Fund.

"Modified Duration" is the average length of time to receive the present value of bond cash flows.

A "Security" is a financial instrument before it is purchased for, or owned by, the California Wildfire Fund.

"Wildfire Fund Portfolio" or "Portfolio" means the investment portfolios of the Wildfire Fund.

BACKGROUND

The California Wildfire Fund (“CWF” or “Wildfire Fund”) is a statutory fund segregated from and independent of the California Treasury, and was created under California Public Utilities Code section 3284 in July 2019. The California Earthquake Authority, a governmental instrumentality for the State of California in its statutory capacity as an Administrator for the Wildfire Fund. The Wildfire Fund holds number of dedicated accounts, completely independent and separate from the California Earthquake Authority’s accounts.

PHILOSOPHY

The CWF is a legislatively created Fund to provide third party damage claims resulting from Covered Wildfire Losses. The administrator has set forth the following prioritized goals:

1) Safety and preservation of principal;
2) Liquidity, so that claims can be paid in a timely manner; and
3) Competitive returns (yield).

As a public instrumentality, created by act of the California state government, the Wildfire Fund discloses much of its operations and investment activity. The integrity of the Wildfire Fund’s investment activities should be above that of private sector organizations conducting comparable business operations. Therefore, the Wildfire Fund has the social, ethical, and environmental obligation to require that Investments made on its behalf and held in its accounts be in corporations and entities that meet a high standard of conduct in their operations. Still, the investment of the Wildfire Fund’s assets should appropriately reflect sound judgment that each Investment will produce an attractive rate of return, within the bounds of all Applicable Laws and Regulations and these Investment Policy.

PRINCIPLES

After the primary goals of safety and preservation of principal and attention to appropriate liquidity requirements are met, rate of return must be considered. Safe and prudent investment management will be the primary and underlying criterion for the selection of Securities and retention and disposition of Investments.

Non-economic factors will supplement profit factors in making investment decisions. Non-economic factors are defined as those considerations not directly related to providing for the safety of principal, maintaining adequate liquidity, and maximizing income, but which seek to ensure that in making or holding its Investments, the Wildfire Fund does not, either through action or inaction, promote, condone, or facilitate social or environmental injury.

Social or environmental injury may be said to exist when the activities of a corporation serve to undermine basic human rights and dignities, or when the Wildfire Fund perceives that the practices of a corporation result in undesirable side effects for others and that those side effects are substantial in nature. Side effects that may be deemed undesirable and substantial include, but are not limited to, the following:

A. Subject to current federal, state, and local law, any practice that is known to endanger, directly or indirectly, human health or the environment:

B. Practices that result in the suppression of human rights, including:

1) The sale of weapons and technology to governments known to engage in the systematic suppression of human rights; and

2) The sale of goods to, or the purchase of goods from, countries known to employ forced labor.

C. Practices that endanger human health, including:

1) The sale and distribution of known contaminated products;
2) The sale and distribution of dangerous drugs; and
3) The sale of goods to, or the purchase of goods from, companies known to disregard worker safety.

Investments shall not be selected or rejected based solely on non-economic factors. In general, non-economic factors, to the extent known after reasonable investigation, should be considered after all relevant financial criteria and Legal Restrictions have been satisfied.

The Wildfire Fund Portfolio will be managed to ensure the safety of the Portfolio by investing in high-quality fixed-income Securities with limited durations.

PRUDENT INVESTOR STANDARD

In addition to complying with the Investment Policy and all Applicable Laws and Regulations, all Wildfire Fund Investments and evaluation of such Investments shall be made with regard to the “prudent investor” standard of care, that is, with the care, skill, prudence, and diligence under the circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital, including liquidity of the Investment, as well as the probable income to be derived.

ETHICS, AVOIDANCE OF CONFLICT OF INTERESTS, AND COMPLIANCE WITH INVESTMENT ADVISERS ACT OF 1940

No officer or employee of the Wildfire Fund, or of any firm contracted with the Wildfire Fund involved in the investment of Wildfire Fund Portfolio, shall engage in any personal or business activity that may conflict with proper execution of the Wildfire Fund’s investment program or that may impair his or her ability to make impartial investment decisions for the Wildfire Fund. Any personal investments in entities that do business with the Wildfire Fund, either by contract or where the Wildfire Fund has Investments with that entity, shall be disclosed as required in regulations of the Fair Political Practice Commission (using its Form 700, which shall be filed according to law) and the Wildfire Fund’s Conflict of Interest Code.

The Wildfire Fund's Investment Consultant and Investment Managers shall ensure that they are registered with, and comply with the rules, advice, rulings, and regulations of, the Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940 that is licensed to choose investments for clients. The CWF's Investment Consultant and Investment Managers shall procure and fully and currently maintain the permits and licenses, if any, necessary to advise the Wildfire Fund on investments and to make investments on the Wildfire Fund's behalf.

PERMISSIBLE INVESTMENTS

In accordance with Division 1 of the Public Utilities Code Section 3281 subdivision (c), and Section 3284 subdivision (2), paragraph (e), for un-invested monies.

Investments made by the investment managers on behalf of the Wildfire Fund shall be made in compliance with California Government Code section 16430, as section 16430 is in effect at the time the Investment is made. California Government Code section 16430 may be amended from time to time, and the Wildfire Fund's Investment Managers shall be responsible for being aware and informed of any amendments to section 16430 and to all Applicable Laws and Regulations. As of January 1, 2017, California Government Code section 16430 is provided in its entirety in Exhibit A.

The Wildfire Fund's Portfolio may be invested in any of the following securities listed below and detailed in the Permitted Investments section:

- Treasury securities including TIPS and Floating Rate Notes;
- Federal Agency securities including Floating Rate Notes;
- Other Agency securities;
- International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation ("Supranationals");
- Commercial Paper;
- Certificates of Deposit;
- Bankers Acceptances; and
- Corporate Bonds/Notes and Floating Rate Notes

All investments must comply with both Applicable Laws and Regulations and the CWF's Investment Policy and any un-invested moneys in the Portfolio may be held un-invested pending cash investment, distribution, resolution of a dispute, or for other operational reasons and may be deposited in the associated sweep account prior to the Fed wire cutoff time. Any remaining un-invested monies after the Fed wire cutoff time will be invested by the custodian in the Wildfire Fund's designated account, or in such other account as designated by the CWF in future.

COMPLIANCE

The Investment Policy, and all Applicable Laws and Regulations, shall be observed by the Wildfire Fund's Independent Investment Consultant and acted on by all Investment Managers in the course of their administration of Wildfire Fund investments. The Investment Policy is subject to continual monitoring and review by the CWF Administrator.

A trade executed for the Wildfire Fund's Portfolio shall be deemed to be in compliance with the Investment Policy if, as of the trade date, the trade met both (A) the requirements of the Investment Policy and (B) all Applicable Laws and Regulations. Notwithstanding, however, the deemed trade-day compliance of any individual trade, if at the close of any day any fund maturity or duration exceeds the limit stated in the Investment Policy or the ratings are below the minimum ratings requirement as stated in the Investment Policy, the Investment Manager must, within one business day, consult with the Administrator for the CWF in order that the CWF in its sole discretion, may provide a directive to correct maturity or duration limit or any other action needed for correction of ratings downgrade; if the administrator (or his or her designee) provides no such directive, the Investment Manager must bring the exceeded maturity or duration limit or ratings back into compliance with the Investment Policy as soon as reasonably possible.

The Wildfire Fund will perform daily quality-assurance checks of the Portfolio (or portion of a Portfolio in the case where an Investment Manager is managing a defined portion of a Portfolio) to ensure compliance with the Investment Policy and with all Applicable Laws and Regulations. If the Wildfire Fund becomes aware of any noncompliance with the Investment Policy, the Wildfire Fund will contact the Investment Manager immediately to discuss the situation so that the Wildfire Fund may determine the appropriate actions to be taken by the Investment Manager and Wildfire Fund to bring the Portfolio into compliance within three business days; if an Investment Manager or the Investment Consultant becomes aware of any noncompliance with any Investment Policy, it shall contact the Wildfire Fund immediately to discuss the situation so that the Wildfire Fund may determine the appropriate actions to be taken by the Investment Manager and Wildfire Fund to bring the Portfolio into compliance.

The performance by Wildfire Fund of a Daily quality-assurance check does not relieve any Wildfire Fund Investment Manager of its respective independent duties to ensure that all Investments made and held for the Wildfire Fund comply with the Investment Policy and all Applicable Laws and Regulations at all times. Wildfire Fund's failure to discover, or failure to report the discovery to the Wildfire Fund's Investment Consultant or Investment Managers (or any of them), any noncompliance, does not constitute (A) Wildfire Fund's acceptance or ratification of that noncompliance or (B) any waiver by Wildfire Fund of its right to require compliance by Investment Managers with the Investment Policy and all Applicable Laws and Regulations.

RATINGS, MATURITY & DURATION

- Treasury securities with a maximum maturity of up to 12 years;
- Federal Agency securities, other Agency securities with a maximum maturity of up to 12 years;
- Supranationals with a maximum maturity of up to 12 years;
- Commercial Paper with a maximum maturity of up to 270 days;

- Certificates of Deposit with a maximum maturity of up to 360 days;
- Bankers Acceptances with a maximum maturity of up to 270 days; and
- Corporate Bonds/Notes with maximum maturities of up to 12 years and no more than 25% of maximum corporate allocation may have maturities greater than 10 years but less than 12 years, ratings from at least two of three rating agencies of at least:
    - "A-" from S&P, "A-" from Fitch, or "A3" from Moody's for long-term securities (securities rated "A-"/"A3", "A"/"A2", "A+"/"A1" should be not represent more than 30% of the total portfolio) - No ratings below A- or A3 is allowed
    - "A-1" from S&P, "F-1+" from Fitch, or "P-1" from Moody's for short-term securities - No ratings below "A-1"or "F-1+" or "P-1" is allowed

The Portfolio shall have a maximum Modified Duration of no greater than 7.0 years.

The "maximum maturity" requirement summarized above and listed in detail in the table in the Permitted Investments section is defined as the number of days from trade date to maturity date, including the trade date but excluding the maturity date.

COMPOSITION

- Treasury securities should represent at least 40% of the portfolio;
- Federal Agency and Other Agency securities and Supranationals should not represent more than 20% of the portfolio with no one agency representing more than 5% of the portfolio; and
- Corporate securities should not represent more than 40% of the portfolio (including Certificates of Deposit, Commercial Paper, and Banker Acceptances) with a 2% issuer limit

CUSTODY

All Wildfire Fund Investments shall be secured or held at all times by a custody bank.

UNINVESTED CASH

Each Investment Manager shall seek to minimize the amount of cash remaining at the end of a Business Day that is not invested in a manner consistent with the Investment Policy.
Any un-invested moneys in the Portfolio may be held un-invested pending cash investment, distribution, resolution of a dispute, or for other operational reasons and may be deposited in the associated sweep account prior to the Fed wire cut off time. Any remaining un-invested monies after the Fed wire cutoff time will be invested by the custodian in the CWF's designated account, or in such other account as designated by the CWF in the future.

NEGATIVE YIELDS

The Investment Managers are encouraged to hold cash until an allowable Security with a positive yield becomes available. The Investment Managers must notify the Wildfire Fund when yields are negative.

MINIMUM TRADE RETURN

Subject to guidance from the Wildfire Fund, Investment Managers should not execute a trade if the expected return is less than the cost of executing the trade. If any Investment Manager believes that circumstances warrant making such a trade, it must contact the CWF.

INVESTMENT GOALS

Consistent with the Wildfire Fund's published Investment Philosophy, and in order of priority, the Wildfire Fund's investment goals are:

1) Portfolio Safety
   Under this Investment Policy, the Portfolio shall contain a sufficient number with multiple maturity dates of securities so that a reasonable portion of the Portfolio can be readily converted to cash at a price closely approximating amortized cost.

2) Liquidity
   The Portfolio shall be managed to ensure that the Wildfire Fund's usual cash needs to pay eligible claims can be met; if unforeseen cash needs arise, the Wildfire Fund's Administrator or another individual designated by the Wildfire Fund will work with individual Managers when needed to plan to meet liquidity requirements.

3) Rate of Return
   Investments shall be made in such a way as to realize the maximum return consistent with the principles of prudence expressed in the Wildfire Fund's Investment Philosophy and these Guidelines.

The investments in the Portfolio are primarily buy and hold but investments may be sold to:

- Provide liquidity, and
- Purchase an Investment that better meets the current needs of the Portfolio, after notification to and consultation with the CWF.

REPORTING

Each Investment Manager shall report to the Wildfire Fund, via email by 9:00 a.m. Pacific Time each Business Day, the previous day's holdings in the Fund, or a portion of the Fund, under its management.

For each Investment it makes, the Investment Manager shall transmit to the Wildfire Fund, via email sent by 10:00 a.m. Pacific Time on the trade date, a copy of the trade ticket generated for that Investment transaction. Wildfire Fund will use this trade ticket in the Daily quality assurance process and to update Wildfire Fund's investment accounting system and other trade-related information as requested by the Wildfire Fund's Administrator, or another individual designated by the Wildfire Fund.

Each Investment Manager shall compile a monthly report of the Portfolio, or a portion of the Portfolio, managed by the Investment Manager and deliver the report electronically to the Wildfire Fund on or by the fifth Business Day of the following month. The report shall contain information as requested by the Wildfire Fund's administrator (or his or her designee).

PERMITTED INVESTMENTS

As shown in the table on the following pages, the permissible investment types includes Treasury securities with a maximum maturity of up to 12 years, Federal Agency securities and other Agency securities with a maximum maturity of up to 12 years, Supranationals with a maximum maturity of 12 years, Commercial Paper with a maximum maturity of up to 270 days, Certificates of Deposit with a maximum maturity of up to 360 days, Bankers Acceptance with a maximum maturity of up to 270 days, and Corporate Bonds/Notes with maximum maturities of up to 12 years, which complies with both Applicable Laws and Regulations and the CWF's Investment Policy. Corporates Securities must be issued by corporations organized and operating within the United States. Any un-invested moneys in the Portfolio should be invested as per un-invested cash section.

In the event, however, that any requirement on the following page may appear to be inconsistent with any of the Applicable Laws and Regulations, the Applicable Laws and Regulations shall be followed, and the Investment Manager shall immediately notify the Wildfire Fund of any such inconsistency. If there is any question regarding any permissible Investment described in the table, the Investment Manager shall contact the Wildfire Fund's administrator (or his or her designee) for clarification.

PROHIBITTED INVESTMENTS

Due to the nature of the environmental risk for the fund and incremental wildfire risk from the consumption of fossil fuel, investments in corporations whose primary business or majority of revenues are derived from fossil fuel are prohibited.

Wildfire Fund staff may issue interpretive memorandum for the intended purpose to further enhance understanding of the Investment Policy or provide guidance for matters not covered by the Investment Policy.

All structured securities are prohibited.
All non-US Corporate Securities are prohibited.
All 144A Securities are prohibited.

Investment	CWF Policy
U.S. Treasury	Yes, maturity limit of 12 years, should represent at least 40% of the portfolio
U.S. Agency	Yes, maturity limit of 12 years, should not represent more than 20% of the portfolio (including Federal Agency, Other Agency, and Supranationals) with no one agency representing more than 5% of the portfolio
California Municipals	No
Federal Land Banks or Federal Intermediate Credit Banks	Yes, maturity limit of 12 years
Central Bank for Cooperatives	Yes, maturity limit of 12 years
Federal Home Loan Bank	Yes, maturity limit of 12 years
Federal National Mortgage Association	Yes, maturity limit of 12 years
Federal Home Loan Mortgage Corporation	Yes, maturity limit of 12 years
Tennessee Valley Authority	Yes, maturity limit of 12 years
Commodity Credit Corporation for the Export of California Agricultural Products	Yes, maturity limit of 12 years
Bankers Acceptances	Yes, for those that are eligible for purchase by the Federal Reserve System
Negotiable Certificates of Deposits	Yes, for those issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union and with a maturity limit of 360 days
United States Small Business Administration or the United States Farmers Home Administration	Yes
Export-Import Bank of the United States	Yes
Student Loan Marketing Association	No
Negotiable Order of Withdrawal Accounts (NOW Accounts)	Yes
Commercial Paper	Yes • Approved by the Pooled Money Investment Board by (A) being organized and operating within the U.S. and having total assets in excess of $500MM OR (B) organized within the U.S. as a federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company and having program-wide credit enhancements • Not exceed 270 days

Investment	CWF Policy
International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation	Yes, maturity limit of 12 years (exclude GDB of Puerto Rico)
Corporate Bonds / Notes	Yes • Maturity limit of 12 years • Ratings from at least two of the three rating agencies of at least “A-” from S&P, “A-” from Fitch or “A3” from Moody’s for long-term securities – No ratings below A- or A3 is allowed • Ratings from at least two of the three rating agencies of at least “A-1” from S & P, “F-1+” from Fitch, and “P-1” from Moody’s for short-term securities - No ratings below “A-1”or ”F-1+” or “P-1” is allowed • Corporates should not represent more than 40% of the portfolio (including CDs, CP, and BAs) • Corporate Securities rated “A-”/“A3”, “A”/“A2”, “A+”/“A1” should be not represent more than 30% of the total portfolio • No more than 25% of the maximum corporate allocation may have maturities greater than 10 years but less than 12 years • 2% limit per issuer (including CP)

"Eligible securities for the investment of surplus moneys shall be any of the following:

"(a) Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

"(b) Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.

"(c) Bonds, notes, and warrants of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.

"(d) Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.

"(e) Any of the following:

"(1) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended (12 U.S.C. Sec. 2001 et seq.).

"(2) Debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended (12 U.S.C. Sec. 2001 et seq.).

"(3) Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.).

"(4) Stocks, bonds, debentures, and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended (12 U.S.C. Sec. 1701 et seq.).

"(5) Bonds of any federal home loan bank established under that act.

"(6) Obligations of the Federal Home Loan Mortgage Corporation.

"(7) Bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended (16 U.S.C. Sec. 831 et seq.).

"(8) Other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act, as amended (15 U.S.C. Sec. 714 et seq.).

"(f)(1) Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board as meeting the conditions specified in either subparagraph (A) or subparagraph (B):

"(A) Both of the following conditions:

"(i) Organized and operating within the United States.

"(ii) Having total assets in excess of five hundred million dollars ($500,000,000).

"(B) Both of the following conditions:

"(i) Organized within the United States as a federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company.

"(ii) Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

"(2) A purchase of eligible commercial paper may not do any of the following:

"(A) Exceed 270 days maturity.

"(B) Represent more than 10 percent of the outstanding paper of an issuing federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company.

"(C) Exceed 30 percent of the resources of an investment program.

"(3) At the request of the Pooled Money Investment Board, an investment made pursuant to this subdivision shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.

"(g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, that are eligible for purchase by the Federal Reserve System.

"(h) Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).

"(i) The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.

"(j) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.

"(k) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 et seq.) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).

"(l) Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico.

"(m) Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.

"(n) Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16500)."

CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 6: Update on Status of PG&E's Funding

Recommended Action: No action required—information only

On July 1, 2020, CWF received wires from PG&E for its required contributions into the Wildfire Fund totaling slightly more than $5 billion (Initial Capitalization of $4.815 billion, plus $193 million for PG&E's share of the aggregate $300 million annual IOU contributions for 2019, for a total of $5.008 billion). PG&E's payments satisfy the final remaining statutory requirement for PG&E to be included in and protected by the Wildfire Fund.

In order to ensure timely investment of the initial contribution from PG&E, CWF staff extended the contracts of the existing investment manager team for an additional year and executed a contract with BlackRock (effective June 26, 2020), which was chosen through a procurement process in June 2019.

PG&E's initial $5.008 billion contribution to the CWF was allocated as follows: $4 billion to the existing investment manager team, $1 billion to BlackRock, and the remaining $7.6 million was placed in an operating account to fund CWF's expenses. Allocation funding was based on total assets under management for each manager as well as the current portion of funds invested with each manager. The investment manager allocation is reflected in the table on the following page.

CWF Investment Portfolio by Investment Manager ($MM)			
Managers	**Total CWF Portfolio Market Value Prior to PG&E Contribution (June 30, 2020)**	**Additional Allocation (July 2020)**	**Total CWF Portfolio Market Value (July 13, 2020)**
Chandler	$482	$150	$632
Conning	$413	$700	$1,109
Eaton Vance	$614	$450	$1,093
Goldman Sachs	$476	$700	$1,197
New England Asset Management	$532	$700	$1,256
Payden & Rygel	$519	$400	$917
PFM	$622	$400	$1,021
Public Trust	$388	$100	$488
Royal Bank of Canada (RBC)	$608	$400	$988
Smith Graham	$204	$0	$204
Blackrock	$0	$1,000	$1,000
Total	**$4,858**	**$5,000**	**$9,905**

On July 1, 2020, PG&E wired funds at 6:30AM Pacific Time and the wire was received by 6:40AM. All accounts were credited and trades were executed beginning at 7:30AM. The trades for $3.3 billion in Treasury Securities were executed by 10:00AM with same-day (July 1) settlement and $700 million were executed for next-day (July 2) settlement. The remaining $1 billion is the allocation for BlackRock and was being held in an overnight sweep account comprising of Govt./Agency Securities before being invested on July 10th and settled on July 13th in Treasury securities.

The new CWF investment policy was adopted on June 22, 2020, and the managers are transitioning the portfolio to the new investment policy. We expect that full implementation of the new policy will be reflected by the end of 3rd quarter 2020 for the initial contribution and the additional allocation for the total CWF portfolio.

CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

The June 30th and current composition as of July 13th of the CWF portfolio is as follows:

CWF Investment Portfolio - Composition ($MM)				
	June 30, 2020		July 13, 2020	
Sector	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Government	$4,766	98%	$9,268	94%
Corporates	$77	2%	$592	6%
Gov't/Agy MMF	$15	0%	$45	0%
Total	**$4,858**	**100%**	**$9,905**	**100%**

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 7:	Articles of Governance
Recommended Action:	Discuss and Consider Adoption of Articles of Governance

AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019) – as amended by AB 1513 (Holden, Chapter 396, Statutes of 2019) – and, AB 111 (Committee on Budget, Chapter 81, Statutes of 2019) (collectively, the "2019 Wildfire Legislation"), among other things, created the California Catastrophe Response Council ("Council"), the Wildfire Fund, and the Administrator of the Wildfire Fund ("Administrator"). The 2019 Wildfire Legislation vests specific responsibilities and functions with the Council and Administrator, respectively. The Administrator has prepared the attached Articles of Governance for the Council's consideration, to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities.

There are two attachments to this memorandum. The first shows a redline comparing the draft version of the Articles of Governance circulated to Council members on July 3, 2020 to the revised version incorporating feedback from Council members. The second is a clean copy of the revised Articles of Governance incorporating Council member feedback that the Administrator presents to the Council for further review and adoption.

ARTICLES OF GOVERNANCE
CALIFORNIA CATASTROPHE RESPONSE COUNCIL &
CALIFORNIA EARTHQUAKE AUTHORITY, AS
WILDFIRE FUND ADMINISTRATOR

Statement of Purpose

WHEREAS, on July 12, 2019, Governor Gavin Newsom signed AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019)[1] and AB 111 (Committee on Budget, Chapter 81, Statutes of 2019) (collectively, the "2019 Wildfire Legislation"), which among other things created the California Catastrophe Response Council ("Council"), the Wildfire Fund, and the Administrator of the Wildfire Fund ("Administrator");

WHEREAS, the Council is vested with the authority to appoint an Administrator pursuant to Government Code Section 8899.72;

WHEREAS, the Council is vested with the authority to oversee the Administrator's operation, management, and administration of the Wildfire Fund pursuant to Government Code Section 8899.72;

WHEREAS, the Council is specifically vested with the authority to oversee the Administrator's duties as enumerated in Public Utilities Code Section 3281;[2]

WHEREAS, the Council wishes to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities;

NOW, THEREFORE, IT IS RESOLVED, that the Council does hereby adopt these Articles of Governance to set out the role and responsibilities of the Council and the Administrator, as follows:

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

[2] Additionally, the conduct, responsibilities, and duties of the Council and the Administrator are governed by Government Code Sections 8899.70 – 8899.72, and Public Utilities Code Sections 3280 - 3289, 3291 - 3294, 3296, and 1701.8, and Water Code Sections 80506 and 80542.

General Statement of Council Powers and Authority

The Administrator is authorized to operate the Wildfire Fund within the framework established by law and in accordance with the policies adopted by the Council. The Administrator will continually endeavor to identify and communicate to the Council on a regular basis emerging legal, economic, financial, political, social, technological, and marketplace trends that are likely to affect the Wildfire Fund's fulfillment of its mission, its duties to participating electrical corporations, and its operations, solvency, and management.

Consistent with statutory dictates to perform specific tasks and generally oversee the Administrator in operating the Wildfire Fund, the Council shall exercise the following statutory responsibilities and will exercise the following enumerated powers:

1. Select and appoint an Administrator.
2. With respect to matters that are not otherwise dictated by the 2019 Wildfire Legislation, the Council shall deliberate on and adopt policy directions for the administration of the Wildfire Fund.
3. Review, adopt, and revise, as necessary, an annual budget for the administration of the Wildfire Fund.
4. Review and adopt an annual Plan of Operations and annually direct the Administrator to present the Plan of Operations to the appropriate policy committees of the Legislature.
5. Deliberate on and approve procedures for the review, approval, and timely funding of eligible claims, with approval of all amendments to these procedures.
6. Perform an annual review of the performance of the Administrator.
7. Direct the Administrator to prepare any reports, including those required pursuant to Public Utilities Code section 3287, regarding the formation, administration, and disposition of the Wildfire Fund, and review, adopt, and file such reports with the Legislature and the Department of Finance.

Duties and Responsibilities of the Wildfire Fund Administrator

In the administration of the Wildfire Fund, subject to the oversight of the Council, the Administrator has the duty and authority to:

1. Do those things reasonable and necessary for and appropriate to the discharge of the Administrator's express duties as set forth in the 2019 Wildfire Legislation.
2. With respect to matters that are not otherwise dictated by the 2019 Wildfire Legislation, present to the Council proposed policy directions for the administration of the Wildfire Fund.
3. Submit to the Council reports, resolutions, and procedures, and make recommendations for legislative action in connection with the laws that govern administration of the Wildfire Fund.

4. Appear before and offer testimony to Legislative committees and address other groups to inform them of the operations, policies, and procedures of the Wildfire Fund, as well as positions taken by the Council (if any) on proposed laws and other issues.
5. Determine the amounts of eligible claims payable and fund those claims by and pursuant to claims administration procedures developed and approved by the Council to the Wildfire Fund's participating electrical corporations.
6. Retain, employ, and contract with officers, experts, employees, accountants, actuaries, financial professionals, and other executives, advisers, consultants, attorneys, and professionals as may be necessary in the Administrator's judgment for the efficient operation and administration of the Wildfire Fund.
7. Enter into contracts and other obligations relating to the operation, management, and administration of the Wildfire Fund.
8. Optimize the risk and return profile of the Wildfire Fund, including i~~I~~nvesting the moneys in the Wildfire Fund, with all investments in securities being solely in those securities eligible for investment of State funds pursuant to Section 16430 of the Government Code, as reflected in the current Investment Policy of the Wildfire Fund, which will be routinely reviewed and amended as needed.
9. Determine the appropriate capital structure of the Wildfire Fund to maximize the durability and claims paying resource of the fund. This could include issuing debt secured by future flows into the fund, b~~B~~uying insurance, reinsurance, or other risk transfer, or taking~~e~~ other actions to maximize the claims paying resources of the fund.
10. Direct the preparation of adequate statistical records to serve as a basis for actuarial investigations and computations in sufficient detail to reasonably support entering into fund durability contracts, including insurance, reinsurance, or other risk transfer contracts.
11. Pay costs, expenses, and other obligations of the Wildfire Fund, including, but not limited to costs, expenses, and other obligations incurred by or on behalf of the Administrator in the exercise of its duties and obligations, from Wildfire Fund assets.
12. Manage the Wildfire Fund to prioritize the use of contributions of the electrical corporations before the use of contributions by ratepayers to the extent practicable.
13. Take any actions necessary to collect any amounts owing to the Wildfire Fund from any third party, including, but not limited to, participating electrical corporations.
14. Submit to the Council for review and approval all annual budgets for the administration of the Wildfire Fund, all annual Plan of Operations, all amendments to the Wildfire Fund's claims administration procedures, any and all periodic reports to the Legislature and the Department of Finance requested for preparation by the Council, and all other documents and information consistent with and necessarily implied by these Articles of Governance.
15. Participate in any Public Utilities Commission proceedings, as deemed necessary by the Administrator to preserve and protect the interest of the Wildfire Fund, including any

REDLINE

proceeding related to the potential reimbursement of moneys paid from the Wildfire Fund to a participating electrical corporation.

16. Accept service of summons and any other legal service of process for and on behalf of the Administrator, the Council, or any individual Council member on matters related to the Wildfire Fund.
17. Take any other actions reasonable and necessary to administer the Wildfire Fund in a manner consistent with the policy directives as approved by the Council.

RESOLVED further, that these Articles of Governance are effective when approved by a majority vote of the Council and executed by the Chairperson of the Council.

____________________ ____

Date Mark Ghilarducci, Chair
California Catastrophe Response Council

Approved as to form:

____________________ ____

Date Tom Welsh
General Counsel
California Earthquake Authority,
as Wildfire Fund Administrator

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ARTICLES OF GOVERNANCE
CALIFORNIA CATASTROPHE RESPONSE COUNCIL & CALIFORNIA EARTHQUAKE AUTHORITY, AS WILDFIRE FUND ADMINISTRATOR

Statement of Purpose

WHEREAS, on July 12, 2019, Governor Gavin Newsom signed AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019)[1] and AB 111 (Committee on Budget, Chapter 81, Statutes of 2019) (collectively, the "2019 Wildfire Legislation"), which among other things created the California Catastrophe Response Council ("Council"), the Wildfire Fund, and the Administrator of the Wildfire Fund ("Administrator");

WHEREAS, the Council is vested with the authority to appoint an Administrator pursuant to Government Code Section 8899.72;

WHEREAS, the Council is vested with the authority to oversee the Administrator's operation, management, and administration of the Wildfire Fund pursuant to Government Code Section 8899.72;

WHEREAS, the Council is specifically vested with the authority to oversee the Administrator's duties as enumerated in Public Utilities Code Section 3281;[2]

WHEREAS the Council wishes to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities;

NOW, THEREFORE, IT IS RESOLVED, that the Council does hereby adopt these Articles of Governance to set out the role and responsibilities of the Council and the Administrator, as follows:

---

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

[2] Additionally, the conduct, responsibilities, and duties of the Council and the Administrator are governed by Government Code Sections 8899.70 – 8899.72, and Public Utilities Code Sections 3280 - 3289, 3291 - 3294, 3296, and 1701.8, and Water Code Sections 80506 and 80542.

General Statement of Council Powers and Authority

The Administrator is authorized to operate the Wildfire Fund within the framework established by law and in accordance with the policies adopted by the Council. The Administrator will continually endeavor to identify and communicate to the Council on a regular basis emerging legal, economic, financial, political, social, technological, and marketplace trends that are likely to affect the Wildfire Fund's fulfillment of its mission, its duties to participating electrical corporations, and its operations, solvency, and management.

Consistent with statutory dictates to perform specific tasks and generally oversee the Administrator in operating the Wildfire Fund, the Council shall exercise the following statutory responsibilities and will exercise the following enumerated powers:

1. Select and appoint an Administrator.
2. With respect to matters that are not otherwise dictated by the 2019 Wildfire Legislation, the Council shall deliberate on and adopt policy directions for the administration of the Wildfire Fund.
3. Review, adopt, and revise, as necessary, an annual budget for the administration of the Wildfire Fund.
4. Review and adopt an annual Plan of Operations and annually direct the Administrator to present the Plan of Operations to the appropriate policy committees of the Legislature.
5. Deliberate on and approve procedures for the review, approval, and timely funding of eligible claims, with approval of all amendments to these procedures.
6. Perform an annual review of the performance of the Administrator.
7. Direct the Administrator to prepare any reports, including those required pursuant to Public Utilities Code section 3287, regarding the formation, administration, and disposition of the Wildfire Fund, and review, adopt, and file such reports with the Legislature and the Department of Finance.

Duties and Responsibilities of the Wildfire Fund Administrator

In the administration of the Wildfire Fund, subject to the oversight of the Council, the Administrator has the duty and authority to:

1. Do those things reasonable and necessary for and appropriate to the discharge of the Administrator's express duties as set forth in the 2019 Wildfire Legislation.
2. With respect to matters that are not otherwise dictated by the 2019 Wildfire Legislation, present to the Council proposed policy directions for the administration of the Wildfire Fund.
3. Submit to the Council reports, resolutions, and procedures, and make recommendations for legislative action in connection with the laws that govern administration of the Wildfire Fund.

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4. Appear before and offer testimony to Legislative committees and address other groups to inform them of the operations, policies, and procedures of the Wildfire Fund, as well as positions taken by the Council (if any) on proposed laws and other issues.
5. Determine the amounts of eligible claims payable and fund those claims by and pursuant to claims administration procedures developed and approved by the Council to the Wildfire Fund's participating electrical corporations.
6. Retain, employ, and contract with officers, experts, employees, accountants, actuaries, financial professionals, and other executives, advisers, consultants, attorneys, and professionals as may be necessary in the Administrator's judgment for the efficient operation and administration of the Wildfire Fund.
7. Enter into contracts and other obligations relating to the operation, management, and administration of the Wildfire Fund.
8. Optimize the risk and return profile of the Wildfire Fund, including investing the moneys in the Wildfire Fund, with all investments in securities being solely in those securities eligible for investment of State funds pursuant to Section 16430 of the Government Code, as reflected in the current Investment Policy of the Wildfire Fund, which will be routinely reviewed and amended as needed.
9. Determine the appropriate capital structure of the Wildfire Fund to maximize the durability and claims paying resource of the fund. This could include issuing debt secured by future flows into the fund, buying insurance, reinsurance, or other risk transfer, or taking other actions to maximize the claims paying resources of the fund.
10. Direct the preparation of adequate statistical records to serve as a basis for actuarial investigations and computations in sufficient detail to reasonably support entering into fund durability contracts, including insurance, reinsurance, or other risk transfer contracts.
11. Pay costs, expenses, and other obligations of the Wildfire Fund, including, but not limited to costs, expenses, and other obligations incurred by or on behalf of the Administrator in the exercise of its duties and obligations, from Wildfire Fund assets.
12. Manage the Wildfire Fund to prioritize the use of contributions of the electrical corporations before the use of contributions by ratepayers to the extent practicable.
13. Take any actions necessary to collect any amounts owing to the Wildfire Fund from any third party, including, but not limited to, participating electrical corporations.
14. Submit to the Council for review and approval all annual budgets for the administration of the Wildfire Fund, all annual Plan of Operations, all amendments to the Wildfire Fund's claims administration procedures, any and all periodic reports to the Legislature and the Department of Finance requested for preparation by the Council, and all other documents and information consistent with and necessarily implied by these Articles of Governance.
15. Participate in any Public Utilities Commission proceedings, as deemed necessary by the Administrator to preserve and protect the interest of the Wildfire Fund, including any

proceeding related to the potential reimbursement of moneys paid from the Wildfire Fund to a participating electrical corporation.

16. Accept service of summons and any other legal service of process for and on behalf of the Administrator, the Council, or any individual Council member on matters related to the Wildfire Fund.
17. Take any other actions reasonable and necessary to administer the Wildfire Fund in a manner consistent with the policy directives as approved by the Council.

RESOLVED further, that these Articles of Governance are effective when approved by a majority vote of the Council and executed by the Chairperson of the Council.

____________________ ____

Date

Mark Ghilarducci, Chair
California Catastrophe Response Council

Approved as to form:

____________________ ____

Date

Tom Welsh
General Counsel
California Earthquake Authority,
as Wildfire Fund Administrator

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CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 8: 2019 – 2020 Plan of Operations

Recommended Action: Review and consider approval and adoption of 2019 – 2020 Plan of Operations; and, if approved, authorize the Administrator to present the Plan of Operations to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

California Public Utilities Code §3283:

> *The council shall direct the administrator to prepare and present for approval a plan of operations related to the operations, management, and administration of the fund on an annual basis. At least annually, the council shall direct the administrator to present the plan of operations to the appropriate policy committees of the Legislature. The plan shall include, but not be limited to, reporting on the Wildfire Fund assets, projections for the durability of the Wildfire Fund, the success of the Wildfire Fund, whether or not the Wildfire Fund is serving its purpose, and a plan for winding up the Wildfire Fund if projections demonstrate that the Wildfire Fund will be exhausted within the next three years.*

Pursuant to section 3283, the Council, at its January 16, 2020 meeting, directed the Administrator to begin preparing its first annual Plan of Operations for submittal to the Council for review and approval. The Council also concurred with the Administrator that the appropriate policy committees of the Legislature included both the Senate Committee on Energy, Utilities and Communications, and the Assembly Committee on Utilities and Energy.

Accordingly, the Administrator has prepared its first annual Plan of Operations and submits it to the Council for review and approval. Consistent with relevant statute, the 2019-2020 Plan of Operations reports on Wildfire Fund assets, projections for the durability of the Wildfire Fund, the success of the Wildfire Fund, and whether or not the Wildfire Fund is serving its purpose. The 2019-2020 Plan of Operations does not include a plan for winding up the Wildfire Fund because current projections do not show that the Wildfire Fund will be exhausted within the next three years. The information in this first annual Plan of Operations covers the one-year period of July 12, 2019 (the effective date of AB 1054 and AB 111) through July 11, 2020.

With the Council's approval, the Administrator stands ready to submit the 2019-2020 Plan of Operations to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

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WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE
ON
WILDFIRE FUND ~~PLAN OF~~ OPERATIONS

Report Period: July 12, 2019 – July 11, 2020
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 23, 2020

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Pursuant to Public Utilities Code section 3283, this Annual Report on Wildfire Fund Operations ("Annual Report")~~, the "Plan of Operations,"~~ 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 ~~Plan of Operations~~Annual Report ~~will~~ includes ~~report~~ 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 first ~~annual Plan of Operations~~Annual Report covers the one-year period of July 12, 2019 (the effective date of AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019) and AB 111 (Committee on Budget, Chapter 81, Statutes of 2019), and thus the creation date of the Wildfire Fund) through July 11, 2020.

[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~~[2]~~ and AB 111 (collectively, the "2019 Wildfire Legislation").[3] 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 which 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 ~~two~~ one member~~s~~ appointed by the Senate Committee on Rules, one member appointed by ~~and~~ the Speaker of the Assembly~~, respectively~~, 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 claims arising from covered wildfires. The $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 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, 2020, SDG&E, SCE, and PG&E have all provided their initial and first annual financial contributions. The IOU contributions combined with the SMIF loan total $9.8 billion. In addition, ~~CPUC~~California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. 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

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

the Fund's contributions as of July 11, 2020 and audited financials as of December 31, 2019 can be found in *Section I: Fund Assets*.

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, has engaged both Filsinger Energy Partners ("Filsinger") and Guy Carpenter & Company ("Guy Carpenter"), a global reinsurance broker, and has worked with them to make further refinements to the models to aid CEA in monitoring Fund durability and exposure to losses. The Administrator also uses the historical total losses to create~~for~~ an alternate "high risk" view.~~. A summary of the test scenarios and results are displayed in the table below.~~ Additional detail regarding the test scenarios and durability analysis can be found in *Section II: Projections for the Durability of the Fund*.

	~~Scenario~~	~~Current Year~~
~~1.~~	~~Base~~ ~~-60% & 40% settlement rate~~ ~~-10% mitigation credit~~ ~~-100% prudency~~	~~99.9%~~
~~2.~~	~~Delayed Mitigation~~ ~~-40% settlement rate~~ ~~-Mitigation credits postponed to 2024~~ ~~-100% prudency~~ ~~-Base risk~~	~~99.9%~~
~~3.~~	~~High Settlement Rate~~ ~~-70% settlement rate~~ ~~-10% mitigation credit~~ ~~-100% prudency~~ ~~-Base risk~~	~~99.9%~~
~~4.~~	~~High Risk~~ ~~-40% settlement rate~~ ~~-No mitigation credits~~ ~~-100% prudency~~	~~99.9%~~

~~II.~~III. The Success of the Fund

~~:~~Assessing the success of the Fund during its first full year in existence requires examination of (1) the start-up process undertaken to operationalize and capitalize the Fund; (2) the establishment of the required infrastructure for administration and oversight of the Fund, and (3) whether the Fund had sufficient claim-paying capacity to cover any incurred or anticipated claims from the 2019 wildfire season.

(1) Start-up and Operationalization of the Fund. The Council and Administrator have taken all necessary actions to establish and operationalize the Fund. Immediately upon the effective date of the 2019 Wildfire Legislation, CEA was designated as the Interim Administrator of the Fund. Prior to the activation of the Council, the duties and responsibilities of the Council to oversee CEA's activities were vested in CEA's Governing Board (consisting of the Governor, the Insurance Commissioner, and the Treasurer, with ex officio members appointed by the Speaker of the Assembly and the Chair of the Senate Rules Committee). As Interim Administrator, CEA quickly established the required financial infrastructure (e.g., trust accounts, investment advisors, investment policies, asset managers, and financial and accounting systems) to allow for receipt of the more than $4.6 billion transferred to the Fund only weeks after the 2019 Wildfire Legislation was signed into law. The CEA Governing Board also approved CEA's activities to procure a reinsurance intermediary for risk transfer services, and to develop and implement risk transfer guidelines and a risk transfer strategy to protect the Fund during the looming 2019 wildfire season. It is important to note that the Fund was "on risk" immediately upon the Governor's signature of AB 1054.

~~(2)~~ Establishment of Council and Appointment of Administrator. The Council was successfully activated in October 2019, and currently has a full roster of active members. The Council met twice during the report period: January 16, 2020; and, April 23, 2020. The Council is scheduled to meet on July 23, 2020 and October 22, 2020. Details of these future meetings will be included in the ~~second annual Plan of Operations~~Second Annual Report. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: https://www.cawildfirefund.com/council.

(2)

~~(3)~~ Claims Summary. During the report period, no claims were made by any of the IOUs on the Fund. However, see below in *Section IV* of this report, for a summary of the 2019 Kincade Fire, which still has the potential to give rise to a claim on the Fund.

(3)

IV. Whether or not the Fund is Serving its Purpose

~~:~~During its first year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOUs credit ratings, the participation of PG&E in the Fund, and the Administrator's experience with the 2019 wildfire season and associated impacts on the Fund.

- IOU Credit Ratings. Since the formation of the Fund, and the receipt of initial financial contributions from SCE and SDG&E, both IOUs have experienced rating stabilizations. Though the actual ratings have not changed, both IOUs' ratings outlooks have moved in a positive direction. ~~the IOUs have not had any negative rating action taken, resulting in a stabilization of ratings.~~
- Participation of PG&E in the Fund. On July 1, 2020, PG&E made its initial~~,~~ and first annual financial contribution~~s~~ to the Fund. This satisfied the final remaining statutory requirement for PG&E to be included in and protected by the Fund. As we enter the 2020 wildfire season, the Fund is available to respond to covered wildfires caused by any of the three large IOUs – PG&E, SDG&E, and SCE~~SoCal Edison~~.
- The 2019 Wildfire Season. The work the Administrator and Council have performed over the past year to operationalize the Fund puts the Administrator in a ~~good~~ ready position to be able to discharge its statutory duties related to paying claims for covered wildfires. And~~,~~ while, to date, no IOU has made any claims on the Fund, the Administrator is aware that on July 16, 2020, ~~PG&E filed with the CPUC an incident report related to the Kincade Fire in Sonoma County~~the California Department of Forestry and Fire Protection (CAL FIRE) ~~has has~~ determined ~~on July~~ that the Kincade fire was caused by electrical transmission lines owned and operated by PG&E. ~~The final cause has not yet been determined by CAL FIRE, so the Kincade Fire is not yet considered a "covered wildfire" as defined in the 2019 Wildfire Legislation. If PG&E is ultimately determined to have been at fault, and S~~should PG&E in the future seek reimbursement from the Fund for claims incurred during the 2019 wildfire season, including as a result of the Kincade Fire, the Administrator will reimburse those claims consistent with Public Utilities Code section 3292(e), and will report to the Legislature in a future ~~annual Plan of Operations~~aAnnual rReport.

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WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE ON WILDFIRE FUND OPERATIONS

REPORT PERIOD: JULY 12, 2019 – July 11, 2020
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 23, 2020

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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 2019 audited financial statements, available at this website: https://www.earthquakeauthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which covers calendar year 2019, along with supplemental unaudited informational related to the Fund's contributions received through July 11, 2020.

CALIFORNIA EARTHQUAKE AUTHORITY

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

As of December 31, 2019

	Custodial Funds
Assets	
Cash and investments:	
Cash and cash equivalents	$ 170,912,277
Investments	4,599,954,544
Total assets	$ 4,770,866,821
Liabilities and Net Position	
Liabilities:	
Securities payable	$ 447,511
Net position:	
Restricted for CWF	4,770,419,310
Total liabilities and net position	$ 4,770,866,821

CALIFORNIA EARTHQUAKE AUTHORITY

Statement of Changes in Fiduciary Net Position – Fiduciary Funds of California Wildfire Fund

For the Period from Inception of July 12, 2019 to December 31, 2019

	Custodial Funds
Additions:	
Deposits from CWF	$ 4,789,829,741
Deductions:	
Withdrawals by CWF	19,410,431
Increase in net position	4,770,419,310
Net position, at inception	-
Net position, end of year	$ 4,770,419,310

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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.

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The Administrator is working with ~~the Department of Water Resources (“~~DWR~~”)~~, the State Treasurer’s Office, the Department of Finance, the ~~California Public Utilities Commission (“~~CPUC~~”)~~, municipal advisors, underwriters and law firms to prepare for the issuance of bonds by DWR, backed by a pledge of the NBCs as described above. ~~CPUC-approved ratepayer surcharges. The proceeds of the issuance of DWR bonds will first be used to repay the SMIF loan, bond issuance costs and DWR’s reasonable expenses that may lawfully be paid from the bond proceeds, with all residual proceeds being deposited into the Fund to provide claim-paying liquidity. The DWR bonds will be secured by a pledge of the ratepayer surcharges. Once the DWR bonds are repaid, the surcharge revenues will flow directly into the Fund.~~

During 2019, the Fund received $2,792,400,000 in contributions from two of the IOUs – SCE~~SoCal Edison~~ and SDG&E. And, in early July 2020, the Fund received a contribution from PG&E following its emergence from bankruptcy. As the table on the following page shows, as of July 11, 2020, the Fund has received $9.8 billion 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 received schedule
from inception through 07/11/2020

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SCE ~~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.	SCE~~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
			$9,800,000,000

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 developed and implemented a cost-allocation methodology to ensure that each of those funds bears its own administration expenses.

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II. Projections for the Durability of the Fund

The stated legislative intent and language of the 2019 Wildfire Legislation requires that the Fund be administered to maximize the durability of the Fund so that it provides protection and claim-paying resources to the IOUs while they continue to invest in safety measures designed to reduce the frequency and severity of utility caused wildfires. For example, Public Utilities Code section 3281(e) authorizes the Administrator, subject to the oversight of the Council, to "buy insurance or take other actions to *maximize the claims paying resources of the fund*." Additionally, the Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund.

"Durability" Defined. Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. For example, if Fund durability is 90% at 2035, that would mean there would be a 90% probability that the Fund will have endured to 2035, while paying eligible claims as and when they arise. Conversely, there would be a 10% chance that the Fund would not have had sufficient funds to pay all eligible claims arising during that time period. Durability is a cumulative measure and is expected to decline over any specific number of years as money is periodically drawn from the Fund to pay eligible claims.

Dependencies / Key Factors Influencing Durability. At its simplest, durability depends on the amount of losses flowing to the Fund and the amount of money the Fund has, or will have, to pay eligible losses. Larger more frequent losses potentially exhaust the Fund more quickly. The larger the amount of available Fund resources to pay losses (initial capital, investment income, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses.

The key factors influencing ~~the~~ 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, and
- funding.

Estimating Fund Losses - Catastrophe Loss Models. Using catastrophe-loss models to assess the loss potential from hurricanes and earthquakes has been ~~is~~ common-place in the insurance industry for underwriting risk and understanding loss potential since the early 1990's. Catastrophe-loss models are also used for assessing risk at the local, state, and national level and for emergency planning scenarios. In contrast, catastrophe-loss models for wildfire risk are relatively new, have not been widely tested in the market, and have significant differences in the approaches used and the modeled results from one model to the next. Nevertheless, the models can be useful in developing a range of potential wildfire losses. The Administrator relies on catastrophe-loss model output from the AIR Worldwide Touchstone 7 model as a starting point for measuring the potential distribution of eligible claims to the Fund. The Administrator also considers historical losses potentially attributable to IOUs in assessing durability.

Modeling wildfire risk is a complex process. The AIR Touchstone 7 model considers such factors as ignition, fuel and fuel characteristics, terrain, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 7 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. There are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. It must be recognized that actual losses to the Fund will vary, perhaps significantly, from the modeled losses.

Financial Models. Because the Fund is a complex mechanism dependent on largely uncertain events, a typical best case, worst case, expected case type of pro-forma analysis is not sufficient to understand the potential range of outcomes. Using the catastrophe loss models and the Fund's financial status as the starting point, a stochastic financial model is built to project the Fund's durability probability through 2035. 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, has engaged both Filsinger and Guy Carpenter, and has worked with them to make further refinements to the models to aid CEA in monitoring Fund durability and exposure to losses. The key differences in the two financial models are the wildfire losses used and the incident rate or attribution to the IOUs. These differences are discussed in turn.

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

Attribution: Filsinger uses the loss allocation percentages in the 2019 Wildfire Legislation to attribute losses to each IOU. Guy Carpenter attributes the loss to each IOU in a two-step process. First, the modeled loss is assigned to a specific IOU based on the location

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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 Administrator ~~uses~~ relies upon the loss and attribution rate methodology from Guy Carpenter to develop potential wildfire losses. The Administrator also uses the historical total losses ~~for~~ to create an alternate "high risk" view. The financial model provides a multi-year view of the Fund starting with the actual financial position of the Fund for the most recent year-end ~~and allows the Administrator to sensitivity test the key factors affecting durability~~. 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 below.

	Scenario	Current Year
1.	Base - 60% & 40% settlement rate - 10% mitigation credit -100% prudency	99.9%
2.	~~Delayed~~Phased Mitigation - 40% settlement rate - Mitigation credits postponed to 2024 -100% prudency - Base risk	99.9%
3.	High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency - Base risk	99.9%
4.	High Risk - 40% settlement rate - No mitigation credits -100% prudency	99.9%

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Base – 1: The base scenario is the current view of risk considering subrogation settlement rates~~[4]~~ from 40% - 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 negligible ~~for the first year of the Fund as~~ 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, ~~AIR~~ 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 mitigation activities. For all ~~the base~~ 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 IOU's act prudently – the effect is that the Fund has more resources and higher durability when prudency is low.

~~Delayed~~Phased Mitigation – 2: This scenario is the same as Base scenario 1 with the mitigation credit postponed. The intent of this scenario is not to imply that mitigation efforts have been or will be postponed, it is intended to provide a means to compare the results of this scenario to Base scenario 1 and demonstrate the beneficial effects of mitigation on Fund durability. This scenario also assumes 100% prudency and likewise presents a more conservative view of durability. The results are shown using a 40% subrogation settlement rate.~~This scenario is the same as Base scenario 1 with the mitigation credit postponed. By~~

~~[4] The term "subrogation settlement rate" refers to settlements between an IOU that caused a covered wildfire, and the insurance companies that initially paid insured losses from the fire, and 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.~~

[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.

~~comparing the results of this scenario to Base scenario 1, the beneficial effects of mitigation on Fund durability can be demonstrated. 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 scenario 1 with the settlement rate at 70%. A 70% settlement rate is associated with a slightly lower durability estimate in the current year. However, as noted above, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability.

High Risk - 4~~2~~: The high-risk scenario uses the recent historical losses attributed to the IOUs over the past several years to ~~develop~~ create an alternate view of potential total losses where large losses are more frequent than those used in the Base scenario. Like the Base scenario, this scenario assumes 100% prudency for the same reasons as noted above as well as for the purpose of isolating the difference to the alternate view of potential future losses. However, it should be noted that assuming 100% prudency in this scenario presents a significantly more conservative view of durability. The results are shown using a 40% subrogation settlement rate.~~Subrogation settlement rates from 40% – 60% are considered.~~

~~*No Mitigation - 3:* This scenario is the same as Base scenario 1 with the mitigation credit removed. By comparing the results of this scenario to Base scenario 1, the beneficial effects of mitigation on Fund durability can be understood.~~

~~*High Settlement Rate - 4:* This scenario is provided to further understand the effects of settlement rates on Fund durability. This scenario is the same as Base scenario 1 with the settlement rate at 70%. A 70% settlement rate is associated with a slightly lower durability estimate. However, as noted above, the difference is negligible for the first year of the Fund as the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote.~~

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.~~.~~

- 2019 Risk Transfer Program: During its August 7, 2019 meeting, the CEA Governing Board, acting as Interim Council, granted the Administrator broad authority to execute a risk transfer strategy and purchase, consistent with the written Risk Transfer Policy, insurance protection for the Fund. This risk transfer protection was for nearly nine months and went into effect in September 2019, just two months after enactment of the 2019 Wildfire Legislation and the creation of the Fund~~, and expired at the end of May 2020~~. The 2019 risk transfer protection covered liabilities arising from the 2019 wildfire season, related to the two IOUs that had joined the Fund at that time, SDG&E and SCE.

- 2020 Risk Transfer Program: In June 2020, the Administrator once again engaged the reinsurance market regarding the potential for a risk transfer program for the 2020 wildfire season. After considerable analysis and great consideration, including Zoom-enabled reinsurer marketing presentations to more than 200 individuals representing more than 50 reinsurers located in the U.S. and elsewhere in the Americas, Bermuda, London, Europe, and Asia, ~~the~~ Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability. Administrator staff continue to evaluate and analyze the risk, pricing, and structural alternatives to enhance the claims~~-~~-paying capacity and durability of the Fund and may engage the market if a program later developed can achieve the durability goals of the Fund. If the Administrator does engage in a 2020 risk transfer program, details will be provided in a future ~~Plan of Operations~~annual report.

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.

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Comparison to Prior Year. Changes from prior year results, models and methodologies will be discussed in this section in subsequent reports.

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III. The Success of the Fund

The Council and Administrator have taken all necessary actions to establish and operationalize the Fund. As Interim Administrator, CEA quickly established the required financial infrastructure (e.g., trust accounts, investment advisors, investment policies, asset managers, and financial and accounting systems) to allow receipt of the more than $4.6 billion transferred to the Fund only weeks after the 2019 Wildfire Legislation was signed into law. From a Fund governance perspective, the Council was successfully activated in October 2019 with the appointment of a majority of its members, and currently has a full roster of nine active members.

This Section III: (1) provides a brief summary of the Council's public meetings during this reporting period; (2) includes information on the investments of moneys in the Fund as authorized by Public Utilities Code section 3281(c); and (3) provides a summary of incurred claims.

Overview of the Council's Public Meetings

Prior to the establishment of a quorum of the Council, the 2019 Wildfire Legislation designated the CEA Governing Board ("Governing Board") to exercise the powers and duties of the Council on an interim basis. The Governing Board met in that capacity once, on August 7, 2019, and approved administrative steps undertaken by the CEA to implement and operationalize the Fund. These administrative steps included, approving, adopting and/or ratifying agreements by CEA for custodial banking and demand deposit accounts, asset-management services, and investment consulting, authorizing CEA to undertake expedited procurement and engagement of additional asset managers in anticipation of additional capitalization, approving and adopting investment policies for the Fund, and authorizing CEA to develop, document and implement a cost allocation methodology to allocate all CEA administration expenses arising from or related to the Fund for payment by the Fund consistent with Insurance Code section 10089.6(d)(11). During this meeting, the Governing Board also approved CEA's activities to procure a reinsurance intermediary for risk transfer services, and to develop and implement risk transfer guidelines and a risk transfer strategy to protect the Fund during the looming 2019 wildfire season. It is important to note that the Fund was "on risk" immediately upon the Governor's signature of AB 1054.

Once activated by the appointment of a majority of members, the Council held its first public meeting on January 16, 2020, and elected a Chair, Mark Ghilarducci (the Governor's designee and also Director of the Governor's Office of Emergency Services), and a Vice-Chair, Rich Gordon (the appointee of the Speaker of the Assembly). Among other matters, during this initial meeting, the Council authorized CEA to manage the Conflict-of-Interest Code adoption process pursuant to Government Code section 87300, and adopted a Statement of Incompatible Activities pursuant to Government Code section 19990. The Council also discussed key Fund issues, including the appointment of the Administrator, the development of ~~a Plan of Operations~~an Annual Report, and the Administrator's procurement of consulting services to advise CEA on the development of policies and procedures for post-event functions.

During its April 23, 2020 meeting, after careful deliberations and discussions about whether CEA had the core competencies to perform all required functions of the Administrator, and after making a specific factual finding that CEA did indeed possess those core competencies, the Council appointed CEA as the Administrator. The Council also adopted a slightly revised Statement of Incompatible Activities, which was amended at the request of the California Department of Human Resources. Finally, during this meeting, the Council and Administrator participated in a dialogue regarding the Fund's durability analysis and management, potential revisions to the Investment Policy for Fund Assets, and the status of the Administrator's procurement process for consulting services for post-event functions.

The Council is scheduled to meet again on July 23 and October 22, 2020. Details of these future meetings will be included in the ~~second annual Plan of Operations~~Ssecond Annual Report ~~to be filed in mid-2021~~.

Summary of Investments as Authorized by Public Utilities Code section 3281(c)

Public Utilities Code section 3281 enumerates the duties and powers of the Administrator of the Wildfire Fund. Among the Administrator's duties is the responsibility to prudently invest Fund assets. In establishing investment parameters for the Fund, the Legislature incorporated by reference into Public Utilities Code Section 3281(c) the investment guidelines enumerated in Government Code section 16430, which lists permissible investments for the State's general fund moneys held in the Treasurer's SMIF. While Section 16430 was enacted solely for the purpose of guiding the investment of public funds, the Legislature's incorporation of Section 16430 into the 2019 Wildfire Legislation expresses a clear directive to the Administrator to be conservative and apply low risk investment policies that emphasize capital preservation. The written Investment Policies that the Council has approved establish authorized investments that remain within the confines of Government Code Section 16430.

Claims Summary

During the report period, no claims were made by any of the IOUs on the Fund. However, see below in *Section IV* of this report, for a summary of the 2019 Kincade Fire, which still has the potential to give rise to a claim on the Fund.

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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 utility 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; and
- 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, PG&E's emergence from bankruptcy, and potential future implications from the Kincade Fire 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. Since the formation of the Fund~~,~~, and the receipt of initial financial contributions from SCE and SDG&E, both IOUs have experienced rating stabilizations. Though the actual ratings have not changed, both IOUs' ratings outlooks have moved in a positive direction.~~ ~~Standard & Poor's changed the outlook for SDG&E from negative to stable and removed SCE from credit watch negative and assigned a stable outlook. Moody's affirmed ~~ratings, but~~ratings but moved SDG&E's outlook from negative to positive, and SCE's from negative to stable. ~~the IOUs have not had any negative rating action, resulting in a stabilization of ratings. A summary the IOU ratings, as of July 7, 2020 is included on the next page.~~

~~IOU~~	~~AGENCY~~	~~DEBT TYPE (RATING TYPE)~~	~~RATING~~	~~RATING DATE / LAST REVIEW DATE*~~	~~CREDIT WATCH / OUTLOOK~~	~~CREDIT WATCH / OUTLOOK DATE~~
~~Sempra~~[6]	~~S&P Global Ratings~~	~~Issuer Credit Rating (Foreign Currency LT)~~	~~BBB+~~	~~10/7/2003 / 10/30/2019*~~	~~Negative~~	~~7/9/2018~~
~~Sempra~~	~~Moody's~~	~~Long Term Rating (LT Issuer Rating)~~	~~Baa2~~	~~6/9/2020~~	~~Stable~~	~~-~~
~~SoCal Edison~~	~~S&P Global Ratings~~	~~Issuer Credit Rating (Foreign Currency LT)~~	~~BBB~~	~~1/21/2019 / 5/28/2020*~~	~~Stable~~	~~7/26/2019~~
~~SoCal Edison~~	~~Moody's~~	~~Long Term Rating (LT Issuer Rating)~~	~~Baa2~~	~~7/29/2019~~	~~Stable~~	~~7/29/2019~~
~~PG&E~~	~~S&P Global Ratings~~	~~Issuer Credit Rating (Foreign Currency LT)~~	~~BB-~~	~~6/15/2020 / 6/15/2020*~~	~~Stable~~	~~6/15/2020~~
~~PG&E~~	~~Moody's~~	~~Long Term Rating (LT Corporate Family Ratings)~~	~~Ba2~~	~~6/15/2020~~	~~Stable~~	~~-~~

~~**Moody's uses the same date for the "rating date" and the "last review date."*~~
~~*Source: S&P Global Market Intelligence*~~

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 annually 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 2020 Wildfire Mitigation Plans and Related Documents is available at the CPUC's website: https://www.cpuc.ca.gov/wildfiremitigationplans/.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from the CPUC. 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 2019 safety certifications from the CPUC. More information on these safety certificates is available at the CPUC's website: https://www.cpuc.ca.gov/wildfires/.

~~[6] SDG&E is one of Sempra's regulated California utilities.~~

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The Fund & PG&E

On July 1, 2020, the Administrator received $5.008 billion (Initial Capitalization of $4.815 billion, plus $193 million for PG&E's share of the aggregate annual IOU contributions for 2019) in contributions from PG&E, qualifying it for coverage from the Fund. The Fund's asset managers have been able to invest all the PG&E contributions in a manner consistent with the Fund's Investment Policy.

PG&E's contributions satisfied the final remaining statutory requirement for PG&E to be included in and protected by the Fund. As we enter the 2020 wildfire season, the Fund is available to respond to covered wildfires caused by any of the IOUs.

The 2019 Wildfire Season and the Implications of the Kincade Fire on the Fund

The 2019 wildfire season caused less damage than the devastating 2017 and 2018 seasons. Detailed information about the 2019 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2019/. During the report period, there have been nine wildfires – Saddle Ridge Fire (October 10, 2019)~~, Kincade Fire (October 23, 2019)~~, Cypress Complex Fire (October 27, 2019), Milpitas Fire (October 27, 2019), Pleasant Fire North (October 27, 2019), Pleasant Fire South (October 27, 2019), Forest Fire (October 27, 2019), Easy Fire (October 30, 2019), ~~and~~ Maria Fire (October 31, 2019), and Cambria Fire (July 6, 2020) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records. There has been one wildfire, the Kincade Fire (October 23, 2019) that CAL FIRE has determined was caused by PG&E. With the exceptions of the Saddle Ridge and Kincade fires, all these actual and potential IOU-caused fires resulted in minimal structural damage, with fewer than 5 structures damaged in each case. The Saddle Ridge Fire resulted in the damage or destruction of 107 structures, while the Kincade Fire resulted in the damage or destruction of as many as 434 structures.

While to date no IOU has made any claims on the Fund, the Administrator ~~CEA~~ is aware that on July 16, 2020, CAL FIRE ~~has~~ determined that the Kincade F~~f~~ire was caused by electrical transmission lines owned and operated by PG&E. ~~PG&E filed with the CPUC an incident report related to the Kincade Fire in Sonoma County. The Kincade Fire started on October 23, 2019, shortly before PG&E initiated a wide scale public safety power shutoff, and the ignition point was fully contained on November 6, 2019, after burning 77,758 acres and destroying more than 370 structures. The final cause has not yet been determined by CAL FIRE, so the Kincade Fire is not yet considered a "covered wildfire" as defined in the 2019 Wildfire Legislation.~~ Since it has been determined that ~~If~~ PG&E was ~~is ultimately determined to have been~~ at fault, the fire will become a covered wildfire and loss claims in excess of PG&E's $1 billion annual retention ~~might~~ may be submitted to the Fund. Because PG&E was still in bankruptcy at the time the fire was ignited, the Fund's reimbursement obligation would be capped at 40% of the amount of eligible claims that would otherwise be reimbursable by the Fund. If the Kincade Fire results in a claim, ~~full~~ details will be included in a subsequent ~~Plan of Operations~~annual report.

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WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE ON WILDFIRE FUND OPERATIONS

Report Period: July 12, 2019 – July 11, 2020
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 23, 2020

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 first Annual Report covers the one-year period of July 12, 2019 (the effective date of AB 1054 (Holden, Burke & Mayes, Chapter 79, Statutes of 2019) and AB 111 (Committee on Budget, Chapter 81, Statutes of 2019), and thus the creation date of the Wildfire Fund) through July 11, 2020.

[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.

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 which 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 claims arising from covered wildfires. The $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 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, 2020, SDG&E, SCE, and PG&E have all provided their initial and first annual financial contributions. The IOU contributions combined with the SMIF loan total $9.8 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. 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, 2020 and audited financials as of December 31, 2019 can be found in *Section I: Fund Assets*.

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

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, has engaged both Filsinger Energy Partners ("Filsinger") and Guy Carpenter & Company ("Guy Carpenter"), a global reinsurance broker, and has worked with them to make further refinements to the models to aid CEA in monitoring Fund durability and exposure to losses. The Administrator also uses the historical total losses to create an alternate "high risk" view. Additional detail regarding the test scenarios and durability analysis can be found in *Section II: Projections for the Durability of the Fund*.

III. The Success of the Fund

Assessing the success of the Fund during its first full year in existence requires examination of (1) the start-up process undertaken to operationalize and capitalize the Fund; (2) the establishment of the required infrastructure for administration and oversight of the Fund, and (3) whether the Fund had sufficient claim-paying capacity to cover any incurred or anticipated claims from the 2019 wildfire season.

(1) Start-up and Operationalization of the Fund. The Council and Administrator have taken all necessary actions to establish and operationalize the Fund. Immediately upon the effective date of the 2019 Wildfire Legislation, CEA was designated as the Interim Administrator of the Fund. Prior to the activation of the Council, the duties and responsibilities of the Council to oversee CEA's activities were vested in CEA's Governing Board (consisting of the Governor, the Insurance Commissioner, and the Treasurer, with ex officio members appointed by the Speaker of the Assembly and the Chair of the Senate Rules Committee). As Interim Administrator, CEA quickly established the required financial infrastructure (e.g., trust accounts, investment advisors, investment policies, asset managers, and financial and accounting systems) to allow for receipt of the more than $4.6 billion transferred to the Fund only weeks after the 2019 Wildfire Legislation was signed into law. The CEA Governing Board also approved CEA's activities to procure a reinsurance intermediary for risk transfer services, and to develop and implement risk transfer guidelines and a risk transfer strategy to protect the Fund during the looming 2019 wildfire season. It is important to note that the Fund was "on risk" immediately upon the Governor's signature of AB 1054.

(2) Establishment of Council and Appointment of Administrator. The Council was successfully activated in October 2019, and currently has a full roster of active members. The Council met twice during the report period: January 16, 2020; and, April 23, 2020. The Council is scheduled to meet on July 23, 2020 and October 22, 2020.

Details of these future meetings will be included in the Second Annual Report. All publicly noticed meeting agendas and materials, along with past meeting materials, are available at this website: https://www.cawildfirefund.com/council.

(3) Claims Summary. During the report period, no claims were made by any of the IOUs on the Fund. However, see below in *Section IV* of this report, for a summary of the 2019 Kincade Fire, which still has the potential to give rise to a claim on the Fund.

IV. Whether or not the Fund is Serving its Purpose

During its first year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOUs credit ratings, the participation of PG&E in the Fund, and the Administrator's experience with the 2019 wildfire season and associated impacts on the Fund.

- IOU Credit Ratings. Since the formation of the Fund, and the receipt of initial financial contributions from SCE and SDG&E, both IOUs have experienced rating stabilizations. Though the actual ratings have not changed, both IOUs' ratings outlooks have moved in a positive direction.
- Participation of PG&E in the Fund. On July 1, 2020, PG&E made its initial and first annual financial contribution to the Fund. This satisfied the final remaining statutory requirement for PG&E to be included in and protected by the Fund. As we enter the 2020 wildfire season, the Fund is available to respond to covered wildfires caused by any of the three large IOUs – PG&E, SDG&E, and SCE.
- The 2019 Wildfire Season. The work the Administrator and Council have performed over the past year to operationalize the Fund puts the Administrator in a ready position to be able to discharge its statutory duties related to paying claims for covered wildfires. And while, to date, no IOU has made any claims on the Fund, the Administrator is aware that on July 16, 2020, the California Department of Forestry and Fire Protection (CAL FIRE) determined that the Kincade fire was caused by electrical transmission lines owned and operated by PG&E. Should PG&E in the future seek reimbursement from the Fund for claims incurred during the 2019 wildfire season, including as a result of the Kincade Fire, the Administrator will reimburse those claims consistent with Public Utilities Code section 3292(e), and will report to the Legislature in a future annual report.

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WILDFIRE FUND ADMINISTRATOR

ANNUAL REPORT TO THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL AND THE LEGISLATURE

ON

WILDFIRE FUND OPERATIONS

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REPORT PERIOD: JULY 12, 2019 – July 11, 2020
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 23, 2020

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 2019 audited financial statements, available at this website: https://www.earthquakeauthority.com/About-CEA/Financials/Financial-Statements. Following are excerpts of that financial information, which covers calendar year 2019, along with supplemental unaudited informational related to the Fund's contributions received through July 11, 2020.

CALIFORNIA EARTHQUAKE AUTHORITY

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

As of December 31, 2019

	Custodial Funds
Assets	
Cash and investments:	
Cash and cash equivalents	$ 170,912,277
Investments	4,599,954,544
Total assets	$ 4,770,866,821
Liabilities and Net Position	
Liabilities:	
Securities payable	$ 447,511
Net position:	
Restricted for CWF	4,770,419,310
Total liabilities and net position	$ 4,770,866,821

CALIFORNIA EARTHQUAKE AUTHORITY

Statement of Changes in Fiduciary Net Position – Fiduciary Funds of California Wildfire Fund

For the Period from Inception of July 12, 2019 to December 31, 2019

	Custodial Funds
Additions:	
Deposits from CWF	$ 4,789,829,741
Deductions:	
Withdrawals by CWF	19,410,431
Increase in net position	4,770,419,310
Net position, at inception	-
Net position, end of year	$ 4,770,419,310

The 2019 Wildfire Legislation created a capitalization structure that ultimately will result in a total claim-paying capacity for the Fund of approximately $21 billion. As noted above, the approximately $21 billion in claim-paying capacity is generated from two revenue streams: surcharges on ratepayers of IOUs; and contributions from the equity base of the IOUs. The 2019 Wildfire Legislation also required that the Fund be initially capitalized in the form of a short term $2 billion loan from the 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.

The Administrator is working with DWR, the State Treasurer's Office, the Department of Finance, the CPUC, municipal advisors, underwriters and law firms to prepare for the issuance of bonds by DWR, backed by a pledge of the NBCs as described above.

During 2019, the Fund received $2,792,400,000 in contributions from two of the IOUs – SCE and SDG&E. And, in early July 2020, the Fund received a contribution from PG&E following its emergence from bankruptcy. As the table on the following page shows, as of July 11, 2020, the Fund has received $9.8 billion 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 received schedule
from inception through 07/11/2020

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SCE initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SCE 2019 annual contribution	12/27/2019	94,500,000
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000
			$9,800,000,000

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 developed and implemented a cost-allocation methodology to ensure that each of those funds bears its own administration expenses.

II. Projections for the Durability of the Fund

The stated legislative intent and language of the 2019 Wildfire Legislation requires that the Fund be administered to maximize the durability of the Fund so that it provides protection and claim-paying resources to the IOUs while they continue to invest in safety measures designed to reduce the frequency and severity of utility caused wildfires. For example, Public Utilities Code section 3281(e) authorizes the Administrator, subject to the oversight of the Council, to "buy insurance or take other actions to *maximize the claims paying resources of the fund*." Additionally, the Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund.

"Durability" Defined. Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. For example, if Fund durability is 90% at 2035, that would mean there would be a 90% probability that the Fund will have endured to 2035, while paying eligible claims as and when they arise. Conversely, there would be a 10% chance that the Fund would not have had sufficient funds to pay all eligible claims arising during that time period. Durability is a cumulative measure and is expected to decline over any specific number of years as money is periodically drawn from the Fund to pay eligible claims.

Dependencies / Key Factors Influencing Durability. At its simplest, durability depends on the amount of losses flowing to the Fund and the amount of money the Fund has, or will have, to pay eligible losses. Larger more frequent losses potentially exhaust the Fund more quickly. The larger the amount of available Fund resources to pay losses (initial capital, investment income, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses.

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, 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 1990's. Catastrophe-loss models are also used for assessing risk at the local, state, and national level and for emergency planning scenarios. In contrast, catastrophe-loss models for wildfire risk are relatively new, have not been widely tested in the market, and have significant differences in the approaches used and the modeled results from one model to the next. Nevertheless, the models can be useful in developing a range of potential wildfire losses. The Administrator relies on catastrophe-loss model output from the AIR Worldwide Touchstone 7 model as a starting point for measuring the potential distribution of eligible claims to the Fund. The Administrator also considers historical losses potentially attributable to IOUs in assessing durability.

Modeling wildfire risk is a complex process. The AIR Touchstone 7 model considers such factors as ignition, fuel and fuel characteristics, terrain, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 7 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. There are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. It must be recognized that actual losses to the Fund will vary, perhaps significantly, from the modeled losses.

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<u>Financial Models.</u> 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 through 2035. 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, has engaged both Filsinger and Guy Carpenter, and has worked with them to make further refinements to the models to aid CEA in monitoring Fund durability and exposure to losses. The key differences in the two financial models are the wildfire losses used and the incident rate or attribution to the IOUs. These differences are discussed in turn.

> *<u>Wildfire losses:</u>* Guy Carpenter relies on the AIR model and increases them by a factor of 1.5 to approximate total loss. Filsinger considers two views of losses. In the first view they, too, look at the AIR model output. For the second view, they rely on historical total losses potentially attributable to the IOUs.
>
> *<u>Attribution:</u>* Filsinger uses the loss allocation percentages in the 2019 Wildfire Legislation to attribute losses to each IOU. Guy Carpenter attributes the loss to each IOU in a two-step process. First, the modeled loss is assigned to a specific IOU based on the location

of the ignition and the IOU 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 Administrator relies upon the loss and attribution rate methodology from Guy Carpenter to develop potential wildfire losses. The Administrator also uses the historical total losses to create an alternate "high risk" view. The financial model provides a multi-year view of the Fund starting with the actual financial position of the Fund for the most recent year-end. 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 below.

	Scenario	**Current Year**
1.	Base - 60% & 40% settlement rate - 10% mitigation credit -100% prudency	99.9%
2.	Phased Mitigation - 40% settlement rate - Mitigation credits postponed to 2024 -100% prudency - Base risk	99.9%
3.	High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency - Base risk	99.9%
4.	High Risk - 40% settlement rate - No mitigation credits -100% prudency	99.9%

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Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[3] Because a higher settlement rate means more

[3] 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.

losses are paid from the Fund, the 60% settlement rate is associated with a slightly lower durability estimate in the current year. However, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability. In the base scenario, modeled losses are adjusted for a 10% mitigation credit to reflect the Administrator's estimate of mitigation effects based on a review of the IOU mitigation plans and the estimates contained therein along with State mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is 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 IOU's act prudently – the effect is that the Fund has more resources and higher durability when prudency is low.

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Phased Mitigation – 2: This scenario is the same as Base scenario 1 with the mitigation credit postponed. The intent of this scenario is not to imply that mitigation efforts have been or will be postponed, it is intended to provide a means to compare the results of this scenario to Base scenario 1 and demonstrate the beneficial effects of mitigation on Fund durability. This scenario also assumes 100% prudency and likewise presents a more conservative view of durability. The results are shown using a 40% subrogation settlement rate.

High Settlement Rate – 3: This scenario is provided to further explore the effects of settlement rates on Fund durability. This scenario is the same as Base scenario 1 with the settlement rate at 70%. A 70% settlement rate is associated with a slightly lower durability estimate in the current year. However, as noted above, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability.

High Risk - 4: The high-risk scenario uses the recent historical losses attributed to the IOUs over the past several years to create an alternate view of potential total losses where large losses are more frequent than those used in the Base scenario. Like the Base scenario, this scenario assumes 100% prudency for the same reasons as noted above as well as for the purpose of isolating the difference to the alternate view of potential future losses. However, it should be noted that assuming 100% prudency in this scenario presents a significantly more conservative view of durability. The results are shown using a 40% subrogation settlement rate.

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.

- 2019 Risk Transfer Program: During its August 7, 2019 meeting, the CEA Governing Board, acting as the Interim Council, granted the Administrator broad authority to execute a risk transfer strategy and purchase, consistent with the written Risk Transfer Policy, insurance protection for the Fund. This risk transfer protection was for nearly nine months and went into effect in September 2019, just two months after enactment of the 2019 Wildfire Legislation and the creation of the Fund. The 2019 risk transfer protection covered liabilities arising from the 2019 wildfire season, related to the two IOUs that had joined the Fund at that time, SDG&E and SCE.

- 2020 Risk Transfer Program: In June 2020, the Administrator once again engaged the reinsurance market regarding the potential for a risk transfer program for the 2020 wildfire season. After considerable analysis and great consideration, including Zoom-enabled reinsurer marketing presentations to more than 200 individuals representing more than 50 reinsurers located in the U.S. and elsewhere in the Americas, Bermuda, London, Europe, and Asia, Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability. Administrator staff continue to evaluate and analyze the risk, pricing, and structural alternatives to enhance the claim-paying capacity and durability of the Fund and may engage the market if a program later developed can achieve the durability goals of the Fund. If the Administrator does engage in a 2020 risk transfer program, details will be provided in a future annual report.

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. Changes from prior year results, models and methodologies will be discussed in this section in subsequent reports.

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III. The Success of the Fund

The Council and Administrator have taken all necessary actions to establish and operationalize the Fund. As Interim Administrator, CEA quickly established the required financial infrastructure (e.g., trust accounts, investment advisors, investment policies, asset managers, and financial and accounting systems) to allow receipt of the more than $4.6 billion transferred to the Fund only weeks after the 2019 Wildfire Legislation was signed into law. From a Fund governance perspective, the Council was successfully activated in October 2019 with the appointment of a majority of its members, and currently has a full roster of nine active members.

This Section III: (1) provides a brief summary of the Council's public meetings during this reporting period; (2) includes information on the investments of moneys in the Fund as authorized by Public Utilities Code section 3281(c); and (3) provides a summary of incurred claims.

<u>Overview of the Council's Public Meetings</u>

Prior to the establishment of a quorum of the Council, the 2019 Wildfire Legislation designated the CEA Governing Board ("Governing Board") to exercise the powers and duties of the Council on an interim basis. The Governing Board met in that capacity once, on August 7, 2019, and approved administrative steps undertaken by the CEA to implement and operationalize the Fund. These administrative steps included, approving, adopting and/or ratifying agreements by CEA for custodial banking and demand deposit accounts, asset-management services, and investment consulting, authorizing CEA to undertake expedited procurement and engagement of additional asset managers in anticipation of additional capitalization, approving and adopting investment policies for the Fund, and authorizing CEA to develop, document and implement a cost allocation methodology to allocate all CEA administration expenses arising from or related to the Fund for payment by the Fund consistent with Insurance Code section 10089.6(d)(11). During this meeting, the Governing Board also approved CEA's activities to procure a reinsurance intermediary for risk transfer services, and to develop and implement risk transfer guidelines and a risk transfer strategy to protect the Fund during the looming 2019 wildfire season. It is important to note that the Fund was "on risk" immediately upon the Governor's signature of AB 1054.

Once activated by the appointment of a majority of members, the Council held its first public meeting on January 16, 2020, and elected a Chair, Mark Ghilarducci (the Governor's designee and also Director of the Governor's Office of Emergency Services), and a Vice-Chair, Rich Gordon (the appointee of the Speaker of the Assembly). Among other matters, during this initial meeting, the Council authorized CEA to manage the Conflict-of-Interest Code adoption process pursuant to Government Code section 87300, and adopted a Statement of Incompatible Activities pursuant to Government Code section 19990. The Council also discussed key Fund issues, including the appointment of the Administrator, the development of an Annual Report, and the Administrator's procurement of consulting services to advise CEA on the development of policies and procedures for post-event functions.

During its April 23, 2020 meeting, after careful deliberations and discussions about whether CEA had the core competencies to perform all required functions of the Administrator, and after making a specific factual finding that CEA did indeed possess those core competencies, the Council appointed CEA as the Administrator. The Council also adopted a slightly revised Statement of Incompatible Activities, which was amended at the request of the California Department of Human Resources. Finally, during this meeting, the Council and Administrator participated in a dialogue regarding the Fund's durability analysis and management, potential revisions to the Investment Policy for Fund Assets, and the status of the Administrator's procurement process for consulting services for post-event functions.

The Council is scheduled to meet again on July 23 and October 22, 2020. Details of these future meetings will be included in the Second Annual Report.

Summary of Investments as Authorized by Public Utilities Code section 3281(c)

Public Utilities Code section 3281 enumerates the duties and powers of the Administrator of the Wildfire Fund. Among the Administrator's duties is the responsibility to prudently invest Fund assets. In establishing investment parameters for the Fund, the Legislature incorporated by reference into Public Utilities Code Section 3281(c) the investment guidelines enumerated in Government Code section 16430, which lists permissible investments for the State's general fund moneys held in the Treasurer's SMIF. While Section 16430 was enacted solely for the purpose of guiding the investment of public funds, the Legislature's incorporation of Section 16430 into the 2019 Wildfire Legislation expresses a clear directive to the Administrator to be conservative and apply low risk investment policies that emphasize capital preservation. The written Investment Policies that the Council has approved establish authorized investments that remain within the confines of Government Code Section 16430.

Claims Summary

During the report period, no claims were made by any of the IOUs on the Fund. However, see below in *Section IV* of this report, for a summary of the 2019 Kincade Fire, which still has the potential to give rise to a claim 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 utility 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; and
- 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, PG&E's emergence from bankruptcy, and potential future implications from the Kincade Fire 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. Since the formation of the Fund, and the receipt of initial financial contributions from SCE and SDG&E, both IOUs have experienced rating stabilizations. Though the actual ratings have not changed, both IOUs' ratings outlooks have moved in a positive direction. Standard & Poor's changed the outlook for SDG&E from negative to stable and removed SCE from credit watch negative and assigned a stable outlook. Moody's affirmed ratings but moved SDG&E's outlook from negative to positive, and SCE's from negative to stable.

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 annually 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 2020 Wildfire Mitigation Plans and Related Documents is available at the CPUC's website: https://www.cpuc.ca.gov/wildfiremitigationplans/.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from the CPUC. 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 2019 safety certifications from the CPUC. More information on these safety certificates is available at the CPUC's website: https://www.cpuc.ca.gov/wildfires/.

The Fund & PG&E

On July 1, 2020, the Administrator received $5.008 billion (Initial Capitalization of $4.815 billion, plus $193 million for PG&E's share of the aggregate annual IOU contributions for 2019) in contributions from PG&E, qualifying it for coverage from the Fund. The Fund's asset managers have been able to invest all the PG&E contributions in a manner consistent with the Fund's Investment Policy.

PG&E's contributions satisfied the final remaining statutory requirement for PG&E to be included in and protected by the Fund. As we enter the 2020 wildfire season, the Fund is available to respond to covered wildfires caused by any of the IOUs.

The 2019 Wildfire Season and the Implications of the Kincade Fire on the Fund

The 2019 wildfire season caused less damage than the devastating 2017 and 2018 seasons. Detailed information about the 2019 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2019/. During the report period, there have been nine wildfires – Saddle Ridge Fire (October 10, 2019), Cypress Complex Fire (October 27, 2019), Milpitas Fire (October 27, 2019), Pleasant Fire North (October 27, 2019), Pleasant Fire South (October 27, 2019), Forest Fire (October 27, 2019), Easy Fire (October 30, 2019), Maria Fire (October 31, 2019), and Cambria Fire (July 6, 2020) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records. There has been one wildfire, the Kincade Fire (October 23, 2019) that CAL FIRE has determined was caused by PG&E. With the exceptions of the Saddle Ridge and Kincade fires, all these actual and potential IOU-caused fires resulted in minimal structural damage, with fewer than 5 structures damaged in each case. The Saddle Ridge Fire resulted in the damage or destruction of 107 structures, while the Kincade Fire resulted in the damage or destruction of as many as 434 structures.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on July 16, 2020, CAL FIRE determined that the Kincade Fire was caused by electrical transmission 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

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may be submitted to the Fund. Because PG&E was still in bankruptcy at the time the fire was ignited, the Fund's reimbursement obligation would be capped at 40% of the amount of eligible claims that would otherwise be reimbursable by the Fund. If the Kincade Fire results in a claim, details will be included in a subsequent annual report.

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CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 9: Update on Claims Administration Procedures

Recommended Action: No action required—information only

California Public Utilities Codes section 3284(g) requires the Administrator of the Wildfire Fund, with the approval of the California Catastrophe Response Council ("Council") to establish procedures for the review, approval and timely funding of eligible claims.

At the April 23, 2020 Council meeting, CEA staff provided the Council with a high-level overview of the claim paying process as outlined in AB 1054 (2019) and discussed on-going plans to procure consulting services for this administrative function.

CEA solicited proposals from four consulting firms and conducted interviews with all three of the firms that responded. Based upon the written proposals, phone interviews and prior work product, CEA selected Carlson, Calladine & Peterson LLP. The primary attorneys staffing this work are partners who each have at least 20 years of experience in wildfire claims and litigation. Importantly, Carlson, Calladine & Peterson LLP does not represent electrical utilities or wildfire claimants – both of which would have posed a potential conflict for the Wildfire Fund.

On June 11, 2020, CEA's Governing Board approved the creation of an executive-level position at CEA, the Chief Catastrophe Response and Resiliency Officer, to oversee all claims responsibilities for CEA, both earthquake and wildfire. During this meeting, the Governing Board also approved the hiring of Dr. Laurie A. Johnson FAICP for this position.

Laurie, CEA General Counsel Tom Welsh and Staff Counsel Suman Tatapudy had a kick-off meeting with Carlson, Calladine and Peterson LLP on June 15, 2020 and had another working session on July 9, 2020 to discuss the first draft scoping document and consider key decision points on how the threshold claim and reimbursement claim administrative review processes might be structured.

The team is working toward an early September deadline for a first draft of the claims administration policies and procedures to share with Council members in order to incorporate feedback and prepare a final draft for the Council's consideration for approval at its October 23, 2020 meeting. CEA is exploring ways to include the Investor-Owned Utilities (IOUs) in this process, including a confidential data call, to incorporate their input as we develop the draft policies and procedures.

California Catastrophe Response Council Memorandum

July 23, 2020

Agenda Item 10: General Discussion

Recommended Action: No action required—information only

The Administrator suggests the Council consider discussing the following topics:

a. Developing a process for annual evaluations of the performance of the Wildfire Fund Administrator.
b. Establishing protocols or guidelines for Council Members who receive speaking engagement requests regarding the work of the Council or the Wildfire Fund.
c. The Council's interest in receiving periodic presentations at future Council meetings from subject matter experts on various topics relevant to the Wildfire Fund.