CALIFORNIA EARTHQUAKE AUTHORITY™

Wildfire Fund Administrator

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July 22, 2021

Date of Notice: **July 12, 2021**

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 on the Agenda 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: **July 22, 2021**

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

TELECONFERENCE ACCESS: *

Online Access: **https://us02web.zoom.us/j/82200437239**
Dial-in Number: **+1 (669) 900-6833**
Enter Access code: **822 0043 7239#**

Public Participation: The telephone lines and Zoom links 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 and Zoom links will be unmuted upon request 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 technical difficulties that may occur with the Zoom platform or 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 or use the "Raise Hand" button on Zoom.** Either of these actions will notify the meeting moderator that you wish to comment, and you will be placed in line to comment in the order in which requests are received. When it is your turn to comment, the moderator will unmute you and announce your opportunity to comment. 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. Please take notice that this meeting may be recorded, and that making public comments during the meeting will be deemed to indicate your consent to the recording and all future use and distribution of the recording.

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 sjohnson@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 Susan Johnson by telephone, toll free, at **(877) 797-4300** or by email at sjohnson@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/council

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 Barna

   Establishment of a quorum

2. Minutes: Review and approve minutes of the April 22, 2021, meeting of the Council.

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

4. Informational Presentation – Office of Energy Infrastructure Safety: Caroline Thomas Jacobs, Director, Office of Energy Infrastructure Safety, California Natural Resources Agency, will provide an overview of the roles and responsibilities of the newly established Office of Energy Infrastructure Safety, as successor to the Wildfire Safety Division of the California Public Utilities Commission.

5. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund.

6. Claims Administration: Dr. Laurie Johnson, CEA Chief Catastrophe Response & Resiliency Officer, will seek Council approval of the Claims Administration Procedures for the Wildfire Fund.

7. Plan of Operations (Second Annual Report): CEA Senior Counsel Suman Tatapudy will ask the Council to review and consider approval and adoption of the Second Annual Report and, if approved, authorize the Administrator to deliver the Second Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

8. Legislative Update: CEA Legislative Director Susie Hernandez will provide a legislative update to the Council.

9. ERM Framework: CEA Chief Risk & Actuarial Officer Shawna Ackerman will provide an update on the development of the Enterprise Risk Management program for the California Wildfire Fund.

10. 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.

11. 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/council

California Catastrophe Response Council Memorandum

July 22, 2021

Agenda Item 2: Meeting Minutes

Recommended Action: Approve Minutes of April 22, 2021 Meeting

Attached is a draft of the minutes of the April 22, 2021, meeting of the California Catastrophe Response Council. CEA staff has reviewed these minutes and believe they accurately summarize and document the matters discussed and actions taken by the Council at that meeting. CEA staff recommends approval and adoption of the draft minutes as the official record of the April 22, 2021 meeting of the Council.

CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

DRAFT
California Catastrophe Response Council
Meeting Minutes

Teleconference Meeting
April 22, 2021
2:00 p.m.

Members of Council in Attendance:

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

* Member joined at 2:05 p.m., after roll call and establishment of quorum, but prior to action on any Agenda Item.

Members of CEA Staff in Attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk & Actuarial Officer
Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, General Counsel
Jim Lombard, Chief Administrative Officer
Susan Johnson, Governance Liaison

Speaker: Jessica Morse, Deputy Secretary-Forest Resources Management, California Natural Resources Agency

1. **<u>Quorum</u>: Call to Order and Member Roll Call**

Chairman Ghilarducci called the meeting, held via Zoom, to order at 2:02 p.m.

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

2. **<u>MINUTES</u>: Review and approve minutes of the January 28, 2021 meeting of the Council.**

MOTION: Chairman Ghilarducci motioned to approve the January 28, 2021 meeting minutes as written. The motion carried unanimously.

<u>EXECUTIVE REPORT</u>: CEA CEO Glenn Pomeroy provided the Council with an executive report.

Mr. Pomeroy reported that the Council and the Wildfire Fund are wrapping up the final quarter of their second full year of existence and he thanked the Council members for their service. He also noted that CEA staff has leveraged its resources to support the Council and the Wildfire Fund. Specifically, that CEA as Wildfire Administrator has built up and enhanced the Wildfire Fund's claims process; validated the Wildfire Fund's federal tax-exempt status; and managed the transfer of funds paid by the Investor-Owned Utilities into the Wildfire Fund, which, in turn, has helped to provide financial stability for the Investor-Owned Utilities.

Mr. Pomeroy remarked that over the past two wildfire seasons, no claim has been made on the Wildfire Fund, and noted the state has made an impressive investment into California fire risk in general.

3. **<u>WILDFIRE MITIGATION</u>: Informational presentation on Wildfire Mitigation and California's Wildfire and Forest Resilience Action Plan by CEA Chief Administrative Officer Jim Lombard and California Natural Resources Agency Deputy Secretary for Forest Resources Management, Jessica Morse .**

Prior to introducing Deputy Secretary Morse, Mr. Lombard affirmed CEA's commitment in keeping the Council current on wildfire prevention and forest restoration activities in California.

Deputy Secretary Morse's presentation focused on California's Wildfire and Forest Resilience Action Plan. She said 5 of the 6 largest wildfires in state history occurred in 2020 and those wildfires burned 4.2 million acres, killed 169 million trees, and displaced 250,000 people. She noted that California needs to become more ecologically resilient and that climate change is "colliding with the state's overly dense forests."

Deputy Secretary Morse expressed hope for the future based on the state's plan to promote resilience by creating stronger ecosystems. To that end, she said, the Natural Resources Agency is investing in fire resilience on three fronts:

- Activities inside a community to ensure that they can withstand a fire.
- Activities around a community to be able to arrest a fire and create evacuation routes in the wildland-urban interface.
- Activities across the landscape to restore watersheds and ecosystems among different types of ecozones so they once again become fire-resilient and return fire to its normal ecological boundaries.

She said the Governor's budget invests in all three of these activities. She further stated that the Natural Resources Agency is supporting a low interest loan program for small businesses to invest in resiliency. All of the Agency's efforts are "ecologically thoughtful with a goal to deliver fire safety and fire resiliency today and for generations to come," she concluded.

Questions and Discussion

Council member Rosenstiel asked Deputy Secretary Morse if the three Investor-Owned Utilities are involved in the Agency's efforts. Deputy Secretary Morse replied that the Investor-Owned Utilities are doing their own vegetation management. Additional discussions included alternative funding sources for these mitigation and resiliency initiatives.

4. <u>ANNUAL ADMINISTRATOR EVALUATION</u>: Council Members Paul Rosenstiel and Catherine Barna presentation on the Annual Administrator Evaluation.

Council Members Barna and Rosenstiel presented the results of the Council's first annual evaluation of CEA's performance as Administrator of the Wildfire Fund. Each Council member completed a performance questionnaire, which covered eight accountability areas plus an overall assessment.

The eight accountability areas and aggregated numerical results (based on the indicated Rating Scale) are as shown on the table below:

Leadership and Culture	4.6
Financial Leadership	4.3
Strategic Development	4.4
Council relations	4.6
Council Governance and Compliance	4.7
Claims Administration	4.3
Enterprise Risk Management	4.3
Stakeholder Engagement	4.4
Overall Evaluation	4.4

Rating Scale
5 – Exceeds Expectations
4 – Meets All Expectations
3 – Meets Most Expectations
2 – Meets Some Expectations
1 – Does Not Meet Expectations

Council member Rosenstiel said all Council members had input into the evaluation and "we came to the very strong conclusion that the Administrator is doing a very good job." Added Council member Rossman, "the CEA staff has earned our confidence and trust."

5. **FINANCIAL REPORT: CEA Chief Financial Officer Tom Hanzel's Financial Report on the Wildfire Fund.**

Mr. Hanzel provided a financial report on the Wildfire Fund as of February 28, 2021. He reported on the Wildfire Fund's overall balance sheet; and discussed the statement of revenues and expenses for the Fund and the Fund's net asset position as shown on the financial statements distributed to the Council members in the meeting materials.

Mr. Hanzel also reported on the Fund's revised investment policy, which took effect in June 2020. He said the revised investment policy has allowed the Wildfire Fund to increase its investment returns by taking advantage of credit diversity and composition, along with an increased investment duration, while still meeting its goal of preserving principal and liquidity. Since the revision, Mr. Hanzel stated, that the Wildfire Fund's investment managers have allocated approximately 32% of assets to corporate bonds; and 10% to government agency debt, with the balance invested in federal treasuries and similarly secure instruments of various durations. Since implementing the revised investment guidelines, the Wildfire Fund's investment managers have increased duration from approximately 2.2 years to 4 years through investments in longer-maturity bonds.

Mr. Hanzel also reported to the Council that the California Department of Water Resources (DWR) has presented its updated budget to manage and administer the Charge Fund that holds the ratepayer Non-Bypassable Charges (NBCs.) The DWR's action resulted in a material reduction from the $12 million ongoing budget reported at the January 2021 Council meeting.

6. **CLAIMS ADMINISTRATION: Dr. Laurie Johnson, CEA's Chief Catastrophe Response & Resiliency Officer, update on preparation of Procedures for Wildfire Claim Administration.**

Dr. Johnson stated that her team is building out all aspects of the Wildfire Fund's claims administration process, which includes the development of a process-focused review of IOU claims settlements, and claims auditing processes. Work on the full draft claim procedures will include outreach to a variety of stakeholders, including utility ratepayer advocacy groups, the insurance industry, among others. Dr. Johnson also indicated that her team was developing a proposal process for securing the services of a third-party administrator to assist in handling claims after a Covered Wildfire.

The final draft Claim Procedures will be presented at the July 22, 2021 Council meeting for final review, discussion, and approval.

There were no questions from Council members.

7. **ERM FRAMEWORK: Chief Risk & Actuarial Officer Shawna Ackerman's overview of CEA's current Enterprise Risk Management (ERM) program and incorporation the California Wildfire Fund into the existing ERM framework.**

Ms. Ackerman reported on the continuing efforts of the CEA Enterprise Risk Management team to incorporate the Wildfire Fund into the existing CEA ERM framework. Ms. Ackerman stated that the CEA's earthquake insurance business and the Wildfire Fund administration face similar priority and emerging operational risks. In short, the elements of most of CEA's ERM framework are applicable to managing risks related to administration of the Wildfire Fund, although some changes and updates to the framework are underway. She stated that a Wildfire Fund Enterprise Risk Management Committee will operate in a similar fashion as the Enterprise Risk Management Committee for the CEA.

Chairman Ghilarducci thanked Ms. Ackerman and her team for their efforts.

8. **<u>IOU Insurance Evaluation Process</u>: CEA General Counsel Tom Welsh's update on the development of a framework for CEA's periodic review, pursuant to Public Utility Code § 3293, of the wildfire insurance programs of the participating IOUs.**

   Mr. Welsh reported that his team has engaged Scidan Consulting, an energy sector consulting firm, to assist CEA in the development of a framework for the Administrator's periodic review of the IOU's wildfire insurance programs, a review that is required under Public Utilities Code section 3293 to permit the Administrator to make recommendations to each IOU regarding their wildfire insurance programs. Such recommendations have the potential to increase the amount of an IOU's retention (the amount of claims the IOU must pay before seeking reimbursement from the Wildfire Fund.

   Mr. Welsh further explained that the framework will evaluate developments after the 2019 enactment of AB 1054, and that because there have not yet been claims on the Wildfire Fund, and because no other material changes have emerged since July 2019, the IOUs will be informed that there will be no changes to the IOUs' $1 billion loss retention for the upcoming 2021-2022 wildfire season.

   Council member Rosenstiel asked that the framework take into consideration the financial stability of the Investor-Owned Utilities, which will be to the ultimate benefit of utility ratepayers.

9. **<u>TAX STATUS</u>: Mr. Welsh's Report on the Federal tax status of the Wildfire Fund.**

   Mr. Welsh reported that the CEA legal department sought independent legal opinions on whether the revenue and income of the Wildfire Fund are exempt from federal taxation. As a result of those independent legal opinions, the Wildfire Fund's revenue and income will be treated as exempt from federal taxation, given the fact that the Wildfire Fund clearly fits within the IRS' "integral part" doctrine, which allows entities that are integral parts of a state to collect revenue free of federal income taxation.

   There were no questions or public comment and the Council members thanked Mr. Welsh and his legal team for their efforts.

10. **<u>PUBLIC COMMENT</u>: Public comment opportunity on matters that do not appear on the agenda and requests by the public that those matters be placed on a future agenda.**

    There was no request for public comment.

11. **<u>Adjournment.</u>**

    There being no further business, Chairman Ghilarducci adjourned the meeting at 3:37 p.m.

California Catastrophe Response Council Memorandum

July 22, 2021

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 22, 2021

Agenda Item 4: Informational Presentation on the Office of Energy Infrastructure Safety

Recommended Action: No action required—informational only

Caroline Thomas Jacobs is the Director of the Office of Energy Infrastructure Safety within the California Natural Resources Agency. Ms. Thomas Jacobs will provide the Council with an overview of the roles and responsibilities of the newly established Office of Energy Infrastructure Safety (OEIS), as successor to the Wildfire Safety Division of the California Public Utilities Commission (CPUC).

Director Thomas Jacobs was appointed by Governor Newsom in October 2019 to establish the new Wildfire Safety Division within CPUC and implement oversight of electrical corporations' wildfire safety pursuant to the requirements of Assembly Bill (AB) 1054 and AB 111. On July 1, 2021, the Wildfire Safety Division transitioned to the new OEIS within the Natural Resources Agency, and Ms. Thomas Jacobs was appointed by Governor Newsom on June 30, 2021 as Director of OEIS.

The primary objective of the OEIS is to ensure that electrical corporations are taking effective actions to reduce utility-related wildfire risk. The OEIS assesses electrical corporations' Wildfire Mitigation Plans, safety culture assessments, safety certifications, and executive compensation structures. It also conducts inspections, audits, and investigations to oversee utility compliance with approved Wildfire Mitigation Plans.

The OEIS receives and incorporates guidance from the California Wildfire Safety Advisory Board. This Board of independent experts was created by AB 1054 to advise the OEIS on electrical corporations' Wildfire Mitigation Plans, requirements for these plans, and other wildfire safety matters. Additionally, the Board reviews Wildfire Mitigation Plans submitted by Publicly-Owned Electric Utilities and Electrical Cooperatives and provides comments and Advisory Opinions. The Board also serves as an additional forum for the public to provide input on wildfire safety.

California Catastrophe Response Council Memorandum

July 22, 2021

Agenda Item 5: Financial Report

Recommended Action: No action required – information only

CEA CFO Tom Hanzel will provide the California Catastrophe Response Council with a financial report on the Wildfire Fund as of June 30, 2021 and 2020.

Additionally, Mr. Hanzel will provide an update on the investment manager RFQ that was issued in May 2021.

CALIFORNIA EARTHQUAKE AUTHORITY

Wildfire Fund Administrator

FINANCIAL REPORT

June 30, 2021

Financial Report Table of Contents

Financial Statements

California Wildfire Fund
Balance Sheets

UNAUDITED

	June 30, 2021	June 30, 2020
Assets		
Cash and investments:		
Cash and cash equivalents	$ 298,824,394	$ 236,351,845
Investments	9,658,866,267	4,681,445,308
Total cash and investments	9,957,690,661	4,917,797,153
Interest receivable	40,790,984	18,477,295
Prepaid expenses	41,666	-
Total assets	$ 9,998,523,311	$ 4,936,274,448
Liabilities and Net Position		
Securities payable	$ 25,998,440	$ 33,012,329
SMIF loan interest payable	9,622,123	11,557,377
Accounts payable and accrued expenses	1,529,120	820,334
Related party payable - CEA	242,913	565,508
Total liabilities	37,392,596	45,955,548
Net position:		
Restricted for CWF	9,961,130,715	4,890,318,900
Total net position	9,961,130,715	4,890,318,900
Total liabilities and net position	$ 9,998,523,311	$ 4,936,274,448

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

UNAUDITED

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Additions to fund assets:		
Rate payer monthly NBCs	$ 388,410,209	$ -
Total contributions	388,410,209	-
Investment income & expenses	48,105,002	35,217,752
Change in unrealized gain/(loss)	(157,131,668)	130,852,971
Net investment income	(109,026,666)	166,070,723
Total additions to fund assets	279,383,543	166,070,723
Deductions to fund assets:		
SMIF loan principal payments	420,000,000	-
SMIF loan interest expense	20,350,356	23,243,169
General and administrative expenses	1,070,621	671,337
Personnel expenses	416,805	610,353
Reinsurance expenses	-	26,208,000
Reinsurance broker commissions	-	324,000
Total deductions to fund assets	441,837,782	51,056,859
Increase in net position	(162,454,239)	115,013,864
Net position, beginning of year	10,123,584,954	4,775,305,036
Net position, end of period	$ 9,961,130,715	$ 4,890,318,900

California Wildfire Fund
2021 Approved Budget vs 2021 Actual Activity
as of June 30, 2021

	Actual Activity for Six Months Ended June 30, 2021		Approved Budget for Six Months Ended June 30, 2021		Actual Activity for Six Months Ended June 30, 2020
Additions to fund assets:					
Rate payer monthly NBCs, net	$ 388,410,209	*	$ 445,200,000	**	$ -
Utility annual contributions	-		-		-
Investment income (net of expenses)	48,105,002		40,820,378		35,217,752
Total additions to fund assets	**$ 436,515,211**		**$ 486,020,378**		**$ 35,217,752**
Deductions to fund assets:					
SMIF - principal payment	$ 420,000,000		$ 420,000,000		$ -
SMIF - loan interest	20,350,356		20,350,356		23,243,169
Reinsurance expenses	-		-		26,208,000
Reinsurance broker commissions	-		-		324,000
Personnel expenses:					
Personnel expenses - allocated from CEA	416,805		731,298		469,551
Direct expenses from CWF temps	-		-		140,802
General and administrative expenses:					
Other contracted and consulting services	340,925		550,098		177,958
Direct legal services-general	394,218		349,998		176,555
Financial services consulting	135,000		150,000		150,000
Bank fees	116,535		121,831		63,761
G&A expenses - allocated from CEA	75,440		117,312		72,803
Travel	-		10,000		6,407
Software and licenses	980		6,000		8,664
Direct IT services	225		6,000		9,372
Advertising administration - RFQ	5,500		10,000		-
Audit fees	1,328		6,000		4,758
Printing & stationary	-		600		-
Governing board meeting expenses	470		600		1,059
Total deductions to fund assets	**$ 441,837,782**		**$ 442,410,093**		**$ 51,056,859**
Change in unrealized gain/(loss)	(157,131,668)		-	***	130,852,971
Increase/(decrease) in net position	**$ (162,454,239)**		**$ 43,610,285**		**$ 115,013,864**

* - NBC funds received by CWF in 2021 are net of DWR administrative and operating expenses of $10.5mm. The $10.5mm is made up of $6.2mm of DWR A&O expenses paid from Jan'20 through April'21 and $4.3mm of funds retained in the DWR Charge Fund to pay future A&O expenses.

** - Budgeted NBC funds to be received by CWF in 2021 are net of $12mm for DWR administrative and operating expenses. Following CCRC's approval of the budget, the CEA and DWR worked to reduce the DWR A&O annual budget to approximately $5mm subsequent to fiscal year 2021.

*** - Unrealized gain/loss is not budgeted for CWF

Contributions & NBCs Received

California Wildfire Fund
Contributions & NBCs Received
As of June 30, 2021

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$ 2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SoCal Edison 2019 annual contribution	12/27/2019	94,500,000
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000
8.	SDG&E 2020 annual contribution	12/16/2020	12,900,000
9.	SoCal Edison 2020 annual contribution	12/28/2020	94,500,000
10.	PG&E 2020 annual contribution	12/30/2020	192,600,000
		Total Contributions	10,100,000,000
1.	October 2020 NBC funds	1/19/2021	4,529,887
2.	November 2020 NBC funds	1/19/2021	49,757,447
3.	December 2020 NBC funds	2/9/2021	69,351,495
4.	January 2021 NBC funds	3/15/2021	59,438,336
5.	February 2020 NBC funds	4/8/2021	73,956,153
6.	March 2021 NBC funds	5/7/2021	66,094,647
7.	April 2021 NBC funds	6/16/2021	65,282,244
		Total NBCs	388,410,209
		Total Funds Received	$ 10,488,410,209

Note 1:

NBC funds received by the CWF are net of DWR administrative and operating expenses.

Personnel and G&A Expenses

California Wildfire Fund
Operating Expenses

Personnel expenses

Description	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
1. Amounts allocated from CEA employee time	$ 416,805	$ 469,551
2. Direct expenses from CWF temps	-	140,802
Total Personnel expenses	416,805	610,353

General and administrative expenses

Description	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
1. Diret Legal services - general	394,218	176,555
2. Other contracted and consulting services	340,925	177,958
3. Financial services consulting	135,000	150,000
4. Bank fees	116,535	63,761
5. G&A expenses - allocated from CEA	75,440	72,803
6. Advertising administration - RFQ	5,500	-
7. Audit fees	1,328	4,758
8. Software and licenses	980	8,664
9. Governing board meeting expenses	470	1,059
10. Direct IT services	225	9,372
11. Travel	-	6,407
Total G&A expenses	1,070,621	671,337
Total Operating Expenses	$ 1,487,426	$ 1,281,690

Investment Analysis

California Wildfire Fund
CWF Portfolio Overview
6/30/2021

June 30, 2021

The CWF's total portfolio market value for June 2021 was $9.87 billion with an average duration of 3.97 years and average credit ratings of "AA"

The 1-year income return of the CWF's total portfolio is 1.59%

CWF Investment Portfolio as of June 30, 2021				
Sector	**Market Value ($MM)**	**% of Portfolio**	**Avg Rating**	**Duration (Yrs)**
U.S. Treasury	$5,638	57%	AAA	2.64
Corporate	$3,118	32%	A+	6.29
U.S. AGY	$1,093	11%	AA+	4.25
Cash	$22	0%	AAA	0.46
Total	**$9,871**	**100%**	**AA+**	**3.97**

June 30, 2020

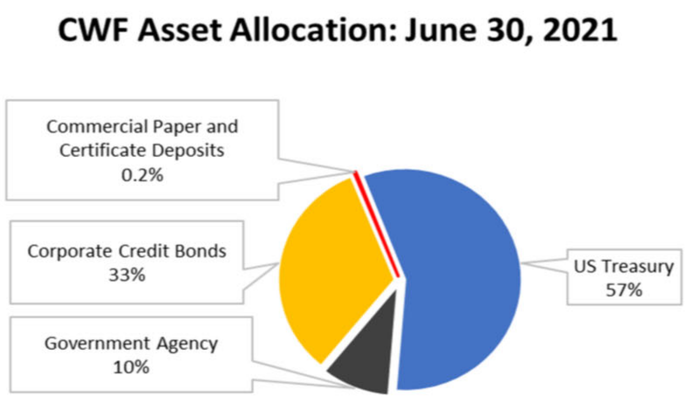
The CWF's total portfolio market value for June 2020 was $4.86 billion with an average duration of 2.13 years and average credit ratings of "AAA"

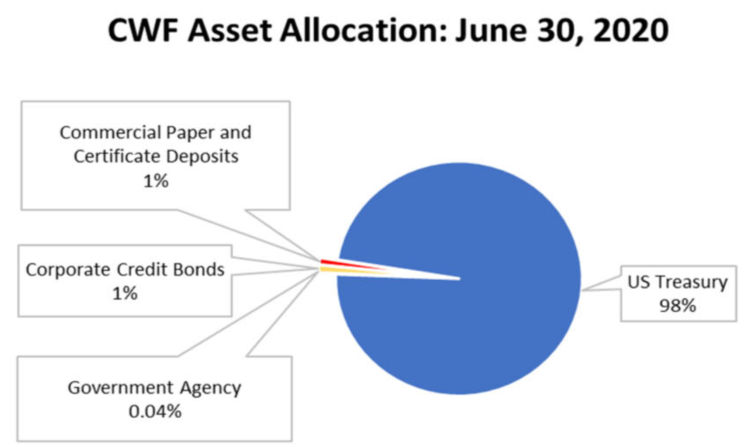
The income return of the CWF's total portfolio since inception in September 2019 is 1.27%

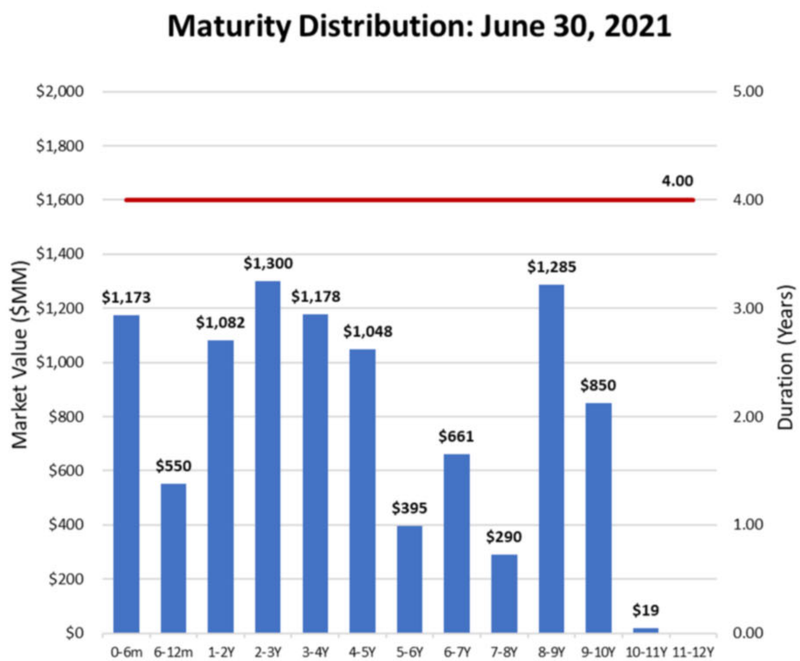
CWF Investment Portfolio as of June 30, 2020				
Sector	**Market Value ($MM)**	**% of Portfolio**	**Avg Rating**	**Duration (Yrs)**
U.S. Treasury	$4,761	98%	AAA	2.13
Corporate	$77	2%	AA+	2.23
U.S. AGY	$5	0%	AA+	2.99
Cash	$15	0%	AAA	0.03
Total	**$4,858**	**100%**	**AAA**	**2.13**

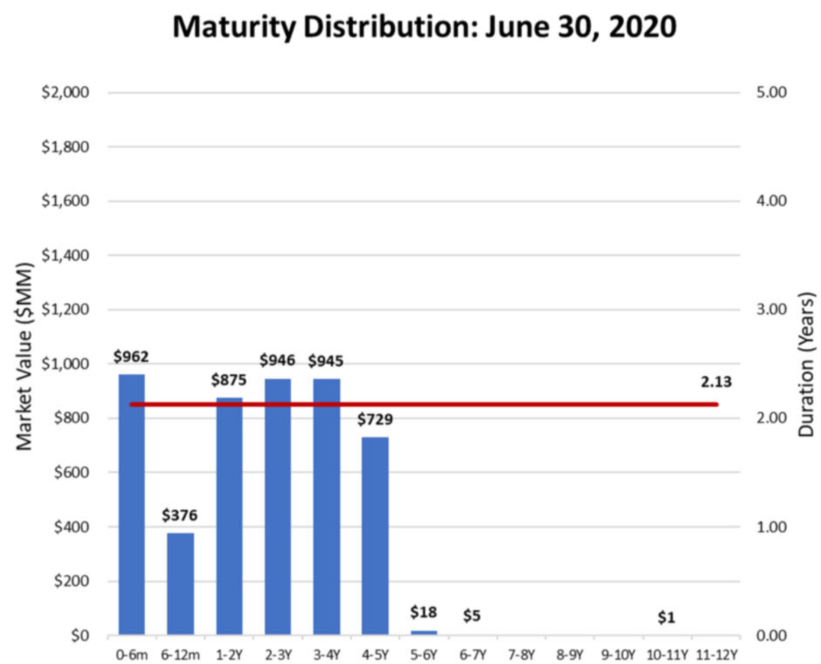
California Wildfire Fund
Investments Analysis
6/30/2021

The revised investment policy became effective on June 22, 2020 and allows 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.





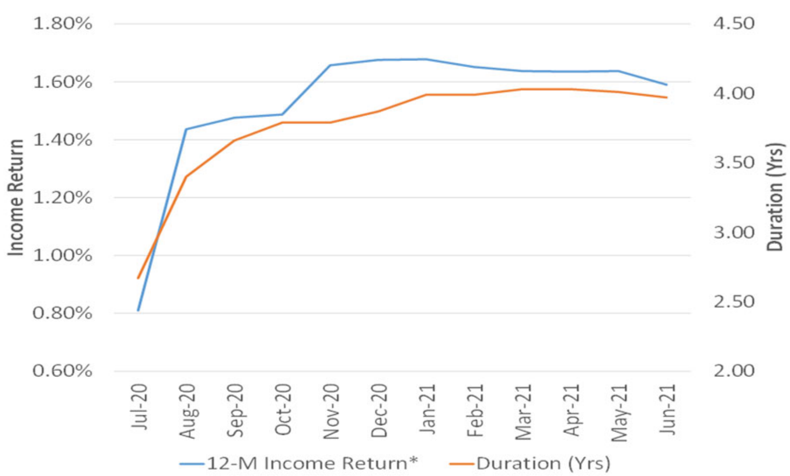




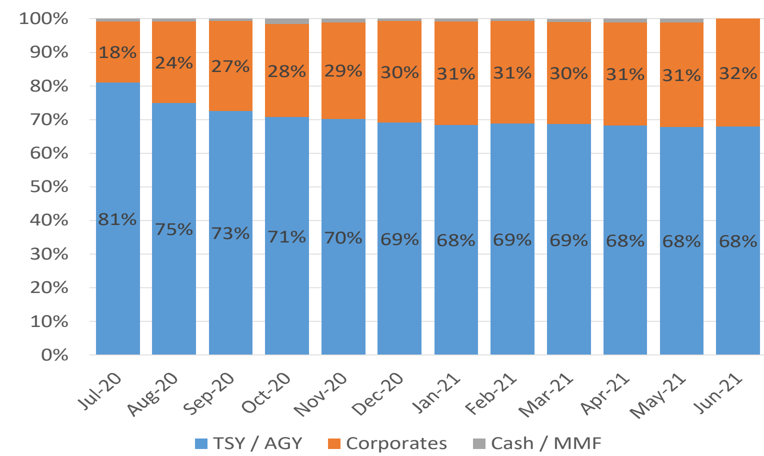
California Wildfire Fund
CWF Portfolio 12-Month History
6/30/2021

CWF Investment Portfolio Overview												
	Jul-20	**Aug-20**	**Sep-20**	**Oct-20**	**Nov-20**	**Dec-20**	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**May-21**	**Jun-21**
Total Portfolio												
Market Value ($MM)	$10,007	$9,859	$9,853	$9,818	$9,865	$10,052	$9,884	$9,896	$9,861	$9,875	$9,907	$9,871
Yield to Maturity	0.31%	0.44%	0.47%	0.55%	0.50%	0.51%	0.60%	0.79%	0.90%	0.90%	0.82%	0.81%
1-M Income Return	0.10%	0.12%	0.13%	0.14%	0.13%	0.14%	0.14%	0.13%	0.15%	0.14%	0.15%	0.14%
12-M Income Return*	0.81%	1.44%	1.48%	1.49%	1.66%	1.68%	1.68%	1.65%	1.64%	1.64%	1.64%	1.59%
12-M Total Return*	2.61%	3.64%	3.48%	2.95%	3.73%	3.73%	2.44%	0.34%	-1.73%	-1.32%	-1.08%	-0.72%
Duration (Yrs)	2.67	3.40	3.66	3.79	3.79	3.87	3.99	3.99	4.03	4.03	4.01	3.97
Portfolio Composition (%)												
TSY / AGY	81%	75%	73%	71%	70%	69%	68%	69%	69%	68%	68%	68%
Corporates	18%	24%	27%	28%	29%	30%	31%	31%	30%	31%	31%	32%
Cash / MMF	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%	0%

Income Return and Duration



Sector Composition



* - The inception of the portfolio was September 2019, therefore the returns for the time periods from June through July 2020 are from inception and not 12-months

Cost Allocation

California Wildfire Fund
Cost Allocation Methodology and Calculation for the Six Months Ended June 30, 2021 and 2020
06/30/2021

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'21 and June'20.

	6 months ended June'21		6 months ended June'20	
Department	**Hours**	**Salaries & Benefits**	**Hours**	**Salaries & Benefits**
1. Comms	119.8	10,569	227.2	14,656
2. Exec	262.8	62,338	312.7	74,309
3. Finance	1,369.6	122,308	1,526.3	191,300
4. IT	58.0	4,568	12.5	1,087
5. Internal Ops	38.5	5,464	71.5	4,976
6. Insurance Ops	333.3	64,080	33.3	5,384
7. Legal	1,009.7	132,304	1,028.6	164,641
Total Direct Hours/Costs	3,191.7	401,631	3,212.1	456,353

	June'21		June'20
CWF Salary & Benefit costs =	401,631	**A**	456,353
CEA Salary & Benefit costs =	12,851,596	**B**	13,462,025
	13,253,227	**C**	13,918,378
Allocation % =	3.03%	**= A/C**	3.28%

All other indirect costs were allocated to the CWF based on the 3.03% and 3.28% allocations noted above. The following indirect expenses were charged to the CWF:

Account Name	Acct #	Amount	Amount
Rent-Office and Parking	86400-16	20,696	22,213
Rent-Office Equip/Furniture	86450-16	1,313	2,032
Building Maintenance and Repairs	86475-16	358	2,288
Furniture/Equipment <$5000	86500-16	-	413
EDP Hardware <5000	86505-16	1,366	2,706
EDP Software <5000	86506-16	40,023	33,223
Office Supplies	86510-16	145	845
HR and IT staff allocation	85101-16	15,174	13,198
Telecommunications	86550-16	5,767	4,548
Direct Investment Technology Support	89805-16	4,863	4,536
Total Indirect Costs		89,705	86,001
Total Costs		491,336	542,354

Investment Manager RFQ Update

California Wildfire Fund
Investment Manager RFQ Update
June 30, 2021

Background:

Upon inception of the CWF, CEA staff negotiated contracts with four existing managers from the CEA's investment manager team in order to manage the investment of the initial capitalization of the CWF. The four investment managers were: Eaton Vance, PFM, RBC, and Smith Graham. The CEA staff undertook an expedited procurement process to obtain services from investment managers to manage capital deposited by two of the participating utility companies in September 2019 and selected seven additional firms to manage these funds: Chandler, Conning, Goldman Sachs, New England Asset Management, Payden & Rygel, Public Trust and Sun Life. In December 2019 Sun Life's contract was terminated and the investment manager team consisted of ten firms until the expansion of the team to include Blackrock once the funds from PG&E were received in July 2020.

In the 2nd quarter of 2020, the CEA staff worked with the Council members to revise the investment policy, which combined two separate original policies into one for efficient execution. The revised investment policy became effective on June 22, 2020 and allows 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. The revised policy increased duration from 3 years to 7 years and increased 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.

Analysis:

Based on the expiration of the existing contracts of the entire investment manager team, CEA staff undertook a procurement process for investment manager services and issued a RFQ on May 7, 2021.

The RFQ was advertised on the websites of the following media outlets:

- The Wall Street Journal
- Pensions & Investments

The CEA received responses from 24 investment management firms, including three firms of diverse ownership.

The RFQ responses were evaluated by a selection panel consisting of:

- Ben Kirwan, CEA Controller
- Paolo Gonzalez, CEA Investment Officer
- Anthony Tassone, CEA Financial Reporting Supervisor
- Kapil Bhatia, Raymond James & Associates, Inc. (CWF's Independent Investment Advisor)

The RFQ selection process was designed to seek out and solicit responses from qualified diverse-owned firms, and that was successful in that two of the firms selected are of diverse ownership.

Based on the increase in credit exposure in the CWF investment policy and the future increases in the CWF investment portfolio from utility company annual contributions and receipt of annual DWR revenues, CEA staff sees value in expanding the investment manager team from 11 firms to 14 firms. This expanded number of investment managers will help to manage future contributions over the next five years or over the life of the contract, to mitigate any risk of large exposure from any one firm or from any future M & A activity among firms, and to maintain flexibility to terminate any manager for performance or compliance issues in the future, if needed.

Based on evaluation of proposals by each panel member, the selection panel ranked the firms that responded to the RFQ and selected the 14 highest ranking firms. Through review of the proposals, staff believes that the selected firms display satisfactory systems for trading, compliance, and reporting. In addition, the RFQ panel was comfortable with the expertise and depth of experience of the selected firms who would be assigned to the CWF portfolio. Of the 14 selected firms, two are diverse-owned firms, one is an incumbent manager, Smith Graham, and one is Garcia Hamilton, a new investment manager for the CWF but has also been hired to invest funds for the CEA Primary Fund as part of the CEA's recent procurement process for investment managers. There are four firms that are new to the CWF investment management team: Amundi, DWS, Garcia Hamilton, and Income Research Management. DWS, Garcia Hamilton, and Income Research Management will be funded initially and Amundi will be funded early next year. The selected investment management firms that are incumbent managers for the CWF are: Chandler, Conning, Eaton Vance, Goldman Sachs, New England Asset Management, Payden & Rygel, PFM, Public Trust, RBC, and Smith Graham.

The selected 14 firms will be invited to negotiate a contract with the CWF. Each contract term will be five years, with a two-year extension at CWF's option. The CWF will reserve the right to terminate any contract upon 30 days written notice, with or without cause.

CEA CALIFORNIA EARTHQUAKE AUTHORITY™
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 22, 2021

Agenda Item 6: Claims Administration

Recommended Action: Discuss and consider adoption of the *Wildfire Fund Claims Administration Procedures*; and, if adopted, authorize the Administrator to make periodic non-discretionary, conforming changes to the Procedures that are required to maintain conformance with any statutory amendments.

Background

Public Utilities Code section 3284(g) requires that the CEA, as Wildfire Fund Administrator (Administrator), prepare and seek approval of the California Catastrophe Response Council (Council) for written procedures for the review, approval and timely funding of eligible claims.

At its January 28, 2021 meeting, the Council adopted an *Expanded Summary of Procedures* that builds upon the previously approved *Provisional Policy Statement and Summary of Procedures*. That approval process providing CEA staff with essential policy direction from the Council, and gave the Council an opportunity to weigh in on key elements of the claims administration procedures as they were being developed. The Council's adoption of the *Expanded Summary of Procedures* and the *Provisional Policy Statement and Summary of Procedures* are in keeping with the Articles of Governance, in which the Administrator is authorized to operate the Wildfire Fund (Fund) within the framework established by law and in accordance with the claims administration procedures approved by the Council.

Final Draft Claims Administration Procedures

At the January 28, 2021 meeting, the Council also instructed the Administrator to develop more detailed claims administration procedures consistent with the *Expanded Summary of Procedures*. Over the past six months, the Administrator has worked to build out the claims administration process and prepare the final draft *Claims Administration*

Procedures (*Procedures*), and a complete copy of the Procedures is attached to this memorandum. The Procedures are organized into two parts: I. General Claims Administration Information and II. Administrator's Claims Review Process. A brief description of what is contained in each part and any specific additions or modifications to the content outlined in the Council-approved *Expanded Summary of Procedures* is noted.

1. **General Claims Administration Information** – This part of the document outlines the principles and defines key terminology used in the Administrator's claims review processes, describes the roles and responsibilities of both the Administrator and the Participating Utilities, and provides guidance on data confidentiality and privacy.

   In the "Definitions" section, five new terms are provided for "Final Determination of Eligible Claims," "Finally Adjudicated," "Preliminary Determination of Eligible Claims," "Reasonable Business Judgment," and "Subject Matter Experts." Modifications have been made to a number of terms to better clarify their meaning and/or ensure better consistency with relevant sections of the Public Utilities Code, including notations that the Code will be amended from time to time. Insertion of this notation acknowledges the periodic, non-discretionary, conforming changes to the *Procedures* that are required to maintain conformance with any statutory amendments. For example, Assembly Bill (AB) 242 (Holden), which is pending Senate approval, could alter the definitions of "Covered Wildfire" and "Determining Governmental Entity" as well as specific parts of the Administrator's Claims Review Process.

   In the section on "Role and Responsibilities of the Administrator," the document sets forth new policies and procedures for the Administrator's use of claims review service providers and other vendors.

   The Administrator also worked with outside legal counsel to develop procedures designed to protect from disclosure any confidential or proprietary documents or information that may be submitted by a Participating Utility to support claims payable from the Wildfire Fund. These procedures are contained in the "Data Confidentiality and Privacy" section and cover both the Participating Utility's submission of information claimed to be confidential, and the Administrator's procedures for handling any California Public Records Act requests that implicate information claimed to be confidential.

2. **Administrator's Claims Review Process** – This part describes the Reasonable Business Judgment standard for claims review, the Administrator's methods and reporting on claims review, the processes of Threshold Claims, Eligible Claims and claims payment, and mechanisms for dispute resolution, quality control and auditing of the Administrator's claims review process.

   Most of these sections are substantially more developed but remain consistent with the direction outlined in the Council-approved *Expanded Summary of Procedures*. Specific areas where new policies and procedures are provided are in the sections on "Quality Control," "Independent Auditor," "Dispute Resolution," and "Reporting to the Council." The "Reporting to the Council" section outlines the information that the Administrator will provide in the form of a quarterly Claims Administration report to the Council on the implementation of these *Procedures* and status of any claim submissions and reviews underway.

It is important to note for the Council that the Procedures do not address responsibilities of the Administrator with respect to a Participating Utility's potential reimbursement to the Fund following a Catastrophic Wildfire Proceeding. Once a Participating Utility has received any payment from the Wildfire Fund for Eligible Claims, the Participating Utility must comply with the laws and regulations related to a Catastrophic Wildfire Proceeding as defined in section 1701.8.(b) of the Public Utilities Code. The Participating Utility must file an application to the California Public Utilities Commission (the "Commission") to commence a Catastrophic Wildfire Proceeding. Based on the Commission's decision in a Catastrophic Wildfire Proceeding, a Participating Utility may be required to reimburse the Wildfire Fund. A general outline of the Administrator's reimbursement procedures following a Catastrophic Wildfire Proceeding were provided in the Council-approved *Expanded Summary of Procedures* and will be further developed separately from claims administration.

As previously noted, the Administrator's work on these *Procedures* has been supported by its consulting attorneys, Carlson, Calladine & Peterson LLP who, along with CEA's Chief Catastrophe Response and Resiliency Officer and in-house counsel, began work on the claims administration process in June 2020; a team of subject-matter experts retained in the Fall of 2020 to advise on statistical sampling and claims validation, valuation and review processes; and two claims adjusting and auditing experts who began work in January 2021 to help draft the detailed claim procedures.

During the development of these *Procedures,* the Administrator has conducted outreach to the three electrical corporations, claims data specialists, reinsurers and intermediary brokers, and subject matter experts on various aspects of wildfire liability assessment. That outreach allowed the CEA to better understand claim handling and auditing processes on the types of claims that arise from utility-caused wildfires. Additionally, the Administrator has conducted informational briefings on the claims administration responsibilities and process with representatives of insurance industry trade associations, and utility ratepayer advocates.

Wildfire Monitoring and Notification

CEA's Chief Catastrophe Response and Resiliency Officer has worked with the three Participating Utilities and CEA's Geographic Information Systems (GIS) staff to develop protocols, templates and tools for monitoring active wildfires and Participating Utilities' reporting about the potential involvement of their equipment in causing wildfires, and reporting on these occurrences using pre-approved templates for notifying Council members. Protocols are now in place to monitor the websites of the California Public Utilities Commission (CPUC) and the Participating Utility so that CEA has prompt notice when a Participating Utility has filed electrical incident reports on incidents, as required under Public Utilities Code section 315. That section requires the Participating Utilities to file a report on any incident that:

- result in fatality or personal injury rising to the level of in-patient hospitalization and are attributable or allegedly attributable to utility owned facilities; or
- is the subject of significant public attention or media coverage and is attributable or allegedly attributable to utility facilities; or
- involves damage to property of the utility or others estimated to exceed $50,000.

Staff is also developing a GIS portal to monitor active wildfires and assist the Administrator in evaluating the potential impacts (e.g., structures and populations at risk) of wildfires that may result in a claim on the Fund.

Staff also continues to closely monitor the status of potentially Covered Wildfires, which are wildfires that ignited on or after July 12, 2019 and that a determining governmental entity has found was caused by a Participating Utility in the Fund. For the 2019 and 2020 seasons, the California Department of Forestry and Fire Protection (CAL FIRE) has completed investigations on at least two major fires—the October 2019 Kincade Fire and the September 2020 Zogg Fire—and investigations for other potentially Covered Wildfires are still in progress. At this point, reported losses, in aggregate, for the 2019 and 2020 seasons for each of the three Participating Utilities have not exceeded the current $1 billion threshold necessary to make a claim on the Fund.

Thus far into the 2021 season, Participating Utilities have filed a few electrical incident reports with the CPUC that could be potentially Covered Wildfires. The one first that has the greatest potential impact is the Blue Fire, which ignited June 29, 2021 in the Sierra National Forest northeast of Fresno and is impacting approximately 400 acres. We remain very early in this wildfire season. CEA's monitoring tools will be vitally important as this season intensifies.

Next Steps

In addition to the development of the *Wildfire Fund Claims Administration Procedures*, the Administrator has also initiated the proposal solicitation process for the selection of a third-party administrator (TPA) to assist the Administrator in implementing the final *Procedures,* as they may be ultimately approved by the Council. CEA staff will report on the status of this TPA selection process during this Council meeting. The Administrator is also developing a set of operational documentation to support the claims review process and the execution of other elements of the Procedures.

Recommendation

Following the Council's discussion and deliberation, CEA recommends that the Council approve and adopt the attached *Wildfire Fund Claims Administration Procedures*. If adopted, CEA also recommends that the Council authorize the Administrator to make periodic non-discretionary, conforming changes to the Procedures as necessary to ensure that the Procedures conform to any statutory amendments that may be enacted in the future.

CLAIMS ADMINISTRATION PROCEDURES

(Final Draft, 07/14/21)

WILDFIRE FUND ADMINISTRATOR

APPROVED BY THE CALIFORNIA CATASTROPHE RESPONSE COUNCIL, XX/XX/2021

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CONTENTS

PREFACE

These Claims Administration Procedures ("Procedures") provide a plan of operations for the Administrator of the Wildfire Fund ("Fund") to fulfill its claims review, approval, and funding obligations consistent with the requirements specified in sections 3280 – 3297 of the California Public Utilities Code, as these sections may be amended, subject to the approval and oversight by the California Catastrophe Response Council ("Council"). They have been drafted prior to any claims submission to the Fund and thus reflect a current view of the process for review and approval of claims as well as the Administrator's efficient operation and management of the Fund. The Administrator, Council, and Participating Utilities have a common interest in cooperating with each other, to the extent permitted by law, in order to share information protected by the attorney-client privilege and by the attorney work product doctrine with respect to claims administration, protection of claimant privacy, and maintaining the durability of the Fund.

Operational documentation will provide more detailed implementation direction for the Procedures and particularly for the Administrator's claims review process. The operational documentation may be updated as claims handling experience is gained. The Administrator will report to the Council when parts of the operational documentation are modified and will seek Council review and approval to amend these Procedures when operational updates materially affect the Procedures.

The Administrator will promptly notify the Council of any non-discretionary, conforming changes to the Procedures that are required to maintain conformance with any statutory amendments. Upon request from a Council member, the Administrator will place a matter on the agenda for the next public meeting of the Council to allow for discussion and comment on the required changes.

OVERVIEW

The State of California has found that catastrophic wildfires pose an immediate threat to communities and properties throughout the state. The State of California also found that, when the equipment of an electrical corporation is implicated in the cause of wildfires, there is a significant risk of increased costs to ratepayers and decreased funding available for the electrical corporation to improve the safety and reliability of the state's electrical infrastructure.

In 2019, the California Legislature addressed these concerns with its adoption of Assembly Bill (AB) 1054 and signed into law by the California Governor on July 12, 2019. That bill contained several measures, including the creation of a Wildfire Fund (the "Fund") to be funded by participating electrical corporations ("Participating Utilities," as defined below) with additional contributions derived from a ratepayer charge that was approved by the California Public Utilities Commission.

The Legislature's intent in creating the Fund was to provide a mechanism for Participating Utilities to pay wildfire claims which provides mutual benefits to ratepayers and Participating Utilities. Fund benefits are available only under specific, limited conditions as defined by the Legislature. Monies will be paid from the Fund only to the extent that a Participating Utility demonstrates that its payment of claims reflects the exercise of Reasonable Business Judgment as defined herein.

To accomplish those goals, the Legislature vested discretion in an Administrator of the Wildfire Fund (the "Administrator," as defined below) to establish procedures for the review, approval, and timely funding of Eligible Claims to the Fund, consistent with the legislative goals of the bill and as approved by the California Catastrophe Response Council (the "Council," as defined below). The California Earthquake Authority ("CEA") was appointed as the Administrator on April 23, 2020.

The Fund reimburses Participating Utilities for Eligible Claims arising from a Covered Wildfire, that ignited on or after July 12, 2019, and that a Determining Governmental Entity has found was caused by a Participating Utility, as described in section 1701.8(a)(1) of the Public Utilities Code. Only Eligible Claims shall be made against or paid by the Fund. To access the Fund, Participating Utilities must have an aggregation of wildfire losses in a Coverage Year that exceeds an annual aggregated Threshold Amount.

The Legislature did not substitute the Administrator's judgment for that of the Participating Utility in settling claims made against a Participating Utility after a Covered Wildfire(s). However, Participating Utilities must develop and demonstrate reasonable standards when resolving wildfire claims. The fundamental principle is that the

Participating Utility will have made a determination of legally recoverable damages and will not have included settlement items that are not recoverable at law.

The purpose of these Claims Administration Procedures ("Procedures") is to guide the Administrator, through its own internal staff and any vendors that it retains, in fulfilling its claims review, approval and funding obligations consistent with the requirements specified in sections 3280 – 3297 of the California Public Utilities Code. Figure 1 provides an illustration of the entire process of claims arising from Covered Wildfires, how claims are filed and reimbursed by Participating Utilities, and the submission of claims by Participating Utilities for reimbursement by the Fund. These Procedures primarily address the submission of claims by Participating Utilities for reimbursement by the Fund—steps 5 and 6 in Figure 1. Liability and the responsibility for claims handling and direct interaction with claimants—steps 1 through 4 in Figure 1—remain with the Participating Utilities and its claimants. Any responsibilities of the Administrator for potential reimbursement to the Fund associated with a Catastrophic Wildfire Proceeding—defined in section 1701.8.(b) of the Public Utilities Code, and step 7 in Figure 1—are not part of these Procedures and will be handled separately.

The Procedures also reflect the policy direction and guidance provided by the Council in its adoption of the *Claims Administration: Provisional Policy Statement and Summary of Procedures,* approved by the Council on October 22, 2020, and the *Claims Administration: Expanded Summary of Procedures* approved by the Council on January 28, 2021. The Council's adoption of the *Expanded Summary of Procedures* and the *Provisional Policy Statement and Summary of Procedures* are in keeping with the *Articles of Governance* in which the Administrator is authorized to operate the Fund within the framework established by law and in accordance with claims administration procedures approved by the Council.

These Procedures are organized into two parts:

I. **General Claims Administration Information** – outlines the principles and defines key terminology used in the Administrator's claims review processes, describes the roles and responsibilities of both the Administrator and the Participating Utilities, and provides guidance on data confidentiality and privacy.

II. **Administrator's Claims Review Process** – describes the Reasonable Business Judgment standard for claims review, the Administrator's methods and reporting on claims review, the processes of Threshold Claims, Eligible Claims and claims payment, and mechanisms for dispute resolution, quality control and auditing of the Administrator's claims review process.

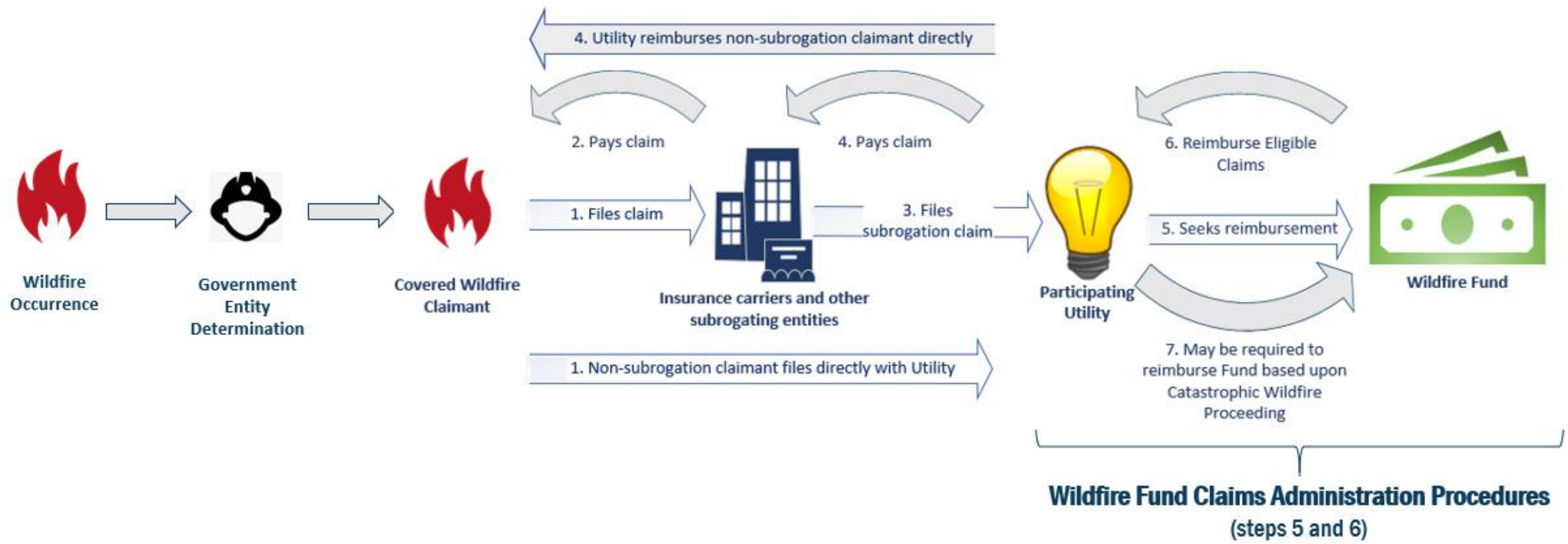

Figure 1. Illustration of the process of handling claims arising from Covered Wildfires

I. GENERAL CLAIMS ADMINISTRATION INFORMATION

This part of the Procedures outlines the principles and defines key terminology used in the Administrator's claims review processes, describes the roles and responsibilities of both the Administrator and the Participating Utilities, and provides guidance on data confidentiality and privacy.

A. PRINCIPLES OF CLAIMS ADMINISTRATION

To assure that the Administrator's claims review processes are consistent with the Legislature's goals in creating the Fund, the Administrator's development of these Procedures is guided by a set of principles approved by the Council in its adoption of the *Claims Administration: Provisional Policy Statement and Summary of Procedures*. The principles that apply broadly to claims administration and the development of these Procedures are as follows:

- Procedures for the presentation and resolution of Wildfire Fund claims will be designed to lead to the efficient and timely resolution of claims for payment from the Fund.
- Stakeholder input is an important part of the development of claims administration procedures and the Administrator will attempt to balance potentially competing stakeholder interests and opinions as appropriate in the Administrator's discretion.
- Procedures will aim to balance the need for complete and thorough claim information with the privacy interests and other legal protections for wildfire claimants, Participating Utilities, and others.
- Procedures will maintain sufficient flexibility to allow for modification and improvement over time to adapt to future circumstances that cannot yet be predicted, and to account for changes in legal and other standards, while remaining consistent with the legislative intent expressed in the creation of the Fund.
- The Fund will be managed judiciously to assure that payments of Fund benefits are appropriate and that the Fund remains economically viable for the payment of future wildfire claims.

According to section 3284(g) of the Public Utilities Code, the Procedures may be revised from time to time by the Administrator with the approval of the Council. They may also include processes to facilitate and expedite the review and approval of settled Eligible Claims, including guidelines for, or preapproval of, settlement levels. They must also provide for the reimbursement of Eligible Claims within 45 days of the date the

Administrator approves the reimbursement amount for any Eligible Claim unless that timing is not practicable.

In particular, section 3292 of the Public Utilities Code directs the Administrator to review and approve any settlement of an Eligible Claim as being in the Reasonable Business Judgment of the Participating Utility as a prerequisite to releasing funds for payment. The Reasonable Business Judgment standard, as employed in these Procedures, primarily emphasizes the evaluation of the process by which a Participating Utility has settled claims while also allowing for the evaluation of specific claim resolutions as warranted by these Procedures. The Administrator's review of claims focuses on determining whether the process by which the settlement was reached was appropriate and consistent with Reasonable Business Judgment.

In essence, the claims review processes set forth in these Procedures comprise a "due diligence" review to assure that the Participating Utility's settlement decisions are based on the types of documentation and other evidence typically considered appropriate by reliable subject-matter experts when reaching a decision as to how much to pay in settlement. Given the catastrophic nature of wildfires, the Procedures acknowledge the potential for the destruction or corruption of evidence that might be relied upon to determine a claim settlement. The concept of Reasonable Business Judgment acknowledges that a pragmatic approach on the part of the Participating Utility will be appropriate in cases where evidence has been so destroyed or corrupted. In these cases, the pragmatic approach may involve consideration of the Participating Utility's prior or current experience with valuing similar claims in lieu of other evidence.

B. DEFINITIONS

The following definitions have been reviewed and approved by the Council and provide further clarification of the guidance provided on claims administration in Public Utilities Code sections 3280 – 3297, as amended from time to time.

Administrator – The administrator of the Wildfire Fund appointed by the Council pursuant to section 8899.72 of the Government Code. The California Earthquake Authority was appointed by the Council to serve as the Administrator on April 23, 2020.

Council – The California Catastrophe Response Council created pursuant to section 8899.70 of the Government Code.

Coverage Year – For any Participating Utility, an annual period of exactly twelve months that commences as of a certain date and time, as declared by the Participating Utility to the Administrator.

Covered Wildfire – As described in section 1701.8(a)(1) of the Public Utilities Code, as amended from time to time, a wildfire that ignited on or after July 12, 2019, and which the Determining Governmental Entity has found was caused by an electrical corporation. This includes a wildfire that is triggered by electrical equipment reenergizing after a Public Safety Power Shutoff. It also includes a landslide, mudslide, mudflow, or debris flow that is the result of a Covered Wildfire.

Determining Governmental Entity – As described in section 1701.8 of the Public Utilities Code, as amended from time to time, an entity, agency, or subdivision of the government of the United States of America, State of California, or California county or municipality that is legally charged with the responsibility for determining, and does in fact make a final determination of, the cause of ignition of a wildfire, and including, in the case of a wildfire for which causation is ultimately determined by way of a final judicial finding, by a federal or California court of competent jurisdiction.

Eligible Claim(s) – As described in section 3280(f) of the Public Utilities Code, as amended from time to time, Third-Party Claims for damages resulting from Covered Wildfires and presented by a Participating Utility for reimbursement from the Fund. "Eligible Claims" include amounts for which a Participating Utility is liable under indemnification agreements, provided that the indemnification owed by the Participating Utility is for the settlement of a settled or Finally Adjudicated claim of a third-party claiming damages caused by a Covered Wildfire.

Final Determination of Eligibility – The Administrator's final determination of whether the Participating Utility has demonstrated that it has met the Threshold Amount through the payment of Third-Party Claims for damages resulting from Covered Wildfires in the Participating Utility's exercise of Reasonable Business Judgment.

Final Determination of Eligible Claims - The Administrator's final determination that the Participating Utility exercised Reasonable Business Judgment in the payment of Eligible Claims and will reimburse the Participating Utility.

Finally Adjudicated – A claim is Finally Adjudicated when a neutral judicial or quasi-judicial third party, such as a court or arbitrator, has issued a final decision on the merits that is binding on the parties and may no longer be appealed. Settlements, consent judgments, and other dispositions that are the result of a voluntary agreement or are not a binding decision by a third party are not Finally Adjudicated claims.

Participating Utility – An electrical corporation that has met all the requirements for participation in the Fund as set forth in section 3292 of the Public Utilities Code.

Preliminary Determination of Eligibility – The Administrator's initial determination regarding the extent to which a Participating Utility has demonstrated that it exercised Reasonable Business Judgment in the payment of Third-Party Claims exceeding the Threshold Amount.

Preliminary Determination of Eligible Claims – The Administrator's determination that it is not able, based on the information provided, to determine that the Participating Utility exercised Reasonable Business Judgment with respect to one or more claims submitted for reimbursement. The Participating Utility will be requested to provide additional information or documentation demonstrating the exercise of Reasonable Business Judgment before the Third-Party Claims can be further considered for reimbursement.

Reasonable Business Judgment – The judgment by the Participating Utility of the validity and value of a claim that is based on the process employed by the Participating Utility and the types of information and documentation generally relied upon by the Participating Utility to reach a fair evaluation of the Participating Utility's liability for, and amount of, the claim. Under section 3292(f) of the Public Utilities Code, only claims settled in the "Reasonable Business Judgment" of a Participating Utility are reimbursable by the Fund.

Subject Matter Experts (SMEs) – Individuals advising the Participating Utilities and/or the Administrator with expertise for the valuation and assessment of specific types of damage caused by wildfires.

Subrogation Claim(s) – Claims paid, as a result of a Covered Wildfire, to insurers for recovery of policy benefits paid to their insureds and claimants and based on the insurers' contractual rights of subrogation of their policyholders' rights of recovery, or to other persons or entities holding a contractual or equitable right to be reimbursed for payments that person or entity was legally required to make to a third party.

Third-Party Claim(s) – Claims for damages or losses, or other associated expenses, presented to a Participating Utility by any person or entity, including those claiming a right by subrogation and governmental entities, claiming damages resulting from a Covered Wildfire. "Third-Party Claims" do not include losses or damages sustained directly by the Participating Utility.

Third-Party Claimant - A person or entity that files a Third-Party Claim.

Threshold Amount – Claims paid by a Participating Utility as a result of one or more Covered Wildfires that, in the aggregate, exceed the greater of the following for a Coverage Year: (1) one billion dollars ($1,000,000,000), or (2) the amount of the insurance coverage required to be in place for the Participating Utility pursuant to section 3293 of the Public Utilities Code.

C. ROLE AND RESPONSIBILITIES OF THE ADMINISTRATOR

The Administrator oversees the claims review and payment processes of Third-Party Claims submitted by Participating Utilities for reimbursement by the Fund.

The Administrator's role includes:

- Developing, maintaining, and revising the claims administration policies and procedures as needed to achieve an adequate level of performance, in the discretion of the Administrator, by claims review service providers, other vendors, and the Administrator staff.
- Seeking Council approval of revisions to the claims administration policies and procedures, and advising claims review service providers and Participating Utilities of any changes as they occur.
- Retaining the necessary claims review service providers and Subject Matter Experts (SMEs) to satisfactorily evaluate Threshold and Eligible Claims, and to provide for accurate and timely payment of Eligible Claims.
- Receiving and reviewing claims review service provider and vendor reports concerning evaluations of claims and eligibility for payment by the Fund.
- Preparing the reports on Preliminary and Final Determinations of Eligibility of claims, and conveying them to the Participating Utility and the Council.
- Managing the establishment and execution of quality control and audit functions for the overall claims administration processes.
- Implementing and managing a dispute resolution mechanism.
- Overseeing the processing for payment issuance within 45 days of the approval of the reimbursement amount.
- Maintaining records of paid and expected reimbursements by the Fund on a current basis.

The Administrator also has responsibilities to liaise with Participating Utilities and retain claims review service providers and other vendors to assist with claims handling. These responsibilities are further defined in the following sections.

C.1. LIAISON WITH PARTICIPATING UTILITIES

The Administrator will appoint a staff member to serve as liaison to confer with Participating Utilities on matters related to claim administration and to conduct an annual review of the claim handling capabilities and processes of Participating Utilities. The Administrator's liaison is responsible for the following tasks, to the extent deemed appropriate by the Administrator:

1. Maintain communication with the liaisons of each Participating Utility regarding claim handling for wildfires, including the current and projected amounts of

claims payments made, committed to be made, and/or anticipated to be paid for each Covered Wildfire.

2. Gain an understanding of each Participating Utility's wildfire claims handling organization, practices and procedures that includes information on, without limitation, the following:
   a. Size and structure of the claims handling organization, experience levels and qualifications of personnel, and personnel staffing at each experience level
   b. Training and development of personnel
   c. Authority structure, both internal to the Participating Utility and by vendor, for claims reviews, settlements of claims, and audit and control mechanisms for those authorities
   d. Procedures for handling large-loss claims and any exceptions to the procedures
   e. Any claims procedures to resolve claims for reasons other than a reasonable estimation of liability and legally recoverable damages
   f. Business continuity plans and capabilities to handle significant increases in claims submissions
   g. Changes in the claim reporting requirements of the Participating Utility's insurance carriers
   h. Claim support by vendors and the names of and contracts with any claims handling vendors, if used
   i. Copies of any guidelines that vendors should follow in adjusting claims and how those adjustments are audited and reviewed, including any delegated authority that is provided
   j. Information technology systems and security, and electronic data extraction and submission methods used to produce claim submissions to the Administrator, as indicated in the reporting requirements for losses
   k. Procedures for identifying claims that are duplicative and/or that are included twice, for example, once in the context of a Subrogation Claim and again in the context of a non-Subrogation Claim made by the person or entity directly sustaining the claimed loss
   l. Procedures for identifying and investigating potentially fraudulent claims
   m. Procedures for confirming proof that the Third-Party Claim was actually paid or that the Participating Utility has an existing and legally enforceable obligation to pay that Third-Party Claim.
3. Conduct annual update meetings with each Participating Utility within the first half of each Coverage Year to secure the latest information, as described above, on the claims handling organization, its functioning, and reporting capabilities.
4. Be available as requested to meet with each Participating Utility to address concerns arising from either the Participating Utility or the Administrator.

C.2. POLICIES AND PROCEDURES FOR USE OF CLAIMS REVIEW SERVICE PROVIDERS AND OTHER VENDORS

The Administrator may retain vendors to execute and comply with these Procedures for the review and approval of Threshold Amount claims and Eligible Claims submitted to the Fund, and the timely funding of Eligible Claims. In this way, vendors will be an integral part of the Administrator's claim handling process.

Vendors are expected to have qualified staff to conduct claim reviews as are deemed necessary by the Administrator. Vendors will be expected to have ready access to experts in loss evaluation for each of the damage types identified in the Procedures. When the Administrator requires the specific expertise during a claim review, the vendor will demonstrate that the expert has suitable credentials.

Vendors are required to review and agree with the Administrator as to the scope, resourcing, and timing of any claims review. Vendors must receive written approval from the Administrator before arranging to conduct detailed claim reviews.

Vendors must be timely in their review of claim submissions as well as be accurate in their evaluations. Reports to the Administrator must be timely and accurate as well.

Vendors must ensure that they identify for the Administrator two points-of-contact familiar with the handling of the Wildfire Fund account to ensure there is always efficient and timely communication with the Administrator.

Vendors are expected to maintain timely communications with the Participating Utility and/or the Administrator during the entire period of the pendency of a claim submission.

D. ROLE AND RESPONSIBILITIES OF THE PARTICIPATING UTILITIES

The Council has adopted guiding principles for the Administrator's development and implementation of the Claims Administration Procedures. Two of those principles that specifically relate to the roles and responsibilities of the Participating Utilities are:

- Participating Utilities must demonstrate reasonable standards when resolving wildfire claims.
- Each settlement for which Participating Utilities seek reimbursement from the Wildfire Fund must be a fully and finally settled claim.

The Participating Utilities are also expected to:

- Appoint a liaison to confer with the Administrator's liaison on all claims-related matters.

- Participate in the Administrator's annual review of the Participating Utilities' claim handling capabilities and processes within the first half of each Coverage Year.
- Be available as requested to meet with the Administrator to address concerns arising from either the Participating Utility or the Administrator.
- Provide the Administrator with information requested as part of pre-claims processes and for the submission of claims to the Fund. These responsibilities are further defined in the following sections D.1.and D.2.

As part of the annual review, it is the responsibility of each Participating Utility to provide the Administrator with a generalized understanding of Participating Utility claims processes and standards used in resolving wildfire claims, and to update the Administrator, at least annually, on any major changes that may materially affect the Administrator's understanding of these processes and standards.

Based upon interviews with the Participating Utilities, the Administrator has developed an initial generalized understanding of the Participating Utilities' claims processes. It is summarized here to provide a contextual and consistent basis for subsequent assessment by the Administrator. Following the intake and acknowledgement (if needed) of itemized claims data, Participating Utilities generally follow a three-part process to validate, value and settle claims:

- Claims validation – involves confirmation that the claim is in relation to a Covered Wildfire(s); if relevant, an initial review to determine the scope and applicability of insurance policy coverage or any applicable contract, and any deductible applied; a review of the itemized claim data supplied and requests for any missing items (as needed); a review of the evidence to support the existence/description of items included in the claim and evidence that can reasonably be provided; and a determination of non-duplication.
- Claims valuation – involves use of valuation standards, tools, and services,; review of any supporting experts' reports, such as adjusters, engineers, accountants, medical experts; consideration of salvage and value of salvage; confirmation that the claim submitted to the subrogating insurer was covered and paid consistent with the subrogating insurer's policy or any other applicable contract; calculate the settlement value based on what is recoverable at law, considering injury, replacement cost value (RCV), market value, and other relevant factors; and confirm final settlement value.
- Claims settlement – involves reaching agreement with the claimant, resolving the claim, and documenting payment.

D.1. PRE-CLAIM PROCESSES

These procedures apply before a Participating Utility presents Eligible Claims for reimbursement from the Fund. These procedures are necessary to expedite the processing of Eligible Claims.

1. The Administrator and each Participating Utility will determine in advance the Coverage Year to be used for the identification of Eligible Claims.
2. Each Participating Utility must develop procedures that capture all relevant details regarding Third-Party Claims that have been paid, or for which there are binding commitments to pay, in a form compatible with the requirements for seeking reimbursement of Eligible Claims from the Fund.
3. Each quarter, or at such other intervals as determined by the Administrator, the Participating Utility must report, in a standardized format specified by the Administrator, all the following to the Administrator with respect to actual or anticipated Eligible Claims:
   a. The date, location and, if applicable, name of each Covered Wildfire.
   b. A brief description of the status of efforts to resolve Third-Party Claims and an estimate of the timing of resolution of those claims.
   c. The total amounts of payments made, or committed to be made, for each Covered Wildfire broken down by damage type, as outlined in section D.2., without identification of particular claims or claimants.
   d. To the extent publicly disclosed, the total estimated amount of additional payments anticipated for each Covered Wildfire broken down by damage type, as outlined in section D.2., without identification of particular claims or claimants.
   e. The status of the determination of causation by the Determining Governmental Entity as to each wildfire that the Participating Utility knows to be or reasonably expects to be determined to be a Covered Wildfire.
4. In addition to the periodic reports described above, each Participating Utility must report the information listed in section 3 above to the Administrator when any of the following occurs:
   a. The Participating Utility estimates that it will pay, or enter into binding commitments to pay, more than $750,000,000, in the aggregate, for Third-Party Claims resulting from Covered Wildfires for a single Coverage Year;
   b. The Participating Utility estimates that it will pay, or enter into binding commitments to pay, any single Third-Party Claim exceeding $25,000,000 resulting from a Covered Wildfire;
   c. The Participating Utility has a reasonable belief that it may have Eligible Claims exceeding the Threshold Amount for a single Coverage Year; or,
   d. Upon request of the Administrator.

5. The information identified in sections 3 and 4 above is not intended to replace the more detailed information required for the formal submission of Eligible Claims, but is intended to provide the Administrator with advance notice of potential Eligible Claims to help facilitate the processing and payment of Eligible Claims if or when they are submitted for reimbursement. The failure to provide the information identified in sections 3 and 4 above will not result in a denial of claims submitted by the Participating Utility, but may significantly delay the processing and reimbursement of such claims.

D.2. SUBMISSION OF CLAIMS

The Participating Utility must provide, in a secure fashion and by means determined by agreement between the Administrator and the Participating Utility, the following information for each Third-Party Claim submitted to the Administrator for review and reimbursement by the Fund. The Administrator will supply Participating Utilities with an approved template for the provision of data and use secure file transfer protocols to receive the data.

1. For non-Subrogation Claims, the supplied data must include:
   a. Name or a unique identifier of the Third-Party Claimant
   b. Identification of the specific Covered Wildfire(s) giving rise to the claim
   c. Specific location where damage or injury occurred
   d. Legal interest of Third-Party Claimant in the property, if any, damaged
   e. Amount, if any, recovered by the Third-Party Claimant from any other sources such as the claimant's insurer or governmental agencies
   f. Itemization of amounts claimed by the Third-Party Claimant broken down among the following types of damages:
      i. Real Property (Structures and Land)
      ii. Loss of Use/Additional Living Expenses
      iii. Personal Property/Business Personal Property
      iv. Business Income Loss
      v. Crops
      vi. Trees
      vii. Personal Injury, Wrongful Death, Emotional Distress
      viii. Fire Suppression Costs
      ix. Attorneys' fees recoverable by the Third-Party Claimant as an allowable part of damages
      x. Other legally recoverable damages
   g. Total amount paid by the Participating Utility for the Third-Party Claim
   h. Reason for resolution (i.e., settlement, judicial judgment, mediation, arbitration, etc.)
   i. Proof of payment, or of obligation to pay, by the Participating Utility

    j. Information and documentation relied upon by the Participating Utility for its determination of settlement or resolution amount
2. For Subrogation Claims, the supplied data must include:
    a. Name of insurer or other entity claiming right of subrogation
    b. Identification of the specific Covered Wildfire(s) giving rise to the Subrogation Claims
    c. If the subrogating entity is an insurer, name or other unique identifier of the subrogated insurer's policyholders under whom right of subrogation is claimed
    d. If the subrogating entity is not an insurer, explanation of that entity's legal basis for asserting a right of subrogation
    e. Specific location where each subrogated loss or injury occurred
    f. Itemization of amounts claimed by the subrogating entity broken down among the following types of damages:
        i. Real Property (Structures and Land)
        ii. Loss of Use/Additional Living Expenses
        iii. Personal Property/Business Personal Property
        iv. Business Income Loss
        v. Crops
        vi. Trees
        vii. Other damages legally recoverable in subrogation
    g. Total amount paid by the Participating Utility for the Third-Party Claim
    h. Reason for resolution (i.e., settlement, judicial judgment, mediation, arbitration, etc.)
    i. Proof of payment, or of obligation to pay, by the Participating Utility
    j. Information and documentation relied upon by the Participating Utility for its determination of settlement or resolution amount.

The Administrator may request additional information as deemed necessary in the judgment of the Administrator.

E. DATA CONFIDENTIALITY AND PRIVACY

The Administrator has developed the following procedures designed to protect from disclosure any confidential or proprietary documents or information that may be submitted by a Participating Utility to support claims payable from the Fund. Except as otherwise required by law, neither the Administrator nor the Council will divulge to any other person or entity that confidential or proprietary information absent the written consent of the Participating Utility. If the Administrator or the Council receives from any person or entity any valid and enforceable request or demand to divulge a Participating Utility's confidential or proprietary information, the Administrator will notify the

Participating Utility of the demand or request as promptly as reasonably practicable and will provide reasonable assistance and will provide reasonable non-monetary assistance in protecting confidential or proprietary information from disclosure.

The following procedures specifically apply to information submitted to the California Earthquake Authority (CEA), in its capacity as Administrator, or to the Council, on or after the date these Procedures are approved by the Council.

E.1. SUBMISSION OF INFORMATION CLAIMED TO BE CONFIDENTIAL

The information submitter is responsible for documenting the reasons why the Administrator, or the Council, should withhold any information, or any portion thereof, from the public. To request confidential treatment of information submitted to the Administrator, or the Council, an information submitter must satisfy all the following requirements:

1. If confidential treatment is sought for any portion of information, the information submitter must designate each page, section, or field, or any portion thereof, as confidential. If only a certain portion of information is claimed to be confidential, then only that portion rather than the entire submission should be designated as confidential.
2. Specify the basis for the Administrator, or the Council, to provide confidential treatment with specific citation to an applicable provision of the California Public Records Act.
3. Provide a declaration in support of the legal authority cited above of the California Public Records Act signed by an officer of the information submitter or by an employee or agent designated by an officer. The officer delegating signing authority to an employee or agent must be identified in the declaration.
4. Provide a name and email address of the person for the Administrator, or the Council, to contact regarding the potential release of information by the Administrator, or the Council. An information submitter may designate as many as three people by name and email address for all document submissions to the Administrator, or the Council. Failure of the information submitter to monitor and respond to Administrator or Council, communications by any specified deadlines in such communications, to the designated email address(es) does not preclude release of information per section E.2. below. There is no requirement for the Administrator staff to contact each name provided. To designate or change the designated email address and contact name, an information submitter shall send an email to the CEA's Director of Enterprise Compliance Management at records@calquake.com.

If an information submitter satisfies the requirements in this section, then the Administrator, or the Council, will segregate such information in its records. If the

Administrator, or the Council, receives a request, whether through the California Public Records Act or otherwise, requiring the production of claimed confidential information, it will evaluate the legal authority for the Administrator, or the Council, to withhold the document from the public and follow the process established in section E.2. below.

E.2. PROCESSING OF CALIFORNIA PUBLIC RECORDS ACT REQUESTS THAT IMPLICATE INFORMATION CLAIMED TO BE CONFIDENTIAL

This section applies if an information submitter has satisfied section E.1. above.

1. Before releasing information in response to a California Public Records Act request, or in any other context, the CEA's Legal & Compliance Department will determine, based on the information it has, whether the information submitter has established a lawful basis of confidentiality. If CEA Legal & Compliance requires additional information, it may notify the information submitter of the California Public Records Act request and ask the information submitter to provide further information.
2. If CEA Legal & Compliance concludes the information submitter has established a lawful basis for confidential treatment, it will not release the information and will notify the California Public Records Act requester of its decision to deny the request partially or completely.
3. If CEA Legal & Compliance concludes the information submitter has failed to establish a lawful basis for confidential treatment, it will notify the information submitter of this determination, and provide the information submitter a reasonable amount of time, subject to applicable timing limitations, if any, set forth in the California Public Records Act, to seek a court order protecting the information submitter's allegedly confidential information.
4. The Administrator, and the Council, will follow all required deadlines and requirements of the California Public Records Act in responding to California Public Records Act requests. These procedures are not intended to contradict or circumvent those requirements in any way.

II. ADMINISTRATOR'S CLAIMS REVIEW PROCESS

The primary purpose of the Administrator's claims review process is to determine if a Participating Utility has demonstrated that it exercised Reasonable Business Judgment in the valuation and payment of Third-Party Claims. The Administrator's review of Third-Party Claims has two distinct parts: a Threshold Claims review and an Eligible Claims review. Each is described in greater detail in the following sections.

While the Administrator will review Threshold Claims separately from Eligible Claims, the processes and standards described herein will apply to each of those evaluations. In a Threshold Claims review, the Administrator will evaluate Third-Party Claims that a Participating Utility has paid, or made binding commitments to pay, that, in the aggregate, meet the Participating Utility's Threshold Amount for a particular Coverage Year. If the Administrator determines that the total amount paid or committed to be paid by the Participating Utility was consistent with the exercise of Reasonable Business Judgment, then the Participating Utility may seek reimbursement from the Fund for payment of Eligible Claims for the applicable Coverage Year.

The Administrator's review of Eligible Claims will then determine whether the amount paid or committed to be paid by the Participating Utility for each Eligible Claim was consistent with the exercise of Reasonable Business Judgment, and the following statutory standards of claim review set forth in section 3292.f. of the Public Utilities Code:

> "Settlements of subrogation claims that are less than or equal to 40 percent of total asserted claim value as determined by the administrator shall be paid unless the administrator finds that the exceptional facts and circumstances surrounding the underlying claim do not justify the electrical corporation's exercise of such business judgment. To the extent approved by the administrator, a settlement shall not be subject to further review by the commission.
>
> The administrator shall approve a settlement of an eligible claim that is a subrogation claim if the settlement exceeds 40 percent of the total asserted claim value, as determined by the administrator, and includes a full release of the balance of the asserted claim so long as the administrator finds that the electrical corporation exercised its reasonable business judgment in determining to settle for a higher percentage or on different terms based on a determination that the specific facts and circumstances surrounding the underlying claim justify a higher settlement percentage or different terms.

A subrogation claim that is finally adjudicated shall be paid in the full judgment amount."

Also, the Administrator will pay the full adjudicated amount of all Eligible Claims, including Subrogation Claims, that are Finally Adjudicated as defined herein.

The following sections provide additional detail on the Reasonable Business Judgment standard for claims review, the Administrator's methods and reporting on claims review, the processes of Threshold Claims, Eligible Claims and claims payment, and mechanisms for dispute resolution, quality control and auditing of the Administrator's claims review process.

A. REASONABLE BUSINESS JUDGMENT STANDARD FOR CLAIMS REVIEW

As provided in the Definitions section, Reasonable Business Judgment is a judgment of the value of a claim that is based on consideration of the type of information and documentation generally relied upon to reach a fair evaluation of the amount of the claim. The key point is that Reasonable Business Judgment focuses on the process employed by the Participating Utility rather than the end result. Therefore, the Administrator's review should focus on two questions:

- Did the Participating Utility rely on the type of information and documentation generally relied upon to reach a fair evaluation of the amount of the claim?
- Was the Participating Utility's process one that is generally relied upon to reach a fair evaluation of the amount of the claim?

In determining whether a Participating Utility exercised Reasonable Business Judgment in resolving wildfire claims under the guiding principles adopted by the Council, the Administrator will consider the following:

1. The Participating Utility's general procedures for evaluating and paying claims.
2. Whether the amount paid is Finally Adjudicated as defined herein, and/or whether it resulted from a judgment, mediation, arbitration award or informal negotiation.
3. The extent to which the Participating Utility based its settlement decisions on documentation and other information appropriate for the types of damages and losses claimed.
4. The extent to which the Participating Utility based its settlement decisions on consultation with SME's appropriate for the types of damages and losses claimed.
5. The costs and risks of further litigation with the Third-Party Claimants.
6. The extent to which the amount paid reflects legally recoverable damages.
7. For Subrogation Claims, claims paid at less than or equal to 40% of total asserted claim value will be assumed to reflect the exercise of Reasonable Business Judgment unless the Administrator finds that the facts and circumstances

surrounding a particular claim indicate a failure to exercise Reasonable Business Judgment.

8. For all claims, the relationship between the value of the amount claimed and the amount paid.
9. Finally Adjudicated claims, as defined herein, will be paid in the full judgment amount.
10. The Participating Utility's process for eliminating duplicate damage claims between a Third-Party Claimant and the subrogated insurer for that claimant.
11. Any other relevant and valid considerations.

Additional information on the documentation and information, including the use of SME's and the process, including the legal standards for valuation of typical wildfire damages, are provided in the following sections.

A.1. DOCUMENTATION AND INFORMATION - USE OF SUBJECT MATTER EXPERTS

The use of Subject Matter Experts (SMEs) to determine whether a Participating Utility exercised Reasonable Business Judgment in resolving claims is a key component of the claims review process. SMEs identify what types of documentation and other information are "generally relied upon to reach a fair evaluation of the amount of the claim," using the definition of Reasonable Business Judgment, within the specific area of expertise of an SME. SMEs may also identify whether the Participating Utility's process was one that is "generally relied upon" in valuing certain types of damages.

In drafting these Procedures, the Administrator consulted with SMEs with expertise valuing the damage types typically found in wildfire claims. These areas are:

- Real Property (Structures and Land)
- Loss of Use/Additional Living Expenses
- Personal Property/Business Personal Property
- Business Income Loss
- Crops
- Trees
- Personal Injury, Wrongful Death, Emotional Distress
- Fire Suppression Costs

The use of SMEs supports the key features of the claims review process in the following ways:

- Expedites claims review by identifying documentary support considered reliable among experts.
- Helps identify claims lacking in reliable support for which further inquiry may be needed.
- Helps identify claims that may require specific review.

A.2. PROCESS – LEGAL STANDARD FOR VALUATION OF TYPICAL WILDFIRE DAMAGES

In determining whether the Participating Utility's process in resolving a claim was consistent with Reasonable Business Judgment, the Administrator must consider whether the amount paid by the utility is recoverable under California law. For example, under California law, a subrogating insurer suing a utility may only recover damages that are recoverable under the law, regardless of whether such payments are allowed or required under the particular policy. If a Participating Utility pays a subrogation claim from an insurer based on the policy language where the claim is not allowed under the law, such payment is not within Reasonable Business Judgment.

Below is an overview of the Administrator's current understanding of the legal measure of damages for the types of damages typically associated with wildfires:

1. Real Property (Structures and Land):
    a. Baseline Measure: The lesser of either the cost to repair or the diminution in the fair market value of the property caused by the fire (plus loss of use during the time of repair, as discussed in section 2 below).
    b. Exceptions: Repair costs that exceed diminution in value are recoverable if the property owner demonstrates that he or she has a "genuine desire" to repair or replace the property for personal reasons, and the costs of repair or replacement are reasonable given the damage to the property, its pre-fire value, and its value after repair.
2. Loss of Use/Additional Living Expenses
    a. Baseline Measure: The reasonable cost to rent similar property for the reasonable length of time when the claimant could not use the property due to the damage.
    b. Exceptions: None noted.
3. Personal Property, including Business Personal Property:
    a. Baseline Measure: For destroyed personal property, the measure is the fair market value of the item before it was destroyed. For damaged personal property the measure is the lesser of diminution of value or cost to repair, plus loss of use during the time of repair and any residual loss in value because of the repair (e.g., if a repaired vehicle has a lower value because it had been previously damaged).
    b. Exceptions: The measure for personal property that is so unique as to have no readily identifiable market (e.g., one-of-a-kind items) is an amount that is fair and reasonable under the circumstances.
4. Business Income Loss:
    a. Baseline Measure: Businesses whose property is damaged resulting in income loss can claim net income loss during a reasonable repair time and until the business has recovered to its previous level. The loss is calculated by adding

the actual past income loss during the repair period to any reasonably certain future income loss, if any. Due allowance will be made in the calculation for any savings in the costs of sales, employee wages or benefits, taxes, and any other variable expenses.

   b. Exceptions: None noted.

5. Crop Losses:
   a. Baseline Measure: The expected market value of the crop before the damage, less the cost of producing and marketing the crop that would have been incurred.
   b. Exceptions: For perennial crops, claimants can recover the difference between the rental value of the land with the crop and the land without the crop for the duration of time that it takes to restore the crop.
6. Trees:
   a. Baseline Measure: Tree values are typically assessed by professional arborists who use various published standards for appraising trees.
   b. Exceptions: Tree valuations should consider the extent to which the lost trees contributed to the fair market value of the property as a whole. Otherwise, the added value of trees may exceed the diminished fair market value of the property.
7. Personal Injury, Wrongful Death, Emotional Distress:
   a. Baseline Measure for Personal Injury: Claimants who suffer personal injury caused by the fire can recover the reasonable cost of past and future medical care, emotional distress, and lost income/earning capacity if the injury prevents them from earning income.
   b. Baseline Measure for Wrongful Death: Family members can claim a loss of financial support, gifts/benefits, and value of household services provided by decedent, as well as funeral/burial expenses and noneconomic damages such as the loss of love, comfort, and care.
   c. Exceptions: None noted.
8. Fire Suppression Costs:
   a. Baseline Measure: Reasonable cost of firefighting, as well as providing rescue or emergency medical services along with administrative costs.
   b. Exceptions: None noted.

B. CLAIMS REVIEW METHODS

The review of individual claims is the principal method by which the Administrator will determine whether the Participating Utility exercised Reasonable Business Judgment when resolving claims. The Administrator may conduct statistical sampling in order to derive a representative set of claims for individual review. Individual claim reviews are more detailed evaluations of claims information and may involve more time and resources than statistical sampling, depending on the volume of claims submitted.

B.1. INDIVIDUAL CLAIM REVIEWS

In fulfilling the claims review requirements of section 3292 of the Public Utilities Code, four key steps have been defined for the review of individual claims submitted by the Participating Utilities for evaluation by the Administrator as part of the Threshold Claims and Eligible Claims reviews. The purpose and areas addressed in each step are as follows:

1. **Data review and validation**. The purpose of this step is to validate and establish the core data about each claim. This involves confirmation that the claimed damage was caused by a Covered Wildfire; if a Subrogation Claim, the identity of the insurer or other subrogating entity; and a review of the supporting documentation. Missing documentation will be requested and the amount of each type of claimed damage submitted to the Participating Utility will be reconciled with the amount paid by the Participating Utility.
2. **Claim validation and valuation of Subrogation Claims paid at less than or equal to 40% of total asserted claim value.** This step of the claims review focuses on Subrogation Claims paid at less than or equal to 40% of the total asserted claims value and that the Administrator determines have been settled consistent with Reasonable Business Judgment standard referenced in section 3292(f)(1) of the Public Utilities Code. The primary focus of review of these claims is confirming that the paid amount truly is less than or equal to 40% of the asserted claim value. This involves a review for any failure to use Reasonable Business Judgment by establishing the asserted values for each damage type and confirming that these values are supported by suitable documentation. The review at this step will also confirm that the asserted value represents 40% of the claim submitted to the Participating Utility**.** Subrogation claims that are Finally Adjudicated as defined herein will be paid in full.
3. **Validation and valuation of other Subrogation and non-Subrogation Claims which require further detailed review.** This step involves a more detailed review of the basis supporting the Participating Utility's determination of the settlement amount, including identifying and considering the information and documentation relied upon by the Participating Utility. The Administrator conducts a detailed review of claims to determine the extent to which full supporting evidence was used and available. The Administrator's review of Subrogation Claim settlements exceeding 40% of the total asserted claim value will use the Reasonable Business Judgment standard referenced in section 3292(f)(2) of the Public Utilities Code and defined herein. This more detailed review involves itemizing the types of damage, claim amounts, the way in which

the claims were validated in relation to the description and scope of the damage, and whether the use of an SME was warranted in this exercise and then deployed. The review will consider the evidence used to support the claim and whether the Participating Utility exercised Reasonable Business Judgment in reaching the settlement amount. Documentation reviewed by the Participating Utility in this determination should be considered. This step also involves confirmation of the basis of resolution of the claim by the Participating Utility – negotiated settlement, judgment, mediation etc. Any errors in the calculation of this valuation are to be noted and recorded. Finally adjudicated claims as defined herein will be paid in full.

4. **Confirm Administrator allowable value.** This final step confirms the amount that is allowable by the Administrator for the Third-Party Claim. The review will include confirmation that there is adequate proof of payment by the Participating Utility and a final data check for consistency with claimed amounts before recommending an allowable and/or reimbursable sum by the Administrator.

B.2 STATISTICAL METHODS

Appropriate statistical methods may be employed for the review of Threshold Claims or Eligible Claims. A statistician may assist the Administrator in the claims review process by working with the data submitted by the Participating Utilities. This may involve creating statistically meaningful samples of the data to be used in the selection of random files for review, as well as analyzing the data, and extracting from the data particular information. To that end, the purpose and activities of statistical analyses in the claims review process are directed towards:

1. Expediting the claims review process by developing statistically significant random samples of claims for more detailed review.
2. Identifying duplicate claims.
3. Identifying common ranges of claim amounts in particular geographic areas, indicating certain claims that may warrant closer review.
4. Identifying common ratios between amounts of particular damage categories to identify outliers.
5. Suggesting any other areas of inquiry that the data reveals, and which may be relevant to an evaluation of Reasonable Business Judgment and of use in the claims review process.

The identification of "outliers" is an important function of statistical sampling. "Outliers" are claims with values outside the norm that may warrant individual claim review. The specific definition of an "outlier claim" will depend on what constitutes the norm in any given data set. Some examples of statistical analyses that may be performed to identify potential outliers and/or anomalies for further evaluation by an individual claim review are as follows:

- Determination and identification of any claim with a value in excess of $10,000,000.
- Determine average loss amounts by damage types and identify those claims that are significantly higher than the average.
- Identify claims by specific location, by street for example, to determine the average value of a particular damage type and identify claims that far exceed the average. These addresses may then be identified for the Administrator to consider conducting a more detailed review of that claim.
- For real property claims, determine average ratio of total structure loss to total loss of use losses. Compare the average ratio to the particular claims and identify losses where the relationship of the loss of use total to structure loss is unusually high.
- For real property claims, identify structure loss amounts that may represent a loss that has reached the insurance policy limit. Compare structure loss amounts to contents losses and identify contents amounts exceeding 50% of structure loss amount.
- Analyze itemized claims data to determine if the Participating Utility received duplicate claims for the same losses from the subrogating insurer and its insured. Submit a listing of identified duplicates to the Administrator for further review.
- Identify any additional anomalies in the data, such as a large claim for Additional Living Expense but no claim for damage to a home, locations outside the area of a Covered Wildfire based upon ZIP Code, and loss dates outside the known dates of the Covered Wildfire.

The individual claim reviews determined by the identification of outliers and/or anomalies will be in addition to individual claim reviews determined by the statistically significant random file review.

B.3. CLAIMS REVIEW REPORTING

Results of the claims review process will be compiled into reports for both Threshold Claims and Eligible Claims. These reports will include an assessment of the Participating Utility's use of Reasonable Business Judgment and standard of practice in claims settlement. The report may contain summary information, including the name of the involved Participating Utility; name of the Covered Wildfire (if assigned) and the dates of the fire; the dates of the claim review and key personnel who participated in the review; the number of claims selected by the statistician; and the number of claims reviewed broken down by random sample claims and outlier claims. The summary may also comment on the sample size as compared to the total amount of claims submitted by the Participating Utility, and report and categorize any errors in the data or the process.

Claims review reports will summarize the evaluation of different aspects of the claim handling process of the Participating Utility. Each aspect will be reviewed against a system of ratings that consider the application of Reasonable Business Judgment. Specific sections of the report may include:

1. **Overall evaluation of results of claims review**. This section provides a brief explanation of the findings, including how they were determined, and the number of claims deemed to be within Reasonable Business Judgment and accepted by the Fund, and the number of claims that are deemed to be outside Reasonable Business Judgment and rejected by the Fund, as well as the number of claims per rating as described above.
2. **Specific results of review.** This section reports the results of the specific areas of individual claims review, with a summary of ratings for each specific area – data review and validation; claim validation and valuation of Subrogation Claims paid at less than or equal to 40% of total asserted claim value; and validation and valuation of other Subrogation and non-Subrogation Claims which required further detailed review. All Finally Adjudicated claims will be confirmed as meeting the definition of "Finally Adjudicated" contained in these Procedures before being paid in full.
3. **Confirm Administrator allowable value**. This section will state the number of claims accepted and the accepted dollar amount. It will list claims requiring additional information before being accepted and any claims and amounts that have been disallowed.
4. **Recommendations.** This section includes any claims handing guidance the Administrator may have for the Participating Utility. Insights as to why claims or portions of claims were disallowed will also be included.

In addition to the summary report, the Administrator will generate reports from the claims submission data, for example, regarding Subrogation Claims settled at or below 40% of claimed value, Subrogation Claims settled above 40%, and claims resolved on an adjudicated basis.

The Administrator may in its sole discretion share the details of the claims review results that it determines are reasonably necessary to communicate with and between the Participating Utilities in order to enhance the claims administration relationship between the Participating Utilities and the Administrator.

C. THRESHOLD AMOUNT CLAIMS REVIEW

To determine whether a Participating Utility has met the Threshold Amount for a particular Coverage Year and may submit claims to the Fund for reimbursement, the Administrator must determine that the Participating Utility exercised Reasonable Business Judgment in resolving and paying, or making commitments to pay, the claims that comprise the Threshold Amount. The Participating Utility claiming to have met the Threshold Amount must provide the Administrator with specific information about the Threshold Amount claims as set forth in the agreed claims data template. This template is a consolidated spreadsheet setting out specific data fields to be provided within the schedule of claims that are submitted for Threshold Amount claims review.

After receipt of the claims data, the Administrator will first review the information to ensure that all Threshold Amount claims resulted from Covered Wildfires and have either been paid by the Participating Utility or there is a binding commitment to pay them. Claims not paid at the time of submission of the claims data to the Administrator will be excluded in the calculation of whether the Threshold Amount has been met unless proof of a commitment to pay is also submitted.

Claims that the Administrator determines were paid on Covered Wildfires will then be evaluated to determine whether the amounts paid to reach the Threshold Amount were paid consistent with the exercise of Reasonable Business Judgment. This review may include the evaluation of a statistically significant selection of representative claims or damage types, claim-by-claim analysis, or such other methods as the Administrator deems appropriate in the exercise of its sole discretion.

The Administrator may request additional information from the Participating Utility as appropriate in the Administrator’s judgment.

The information provided by the Participating Utility may be coded or identified in a manner that the Administrator and Participating Utility agree provides sufficient information for review while also protecting the privacy interests and other legal protections for wildfire claimants, Participating Utilities, and others.

After completing the review of Third-Party Claims submitted by the Participating Utility, the Administrator will issue a Final Determination of Eligibility if it finds that the Threshold Amount has been met through the Participating Utility’s exercise of Reasonable Business Judgment. Upon the issuance of a Final Determination of Eligibility, the Administrator will consider claims above the Threshold Amount for reimbursement.

If the Administrator finds that the Participating Utility has not met the Threshold Amount, it will issue a Preliminary Determination of Eligibility with one of the following findings:

1. A preliminary finding that the Participating Utility did not provide sufficient information or documentation demonstrating the exercise of Reasonable Business Judgment, and that no part of the Threshold Amount will have been satisfied and no Third-Party Claims will be further considered for reimbursement.
2. A preliminary finding that a certain percentage or amount of the Threshold Amount has been satisfied but that the remainder is not supported by proof of the exercise of Reasonable Business Judgment, and that no Third-Party Claims will be considered for reimbursement until the balance of the Threshold Amount has been met.

If the Participating Utility disputes the Administrator's Preliminary Determination of Eligibility, within 30 days following the issuance of that preliminary determination, or at such later time as the Administrator agrees to allow, the Participating Utility shall submit to the Administrator any additional information or documentation demonstrating the exercise of Reasonable Business Judgment in settling or resolving claims within the Threshold Amount.

After review and consideration of any additional information or documentation provided by the Participating Utility in response to the Administrator's Preliminary Determination of Eligibility, the Administrator will issue a Final Determination of Eligibility.

If the Participating Utility fails to provide further information or documentation within the time required following the issuance of the Administrator's Preliminary Determination of Eligibility, the Administrator's Preliminary Determination of Eligibility will be deemed a Final Determination of Eligibility.

The purpose of the Threshold Amount claims review is to determine whether the Participating Utility has exercised Reasonable Business Judgment in the payment of Third-Party claims and if claims paid on Covered Wildfires in aggregate exceed the Threshold Amount in any coverage year. The primary method for this determination is an individual claims assessment. However, depending on the volume of claims submitted, the Administrator may use statistical sampling to derive a representative sample of claims for individual review.

Figure 2 illustrates the specific steps in the Threshold Amount claims review process, which are summarized as follows:

- **Data validation.** This involves the intake of itemized claims data in an agreed format. Claims submitted are validated to ensure they arise out of a Covered Wildfire and that any missing data is requested in order to ensure as complete a data set as possible. At this stage, the claims data can be provided to a statistician for a review of any potential duplication or any potential outliers in the data set. Subject to the number of claims submitted for review, the data set may receive a further review by a statistician to obtain a meaningful sample for individual case review when deemed appropriate by the Administrator.

- **Individual claims review.** This involves the use of a structured claims review procedure to conduct a due diligence assessment of the application of reasonable business judgment on a claim-by-claim basis. This specific procedure is described in more detail in the "Individual Claims Review" section B.1. above.
- **Threshold Claims report.** This report, which is described in the "Claims Review Reporting" section B.3. above, involves a description of the claims review rating system and evaluation criteria regarding Reasonable Business Judgment. The report provides an overall evaluation of results of the individual claims review and specific results of the review by category with a separate focus on validation and valuation of Subrogation Claims settled at or below 40% of the asserted claims value, Subrogation Claims settled at over 40% of settled claims value, settled non-Subrogation Claims, and Finally Adjudicated claims. The report provides confirmation of an allowable value and any claims handing guidance the Administrator may have for the Participating Utility.
- **Administrator's determination of eligibility.** This involves the review and approval of the Threshold Amount claims report and a report on findings (preliminary or final) with the Participating Utility. In the event that a finding is preliminary, the Administrator requests, receives and reviews any additional information provided by the Participating Utility and revises findings as needed. Once the finding is final, the Administrator issues a Threshold Amount determination and may begin reimbursing submitted Eligible Claims. The Administrator will report its final determinations of eligibility to the Council.

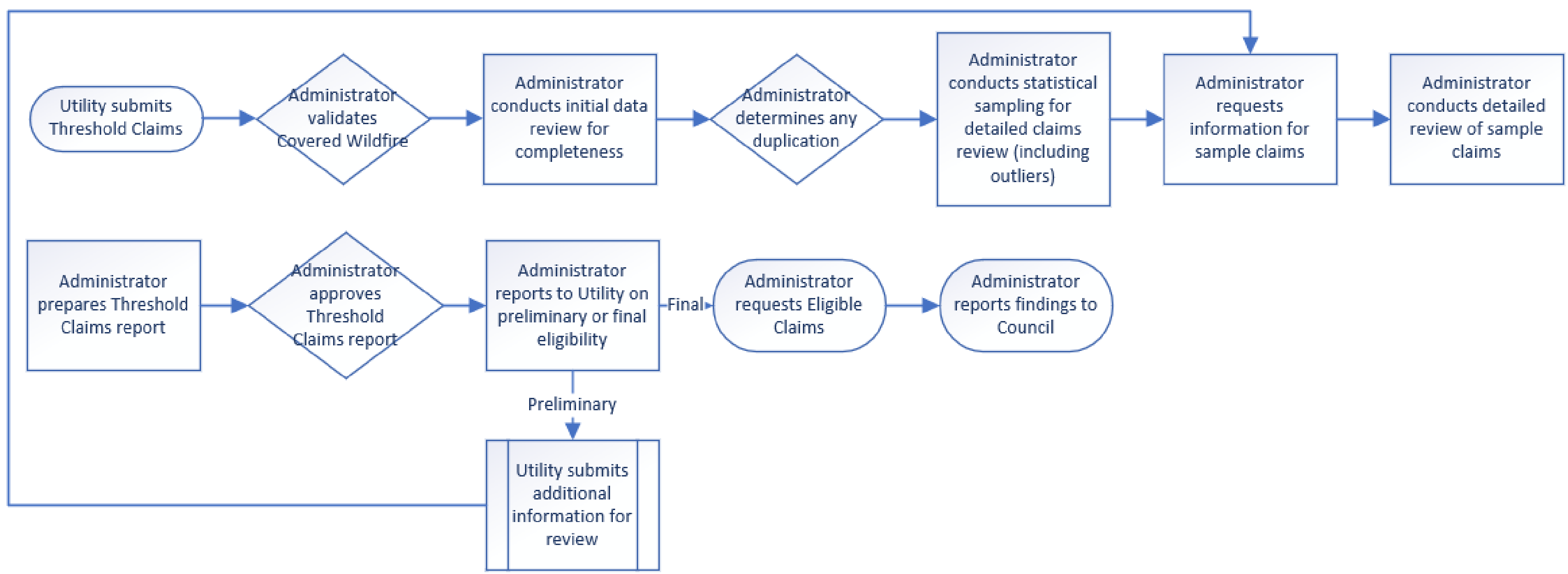

Figure 2. Illustration of the Threshold Amount Claims Review Process

D. ELIGIBLE CLAIMS REVIEW

When the Administrator determines the Participating Utility has met or exceeded the Threshold Amount, the Participating Utility may request reimbursement from the Fund for payment of Eligible Claims arising from Covered Wildfires occurring during the applicable Coverage Year. The Administrator's review of Eligible Claims will determine whether the amount paid or committed to be paid by the Participating Utility for each Eligible Claim was consistent with the exercise of Reasonable Business Judgment, and the statutory standards of claim review set forth in section 3292 of the Public Utilities Code. Participating Utilities are entitled to reimbursement for only those amounts that the Administrator determines were paid consistent with the exercise of Reasonable Business Judgment.

For each Eligible Claim submitted for reimbursement, the Participating Utility must provide the Administrator with the information set out in an approved format to be provided by the Administrator. The information provided by the Participating Utility may be coded or identified in a manner that the Administrator and Participating Utility agree provides sufficient information for review while also protecting the privacy interests and other legal protections for wildfire claimants, Participating Utilities, and others.

Eligible Claims submissions will be reviewed either on an individual claims basis or using a statistically significant random sample to determine the extent to which the claims are entitled to reimbursement. The purpose of the Eligible Claims review, like that of the Threshold Amount claims review, is to determine whether the Participating Utility exercised Reasonable Business Judgment in its decision to pay the settlement amount.

After completing the review of Eligible Claims submissions, the Administrator will issue a Final Determination of Eligible Claims if it finds that the Participating Utility exercised Reasonable Business Judgment in its claims settlement. Upon the issuance of a Final Determination of Eligible Claims, the Administrator will reimburse the Participating Utility. If the Administrator is not able, based on the information provided, to determine that the Participating Utility exercised Reasonable Business Judgment, it will issue a Preliminary Determination of Eligible Claims with a request for additional information or documentation demonstrating the exercise of Reasonable Business Judgment before the claims can be further considered for reimbursement.

If the Participating Utility disputes the Administrator's Preliminary Determination of Eligible Claims, within 30 days following the issuance of that preliminary determination, or at such later time as the Administrator agrees to allow, the Participating Utility must submit to the Administrator any additional information or documentation demonstrating the exercise of Reasonable Business Judgment in settling or resolving the claims.

After review and consideration of any additional information or documentation provided by the Participating Utility in response to the Administrator's Preliminary Determination of Eligible Claims, the Administrator will issue a Final Determination of Eligible Claims.

If the Participating Utility fails to provide further information or documentation within the time required following the issuance of the Administrator's Preliminary Determination of Eligibility, the Administrator's Preliminary Determination of Eligibility will be deemed a Final Determination of Eligibility.

Figure 3 illustrates the specific steps involved in the Eligible Claims review process and are summarized as follows:

- **Data validation.** This involves the intake of itemized claims data in an approved format. Claims submitted are validated to ensure they arise out of a Covered Wildfire and any missing data is requested in order to ensure as complete a data set as possible. At this stage, the claims data can be provided to a statistician for a review of any potential duplication or any potential outliers in the data set. Subject to the number of claims submitted for review, the data set may receive a further review by a statistician to obtain a meaningful sample for individual case review when deemed appropriate.
- **Individual claims review.** This involves the use of a structured claims review procedure to assess the application of Reasonable Business Judgment on a claim-by-claim basis. This specific procedure is described in more detail in the "Individual Claims Review" B.1. section above.
- **Eligible claims report.** This report, which is described in "Claims Review Reporting" section B.3. above, involves a description of the claims review rating system and evaluation criteria regarding Reasonable Business Judgment. The report provides an overall evaluation of results of the individual claims review and specific results of the review by category, with a separate focus on validation and valuation of Subrogation Claims settled at or below 40% of the asserted claims value, Subrogation Claims settled at over 40% of the asserted claims value, settled non-Subrogation Claims, and Finally Adjudicated claims. The report provides confirmation of an allowable value for reimbursement and any claims handing guidance the Administrator may have for the Participating.
- **Administrator's determination of eligibility.** This involves the review and approval of the Eligible Claims report and a report on findings (preliminary or final) to the Participating Utility. If the finding is preliminary, the Administrator will request, receive, and review any additional information provided by the Participating Utility, and will revise the finding as needed. Once the finding is final, the Administrator will issue an Eligible Claims determination and reimburse Eligible Claims. The Administrator will report its findings to the Council.

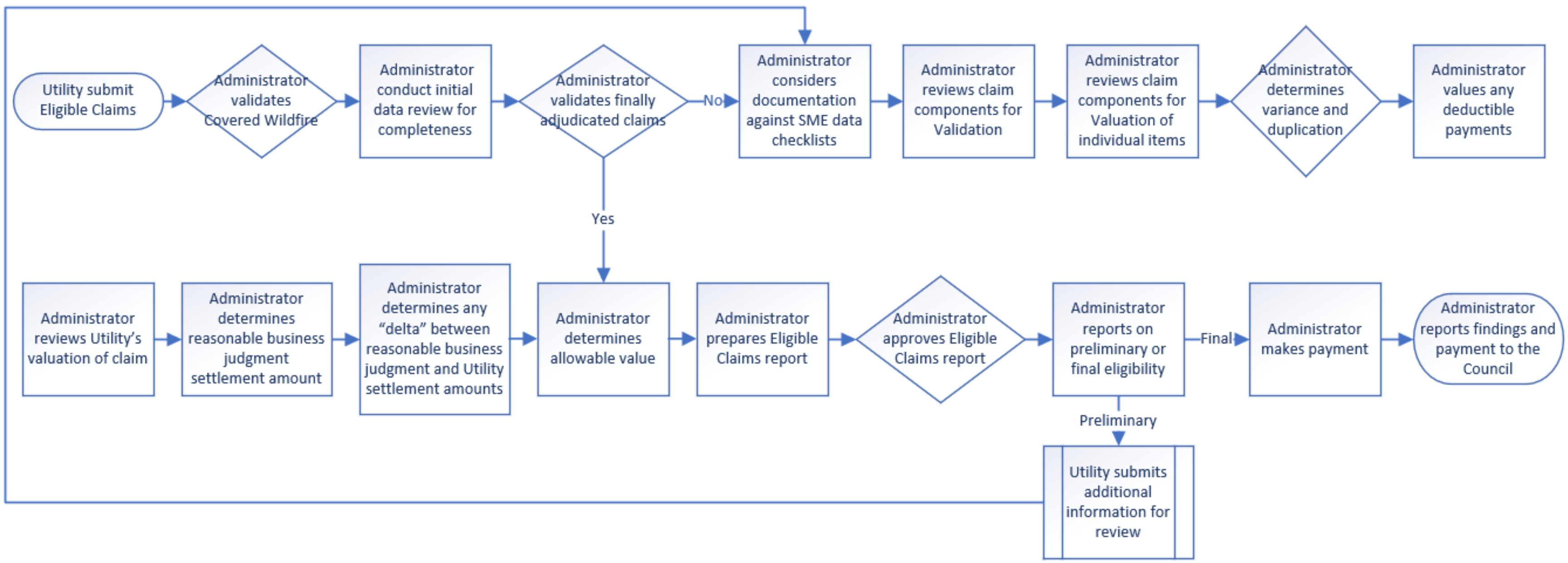

Figure 3. Illustration of the Eligible Claims Review Process

E. CLAIM PAYMENT PROCESS

Following the completion of the Eligible Claims report and the Administrator's determination of final eligibility, the Administrator will reimburse the Participating Utility for the amount that the Administrator determines to be reimbursable. Policies and procedures for the claim payment process are as follows:

1. The Administrator will create one or more controlled disbursements accounts for purposes of making claim payments from the Fund. Participating Utilities will be required to provide payment instructions to the Administrator.
2. The Administrator will reimburse Eligible Claims within 45 days after the date the Administrator approves the confirmed reimbursement amount, unless that timing is not practicable under the circumstances.
3. When the Administrator has determined that the Threshold Amount has been met for a particular Coverage Year, the Administrator will have the right, but not the obligation, to provide payment to the Participating Utility for Eligible Claims after the amount of those Eligible Claims incurred by the Participating Utility are finally determined but before those Eligible Claims are actually paid by, or on behalf of, the Participating Utility.
4. While the Wildfire Fund is under no obligation to advance funds to Participating Utilities before the Administrator's review of all claims for a Coverage Year is completed, the Administrator reserves the right to advance payments in order to accelerate the funding of claimant reimbursements and support Participating Utility solvency.
5. The Administrator reserves the right to recall claim payments from the Participating Utility in the event of over-payment or the Participating Utility's recovery of Eligible Claims from other parties.
6. If at any point in time the Administrator makes the determination contemplated under Public Utilities Code section 3292(i)(2), the Administrator will notify all Participating Utilities of such determination and, to the extent necessary, describe the Administrator's plan for the equitable apportionment and distribution of remaining funds to any Participating Utilities with unpaid Eligible Claims.

Once a Participating Utility has received any payment from the Wildfire Fund for Eligible Claims, the Participating Utility must comply with the laws and regulations related to a Catastrophic Wildfire Proceeding as defined in section 1701.8.(b) of the Public Utilities Code. The Participating Utility must file an application to the California Public Utilities Commission (the "Commission") to commence a Catastrophic Wildfire Proceeding. Based on the Commission's decision in a Catastrophic Wildfire Proceeding, a Participating Utility may be required to reimburse the Wildfire Fund.

F. QUALITY CONTROL

The Administrator will have a quality control process in order to ensure that the Procedures are implemented and adhered to. Quality control processes will be operated by the Administrator and any claims review service provider that the Administrator may retain. Agreed reporting levels for quality control between any claims review service provider and the Administrator will be negotiated and implemented.

G. INDEPENDENT AUDITOR

The Administrator reserves the right to appoint an Independent Auditor to review the Administrator's claims handling processes. The Independent Auditor will be responsible for auditing the claims review, reporting and quality control as situations demand. The Independent Auditor will provide a report in writing to the Administrator. The Independent Auditor will be independent of and unrelated to any vendor providing claims review services for the Administrator and its quality control processes. The Independent Auditor will be accountable solely to the Administrator.

H. DISPUTE RESOLUTION

In the event any Participating Utility claims to be aggrieved by any action or failure to act by the Administrator, the Participating Utility and Administrator shall first, in good faith, attempt to resolve the dispute between themselves. If the Participating Utility and the Administrator fail to resolve the dispute between themselves, the Council will, upon written demand by the Participating Utility that specifies the details of the Administrator's action or failure to act, allow the Participating Utility an opportunity to make its complaint during a Council meeting. The Council may, but is not required to, choose to set a special meeting to hear the Participating Utility's complaint, or it may choose to do so as an agenda item at a regularly scheduled meeting, or both. The Council shall exercise its oversight pursuant to Public Utilities Code section 3281(d) and may fashion appropriate resolutions of the dispute.

I. REPORTING TO THE COUNCIL

The Administrator will provide a quarterly Claims Administration report to the Council on the implementation of these Procedures and status of any claim submissions and reviews underway. The quarterly reports will include the following:

- Liaison activities with Participating Utilities.
- Status of Covered Wildfires for each Participating Utility by Coverage Year, including information on the status of settlements and incurred losses for Third-Party Claims.

- Status of claim submissions to the Fund, tracking the submission and review status for both Threshold Amount claims and Eligible Claims submissions made by each Participating Utility by Coverage Year, including the Administrator's determinations of eligibility of both Threshold Amount claims and Eligible Claims, and the Administrator's confirmed allowable values for the Threshold Amount or reimbursement of Eligible Claims.
- Status of paid and expected reimbursements by the Fund on a current basis, including any payments to the Participating Utility for Eligible Claims for which the settlements are finally determined but have not yet been actually paid by, or on behalf of, the Participating Utility, and any other advance payments that the Administrator has made to Participating Utilities before the Administrator's review of all claims for a Coverage Year is completed, in order to accelerate the funding of claimant reimbursements and support Participating Utility solvency.
- Status of quality control and independent auditing processes that may be underway.
- Status of any dispute resolution efforts that may be underway.
- Status of operational documentation and any modifications that may have been made to the documentation.
- Status of any non-discretionary, conforming changes to the Procedures that are required to maintain conformance with any statutory amendments.

The Administrator will seek Council review and approval to amend these Procedures when operational updates materially affect the Procedures.

California Catastrophe Response Council Memorandum

July 22, 2021

Agenda Item 7:	Plan of Operations (Second Annual Report)
Recommended Action:	Review, approve, and adopt the Second Annual Report, and authorize the Administrator to deliver the Second Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

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 Administrator has prepared its second annual Plan of Operations (Second Annual Report) and submits it to the Council for review and approval. Consistent with relevant statute, the Second Annual Report 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 Second Annual Report 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 the Second Annual Report covers the one-year period of July 12, 2020 through July 11, 2021.[1]

There are two attachments to this memorandum. On July 7, 2021, Administrator staff circulated a draft of the Second Annual Report to council members. The first attachment is a marked copy of the Second Annual Report that shows minor changes suggested by individual council members. The second attachment is a clean copy of the final proposed Second Annual Report that Administrator staff now seeks approval of from the Council.

With the Council's approval, the Administrator stands ready to submit the Second Annual Report to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

[1] The First Annual Report, that the Administrator prepared, and the Council approved on July 23, 2020, covered the one-year period of July 12, 2019 (the effective date of AB 1054 and AB 111) through July 11, 2020.

Second Annual Report
(Marked Draft)

WILDFIRE FUND ADMINISTRATOR

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

Report Period: July 12, 2020 – July 11, 2021
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 22, 2021

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, 2020 through July 11, 2021.

[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 eligible 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, 2021, SDG&E, SCE, and PG&E have all provided their initial, 2020, and 2021 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.1 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. The Fund began receiving NBC funds in January 2021. The IOU contributions combined with the SMIF loan and the NBC funds received as of July 11, 2021 total $10,488,410,208. 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

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

the NBCs. Additional detail regarding the Fund's contributions as of July 11, 2021 and audited financials as of December 31, 2020 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, previously engaged both Filsinger Energy Partners ("Filsinger") and Guy Carpenter & Company ("Guy Carpenter"), a global reinsurance broker, and continues to rely on that work to aid CEA in monitoring Fund durability and exposure to losses. Additional detail regarding the test scenarios and durability analysis can be found in *Section II: Projections for the Durability of the Fund*.

III. The Success of the Fund

Assessing the success of the Fund during its second full year in existence requires examination of (1) the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) a brief summary of the Council's public meetings during this reporting period; and (3) whether the Fund had sufficient claim-paying capacity to cover any incurred or anticipated eligible claims from the 2020 wildfire season.

(1) <u>Administrative Actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund.</u>

During the report period, Administrator staff and the Council:

- Adopted a revised Articles of Governance to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities;
- Continued working towards establishing the Fund's claims administration procedures, including detailed interim steps such as drafting and adopting the *Wildfire Fund Claims Administration – Provisional Policy Statement and Summary of Procedures*, and the *Wildfire Fund Claims Administration – Expanded Summary of Procedures*;
- Developed a framework for, and completed, the Council's first annual review of the Administrator's performance;
- Commenced the process to repay the $2 billion SMIF loan;
- Worked with outside counsel and tax consultants to confirm and validate the administration of the Wildfire Fund as a tax-exempt integral part of the State of California; and,

- Began the process of creating a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund.

  More detail on these milestones can be found in the full Report, *Section III: The Success of the Fund*, starting on page 16.

(2) Meetings of the Council. The Council was successfully activated in October 2019, and currently has a full roster of active members. The Council met four times during the report period: July 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021. The Council is scheduled to meet on July 22, 2021 and October 28, 2021. Details of these future meetings will be included in the Third 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.

IV. Whether or not the Fund is Serving its Purpose

During its second year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOU credit ratings, the continued participation of all IOUs in the Fund, and the Administrator's experience with the 2020 wildfire season and associated impacts on the Fund.

- IOU Credit Ratings. The 2019 Wildfire Legislation is viewed by the rating agencies as generally supportive of the IOUs' credit quality.

- Continued Participation of the three large IOUs in the Fund. All IOUs have made their initial, 2020, and 2021 contributions to the Fund. As we enter the 2021 wildfire season, the Fund is available to respond to covered wildfires caused by any of the IOUs. The existence and availability of the Fund as a source for paying eligible claims that may occur as a result of a catastrophic wildfire season, has allowed the IOUs to continue to invest in mitigation. In addition, the financial benefits of the Fund have incentivized the IOUs to pursue and obtain their 2020 safety certifications.

- The 2020 Wildfire Season. The work the Administrator and Council have performed over the past two years to operationalize the Fund puts the Administrator in a ready position to be able to discharge its statutory duties related to paying eligible claims for covered wildfires. To date, no IOU has made any claims on the Fund.

WILDFIRE FUND ADMINISTRATOR

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

REPORT PERIOD: JULY 12, 2020 – July 11, 2021
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 22, 2021

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 2020 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 2020, along with supplemental unaudited information related to the Fund’s contributions received through July 11, 2021.

California Earthquake Authority

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

December 31, 2020 and 2019

	Custodial Funds	
	2020	2019
Assets		
Cash and investments:		
Cash and cash equivalents	$ 511,921,154	$ 170,912,277
Investments	9,583,274,855	4,599,954,544
Total assets	10,095,196,009	4,770,866,821
Liabilities - Securities payable	387,224	447,511
Net Position		
Restricted - Restricted for CWF	10,094,808,785	4,770,419,310
Total net position	**$ 10,094,808,785**	**$ 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.

Administrator staff continues to work 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. There were no bonds issued during the report period.

As the table on the following page shows, as of July 11, 2021, the Fund has received $10,488,410,208 in capitalization. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs.

California Wildfire Fund
Contributions & NBCs Received
As of July 11, 2021

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$ 2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SoCal Edison 2019 annual contribution	12/27/2019	94,500,000
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000
8.	SDG&E 2020 annual contribution	12/16/2020	12,900,000
9.	SoCal Edison 2020 annual contribution	12/28/2020	94,500,000
10.	PG&E 2020 annual contribution	12/30/2020	192,600,000
		Total Contributions	10,100,000,000
1.	October 2020 NBC funds	1/19/2021	4,529,887
2.	November 2020 NBC funds	1/19/2021	49,757,447
3.	December 2020 NBC funds	2/9/2021	69,351,495
4.	January 2021 NBC funds	3/15/2021	59,438,336
5.	February 2021 NBC funds	4/8/2021	73,956,153
6.	March 2021 NBC funds	5/7/2021	66,094,647
7.	April 2021 NBC funds	6/16/2021	65,282,244
		Total NBCs	388,410,208
		Total Funds Received	$10,488,410,208

Note 1:
NBC funds received by the CWF are net of DWR administrative and operating expenses.

The 2019 Wildfire Legislation also requires that all costs and expenses related to the administration and operation of the Fund be paid from the assets of the Fund. Because CEA is now obligated to administer two separate and segregated funds – the Earthquake Authority Fund and the Wildfire Fund – and is using its operating assets and employees for the benefit of both funds, the CEA continues to use a cost-allocation methodology to ensure that each of those funds bears its own administration expenses. This cost allocation methodology is reviewed periodically for accuracy by CEA staff, and is within the scope of CEA's annual independent audit. ~~No~~The independent auditor did not raise any issues or concerns ~~have been~~

~~raised~~ about the effectiveness of this cost-allocation methodology during the period covered by this report. In addition, Administrator staff periodically presents the cost-allocation methodology to the Council, including, but not limited to, as part of the Administrator's annual budget process, and the Council has reviewed and not raised any issues or concerns about the cost-allocation methodology.

II. Projections for the Durability of the Fund

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 sources to pay losses (initial capital, investment income, IOU annual contributions, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses. Of these sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund depending on the structure and price.

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. As noted below, for the current durability projections it is assumed that losses potentially attributable to the IOUs occurring in the 2019 and 2020 wildfire seasons will not reach the annual $1 billion IOU retention and thus have no impact on Fund 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 and exposure growth. For the current estimate of durability and consistent with last year's durability estimate, modeled losses are increased by 50% to approximate total losses and increased an additional 7% for exposure growth to reflect increases in insured values and reconstruction costs. 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 for the current period. The financial model used by the Administrator is similar to those developed when the Fund's structure and mechanics were established. Specifically, the Governor's Office engaged a team of experts, including Filsinger and Guy Carpenter, to develop financial models of the Fund to assess durability during the development of the 2019 Wildfire Legislation. CEA, as Administrator, previously engaged both Filsinger and Guy Carpenter and 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 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 financial model uses the actual financial position of the Fund for the most recent year-end and considers all available Fund sources to pay eligible claims. As noted above, there are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. Scenario testing provides an opportunity to measure the relative impact of key factors. A summary of the test scenarios and results are displayed in the table below.

	Scenario	**~~Current Year~~Estimated Fund Durability for 2021**[3]
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%

[3] Estimated one-year Fund durability for 2021 is approximately 99.9% across all scenarios. This can alternatively be stated as a 1-in-1,000 chance that the Fund will suffer losses in 2021 that will ultimately exhaust all sources of claim-paying capacity.

Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[~~3~~4] 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 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.

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

[~~3~~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.

slightly lower durability estimate in the current year. However, as noted above, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability.

Frequency of Review. The financial models are updated each year to reflect the most recent year-end financial status of the Fund including any claim activity, change in the risk transfer program or change in key assumptions such as growth and mitigation impacts. The financial models can also be used and updated throughout the year to measure the impact of anticipated or actual changes. Additionally, the models may be used throughout the year as a planning tool to test alternative strategies and what-if scenarios. Changes to the model are described below.

Enhancing Durability Using Risk Transfer. As noted above, risk transfer is a flexible source of claim-paying capacity that has the potential to enhance the durability of the Fund, depending on the structure and price.

- 2020 Risk Transfer Program: Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk transfer program for the 2020 wildfire season.

- 2021 Risk Transfer Program: Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk transfer program for the 2021 wildfire season.

Plan for Winding up the Fund. Current projections do not demonstrate that the Fund will be exhausted within the next three years. Accordingly, this Annual Plan does not include a plan for winding up the Fund.

Comparison to Prior Year.

The model and methods used to assess Fund durability are essentially unchanged from the prior year. Necessary updates included reflecting the most recent year-end financial status, advancing the starting point one year (from 2020 to 2021) and an assumption that prior year wildfires will result in no claims to the Fund. As noted later in this report (see *The 2020 Wildfire Season*) no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund, in particular, as result of the 2019 Kincade Fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2021, notes that it has recorded an aggregate liability of $800 million (before insurance) in connection with the 2019 Kincade fire. Additionally, PG&E Corporation and the Utility state that they "currently believe that it is reasonably possible that the amount of loss could be greater than $800 million (before available insurance) but are unable to reasonably estimate the additional loss and the upper end of the range because, as described above, there are a number of unknown facts and legal considerations that may impact the amount of any potential liability, including the total scope and nature of claims that may be asserted against PG&E Corporation and the Utility and the outcome of the criminal proceedings initiated against the Utility by the Sonoma County District Attorney's Office."[4][5]

If the liability for the 2019 Kincade fire were to exceed $1 billion, it is possible that PG&E would be eligible to make a claim to the Wildfire Fund for the excess amount, subject to the 40% limitation on claims arising before emergence from bankruptcy. For the purposes of projecting the durability for the current period, the model assumes that neither the 2019 Kincade, nor the 2020 Zogg fires will result in claims to the Fund. The model will be updated as needed should this assumption prove to be incorrect.

[4][5] PGE-03.31.21-10Q (q4cdn.com) (See pages 46 – 51 for a discussion of the 2019 Kincade and 2020 Zogg fires.)

III. The Success of the Fund

This Section III: (1) provides an overview of the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) provides a brief summary of the Council's public meetings during this reporting period; (3) includes information on the Administrator's commencement of repaying the $2 billion SMIF loan; and (4) provides a summary of incurred claims.

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

Revised Articles of Governance

The Articles of Governance delineate specific procedures and processes for use by the Council and the Administrator in fulfilling their respective statutory responsibilities. At its October 22, 2020 meeting the Council adopted a revised Articles of Governance. A copy of the revised Articles of Governance can be found in the Council's October 22, 2020 meeting materials: CCRC October 22, 2020 Meeting Materials.

Claims Administration Procedures

Public Utilities Code section 3284(g) requires that the Administrator, with the approval of the Council, establish procedures for the review, approval and timely funding of eligible claims.

At its October 22, 2020 meeting, the Council adopted a *Provisional Policy Statement and Summary of Procedures* for the claims administration of the Fund. A copy of the *Provisional Policy Statement and Summary of Procedures* can be found in the Council's October 22, 2020 meeting materials: CCRC October 22, 2020 Meeting Materials.

At its January 28, 2021 meeting, the Council adopted an *Expanded Summary of Procedures* that built upon the previously approved *Provisional Policy Statement and Summary of Procedures*, providing staff with essential policy direction and the Council with an interim opportunity to weigh in on key elements of the claims administration process as it had taken shape. A copy of the *Expanded Summary of Procedures* can be found in the Council's January 28, 2021 meeting materials: CCRC January 28, 2021 Meeting Materials.

During the first two quarters of 2021, Administrator staff worked to develop more detailed procedures for each aspect of the claims administration process, including pre-claim quarterly and triggered reporting requirements, specific information requirements for the submission of claims and procedures for the submission of confidential information, processes for the evaluation and payment of third-party claims submitted by an IOU for review and reimbursement from the Fund, and guidelines for quality control and independent auditing of the claim review process. To perform this work, the Administrator has engaged outside counsel with expertise in wildfire liability litigation and mediation, and the handling of confidential information, a team of subject-matter experts to advise on statistical sampling and claims validation, valuation and review processes; and claims adjusting and auditing experts to help draft the detailed claim procedures. Outreach has also been conducted with the three IOUs, claims data specialists, reinsurers and intermediary brokers, and subject matter experts on various aspects of wildfire liability assessment to better understand claim handling and auditing processes. In late June, staff presented the full draft procedures to individual Council members and the IOUs to review. All feedback was integrated into the final draft procedures, which will be presented to the Council for approval at its next meeting on July 22, 2021.

Annual Review of the Administrator's Performance

During the report period, the Council adopted a framework to annually review the performance of the Administrator and completed its first annual review. The purpose of this process is to ensure that the Administrator is conducting its activities in a manner consistent with the directions and desires of the Council. Council Members Catherine Barna and Paul Rosenstiel served on the first Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the first annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across nine categories, with that feedback being submitted solely to the Subcommittee. The Administrator's performance for each category was evaluated using the scale outlined below:

5 – Exceeds Expectations: The Administrator performs above and beyond these accountabilities. The Administrator's performance in this area is outstanding and exceeds my expectations.

4 – **Meets All Expectations**: The Administrator always practices these accountabilities. The Administrator's performance in this area meets all of my expectations.

3 – **Meets Most Expectations**: The Administrator often practices these accountabilities, but not always. The Administrator's performance in this area generally meets my expectations.

2 – **Meets Some Expectations**: The Administrator inconsistently practices these accountabilities. The Administrator's performance in this area only meets some of my expectations.

1 – **Does Not Meet Expectations:** The Administrator rarely or never practices these accountabilities. The Administrator does not perform well in this area.

N/A – **Not Applicable**: Not applicable or has not been observed.

Category	Averaged Councilmember Performance Rating
Leadership and Culture	4.6 (Range 4-5)
Financial Leadership	4.3 (Range 4-5)
Strategic Development	4.4 (Range 4-5)
Council Relations	4.6 (Range 3-5)
Council Governance and Compliance	4.7 (Range 4-5)
Claims Administration	4.3 (Range 3-5 and N/A)
Enterprise Risk Management	4.3 (Range 3-5 and N/A)
Stakeholder Engagement	4.4 (Range 3-5 and N/A)
Overall Evaluation	4.4 (Range 3-5)

Non-bypassable Charges and Repayment of the $2 billion SMIF Loan

The Fund was initially capitalized with a short-term loan in the amount of $2 billion from the California Treasurer's Surplus Money Investment Fund, which is accruing interest at the rate of 2.35%. DWR was authorized under the 2019 Wildfire Legislation to collect and administer NBCs starting in October 2020.

DWR is required to allocate and distribute the NBCs for specified priority purposes, including, but not limited to, paying its own administrative and overhead expenses and facilitating the prompt repaying of the SMIF Loan. Amounts of NBCs not allocated to a priority purpose (e.g., paying off the SMIF Loan) are to be transferred to the Fund where the funds may be used to pay eligible claims following a covered wildfire. In addition to administering the collection of the NBCs through the IOUs, DWR is also empowered to issue revenue bonds and to pledge the NBC revenues to the repayment of those bonds.

DWR, working with the CEA, in its role as the Administrator, the State Treasurer's Office (STO), and the Department of Finance (DOF), was preparing to issue bonds in late Fall 2020 to generate proceeds to fully repay the SMIF Loan. The parties collectively determined to delay the issuance of the DWR revenue bonds and instead allocate the collected NBCs to the repayment of the SMIF Loan pursuant to an amortization schedule negotiated among the parties. The amortization schedule provides for the Administrator to pay monthly principal payments of $70 million, and quarterly interest payments. Principal payments began on December 29, 2020 and will end in April 2023.

In December 2020, the CEA executed a SMIF Loan Repayment Agreement with the DWR. The CEA agreed to and established a SMIF Payment Account with one of its investment managers to receive NBC funds from the DWR Charge Fund and take reasonable steps to ensure that funds in the SMIF Payment Account are (a) segregated from the CWF general account from which eligible claims against the Fund are paid and (b) are applied for the sole and exclusive purpose of holding funds allocated to the repayment of principal and interest on the SMIF loan until the SMIF loan is paid in full. Once the $2 billion SMIF loan is repaid, the NBCs will flow directly into the Fund to provide claim-paying capacity.

Fund as a Tax-Exempt Integral Part of the State of California

In creating the Fund, the Legislature specifically exempted income of the Fund from taxation by the State of California (Public Utilities Code section 3297). In addition, the Legislature made the IOUs' contributions tax deductible for purposes of their tax compliance obligations. This exemption of the Fund from state taxation demonstrates, among many other things included in the 2019 Wildfire Legislation, the deep integration of the Fund into the State's overall approach to ensuring California residents have access to stable and affordable energy, that the state maintain a stable energy marketplace, and that state residents be protected from the direct and indirect impacts of IOU-caused wildfires. The fact that the Fund is an integral part of the state is key to the ability to operate the Fund as exempt from federal taxation as well.

The Internal Revenue Service has a long-standing and extensively applied doctrine, generally referred to as the "integral part doctrine," that exempts from federal taxation the income of any entity that is an integral part of a state government. During the report period, Administrator staff worked with a nationally recognized law firm and an international tax compliance firm to obtain formal opinions that the Council and CEA, as the Fund Administrator, may reply upon in operating the Fund as an integral part of the State of California exempt from federal income tax. Both firms have delivered their opinions, which are briefly summarized below.

The core opinion of both firms, although worded slightly differently in each opinion, is that all Fund income should be exempt from federal income taxation because all such income should be treated as income earned by an integral part of the State of California. The delivery of these opinions, together with the statutory exemption from California state taxation, collectively provide a clear basis and strong comfort that the Fund may be operated, administered, and overseen as a fully tax-exempt statutory fund.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

The 2019 Wildfire Legislation established that each participating IOU is required to retain and pay the first $1 billion of losses incurred during each wildfire season before submitting reimbursement claims from covered wildfires to the Fund. (Public Utilities Code section 3280(f)). The legislation also enacted Public Utilities Code section 3293, which requires that each IOU "shall maintain reasonable insurance coverage" against wildfire losses and requires the Administrator to periodically review each IOU's insurance program taking into consideration a variety of IOU-specific factors that are relevant to the Fund's exposure to claims from that IOU.

During the report period, Administrator staff retained a consultant with expertise in the energy sector (Scidan Consulting) to assist in the development of a framework for conducting these periodic reviews of the IOUs' insurance programs. In addition to beginning work on constructing a framework, Administrator staff determined that, given the lack of claims against the Fund to date, the basic durability status of the Fund is unchanged from when the Legislature fixed the annual IOU retention at $1 billion and therefore recommended no change in the annual IOU retention. More detail about the developing framework can be found in the Council's April 22, 2021 meeting Materials: CCRC April 22, 2021 Meeting Materials.

Overview of the Council's Public Meetings

The Council met four times during the report period: July 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021.

During its July 23, 2020 meeting, the Council, among other matters, discussed and adopted Articles of Governance to set out the role and responsibilities of the Council and the Administrator, reviewed and approved the 2019 – 2020 Plan of Operations, and authorized 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. Administrator staff also presented on various topics, including the Fund's financial report, PG&E's joining the Fund, and the status of the Administrator's preparation for post-event claims policies and procedures that will govern post-wildfire claims functions. The Council also discussed the development of a process for annual evaluations of the performance of the Fund Administrator, protocols for Council Members who receive speaking engagement requests regarding the work of the Council, and the Council's interest in receiving periodic presentations at future Council meetings from subject matter experts on various topics relevant to the Fund.

During its October 22, 2020 meeting, the Council, among other matters, heard presentations by SDG&E, PG&E, and SCE on their respective wildfire mitigation activities, adopted a revised Articles of Governance, and considered and adopted a *Wildfire Claims Administration – Provisional Policy Statement and Summary of Procedures*. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, the annual report the Council is required to file with the Legislature and the Department of Finance pursuant to Public Utilities Code section 3287, and a proposed process under which the Council may conduct annual evaluations of the performance of CEA, as Fund Administrator.

During its January 28, 2021 meeting, the Council, among other matters, heard presentations by Administrator staff, and representatives from AIR, CoreLogic, and RMS on wildfire modeling, created and appointed members to an Administrator Evaluation Subcommittee for the purpose of the first annual Fund Administrator evaluation, adopted an *Expanded Summary of Procedures for Wildfire Claims Administration*, and approved of the proposed 2021 Wildfire Fund Budget. Administrator staff also made presentations on a variety of topics, including an update on the status and administration of NBCs being collected by DWR, a financial report on the Fund, an update on work related to the federal tax status of the Fund, and a briefing on the Administrator's statutory duty under Public Utilities Code section 3293 to periodically review and make recommendations on the IOUs' wildfire insurance coverage.

During its April 22, 2021 meeting, the Council, among other matters, heard presentations by Administrator staff and California Natural Resources Agency Deputy Secretary, Forest Resources Management, Jessica Morse on California's Wildfire and Forest Resilience Action Plan. Council members Paul Rosenstiel and Catherine Barna presented the first Annual Administrator Evaluation. In addition, Administrator staff briefed the Council on a variety of topics, including, a financial report on the Fund, an update on the progress and timeline for the Council's review of the complete draft procedures for Wildfire Fund Claims Administration, a brief overview of CEA's current Enterprise Risk Management program and a plan to incorporate the Fund into the existing framework, an update on the development of a framework for the Administrator's periodic review, pursuant to Public Utility Code section 3293, of the insurance programs of the participating IOUs, and an update on the federal tax status of the Fund.

The Council is scheduled to meet on July 22, 2021 and October 28, 2021. Information about those future meetings will be included in the Third Annual Report.

Claims Summary

During the report period, no claims were made by any of the IOUs on the Fund.

IV. Whether or not the Fund Is Serving its Purpose

The 2019 Wildfire Legislation's stated goals for the Fund are to benefit California ratepayers by:

- Reducing costs to ratepayers in addressing utility-caused catastrophic wildfires;
- Limiting the electrical corporations' exposure to financial liability resulting from wildfires that were caused by the utility and/or its equipment;
- Increasing electrical corporations' access to capital to fund ongoing operations and to make new investments to promote safety, reliability, and California's clean energy mandates; 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, the continued participation of all three large IOUs in the Fund, and the Administrator's experience with the 2020 wildfire season and associated impacts on the Fund.

Rating Stability of the IOUs

Prior to the Fund, the IOUs experienced increased pressure and, in some cases, action by the rating agencies. While numerous factors are considered in determining a credit rating and outlook, both S&P Global and Fitch have specifically noted elements that are directly related to the Fund and indicative of its success in enhancing the credit quality of the IOU's. Several examples are noted below:

- In the May 2021 rating action commentary related to a PG&E rating, Fitch noted "the dual effects of the reduction in the number of utility-triggered firestorms in 2019 and 2020 and *implementation of the wildfire insurance fund and other aspects of AB 1054* and other legislative initiatives are key elements supporting PG&E's ratings and the Stable Rating Outlook.[~~5~~6] (emphasis added)
- In the June 2021 rating action commentary related to a Southern California Edison rating, Fitch reiterated the dual effects as key elements supporting SCE's current ratings

[~~5~~6] Fitch Affirms PG&E Corp. and Pacific Gas and Electric's Ratings at 'BB'; Outlook Stable (fitchratings.com) (last checked 6/28/21) and Stable Rating Outlook and noted that "Fitch believes enactment of A.B. 1054 was a significant, credit-supportive event."[~~6~~7]

- In June 2021, S&P Global issued a FAQ update on their assumptions and analysis in which they specifically noted that "we view AB 1054 as generally supportive of the IOUs' credit quality."[~~7~~8]

AB 1054 Creates Incentives for the IOUs to Invest in Mitigation

Increased investments in electric utility grid hardening, situational awareness, and in the near-term, the use of public safety power shutoffs, may help to significantly reduce the risk of utility-caused catastrophic wildfires. AB 1054 requires $5 billion in the aggregate for utility wildfire safety investments with no return on equity for the utility. AB 1054 requires electrical corporations to file Wildfire Mitigation Plans with the CPUC. These Wildfire Mitigation Plans must cover at least a three-year period and describe a utility's plans to implement preventive strategies and programs to minimize the risk of its electrical lines and equipment causing catastrophic wildfires, including consideration of dynamic climate change risks. More information on PG&E, SCE, and SDG&E 2021 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 2020 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 2020 Wildfire Season

The 2020 wildfire season was one of the most destructive wildfire seasons on record. However, a relatively small percentage of the destruction was caused by wildfires that may be attributable to the Fund's participating IOUs. Detailed information about the 2020 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2020/. During the report period, there have been nine wildfires – Shirley Fire (July 31, 2020), Bobcat Fire (September 6, 2020), Zogg Fire (September 27, 2020), Silverado Fire (October 26, 2020),

[~~6~~7] *Fitch Rates Southern California Edison Co.'s Floating Rate and Sustainability FMBs 'BBB+'*, FitchRatings, June 9, 2021, available at, https://www.fitchratings.com/research/corporate-finance/fitch-rates-southern-california-edison-co-floating-rate-sustainability-fmbs-bbb-09-06-2021.

[~~7~~8] Gabe Grosberg, David N Bodek, Paul J Dyson, *Credit FAQ: How Are California's Wildfire Risks Affecting Utility Credit Quality?*, S&P Global Ratings, June 3, 2021, available at, https://www.spglobal.com/ratings/en/research/articles/210603-credit-faq-how-are-california-s-wildfire-risks-affecting-utility-credit-quality-11954953.

Cerritos Fire (December 3, 2020), Cornell Fire (December 7, 2020), Old Fire (January 18, 2021), Freedom Fire (January 19, 2021), and Slope Fire (May 31, 2021) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records.[~~8~~9] There has been one wildfire, the Zogg Fire (September 27, 2020) that CAL FIRE has determined was caused by PG&E. With the exceptions of the Bobcat, Silverado, and Zogg, fires, all these actual and potential IOU-caused fires resulted in minimal structural damage, with fewer than 5 structures damaged in each case. The Bobcat Fire resulted in the damage or destruction of 217 structures and 6 injuries, the Silverado Fire resulted in the damage or destruction of 14 structures and 2 injuries, and the Zogg Fire resulted in the damage or destruction of 231 structures, 1 injury, and 4 deaths.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on March 22, 2021, CAL FIRE determined that the Zogg Fire was caused by a pine tree contacting electrical distribution lines owned and operated by PG&E. Since it has been determined that PG&E was at fault, the fire will become a covered wildfire and loss claims in excess of PG&E's $1 billion annual retention may be submitted to the Fund. If the Zogg Fire results in a claim, details will be included in a subsequent annual report.

[~~8~~9] This list is based on public information available on CAL FIRE, SCE, and PG&E's websites. SDG&E and its parent company Sempra currently do not have a section of their website or other provisions for public notifications of Electric Safety Incident Reports that it files with the CPUC.

Document comparison by Workshare 10.0 on Wednesday, July 14, 2021 9:23:03 AM

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Document 1 ID	file://C:\Users\statapudy\Downloads\CWF Year 2 - Plan of Operations - Confidential Discussion Draft - 7.6.2021.docx
Description	CWF Year 2 - Plan of Operations - Confidential Discussion Draft - 7.6.2021
Document 2 ID	file://C:\Users\statapudy\Downloads\CWF Year 2 - Plan of Operations - Confidential Member Feedback.docx
Description	CWF Year 2 - Plan of Operations - Confidential Member Feedback
Rendering set	Standard

Legend:	
Insertion	
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Style change	
Format change	
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Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	17
Deletions	15
Moved from	0
Moved to	0
Style change	0
Format changed	0

Total changes	32

Second Annual Report
(Clean Final Copy)

WILDFIRE FUND ADMINISTRATOR

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

Report Period: July 12, 2020 – July 11, 2021
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 22, 2021

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, 2020 through July 11, 2021.

[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 eligible 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, 2021, SDG&E, SCE, and PG&E have all provided their initial, 2020, and 2021 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.1 billion. In addition, California Public Utilities Commission ("CPUC") Decision 19-10-056 operationalized the collection of the NBCs. The Fund began receiving NBC funds in January 2021. The IOU contributions combined with the SMIF loan and the NBC funds received as of July 11, 2021 total $10,488,410,208. 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

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

the NBCs. Additional detail regarding the Fund's contributions as of July 11, 2021 and audited financials as of December 31, 2020 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, previously engaged both Filsinger Energy Partners ("Filsinger") and Guy Carpenter & Company ("Guy Carpenter"), a global reinsurance broker, and continues to rely on that work to aid CEA in monitoring Fund durability and exposure to losses. Additional detail regarding the test scenarios and durability analysis can be found in *Section II: Projections for the Durability of the Fund*.

III. The Success of the Fund

Assessing the success of the Fund during its second full year in existence requires examination of (1) the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) a brief summary of the Council's public meetings during this reporting period; and (3) whether the Fund had sufficient claim-paying capacity to cover any incurred or anticipated eligible claims from the 2020 wildfire season.

(1) <u>Administrative Actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund.</u>

During the report period, Administrator staff and the Council:

- Adopted a revised Articles of Governance to delineate specific procedures and processes for use by the Council and Administrator in fulfilling their respective statutory responsibilities;
- Continued working towards establishing the Fund's claims administration procedures, including detailed interim steps such as drafting and adopting the *Wildfire Fund Claims Administration – Provisional Policy Statement and Summary of Procedures*, and the *Wildfire Fund Claims Administration – Expanded Summary of Procedures*;
- Developed a framework for, and completed, the Council's first annual review of the Administrator's performance;
- Commenced the process to repay the $2 billion SMIF loan;
- Worked with outside counsel and tax consultants to confirm and validate the administration of the Wildfire Fund as a tax-exempt integral part of the State of California; and,

- Began the process of creating a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund.

More detail on these milestones can be found in the full Report, *Section III: The Success of the Fund*, starting on page 16.

(2) Meetings of the Council. The Council was successfully activated in October 2019, and currently has a full roster of active members. The Council met four times during the report period: July 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021. The Council is scheduled to meet on July 22, 2021 and October 28, 2021. Details of these future meetings will be included in the Third 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.

IV. Whether or not the Fund is Serving its Purpose

During its second year of existence, the Fund furthered its statutorily-defined goals to benefit ratepayers by its impact on IOU credit ratings, the continued participation of all IOUs in the Fund, and the Administrator's experience with the 2020 wildfire season and associated impacts on the Fund.

- IOU Credit Ratings. The 2019 Wildfire Legislation is viewed by the rating agencies as generally supportive of the IOUs' credit quality.

- Continued Participation of the three large IOUs in the Fund. All IOUs have made their initial, 2020, and 2021 contributions to the Fund. As we enter the 2021 wildfire season, the Fund is available to respond to covered wildfires caused by any of the IOUs. The existence and availability of the Fund as a source for paying eligible claims that may occur as a result of a catastrophic wildfire season, has allowed the IOUs to continue to invest in mitigation. In addition, the financial benefits of the Fund have incentivized the IOUs to pursue and obtain their 2020 safety certifications.

- The 2020 Wildfire Season. The work the Administrator and Council have performed over the past two years to operationalize the Fund puts the Administrator in a ready position to be able to discharge its statutory duties related to paying eligible claims for covered wildfires. To date, no IOU has made any claims on the Fund.

WILDFIRE FUND ADMINISTRATOR

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

REPORT PERIOD: JULY 12, 2020 – July 11, 2021
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 22, 2021

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 2020 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 2020, along with supplemental unaudited information related to the Fund's contributions received through July 11, 2021.

California Earthquake Authority

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

December 31, 2020 and 2019

	Custodial Funds	
	2020	2019
Assets		
Cash and investments:		
Cash and cash equivalents	$ 511,921,154	$ 170,912,277
Investments	9,583,274,855	4,599,954,544
Total assets	10,095,196,009	4,770,866,821
Liabilities - Securities payable	387,224	447,511
Net Position		
Restricted - Restricted for CWF	10,094,808,785	4,770,419,310
Total net position	**$ 10,094,808,785**	**$ 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.

Administrator staff continues to work 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. There were no bonds issued during the report period.

As the table on the following page shows, as of July 11, 2021, the Fund has received $10,488,410,208 in capitalization. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt backed by the NBCs.

California Wildfire Fund
Contributions & NBCs Received
As of July 11, 2021

	Description	Date Received	Amount
1.	SMIF Loan Proceeds	8/15/2019	$ 2,000,000,000
2.	SDG&E initial capital contribution	9/9/2019	322,500,000
3.	SoCal Edison initial capital contribution	9/9/2019	2,362,500,000
4.	SDG&E 2019 annual contribution	12/19/2019	12,900,000
5.	SoCal Edison 2019 annual contribution	12/27/2019	94,500,000
6.	PG&E initial capital contribution	7/1/2020	4,815,000,000
7.	PG&E 2019 annual contribution	7/1/2020	192,600,000
8.	SDG&E 2020 annual contribution	12/16/2020	12,900,000
9.	SoCal Edison 2020 annual contribution	12/28/2020	94,500,000
10.	PG&E 2020 annual contribution	12/30/2020	192,600,000
		Total Contributions	10,100,000,000
1.	October 2020 NBC funds	1/19/2021	4,529,887
2.	November 2020 NBC funds	1/19/2021	49,757,447
3.	December 2020 NBC funds	2/9/2021	69,351,495
4.	January 2021 NBC funds	3/15/2021	59,438,336
5.	February 2021 NBC funds	4/8/2021	73,956,153
6.	March 2021 NBC funds	5/7/2021	66,094,647
7.	April 2021 NBC funds	6/16/2021	65,282,244
		Total NBCs	388,410,208
		Total Funds Received	$10,488,410,208

Note 1:
NBC funds received by the CWF are net of DWR administrative and operating expenses.

The 2019 Wildfire Legislation also requires that all costs and expenses related to the administration and operation of the Fund be paid from the assets of the Fund. Because CEA is now obligated to administer two separate and segregated funds – the Earthquake Authority Fund and the Wildfire Fund – and is using its operating assets and employees for the benefit of both funds, the CEA continues to use a cost-allocation methodology to ensure that each of those funds bears its own administration expenses. This cost allocation methodology is reviewed periodically for accuracy by CEA staff, and is within the scope of CEA's annual independent audit. The independent auditor did not raise any issues or concerns about the effectiveness of this cost-allocation methodology during the period covered by this report. In addition, Administrator staff periodically presents the cost-allocation methodology to the Council, including, but not limited to, as part of the Administrator's annual budget process, and the Council has reviewed and not raised any issues or concerns about the cost-allocation methodology.

II. Projections for the Durability of the Fund

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 sources to pay losses (initial capital, investment income, IOU annual contributions, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses. Of these sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund depending on the structure and price.

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. As noted below, for the current durability projections it is assumed that losses potentially attributable to the IOUs occurring in the 2019 and 2020 wildfire seasons will not reach the annual $1 billion IOU retention and thus have no impact on Fund 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 and exposure growth. For the current estimate of durability and consistent with last year's durability estimate, modeled losses are increased by 50% to approximate total losses and increased an additional 7% for exposure growth to reflect increases in insured values and reconstruction costs. 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.

<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 for the current period. The financial model used by the Administrator is similar to those developed when the Fund's structure and mechanics were established. Specifically, the Governor's Office engaged a team of experts, including Filsinger and Guy Carpenter, to develop financial models of the Fund to assess durability during the development of the 2019 Wildfire Legislation. CEA, as Administrator, previously engaged both Filsinger and Guy Carpenter and 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 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 financial model uses the actual financial position of the Fund for the most recent year-end and considers all available Fund sources to pay eligible claims. As noted above, there are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. Scenario testing provides an opportunity to measure the relative impact of key factors. A summary of the test scenarios and results are displayed in the table below.

	Scenario	**Estimated Fund Durability for 2021[3]**
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%

[3] Estimated one-year Fund durability for 2021 is approximately 99.9% across all scenarios. This can alternatively be stated as a 1-in-1,000 chance that the Fund will suffer losses in 2021 that will ultimately exhaust all sources of claim-paying capacity.

Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[4] 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 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.

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

[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.

slightly lower durability estimate in the current year. However, as noted above, the difference is negligible because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, the higher settlement rate has a compounding negative effect on Fund durability.

Frequency of Review. The financial models are updated each year to reflect the most recent year-end financial status of the Fund including any claim activity, change in the risk transfer program or change in key assumptions such as growth and mitigation impacts. The financial models can also be used and updated throughout the year to measure the impact of anticipated or actual changes. Additionally, the models may be used throughout the year as a planning tool to test alternative strategies and what-if scenarios. Changes to the model are described below.

Enhancing Durability Using Risk Transfer. As noted above, risk transfer is a flexible source of claim-paying capacity that has the potential to enhance the durability of the Fund, depending on the structure and price.

- 2020 Risk Transfer Program: Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk transfer program for the 2020 wildfire season.

- 2021 Risk Transfer Program: Administrator staff determined that the pricing and structure did not sufficiently meet the goal of enhancing the Fund's durability and did not engage the market for a risk transfer program for the 2021 wildfire season.

Plan for Winding up the Fund. Current projections do not demonstrate that the Fund will be exhausted within the next three years. Accordingly, this Annual Plan does not include a plan for winding up the Fund.

Comparison to Prior Year.

The model and methods used to assess Fund durability are essentially unchanged from the prior year. Necessary updates included reflecting the most recent year-end financial status, advancing the starting point one year (from 2020 to 2021) and an assumption that prior year wildfires will result in no claims to the Fund. As noted later in this report (see *The 2020 Wildfire Season*) no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund, in particular, as result of the 2019 Kincade Fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2021, notes that it has recorded an aggregate liability of $800 million (before insurance) in connection with the 2019 Kincade fire. Additionally, PG&E Corporation and the Utility state that they "currently believe that it is reasonably possible that the amount of loss could be greater than $800 million (before available insurance) but are unable to reasonably estimate the additional loss and the upper end of the range because, as described above, there are a number of unknown facts and legal considerations that may impact the amount of any potential liability, including the total scope and nature of claims that may be asserted against PG&E Corporation and the Utility and the outcome of the criminal proceedings initiated against the Utility by the Sonoma County District Attorney's Office."[5]

If the liability for the 2019 Kincade fire were to exceed $1 billion, it is possible that PG&E would be eligible to make a claim to the Wildfire Fund for the excess amount, subject to the 40% limitation on claims arising before emergence from bankruptcy. For the purposes of projecting the durability for the current period, the model assumes that neither the 2019 Kincade, nor the 2020 Zogg fires will result in claims to the Fund. The model will be updated as needed should this assumption prove to be incorrect.

[5] PGE-03.31.21-10Q (q4cdn.com) (See pages 46 – 51 for a discussion of the 2019 Kincade and 2020 Zogg fires.)

III. The Success of the Fund

This Section III: (1) provides an overview of the administrative actions taken by the Administrator, under the oversight of the Council, to further operationalize the Fund, (2) provides a brief summary of the Council's public meetings during this reporting period; (3) includes information on the Administrator's commencement of repaying the $2 billion SMIF loan; and (4) provides a summary of incurred claims.

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

Revised Articles of Governance

The Articles of Governance delineate specific procedures and processes for use by the Council and the Administrator in fulfilling their respective statutory responsibilities. At its October 22, 2020 meeting the Council adopted a revised Articles of Governance. A copy of the revised Articles of Governance can be found in the Council's October 22, 2020 meeting materials: CCRC October 22, 2020 Meeting Materials.

Claims Administration Procedures

Public Utilities Code section 3284(g) requires that the Administrator, with the approval of the Council, establish procedures for the review, approval and timely funding of eligible claims.

At its October 22, 2020 meeting, the Council adopted a *Provisional Policy Statement and Summary of Procedures* for the claims administration of the Fund. A copy of the *Provisional Policy Statement and Summary of Procedures* can be found in the Council's October 22, 2020 meeting materials: CCRC October 22, 2020 Meeting Materials.

At its January 28, 2021 meeting, the Council adopted an *Expanded Summary of Procedures* that built upon the previously approved *Provisional Policy Statement and Summary of Procedures*, providing staff with essential policy direction and the Council with an interim opportunity to weigh in on key elements of the claims administration process as it had taken shape. A copy of the *Expanded Summary of Procedures* can be found in the Council's January 28, 2021 meeting materials: CCRC January 28, 2021 Meeting Materials.

During the first two quarters of 2021, Administrator staff worked to develop more detailed procedures for each aspect of the claims administration process, including pre-claim quarterly and triggered reporting requirements, specific information requirements for the submission of claims and procedures for the submission of confidential information, processes for the evaluation and payment of third-party claims submitted by an IOU for review and reimbursement from the Fund, and guidelines for quality control and independent auditing of the claim review process. To perform this work, the Administrator has engaged outside counsel with expertise in wildfire liability litigation and mediation, and the handling of confidential information, a team of subject-matter experts to advise on statistical sampling and claims validation, valuation and review processes; and claims adjusting and auditing experts to help draft the detailed claim procedures. Outreach has also been conducted with the three IOUs, claims data specialists, reinsurers and intermediary brokers, and subject matter experts on various aspects of wildfire liability assessment to better understand claim handling and auditing processes. In late June, staff presented the full draft procedures to individual Council members and the IOUs to review. All feedback was integrated into the final draft procedures, which will be presented to the Council for approval at its next meeting on July 22, 2021.

Annual Review of the Administrator's Performance

During the report period, the Council adopted a framework to annually review the performance of the Administrator and completed its first annual review. The purpose of this process is to ensure that the Administrator is conducting its activities in a manner consistent with the directions and desires of the Council. Council Members Catherine Barna and Paul Rosenstiel served on the first Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the first annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across nine categories, with that feedback being submitted solely to the Subcommittee. The Administrator's performance for each category was evaluated using the scale outlined below:

5 – Exceeds Expectations: The Administrator performs above and beyond these accountabilities. The Administrator's performance in this area is outstanding and exceeds my expectations.

4 – **Meets All Expectations**: The Administrator always practices these accountabilities. The Administrator's performance in this area meets all of my expectations.

3 – **Meets Most Expectations**: The Administrator often practices these accountabilities, but not always. The Administrator's performance in this area generally meets my expectations.

2 – **Meets Some Expectations**: The Administrator inconsistently practices these accountabilities. The Administrator's performance in this area only meets some of my expectations.

1 – **Does Not Meet Expectations:** The Administrator rarely or never practices these accountabilities. The Administrator does not perform well in this area.

N/A – **Not Applicable**: Not applicable or has not been observed.

Category	Averaged Councilmember Performance Rating
Leadership and Culture	4.6 (Range 4-5)
Financial Leadership	4.3 (Range 4-5)
Strategic Development	4.4 (Range 4-5)
Council Relations	4.6 (Range 3-5)
Council Governance and Compliance	4.7 (Range 4-5)
Claims Administration	4.3 (Range 3-5 and N/A)
Enterprise Risk Management	4.3 (Range 3-5 and N/A)
Stakeholder Engagement	4.4 (Range 3-5 and N/A)
Overall Evaluation	4.4 (Range 3-5)

Non-bypassable Charges and Repayment of the $2 billion SMIF Loan

The Fund was initially capitalized with a short-term loan in the amount of $2 billion from the California Treasurer's Surplus Money Investment Fund, which is accruing interest at the rate of 2.35%. DWR was authorized under the 2019 Wildfire Legislation to collect and administer NBCs starting in October 2020.

DWR is required to allocate and distribute the NBCs for specified priority purposes, including, but not limited to, paying its own administrative and overhead expenses and facilitating the prompt repaying of the SMIF Loan. Amounts of NBCs not allocated to a priority purpose (e.g., paying off the SMIF Loan) are to be transferred to the Fund where the funds may be used to pay eligible claims following a covered wildfire. In addition to administering the collection of the NBCs through the IOUs, DWR is also empowered to issue revenue bonds and to pledge the NBC revenues to the repayment of those bonds.

DWR, working with the CEA, in its role as the Administrator, the State Treasurer's Office (STO), and the Department of Finance (DOF), was preparing to issue bonds in late Fall 2020 to generate proceeds to fully repay the SMIF Loan. The parties collectively determined to delay the issuance of the DWR revenue bonds and instead allocate the collected NBCs to the repayment of the SMIF Loan pursuant to an amortization schedule negotiated among the parties. The amortization schedule provides for the Administrator to pay monthly principal payments of $70 million, and quarterly interest payments. Principal payments began on December 29, 2020 and will end in April 2023.

In December 2020, the CEA executed a SMIF Loan Repayment Agreement with the DWR. The CEA agreed to and established a SMIF Payment Account with one of its investment managers to receive NBC funds from the DWR Charge Fund and take reasonable steps to ensure that funds in the SMIF Payment Account are (a) segregated from the CWF general account from which eligible claims against the Fund are paid and (b) are applied for the sole and exclusive purpose of holding funds allocated to the repayment of principal and interest on the SMIF loan until the SMIF loan is paid in full. Once the $2 billion SMIF loan is repaid, the NBCs will flow directly into the Fund to provide claim-paying capacity.

Fund as a Tax-Exempt Integral Part of the State of California

In creating the Fund, the Legislature specifically exempted income of the Fund from taxation by the State of California (Public Utilities Code section 3297). In addition, the Legislature made the IOUs' contributions tax deductible for purposes of their tax compliance obligations. This exemption of the Fund from state taxation demonstrates, among many other things included in the 2019 Wildfire Legislation, the deep integration of the Fund into the State's overall approach to ensuring California residents have access to stable and affordable energy, that the state maintain a stable energy marketplace, and that state residents be protected from the direct and indirect impacts of IOU-caused wildfires. The fact that the Fund is an integral part of the state is key to the ability to operate the Fund as exempt from federal taxation as well.

The Internal Revenue Service has a long-standing and extensively applied doctrine, generally referred to as the "integral part doctrine," that exempts from federal taxation the income of any entity that is an integral part of a state government. During the report period, Administrator staff worked with a nationally recognized law firm and an international tax compliance firm to obtain formal opinions that the Council and CEA, as the Fund Administrator, may reply upon in operating the Fund as an integral part of the State of California exempt from federal income tax. Both firms have delivered their opinions, which are briefly summarized below.

The core opinion of both firms, although worded slightly differently in each opinion, is that all Fund income should be exempt from federal income taxation because all such income should be treated as income earned by an integral part of the State of California. The delivery of these opinions, together with the statutory exemption from California state taxation, collectively provide a clear basis and strong comfort that the Fund may be operated, administered, and overseen as a fully tax-exempt statutory fund.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

The 2019 Wildfire Legislation established that each participating IOU is required to retain and pay the first $1 billion of losses incurred during each wildfire season before submitting reimbursement claims from covered wildfires to the Fund. (Public Utilities Code section 3280(f)). The legislation also enacted Public Utilities Code section 3293, which requires that each IOU "shall maintain reasonable insurance coverage" against wildfire losses and requires the Administrator to periodically review each IOU's insurance program taking into consideration a variety of IOU-specific factors that are relevant to the Fund's exposure to claims from that IOU.

During the report period, Administrator staff retained a consultant with expertise in the energy sector (Scidan Consulting) to assist in the development of a framework for conducting these periodic reviews of the IOUs' insurance programs. In addition to beginning work on constructing a framework, Administrator staff determined that, given the lack of claims against the Fund to date, the basic durability status of the Fund is unchanged from when the Legislature fixed the annual IOU retention at $1 billion and therefore recommended no change in the annual IOU retention. More detail about the developing framework can be found in the Council's April 22, 2021 meeting Materials: CCRC April 22, 2021 Meeting Materials.

Overview of the Council's Public Meetings

The Council met four times during the report period: July 23, 2020; October 22, 2020; January 28, 2021; and April 22, 2021.

During its July 23, 2020 meeting, the Council, among other matters, discussed and adopted Articles of Governance to set out the role and responsibilities of the Council and the Administrator, reviewed and approved the 2019 – 2020 Plan of Operations, and authorized 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. Administrator staff also presented on various topics, including the Fund's financial report, PG&E's joining the Fund, and the status of the Administrator's preparation for post-event claims policies and procedures that will govern post-wildfire claims functions. The Council also discussed the development of a process for annual evaluations of the performance of the Fund Administrator, protocols for Council Members who receive speaking engagement requests regarding the work of the Council, and the Council's interest in receiving periodic presentations at future Council meetings from subject matter experts on various topics relevant to the Fund.

During its October 22, 2020 meeting, the Council, among other matters, heard presentations by SDG&E, PG&E, and SCE on their respective wildfire mitigation activities, adopted a revised Articles of Governance, and considered and adopted a *Wildfire Claims Administration – Provisional Policy Statement and Summary of Procedures*. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, the annual report the Council is required to file with the Legislature and the Department of Finance pursuant to Public Utilities Code section 3287, and a proposed process under which the Council may conduct annual evaluations of the performance of CEA, as Fund Administrator.

During its January 28, 2021 meeting, the Council, among other matters, heard presentations by Administrator staff, and representatives from AIR, CoreLogic, and RMS on wildfire modeling, created and appointed members to an Administrator Evaluation Subcommittee for the purpose of the first annual Fund Administrator evaluation, adopted an *Expanded Summary of Procedures for Wildfire Claims Administration*, and approved of the proposed 2021 Wildfire Fund Budget. Administrator staff also made presentations on a variety of topics, including an update on the status and administration of NBCs being collected by DWR, a financial report on the Fund, an update on work related to the federal tax status of the Fund, and a briefing on the Administrator's statutory duty under Public Utilities Code section 3293 to periodically review and make recommendations on the IOUs' wildfire insurance coverage.

During its April 22, 2021 meeting, the Council, among other matters, heard presentations by Administrator staff and California Natural Resources Agency Deputy Secretary, Forest Resources Management, Jessica Morse on California's Wildfire and Forest Resilience Action Plan. Council members Paul Rosenstiel and Catherine Barna presented the first Annual Administrator Evaluation. In addition, Administrator staff briefed the Council on a variety of topics, including, a financial report on the Fund, an update on the progress and timeline for the Council's review of the complete draft procedures for Wildfire Fund Claims Administration, a brief overview of CEA's current Enterprise Risk Management program and a plan to incorporate the Fund into the existing framework, an update on the development of a framework for the Administrator's periodic review, pursuant to Public Utility Code section 3293, of the insurance programs of the participating IOUs, and an update on the federal tax status of the Fund.

The Council is scheduled to meet on July 22, 2021 and October 28, 2021. Information about those future meetings will be included in the Third Annual Report.

Claims Summary

During the report period, no claims were made by any of the IOUs on the Fund.

IV. Whether or not the Fund Is Serving its Purpose

The 2019 Wildfire Legislation's stated goals for the Fund are to benefit California ratepayers by:

- Reducing costs to ratepayers in addressing utility-caused catastrophic wildfires;
- Limiting the electrical corporations' exposure to financial liability resulting from wildfires that were caused by the utility and/or its equipment;
- Increasing electrical corporations' access to capital to fund ongoing operations and to make new investments to promote safety, reliability, and California's clean energy mandates; 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, the continued participation of all three large IOUs in the Fund, and the Administrator's experience with the 2020 wildfire season and associated impacts on the Fund.

<u>Rating Stability of the IOUs</u>

Prior to the Fund, the IOUs experienced increased pressure and, in some cases, action by the rating agencies. While numerous factors are considered in determining a credit rating and outlook, both S&P Global and Fitch have specifically noted elements that are directly related to the Fund and indicative of its success in enhancing the credit quality of the IOU's. Several examples are noted below:

- In the May 2021 rating action commentary related to a PG&E rating, Fitch noted "the dual effects of the reduction in the number of utility-triggered firestorms in 2019 and 2020 and *implementation of the wildfire insurance fund and other aspects of AB 1054* and other legislative initiatives are key elements supporting PG&E's ratings and the Stable Rating Outlook.[6] (emphasis added)
- In the June 2021 rating action commentary related to a Southern California Edison rating, Fitch reiterated the dual effects as key elements supporting SCE's current ratings

[6] Fitch Affirms PG&E Corp. and Pacific Gas and Electric's Ratings at 'BB'; Outlook Stable (fitchratings.com) (last checked 6/28/21)

and Stable Rating Outlook and noted that "Fitch believes enactment of A.B. 1054 was a significant, credit-supportive event."[7]

- In June 2021, S&P Global issued a FAQ update on their assumptions and analysis in which they specifically noted that "we view AB 1054 as generally supportive of the IOUs' credit quality."[8]

AB 1054 Creates Incentives for the IOUs to Invest in Mitigation

Increased investments in electric utility grid hardening, situational awareness, and in the near-term, the use of public safety power shutoffs, may help to significantly reduce the risk of utility-caused catastrophic wildfires. AB 1054 requires $5 billion in the aggregate for utility wildfire safety investments with no return on equity for the utility. AB 1054 requires electrical corporations to file Wildfire Mitigation Plans with the CPUC. These Wildfire Mitigation Plans must cover at least a three-year period and describe a utility's plans to implement preventive strategies and programs to minimize the risk of its electrical lines and equipment causing catastrophic wildfires, including consideration of dynamic climate change risks. More information on PG&E, SCE, and SDG&E 2021 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 2020 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 2020 Wildfire Season

The 2020 wildfire season was one of the most destructive wildfire seasons on record. However, a relatively small percentage of the destruction was caused by wildfires that may be attributable to the Fund's participating IOUs. Detailed information about the 2020 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2020/. During the report period, there have been nine wildfires – Shirley Fire (July 31, 2020), Bobcat Fire (September 6, 2020), Zogg Fire (September 27, 2020), Silverado Fire (October 26, 2020),

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[7] *Fitch Rates Southern California Edison Co.'s Floating Rate and Sustainability FMBs 'BBB+'*, FitchRatings, June 9, 2021, available at, https://www.fitchratings.com/research/corporate-finance/fitch-rates-southern-california-edison-co-floating-rate-sustainability-fmbs-bbb-09-06-2021.

[8] Gabe Grosberg, David N Bodek, Paul J Dyson, *Credit FAQ: How Are California's Wildfire Risks Affecting Utility Credit Quality?*, S&P Global Ratings, June 3, 2021, available at, https://www.spglobal.com/ratings/en/research/articles/210603-credit-faq-how-are-california-s-wildfire-risks-affecting-utility-credit-quality-11954953.

Cerritos Fire (December 3, 2020), Cornell Fire (December 7, 2020), Old Fire (January 18, 2021), Freedom Fire (January 19, 2021), and Slope Fire (May 31, 2021) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records.[9] There has been one wildfire, the Zogg Fire (September 27, 2020) that CAL FIRE has determined was caused by PG&E. With the exceptions of the Bobcat, Silverado, and Zogg, fires, all these actual and potential IOU-caused fires resulted in minimal structural damage, with fewer than 5 structures damaged in each case. The Bobcat Fire resulted in the damage or destruction of 217 structures and 6 injuries, the Silverado Fire resulted in the damage or destruction of 14 structures and 2 injuries, and the Zogg Fire resulted in the damage or destruction of 231 structures, 1 injury, and 4 deaths.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on March 22, 2021, CAL FIRE determined that the Zogg Fire was caused by a pine tree contacting electrical distribution lines owned and operated by PG&E. Since it has been determined that PG&E was at fault, the fire will become a covered wildfire and loss claims in excess of PG&E's $1 billion annual retention may be submitted to the Fund. If the Zogg Fire results in a claim, details will be included in a subsequent annual report.

[9] This list is based on public information available on CAL FIRE, SCE, and PG&E's websites. SDG&E and its parent company Sempra currently do not have a section of their website or other provisions for public notifications of Electric Safety Incident Reports that it files with the CPUC.

California Catastrophe Response Council Memorandum

July 22, 2021

Agenda Item 8: Legislative Update

Recommended Action: No action required- information only

Background: The CEA staff monitors all legislation that has the potential to impact the administration of the Wildfire Fund, as well as budget initiatives that could impact either the Fund, the Council, or the Administrator. Of particular interest is AB 242, a bill authored by Assemblymember Chris Holden (Pasadena), who was the lead author of AB 1054, which created the Wildfire Fund in 2019. In addition, the CEA is tracking a budget proposal that is unrelated to the Wildfire Fund, but that may impose additional responsibilities on the Council and CEA related to losses arising from prescribed fires (i.e., controlled burns as a wildfire mitigation measure).

AB 242 (Holden)

Assemblymember Holden introduced AB 242 to make several clarifying changes to the law he authored in 2019 that established the Wildfire Fund, AB 1054 (Holden, Chapter 79, Statutes of 2019).

Bill Summary: AB 242 expands the definition of a "covered wildfire" for the purpose of paying property damage claims through the Wildfire Fund where an electrical corporation is involved in the ignition of the wildfire. Additionally, this bill consolidates required reports of the California Public Utilities Commission (CPUC), and makes other technical changes not relevant to the administration of the Wildfire Fund.

Wildfire Fund related provisions:

The two material provisions of AB 242 that relate to the operation and administration of the Wildfire Fund are as follows:

1) Expands the definition of "covered wildfires" to include, in addition to those wildfires that a "governmental agency" determines to have been caused by an IOU, those wildfires determined by *a court* to have been caused by an electrical corporation, and those wildfires alleged in a lawsuit to have been caused by an

IOU and the IOU enters into a settlement agreement that provides for a court-approved dismissal of the lawsuit. This amendment will provide coverage from the Wildfire Fund if either (a) a court, in ruling on lawsuit against the IOU related to a wildfire, makes a finding that the IOU was at fault for the fire; and (b) an IOU, *prior* to a governmental agency's determination that the IOU ignited a fire, decides to settle a lawsuit arising from the wildfire and the settlement results in dismissal of the lawsuit in exchange for the IOU paying third party damage claims.

2) Clarifies that the $300 million annual contributions to the Wildfire Fund by the IOUs will last for 10 installments. The result of this change is to clearly state, in statute, that the IOUs will collectively contribute a full $10.5 billion to the Wildfire Fund, consisting of the initial contributions of $7.5 billion (which CEA has already received and deposited into the Wildfire Fund), plus $3 billion paid into the Fund over 10 years in annual installments of $300 million.

<u>Stated Intent</u>: According to Assemblymember Holden, AB 242 clarifies the intent of AB 1054 to protect ratepayers from wildfire cost recovery by further clarifying that wildfires found to be caused by electric IOUs *in court* are also eligible for coverage through the Wildfire Fund, and that the IOUs will make their annual contributions of $300 million per year over 10 annual installments, which he indicated was erroneously left out of the language of AB 1054.

<u>Support</u>: This bill is supported by:

California Municipal Utilities Association
Northern California Power Agency
Pacific Gas and Electric
San Diego Gas and Electric
Southern California Edison
Southern California Public Power Authority

2021-22 Budget Proposal

CEA continues to monitor all budget and legislative matters that have the potential to impact the Wildfire Fund, CEA or the Council. Because the Wildfire Fund was created and funded outside of the state treasury (i.e., is privately funded by the IOUs and ratepayers, rather than by taxpayers), the Governor's annual budget is not expected to impact the Wildfire Fund. At this meeting, the CEA staff will provide an update on a budget proposal that could add a new wildfire mitigation pilot project under the Council's oversight, and may assign new duties to the CEA related to that pilot project.

AB-242 Public utilities. (2021-2022)

Date Published: 06/29/2021 09:00 PM

AMENDED IN SENATE JUNE 29, 2021

AMENDED IN ASSEMBLY MAY 20, 2021

AMENDED IN ASSEMBLY APRIL 12, 2021

AMENDED IN ASSEMBLY MARCH 22, 2021

CALIFORNIA LEGISLATURE— 2021–2022 REGULAR SESSION

ASSEMBLY BILL NO. 242

Introduced by Assembly Member Holden

January 13, 2021

An act to amend Sections 398.4, 854, 913.5, 913.6, 1701.8, 2790, and 8280 of, and to repeal Sections 913.2, 913.10, and 913.11 of, the Public Utilities Code, relating to public utilities, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 242, as amended, Holden. Public utilities.

(1) Under existing law, the Public Utilities Commission has regulatory authority over public utilities. Existing law requires every entity that offers an electricity product for sale to retail consumers in California to disclose its electricity sources and the associated intensity of greenhouse gas emissions for the previous calendar year. Existing law requires that disclosure to be made by the end of the first complete billing cycle for the third quarter of each year.

This bill would require that disclosure to be made instead on the retail supplier's internet website by October 1 of each year, and in written promotional materials by the end of the first complete billing cycle for the fourth quarter of the year.

(2) Existing law requires the commission to make various reports to the Legislature relating to energy efficiency.

This bill would consolidate 3 of those reports into a single report and, in doing so, would increase the frequency with which certain energy efficiency information would be reported.

Existing law requires the commission to annually report recommendations for a smart grid, the plans and deployment of smart grid technologies by the state's electrical corporations, and the costs and benefits of smart grids to ratepayers.

This bill would repeal that reporting requirement.

Existing law requires the commission, on or before February 1, 2010, and biennially thereafter, to report on the impacts of distributed energy generation on the state's distribution and transmission grid, as specified.

This bill would instead require the commission, on or before February 1, 2023, and biennially thereafter, to report on the progress made toward modernizing the state's distribution and transmission grid and the impacts of distributed energy resources on the state's distribution and transmission grid, as specified.

(3) Existing law creates the Wildfire Fund, which is a continuously appropriated fund, to provide funds to participating electrical corporations to satisfy eligible claims arising from covered wildfires, as specified. Existing law authorizes electrical corporations to participate in the Wildfire Fund if they provide initial and annual contributions to the fund, as specified. Under existing law, "covered wildfire" means a wildfire ignited on or after July 12, 2019, caused by an electrical corporation as determined by the governmental agency responsible for determining causation.

This bill would additionally include as covered wildfires those wildfires determined by a court of competent jurisdiction to be caused by an electrical corporation, and those wildfires asserted to have been caused by an electrical corporation that result in a court-approved dismissal resulting from the settlement of third-party damage claims. The bill would also specify that the annual contribution of an electrical corporation be made of 10 installments.

By expanding the definition of "covered wildfire," this bill would expand the purposes for which the Wildfire Fund is continuously appropriated, and thereby make an appropriation.

(4) Under existing law, a violation of the Public Utilities Act, or any order, decision, rule, direction, demand, or requirement of the commission, is a crime.

Because certain of the provisions of this bill would be codified in the act and would require action by the commission, a violation of which would be a crime, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: yes Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 398.4 of the Public Utilities Code is amended to read:

398.4. (a) Every retail supplier that makes an offering to sell electricity that is consumed in California shall disclose its electricity sources and the associated greenhouse gases emissions intensity for the previous calendar year.

(b) The disclosures required by this section shall be made to potential end-use consumers in all product-specific written promotional materials that are distributed to consumers by either printed or electronic means, including the retail supplier's internet website, if one exists, except that advertisements and notices in general circulation media shall not be subject to this requirement.

(c) The disclosures required by this section shall be made annually to end-use consumers of the offered electricity. The annual disclosure shall be made on the retail supplier's internet website by October 1 of each year, and in written promotional materials by the end of the first complete billing cycle for the fourth quarter of the year, and shall be consistent with information provided to the Energy Commission pursuant to Section 398.5. A retail supplier may distribute the disclosures required by this section via email to any end-use consumer that has consented to receive email in lieu of printed materials.

(d) The disclosures required by this section shall be made separately for each portfolio offering made by the retail supplier.

(e) On or before January 1, 1998, the Energy Commission shall specify guidelines for the format and means for disclosure required by Section 398.3 and this section, based on the requirements of this article and subject to public hearing. r

(f) The costs of making the disclosures required by this section shall be considered to be generation related.

(g) The disclosures required by this section shall comply with the following:

(1) A retail supplier's disclosure of its electricity sources shall be expressed as a percentage of annual sales derived from each of the following categories:

(A) Electricity from unspecified sources.

(B) Purchases of electricity from specified sources.

(2) A retail supplier's disclosure of its electricity sources shall also separately identify total California system electricity, which is the sum of all in-state generation and net electricity imports by fuel type.

(h) Each of the categories specified in subdivision (g) shall be additionally identified as a percentage of annual sales that is derived from the following fuels, sources of energy, or electricity products:

(1) Coal.

(2) Large hydroelectric (greater than 30 megawatts).

(3) Natural gas.

(4) Nuclear.

(5) Eligible renewable energy resources pursuant to the California Renewables Portfolio Standard Program (Article 16 (commencing with Section 399.11)), including any of the following:

(A) Biomass and biowaste.

(B) Geothermal.

(C) Eligible hydroelectric.

(D) Solar.

(E) Wind.

(6) Other categories as determined by the Energy Commission.

(7) The portion of annual sales derived from unbundled renewable energy credits shall be included in the disclosures in a format determined by the Energy Commission. A retail supplier may include additional information related to the sources of the unbundled renewable energy credits.

(i) All electricity sources disclosed as purchases of electricity from specified sources shall meet the requirements of subdivision (d) of Section 398.2.

(j) Purchases of electricity from specified sources identified pursuant to this section shall be from sources connected to the Western Electricity Coordinating Council interconnected grid.

(k) (1) Each retail supplier shall disclose both the greenhouse gas emissions intensity of any electricity portfolio offered to its retail customers and the Energy Commission's calculation of greenhouse gas emissions intensity associated with all statewide retail electricity sales, consistent with the requirements of this subdivision.

(2) The Energy Commission shall do all of the following:

(A) Adopt a methodology, in consultation with the State Air Resources Board, for the calculation of greenhouse gas emissions intensity for each purchase of electricity by a retail supplier to serve its retail customers.

(B) Calculate the greenhouse gas emissions intensity associated with statewide retail electricity sales based on the greenhouse gas emissions for total California system electricity.

(C) Rely on the most recent verified greenhouse gas emissions data while ensuring that greenhouse gas emissions intensity factors for electricity from specified and unspecified sources are available to retail suppliers with sufficient advance notice to permit timely reporting.

(D) Establish guidelines for adjustments to a greenhouse gas emissions intensity factor for a reporting year for any local publicly owned electric utility demonstrating generation of quantities of electricity in previous years in r excess of its total retail sales and wholesale sales from specified sources that do not emit any greenhouse gases. Adjustments authorized by the guidelines established by the Energy Commission shall not permit excess generation procured in a single year to be counted more than once or to be resold to another retail supplier as a specified source.

(E) Ensure that there is no double-counting of the greenhouse gas emissions or emissions attributes associated with any unit of electricity production reported by a retail supplier for any specific generating facility or unspecified source located within the Western Electricity Coordinating Council when calculating greenhouse gas emissions intensity.

(F) (i) On or before January 1, 2018, adopt guidelines, through an open process, subject to public comment, and adopted by a vote of the Energy Commission, for the reporting and disclosure of greenhouse gas emissions intensity associated with retail sales based on the requirements of this subdivision. Beginning June 1, 2020, retail suppliers shall be required to report data on greenhouse gas emissions intensity associated with retail sales occurring after December 31, 2018.

(ii) Any new community choice aggregator formed after January 1, 2016, shall not be required to report data on greenhouse gas emissions intensity associated with retail sales until at least 24 months, but shall be required to report that data no later than 36 months, after serving its first retail customer.

(3) Any marketing or retail product claims relating to the greenhouse gas emissions intensity of the electric supply portfolio of a retail supplier shall be consistent with the methodology adopted by the Energy Commission pursuant to this section. Retail suppliers may provide additional information to customers describing other actions relating to greenhouse gases that are unrelated to the electric supply portfolio.

(l) The provisions of this section shall not apply to generators providing electric service onsite, under an over-the-fence transaction as described in Section 218, or to an affiliate or affiliates, as defined in subdivision (a) of Section 372.

SEC. 2. Section 854 of the Public Utilities Code is amended to read:

854. (a) A person or corporation, whether or not organized under the laws of this state, shall not directly or indirectly merge, acquire, or control, including pursuant to a change in control as described in subparagraphs (D) or (E) of paragraph (1) of subdivision (b) of Section 854.2, any public utility organized and doing business in this state without first securing authorization to do so from the commission. The commission may establish, by order or rule, the definitions of what constitutes a merger, acquisition, or control activity that is subject to this section. Any merger, acquisition, or control without that prior authorization is void. A public utility organized and doing business under the laws of this state, and a subsidiary or affiliate of, or corporation holding a controlling interest in, a public utility, shall not aid or abet any violation of this section.

(b) Before authorizing the merger, acquisition, or control of any electrical, gas, or telephone corporation organized and doing business in this state, if any utility that is a party to the proposed transaction has gross annual California revenues exceeding five hundred million dollars ($500,000,000), the commission shall find that the proposal does all of the following:

(1) Provide short-term and long-term economic benefits to ratepayers.

(2) Equitably allocate, where the commission has ratemaking authority, the total short-term and long-term forecasted economic benefits, as determined by the commission, of the proposed merger, acquisition, or control, between shareholders and ratepayers. Ratepayers shall receive not less than 50 percent of those benefits.

(3) Not adversely affect competition. In making this finding, the commission shall request an advisory opinion from the Attorney General regarding whether competition will be adversely affected and what mitigation measures could be adopted to avoid this result.

(4) For an electrical or gas corporation, ensure the corporation will have an adequate workforce to maintain the safe and reliable operation of the utility assets.

(c) Before authorizing the merger, acquisition, or control of any electrical, gas, or telephone corporation organized and doing business in this state, if any entity that is a party to the proposed transaction has gross annual California revenues exceeding five hundred million dollars ($500,000,000), the commission shall consider each of the criteria listed in paragraphs (1) to (8), inclusive, and find, on balance, that the merger, acquisition, or control proposal is in the public interest. r

(1) Maintain or improve the financial condition of the resulting public utility doing business in the state. r

(2) Maintain or improve the quality of service to public utility ratepayers in the state.

(3) Maintain or improve the quality of management of the resulting public utility doing business in the state.

(4) Be fair and reasonable to affected public utility employees, including both union and nonunion employees.

(5) Be fair and reasonable to the majority of all affected public utility shareholders.

(6) Be beneficial on an overall basis to state and local economies and to the communities in the area served by the resulting public utility.

(7) Preserve the jurisdiction of the commission and the capacity of the commission to effectively regulate and audit public utility operations in the state.

(8) Provide mitigation measures to prevent significant adverse consequences that may result.

(d) (1) Before authorizing the merger, acquisition, or change in control of any electrical or gas corporation organized and doing business in this state, if any entity that is a party to the proposed transaction has gross annual California revenues exceeding four hundred million dollars ($400,000,000), the commission shall consider the elements in subparagraphs (A) to (G), inclusive, and find, on balance, that the proposal is in the public interest. r

(A) A safety management system.

(B) A comprehensive safety plan that includes a systemwide strategic approach for the safety of both employees and the public.

(C) Plans to maintain or improve the records of the electrical corporation’s electric plant or gas corporation’s gas plant, including necessary audits to update incorrect or incomplete records of the electrical or gas corporation. For purposes of this subparagraph, “records” shall include, but not be limited to, locations, depth, age, maintenance and testing history, maps, surveys, patrols, and violation history of the electrical corporation’s electric plant or gas corporation’s gas plant.

(D) Metrics to measure safety that are complete and drive appropriate behavior.

(E) An appropriate evaluation of safety expertise in the list of qualifications used in selecting corporate leadership.

(F) Active audits for safety controls.

(G) A nonpunitive system for reporting potential safety incidents to the commission to facilitate the identification of accident precursors by persons familiar with the operations of the electrical or gas corporation, including, but not limited to, employees and contractors of the electrical or gas corporation, and the collection, analysis, and dissemination of unbiased safety information. An employee of, or the employee of a contractor performing work for, the electrical or gas corporation shall not be subject to demotion, discharge, or any other form of retaliation or discrimination for participating in the potential safety incident reporting system established pursuant to this subdivision.

(2) The commission may delay the implementation of this subdivision until July 1, 2021, or until the commission adopts rules implementing the requirements of this subdivision, whichever is earlier.

(e) When reviewing a merger, acquisition, or control proposal, the commission shall consider reasonable options to the proposal recommended by other parties, including no new merger, acquisition, or control, to determine whether comparable short-term and long-term economic savings can be achieved through other means while avoiding the possible adverse consequences of the proposal.

(f) The person or corporation seeking acquisition or control of a public utility organized and doing business in this state shall have, before the commission, the burden of proving by a preponderance of the evidence that the requirements of subdivisions (b), (c), and (d) are met.

(g) In determining whether an acquiring utility has gross annual revenues exceeding the amount specified in subdivisions (b) and (c), the revenues of an affiliate of that utility shall not be considered unless the affiliate was used to effect the merger, acquisition, or control. r

(h) Paragraphs (1) and (2) of subdivision (b) do not apply to the formation of a holding company.

(i) For purposes of paragraphs (1) and (2) of subdivision (b), the Legislature does not intend to include acquisitions or changes in control that are mandated by either the commission or the Legislature as a result of, or in response to, any electric industry restructuring. However, the value of an acquisition or change in control may be used by the commission in determining the costs or benefits attributable to any electric industry restructuring and for allocating those costs or benefits for collection in rates.

SEC. 3. Section 913.2 of the Public Utilities Code is repealed.

SEC. 4. Section 913.5 of the Public Utilities Code is amended to read:

913.5. (a) Before July 1, 2022, and every three years thereafter, the commission shall submit a report to the Legislature on the energy efficiency and conservation programs it oversees. The report shall include information regarding authorized utility budgets and expenditures and projected and actual energy savings over the program cycle.

(b) In the report submitted pursuant to subdivision (a), the commission shall also report to the Legislature on the progress toward achieving the targets established pursuant to subdivision (a) of Section 454.55 and subdivision (a) of Section 454.56. The commission shall include specific strategies for, and an update on, progress toward maximizing the contribution of energy and electricity efficiency savings in disadvantaged communities identified pursuant to Section 39711 of the Health and Safety Code.

SEC. 5. Section 913.6 of the Public Utilities Code is amended to read:

913.6. (a) On or before February 1, 2023, and biennially thereafter, the commission, in consultation with the Independent System Operator and the Energy Commission, shall report to the Legislature and the Governor on the progress made toward modernizing the state’s distribution and transmission grid and the impacts of distributed energy resources on the state’s distribution and transmission grid and ratepayers. The report shall evaluate all of the following:

(1) Reliability and transmission issues related to connecting distributed energy resources to the local distribution networks and regional grid.

(2) Issues related to grid reliability and operation, including interconnection, and the position of federal and state regulators toward distributed energy resource accessibility.

(3) The effect on overall grid operation of various distributed energy resources.

(4) Barriers affecting the connection of distributed energy resources to the state’s grid.

(5) Emerging technologies related to distributed energy resource interconnection and operation.

(6) Interconnection issues that may arise for the Independent System Operator and local distribution companies.

(7) The effect on peak demand for electricity.

(8) The potential for distributed energy resources to benefit the state’s distribution and transmission grid.

(b) In addition, the commission shall specifically assess the impacts of the California Solar Initiative program, specified in Section 25781 of the Public Resources Code and Section 2851, the self-generation incentive program authorized by Section 379.6, and the net energy metering program specified in Sections 2827 and 2827.1.

SEC. 6. Section 913.10 of the Public Utilities Code is repealed.

SEC. 7. Section 913.11 of the Public Utilities Code is repealed.

SEC. 8. Section 1701.8 of the Public Utilities Code is amended to read:

1701.8. (a) For purposes of this section, the following definitions apply:

(1) “Covered wildfire” means any wildfire ignited on or after July 12, 2019, for which either of the following is satisfied:

(A) The governmental agency responsible for determining causation or a court of competent jurisdiction determines the wildfire was caused by an electrical corporation.

(B) Asserted to have been caused by an electrical corporation and results in a court-approved dismissal resulting from the settlement of third-party damage claims.

(2) "Wildfire Fund" means the Wildfire Fund created pursuant to Section 3284.

(b) The following procedures and standards apply to a catastrophic wildfire proceeding:

(1) (A) An electrical corporation may file an application pursuant to Section 451 or 451.1, as applicable, at any time after it has paid, or entered into binding commitments to pay, all or, if authorized by the commission for good cause, substantially all third-party damage claims, including payments made pursuant to judgments or settlement agreements related to a covered wildfire. Except as authorized by the commission for good cause, before filing the application, the electrical corporation shall exhaust all rights to indemnification or other claims, contractual or otherwise, against any third parties, including collecting insurance proceeds, related to the covered wildfire.

(B) If an electrical corporation has received payments from the Wildfire Fund for a third-party damage claim for the covered wildfire, the electrical corporation shall file an application to recover the costs pursuant to subparagraph (A) no later than the earlier of the following:

(i) The date when it has resolved all third-party damage claims and exhausted all right to indemnification or other claims, contractual or otherwise, against any third parties, including collecting insurance proceeds, related to the covered wildfire.

(ii) The date that is 45 days after the date the administrator requests the electrical corporation to file the application.

(2) The president of the commission, upon the initiation of a catastrophic wildfire proceeding by the filing of an application pursuant to paragraph (1), shall assign a commissioner to act as the presiding officer in the proceeding and an administrative law judge to assist in conducting the proceeding.

(3) Within 15 days of the filing date of the application, the commission shall notice a prehearing conference, which shall be held within 25 days of the filing date.

(4) (A) Within 30 days of the filing date of the application, the assigned commissioner shall prepare and issue, by order or ruling, a scoping memorandum that states that the scope of the proceeding shall be whether the electrical corporation's costs and expenses for the covered wildfire are just and reasonable pursuant to Section 451 or 451.1, as applicable.

(B) The scoping memorandum shall establish a schedule for the proceeding, including the date of issuance of a proposed decision that is no later than 12 months after the filing date of the application.

(C) The assigned commissioner may extend the time established in the scoping memorandum for the date of issuance of a proposed decision by up to six months upon a showing of good cause.

(5) Notwithstanding any other law, the commission may meet in closed session at any point during the pendency of the catastrophic wildfire proceeding with a three-day notice to the public if the commission establishes a quiet period pursuant to paragraph (6) of subdivision (h) of Section 1701.3.

~~SEC. 9.Section 2790 of the Public Utilities Code is amended to read:~~

~~2790.(a)The commission shall require an electrical or gas corporation to perform home weatherization services for low-income customers, as determined by the commission under subdivision (a) of Section 739.1, if the commission determines that a significant need for those services exists in the corporation's service territory, taking into consideration both the cost-effectiveness of the services and the policy of reducing the hardships facing low-income households.~~

~~(b)(1)For purposes of this section, "weatherization" may include, where feasible, any of the following measures for any dwelling unit:~~

~~(A)Attic insulation.~~ r

~~(B)Caulking.~~

~~(C)Weatherstripping.~~ r

~~(D)Low-flow showerhead.~~

~~(E)Water heater blanket.~~

~~(F)Door and building envelope repairs that reduce air infiltration.~~

~~(2)The commission shall direct an electrical or gas corporation to provide as many of these measures as are feasible for each eligible low-income dwelling unit.~~

~~(c)"Weatherization" may also include other building conservation measures, energy management technology, energy-efficient appliances, and energy education programs determined by the commission to be feasible, taking into consideration for all measures both the cost-effectiveness of the measures as a whole and the policy of reducing energy-related hardships facing low-income households.~~

~~(d)Weatherization programs shall use the needs assessment pursuant to Section 382.1 to maximize efficiency of delivery.~~

~~(e)For purposes of this section, "energy management technology" may include a product, service, or software that allows a customer to better understand and manage electricity or gas use in the customer's home.~~

~~**SEC. 10.**~~***SEC. 9.*** Section 3280 of the Public Utilities Code is amended to read:

3280. For purposes of this part, the following definitions apply:

(a) "Administrator" means the Wildfire Fund Administrator appointed pursuant to Section 8899.72 of the Government Code.

(b) "Annual contribution" means 10 installments totaling either of the following:

(1) For an electrical corporation that qualifies as a large electrical corporation at the end of the prior calendar year, an amount equal to three hundred million dollars ($300,000,000) multiplied by the Wildfire Fund allocation metric.

(2) For an electrical corporation that qualifies as a regional electrical corporation at the end of the prior calendar year, an amount equal to twenty-five dollars ($25) multiplied by the number of customer accounts serviced by the electrical corporation within the state at the end of that calendar year.

(c) "Council" means the California Catastrophe Response Council created pursuant to Section 8899.70 of the Government Code.

(d) "Covered wildfire" has the same meaning as set forth in Section 1701.8.

(e) "Electrical corporation" has the same meaning as set forth in Section 218.

(f) "Eligible claims" means claims for third-party damages against an electrical corporation resulting from covered wildfires exceeding the greater of (1) one billion dollars ($1,000,000,000) in the aggregate in any year, or (2) the amount of the insurance coverage required to be in place for the electrical corporation pursuant to Section 3293, measured by the amount of that excess.

(g) "Fund" means the Wildfire Fund created pursuant to Section 3284.

(h) "High fire-threat district" means areas identified as tier 2 (elevated) or tier 3 (extreme) fire risk on the fire-threat map maintained by the commission.

(i) "Initial contribution" means either of the following:

(1) For a large electrical corporation, an amount equal to seven billion five hundred million dollars ($7,500,000,000) multiplied by the Wildfire Fund allocation metric.

(2) For a regional electrical corporation, an amount equal to six hundred twenty-five dollars ($625) multiplied by the number of customer accounts serviced by the electrical corporation within the state as of July 12, 2019.

(j) "Insolvency proceeding" means a bankruptcy, insolvency, liquidation, reorganization, or similar proceeding brought pursuant to Title 11 of the United States Code.

(k) "Large electrical corporation" means an electrical corporation with 250,000 or more customer accounts within the state.

(l) "Participating electrical corporation" means an electrical corporation that satisfies the conditions to participate in the fund pursuant to Section 3291 or 3292, as applicable.

(m) "Regional electrical corporation" means an electrical corporation with less than 250,000 customer accounts within the state.

(n) "Wildfire Fund allocation metric" means, for each large electrical corporation, the arithmetic average of (1) the land area of the electrical corporation's territory, measured in square miles, in the high fire-threat districts as a proportion of all large electrical corporations' territory in the high fire-threat districts and (2) the electrical corporation's line miles of transmission and distribution lines in the high fire-threat districts as a proportion of all large electrical corporations' line miles of transmission and distribution lines in the high fire-threat districts. The large electrical corporations' averages shall then be adjusted to account for risk mitigation efforts. This adjustment shall reduce the allocation to electrical corporations that have invested historically in mitigation efforts and those allocations shall be reallocated to the other electrical corporations based on their proportionate share resulting from the initial calculation above. The Wildfire Fund allocation metric shall be determined by the Director of Finance no later than July 17, 2019. It is the expectation of the Legislature that the Wildfire Fund allocation metric is 64.2 percent for Pacific Gas and Electric Company, 31.5 percent for Southern California Edison Company, and 4.3 percent for San Diego Gas and Electric Company. If a new electrical corporation that is a large electrical corporation is admitted to the Wildfire Fund, the administrator shall promptly determine and publish a revised Wildfire Fund allocation metric based on the factors set forth in this subdivision.

(o) "Wildfire Fund assets" means 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, 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 issued for the benefit of the fund.

~~**SEC. 11.**~~***SEC. 10.*** No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution. r

California Catastrophe Response Council Memorandum

California Catastrophe Response Council Memorandum

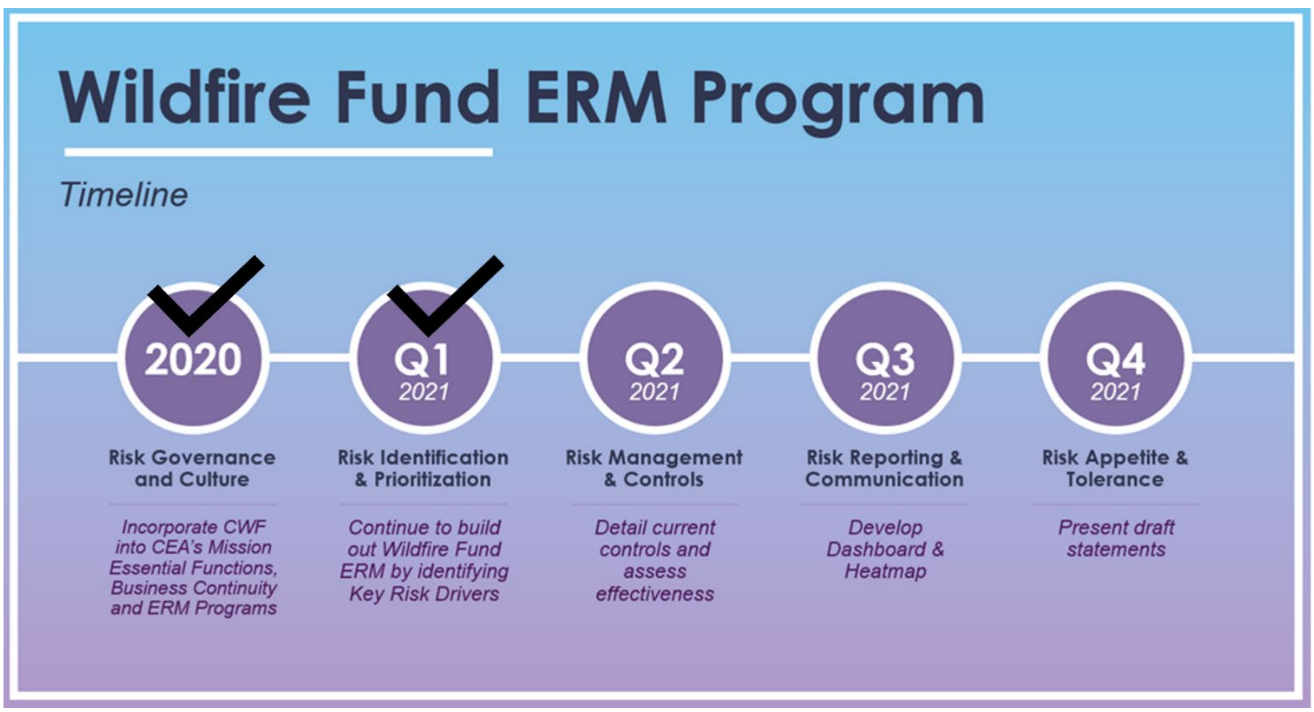
July 22, 2021

Agenda Item 9: Enterprise Risk Management Program Framework - Update

Recommended Action: No action required – information only

Background

The Enterprise Risk Management (ERM) Committee is continuing its work in identifying and integrating risks associated with the administration of the California Wildfire Fund into the CEA's existing ERM program. The timeline below outlines the evolution and development of the program over 2020 – 2021.



Risk Identification and Prioritization

The CEA considers the risks to all its operations holistically and is incorporating its duties as Wildfire Fund Administrator into its existing ERM framework. However, as Wildfire Fund Administrator, the CEA understands the interests of the Council are specifically focused on risks related to the Wildfire Fund. The interest of the Council in CEA's earthquake related risks will be limited to operational impacts, i.e., the risk that CEA's earthquake responsibilities may interfere with the administration or operation of the Wildfire Fund. This risk is mitigated by having statutorily segregated funds and maintaining adequate personnel (employees and contractors) to perform the all required work associated with administering the Wildfire Fund.

The ERM Committee and CEA's internal risk owners have identified and defined 12 priority risk categories that could interfere with the Wildfire Fund meeting its objectives if those risks are not appropriately mitigated and managed. Descriptions of each risk and an initial risk status assessment for each are as follows:

1. <u>Business Continuity</u>

   Risk Definition: Inability to operate or achieve business objectives due to failed or inaccessible systems.

   Objective: Ensure that critical business systems and processes operate as needed.

   Risk Status: Medium

   Comments: CEA has operated successfully in a remote work environment throughout the COVID-19 pandemic and is currently in the process of a comprehensive update to its business continuity plan which includes documenting business impacts associated with the administration of the Wildfire Fund.

2. <u>Claim Handling</u>

   Risk Definition: Issues, conflicts or delays arising from or associated with IOU claims management.

   Objective: Fair, efficient and timely payment of eligible claims.

Risk Status: Medium

Comments: Claim handling procedures and process are under development, with the final draft Claim Procedures scheduled for discussion and approval during this Council meeting. However, even if approved, the Claim Procedures are and will remain untested until the occurrence of a Covered Wildfire that gives rise to the submission of IOU claims to the Administrator.

3. Financial Reporting

Risk Definition: Inaccurate financial accounting or reporting or inadequate controls that result in a material error in published financial statements.

Objective: Ensure accurate and timely reporting in compliance with required accounting standards.

Risk Status: Low

Comments: CEA currently has experienced personnel, adequate controls and external auditing in place to ensure timely and accurate financial reporting.

4. Information Security

Risk Definition: Loss due to unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of information and/or accessibility of IT systems.

Objective: Protect the confidentiality, integrity and availability of CEA systems, networks and information assets used to administer the Wildfire Fund.

Risk Status: Low

Comments: Cyber risk continues to be elevated generally. CEA has controls in place to mitigate this risk including increased staff training programs and extensive software and consulting services to help CEA protect against such risks.

5. <u>Investments</u>

   Risk Definition: Losses to the Fund due to failure to adhere to established investment guidelines and/or performance objectives not achieved.

   Objective: Actively manage investments in accordance with established guidelines.

   Risk Status: Low

   Comments: CEA has experienced personnel (internal and external) who actively manage Wildfire Fund investments in accordance with established investment guidelines.

6. <u>Legal – Compliance and Litigation</u>

   Risk Definition: Harm to the Wildfire Fund resulting from (a) disputes with third parties, (b) regulatory/legislative enforcement actions, and/or (c) compliance lapses.

   Objective: Maintain and track compliance with applicable laws, regulations and CEA policies, procedures and ethics rules. Avoid legal disputes with third parties.

   Risk Status: Low

   Comments: No new legal actions have been filed related to the Wildfire Fund, nor have any compliance issues arisen. One lawsuit filed in July 2019 was summarily dismissed by the trial court and is now on appeal with resolution expected soon. CEA employs experienced legal and compliance staff (retaining outside experts as needed) to manage any emerging legal or compliance issues. The CEA promotes a strong culture of compliance across its organization.

7. <u>Legislative</u>

   Risk Definition: Legislative, regulatory or political actions that materially change the Wildfire Fund Administrator and/or Council's ability to fulfill obligations or mission.

   Objective: Actively monitor and respond to legislative changes that impact the Council or the Wildfire Fund.

Risk Status: Low

Comments: CEA employs experienced staff to actively monitor legislative and regulatory developments of interest to the CEA, Council and Wildfire Fund.

8. Wildfire Modeling

   Risk Definition: Distorted or incorrect evaluation of Wildfire Fund durability due to invalid, inaccurate or outdated methods or assumptions in external or internal Wildfire models.

   Objective: Maintain accepted framework to calculate Wildfire Fund durability.

   Risk Status: Medium

   Comments: Wildfire Models continue to improve but are untested regarding the mechanics of the Wildfire Fund due to its unique structure. CEA's internal modeling, including the utilization and refinements of third-party wildfire models continues to evolve and improve.

9. Reputation

   Risk Definition: Loss of confidence in CEA as Administrator of the Wildfire Fund or loss of confidence in the ability of the Wildfire Fund to meet its objectives.

   Objective: Sustain the trust of stakeholders.

   Risk Status: Low

   Comments: Key controls and constant monitoring are in place; crisis communications plan in development.

10. Risk Transfer

    Risk Definition: Reasonably priced risk transfer products are not available when needed.

Objective: Wise utilization of risk transfer (insurance/reinsurance) to enhance the durability of the Wildfire Fund, consistent with the legislative intent.

Risk Status: Low

Comments: Current claim-paying capacity is sufficient without additional risk transfer. At current market prices, risk transfer will not materially extend durability. The CEA employs expert staff that will continue to survey the risk transfer markets and monitor pricing as those markets evolve.

11. Wildfire Mitigation Activities

Risk Definition: Durability of the Wildfire Fund is dependent on successful mitigation activities which are outside the direct control of the CEA as Wildfire Fund Administrator, but that must be monitored.

Objective: Monitor wildfire mitigation activities by the Investor-Owned Utilities (IOU), State of California, and local governments and communities.

Risk Status: Low

Comments: Numerous activities are underway at State, IOU and local levels to increase mitigation. Although these mitigation activities are outside the control of the Council and CEA as Wildfire Fund Administrator, monitoring of mitigation will aid the CEA in evaluating the long-term durability of the Wildfire Fund.

12. Workforce

Risk Definition: Adverse impacts to the administration of the Wildfire Fund that occur due to a workforce issue or constraint at the CEA.

Objective: Maintain appropriate service levels with adequate, knowledgeable staff.

Risk Status: Low

Comments: CEA currently maintains adequate staffing and robust workplace safety measures to protect the staff. CEA also maintains a strong and diverse pipeline of staffing resources to ensure that staff can be quickly scaled to meet whatever needs arise.

CONCLUSION

As previously noted, the CEA's existing ERM framework is agile and can accommodate the risks associated with the administration of the Wildfire Fund, most of which are the same or analogous to the risks that the CEA has been managing for many years. The ERM framework operates as an early warning system to allow CEA to monitor and remediate emerging risks to ensure long-term stability, effectiveness and efficiency.