CALIFORNIA EARTHQUAKE AUTHORITY

Wildfire Fund Administrator

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July 28, 2022

Date of Notice: July 18, 2022

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 public meeting as described in this Notice. 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 Senate Bill 189, enacted June 30, 2022, which amended certain provisions of the Bagley-Keene Open Meeting Act through and until July 1, 2023, the Council is authorized to use teleconferencing to conduct its public meetings and to make public meetings accessible telephonically. 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.

DATE: **July 28, 2022**

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

TELECONFERENCE ACCESS:

Online Access: **https://us02web.zoom.us/j/83538668437**
Dial-in Number: **+1 (669) 900-6833**
Enter Access Code: **835 3866 8437**

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. Please see additional instructions below regarding Public Participation Procedures.

NOTES: 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.

Please also note that use of the Zoom platform to access the meeting may require the entry of an email address and may be subject to the Terms of Use and Privacy Policy of Zoom, which are outside the control of the Council or CEA. Anyone with concerns about the use of Zoom should use the phone access, and you can download any presentation materials used during the meeting at the website for the California Wildfire Fund www.cawildfirefund.com.

PUBLIC PARTICIPATION PROCEDURES: All members of the public shall have the right to observe the meeting and offer comment at this public meeting. The telephone lines and Zoom links of members of the public 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.

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. Members of the public attending via Zoom or phone 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 this 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
   Rich Gordon, Appointee of the Speaker of the Assembly
   Kathleen Ritzman, Appointee of the Senate Rules Committee
   Paul Rosenstiel, Public Member appointed by the Governor
   Rhoda Rossman, Public Member appointed by the Governor
   Catherine Barna, Public Member appointed by the Governor

   Establishment of a quorum

2. Minutes: Review and approve the minutes of the April 28, 2022, meeting of the Council.

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

4. Informational Presentation: PG&E Executive Vice President, Chief Risk Officer and Interim Safety Officer Sumeet Singh, and PG&E Vice President and Chief Audit Officer Stephen Cairns will provide an overview presentation on PG&E's wildfire mitigation activities.

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

6. Financial Report: CEA Controller Ben Kirwan will provide the Council with a financial report on the Wildfire Fund as of June 30, 2022.

7. Claims Administration Update: Dr. Johnson will provide an update on Claims Administration for the Wildfire Fund.

8. Enterprise Risk Management: CEA Chief Risk & Actuarial Officer Shawna Ackerman will provide an update on the Enterprise Risk Management program for the California Wildfire Fund.

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

10. Adjournment.

For further information about this notice or its contents:

Agenda Information:
Tom Welsh
General Counsel
(916) 661-5527 (Direct)
Toll free: (877) 797-4300
twelsh@calwildfire.com

General Meeting Information:
Susan Johnson
Governance Liaison
Toll free: (877) 797-4300
sjohnson@calwildfire.com

Media Contact:
(279) 203-5998
media@calquake.com

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

CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 2: Meeting Minutes

Recommended Action: Approve Minutes of April 28, 2022 Meeting

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Attached is a draft of the minutes of the April 28, 2022, 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 28, 2022 meeting of the Council.

DRAFT

CALIFORNIA CATASTROPHE RESPONSE COUNCIL MINUTES

Hybrid Meeting
Thursday, April 28, 2022
2:00 p.m.

Location: California Office of Emergency Services (Cal OES)
3650 Schriever Ave
Mather, CA 95655
Room MPR-1

Members of the Council in Attendance:
Mark Ghilarducci, Chair, designee of Governor Gavin Newsom
Rich Gordon, Vice-Chair, appointee of the Speaker of the Assembly
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot
Michael Martinez, designee of Insurance Commissioner Ricardo Lara
Kasey O'Connor, designee of State Treasurer Fiona Ma
Catherine Barna, Public Member
Rhoda Rossman, Public Member

Due to unforeseen circumstances, Public Member Paul Rosenstiel was unable to attend the meeting in person but monitored some or all of the meeting via remote access. Member Rosenstiel is reflected as "not present" at the meeting, did not actively participate in the meeting, nor did he participate in any formal actions taken by the Council during the meeting.

Members of the CEA Staff in Attendance:
Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk & Actuarial Officer
Tom Hanzel, Chief Financial Officer
Laurie Johnson, PhD, Chief Catastrophe Response & Resiliency Officer
Tom Welsh, General Counsel
Susan Johnson, Governance Liaison

Speakers:
Kapil Bhatia, Financial Advisor, Raymond James
Caroline Thomas Jacobs, Director, Office of Energy Infrastructure Safety, California Natural Resources Agency
David Armstrong, Senior Vice President of Operations, Sedgwick
Casie Hart, Project Manager, Sedgwick
Nathan Pollack, Scidan Consulting Group

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

Chair Mark Ghilarducci called the meeting to order at 2:03 p.m.

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

2. <u>Minutes</u>: Review and approve the minutes of the January 27, 2022, meeting of the Council.

> **MOTION**: A motion was made and seconded to approve the January 27, 2022 meeting minutes as written. The motion carried unanimously with no abstentions.

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

Chief Executive Officer Glenn Pomeroy stated that the upcoming quarter will mark the final quarter of the third year of the Council and the California Wildfire Fund (CWF). He further stated that as a result of the pandemic, this is the first in-person meeting of the Council in 2 ½ years. He thanked the Council and Administrator staff for their work over the past three years.

Mr. Pomeroy then reviewed the meeting agenda and stated today's agenda items are all informational, adding that the informational presentation section is a standing agenda item for the Council to hear from independent experts on wildfire and related issues. Past presentations have focused on wildfire risk modeling, wildfire safety and related efforts by Investor-Owned Utilities (IOUs), as well as activities by the Department of Natural Resources, and the Office of Energy Infrastructure Safety (OEIS.)

4. <u>Administrator Evaluation</u>: Council Members Rich Gordon and Paul Rosenstiel will present the results of the Council's evaluation for 2021 of the CEA's performance as Administrator of the Wildfire Fund.

Vice-Chair Rich Gordon thanked Mr. Rosenstiel for his help in overseeing the evaluation process and Council Members for participating in the evaluation survey. The following areas of performance were considered and evaluated: leadership and culture, financial leadership, strategic development, Council relations, Council governance and compliance, claims administration, and enterprise risk management. An overall evaluation category was also included. He presented the following findings:

- On average, all seven performance areas and the overall evaluation came in with a score of "meets expectations."
- The lowest performance area was in strategic development.
- The highest performance area was in financial leadership.
- The widest divergence among Council Members was in the area of Council relations.

The least divergence among Council Members was in the areas of leadership and culture, Council governance and compliance, and claims administration.

Vice-Chair Gordon stated the report, which was anonymized, was sent to all Council Members, and details the scoring and includes anonymized Council Member comments.

Mr. Pomeroy highlighted Council Member feedback received during the evaluation process such as expanding services provided, making the informational presentation section a standing agenda item, and increasing the level of engagement beyond administration of the fund to public issues relative to wildfire in general in the state of California. He asked for further direction from the Council in these areas. He then reiterated that his team's most important priorities are managing the Wildfire Fund and paying claims against the Wildfire Fund when they are presented.

5. Informational Presentation: Dr. Laurie Johnson, CEA Chief Catastrophe Response & Resiliency Officer, will present a proposed schedule for discussion of utility wildfire mitigation and safety programs, starting with OEIS Director Caroline Thomas Jacobs's presentation on wildfire safety plan review and safety certifications.

Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer, introduced Caroline Thomas Jacobs, stating that Ms. Thomas Jacobs presented at a previous Council meeting on the roles and responsibilities of the newly-established Office of Energy Infrastructure Safety (OEIS).

Ms. Thomas Jacobs provided a slide presentation overview explaining her agency's legislative mandate, key responsibilities, wildfire mitigation plan (WMP) evaluation, compliance assurance, safety certification, and key activities of the OEIS. She noted that the statutory compliance assessment timeline is a multi-year process with the first compliance reports for 2020 WMPs to be published this fall. She added that safety certifications are in effect for 12 months from the date of issue.

Discussion

Ms. O'Connor asked if the compliance reports will be issued every three years after this fall, based on the timeline of the plans.

Director Thomas Jacobs stated, even though the base plan is a three-year plan, annual updates are submitted and compliance is reviewed at each annual update.

Vice-Chair Gordon stated concern that the statutory criteria for safety certification does not include backwards-looking compliance assessments.

Director Thomas Jacobs confirmed that, as the statute is currently written, a safety certificate is a forward-looking document in terms of compliance. One challenge when implementing a backwards-looking compliance review is the time delay in terms of the compliance assessment. There would need to be a policy decision as to whether safety certification should be a punitive tool for past actions or an incentive to encourage future investments. She confirmed that a safety certification is not a validation that past activities of the Investor-Owned Utilities (IOUs) have been safe but instead is about whether the IOUs are planning to make future investments and take future actions that improve safety.

Mr. Martinez asked if the OEIS's compliance review shows that an IOU substantially complied with their WMP, or if the OEIS is entirely precluded from any backwards-looking assessments.

Director Thomas Jacobs stated the compliance process looks at follow-through of the WMP. She noted that the OEIS does not hold penalty enforcement authority but is focused on driving safety improvement. All compliance activities at the OEIS are focused on facilitating change in behavior to address safety risk. At the same time, there may need to be other types of consequences, such as penalty enforcement.

Vice-Chair Gordon asked if a utility can still get a safety certificate because they plan to do better in the future, even when they did not follow through with their WMP in the past.

Ms. Thomas Jacobs confirmed that this is the way it is set up in statute.

Ms. O'Connor asked for additional detail on the revocability of safety certification.

Director Thomas Jacobs stated that although the OEIS does not have authority to revoke a safety certification, it does have a change order process for WMPs to allow plans that have already been approved to be updated.

Vice-Chair Gordon expressed concern for the need to clarify this difficult concept to better understand how an IOU can get a safety certification when they started a fire.

Ms. Thomas Jacobs agreed that it is an extremely technical and complex issue.

Dr. Johnson clarified the point made by Director Thomas Jacobs that the safety certificate does not affect whether the IOUs can access the Wildfire Fund, but does affect the amount, if any, an IOU must repay the Wildfire Fund for costs and expenses associated with a covered wildfire. The question of whether they had a valid safety certificate comes after the IOUs receive payments from the Fund and then undergo a catastrophic wildfire proceeding with the California Public Utilities Commission (CPUC). IOUs that are found to have acted reasonably by the CPUC do not have to repay the Fund. In general, the IOU must prove that its conduct was "reasonable." However, according to statute, an IOU that received a safety certification for the period in which the covered wildfire ignited is presumed to have acted reasonably unless demonstrated otherwise. A safety certification also may limit the amount the IOU will be required to repay the Fund if it is found to have acted unreasonably.

Ms. O'Connor asked, if the safety certification, which cannot be revoked for one year, indemnifies the company from liability from any fires that they may start.

Ms. Thomas Jacobs stated the purpose of the safety certification as written in statute is to provide coverage for the next 12 months for any fires they potentially start.

Chair Ghilarducci stated it is important for the Council to clearly understand the safety certification for questions on Fund durability in the future.

6. <u>Financial Report</u>: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of March 31, 2022.

Chief Financial Officer Tom Hanzel provided an overview of the Wildfire Fund financial information as of March 31, 2022, which was included in the meeting materials.

The CEA's financial advisor, Kapil Bhatia of Raymond James, provided the Council with an investment analysis of the Wildfire Fund, including an overview of the financial markets, interest rates and the Wildfire Fund's own investments portfolio as of March 31, 2022. He also provided an analysis of the Wildfire Fund's reinvestment strategy, which was included in the Council's meeting materials.

Mr. Bhatia stated that the Wildfire Fund's portfolio currently totals $9.8 billion and its net position and balance sheet are flat this year compared to last year. The U.S. Federal Reserve's recent actions to raise rates to manage inflation has resulted in the Fund's investment portfolio to be in an unrealized loss position but predicted the current unrealized losses in its portfolio will decrease over time as its bonds mature and the proceeds are invested in a rising interest rate environment. Mr. Bhatia described the Wildfire Fund's investment portfolio as stable.

Mr. Hanzel closed the financial presentation by stating that the Wildfire Fund's investment income stands at approximately $25 million through March 31, 2022 and that he expects the Wildfire Fund's actual expenses to come in as planned by the end of this year.

<u>Discussion</u>

Ms. Rossman agreed with the financial team's investment strategy, stating it is wise to take advantage of higher interest rates when they occur.

7. <u>Claims Administration Update</u>: Dr. Johnson will introduce the team from Sedgwick, which is contracted as claims review services provider to CEA, and provide an update and overview of the CEA's preparations and readiness to administer claims on the Wildfire Fund.

Dr. Johnson stated Sedgwick signed a contract with CEA on January 27, 2022 and began work as the claims review services provider in February. She outlined Sedgwick's scope of work and the claims review readiness timeline for 2022. Sedgwick will provide a progress update at the July CCRC meeting. She then asked the representatives from Sedgwick to introduce themselves.

David Armstrong, Sr. Vice President of Operations, introduced members of his team and provided an overview of Sedgwick, its history, size, experience, specialty services, and commitment to diversity. Mr. Armstrong introduced Project Manager Casie Hart, Sedgewick's primary contact person for the CEA/Wildfire Fund.

Dr. Johnson reviewed the status of wildfire monitoring and reporting and noted that there has been little change since her last report. While PG&E has stated in its financial filings that it anticipates incurring wildfire losses exceeding the $1 billion threshold for the 2021 Dixie Fire, it has not formally put the Fund on notice, as required by the Claims Administration Procedures. She stated her team's next steps are to complete the initial draft of the Operations Manual for claims review services, conduct annual reviews with each of the participating utilities, and continue the build-out of wildfire monitoring and notification tools, protocols, and procedures to enhance the Council's timely access to current, substantive, and detailed wildfire and claims information.

8. <u>Section 3293 Insurance Framework</u>: CEA Chief Risk & Actuarial Officer Shawna Ackerman and Nathan Pollack of Scidan Consulting will present the final framework (model) that will aid the Administrator in making periodic adjustments to the $1 billion per year IOU liability retention.

Chief Risk & Actuarial Officer Shawna Ackerman provided an overview of the background and analysis of the Section 3293 Insurance Framework. She stated the key question is if the minimum $1 billion retention per IOU needs to be raised to protect the durability of the Wildfire Fund. The analysis and framework are consistent with the Council's view of durability. She stated the analysis to date shows that the $1 billion retention does not need to be raised.

Nathan Pollack of Scidan Consulting Group provided an overview, with a slide presentation, of the background, scenario analysis objectives, development, input summary, initial scenario results summary, and key takeaways from initial and subsequent scenario modeling of the Wildfire Liability Retention Recommendation Framework. He stated the statutory retention threshold of $1 billion is adequate for the 2022 wildfire season to support durability targets of 75 percent in 2030 and 65 percent in 2035. He noted that in a future scenario with extreme Wildfire Fund drawdown, the recommendation could require liability retention policy changes. Mr. Pollack stated that while future wildfire losses are highly uncertain, there is no need to increase the $1 billion retention at this time.

9. <u>Enterprise Risk Management</u>: Ms. Ackerman will provide an update on the Enterprise Risk Management (ERM) program for the California Wildfire Fund.

Ms. Ackerman presented an overview of the Wildfire Fund ERM program timeline, risk appetite, and tolerance statements; and the new risk identification and prioritization dashboard, which was included in the meeting materials.

She stated there is a cautious risk appetite and a very limited risk tolerance in almost every case with two exceptions: claim handling, where there is a cautious risk appetite and no risk tolerance; and financial reporting, where there is an averse risk appetite and no risk tolerance.

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

There was no public comment.

11. Adjournment.

There being no further business, Chair Ghilarducci adjourned the meeting at 3:58 p.m.

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 3: Executive Report

Recommended Action: No action required – information only

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

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 4: Informational Presentation

Recommended Action: No action required – information only

PG&E Executive Vice President, Chief Risk Officer and Interim Safety Officer Sumeet Singh, and PG&E Vice President and Chief Audit Officer Stephen Cairns will provide an overview presentation on PG&E's wildfire mitigation activities.

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 5:	Plan of Operations (Third Annual Report)
Recommended Action:	Review, approve, and adopt the Third Annual Report, and authorize the Administrator to deliver the Third 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 operation, 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 net three years.*

Pursuant to section 3283, the Administrator has prepared its third annual Plan of Operations (Third Annual Report) and submits it to the Council for review and approval. Consistent with relevant statute, the Third 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 Third 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 Third Annual Report covers the one-year period of July 12, 2021 through July 11, 2022.

There are two attachments to this memorandum. On July 8, 2022, Administrator staff circulated a draft of the Third Annual Report to council members. The first attachment is a marked copy of the Third Annual Report that shows minor changes suggested by individual council members. The second attachment is a clean copy of the final proposed Third Annual Report that Administrator staff now seeks approval of from the Council.

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

WILDFIRE FUND ADMINISTRATOR

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

Report Period: July 12, 2021 – July 11, 2022
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 28, 2022

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 third Annual Report covers the one-year period of July 12, 2021, through July 11, 2022.

[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 capitalization of the Fund's $21 billion in claim-paying capacity is split between contributions from the Fund's participating utility companies – San Diego Gas & Electric Company ("SDG&E"), Southern California Edison ("SCE"), and Pacific Gas & Electric Company ("PG&E") (collectively, the "IOUs") – and surcharges on the IOUs' non-exempt ratepayers, which surcharges are also referred to as Wildfire 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, 2022, SDG&E, SCE, and PG&E have all provided their initial, 2020, 2021, and 2022 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.4 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, 2022 total $11,812,669,950. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt

[2] The 2019 Wildfire Legislation was subsequently amended in 2019 by AB 1513 (Holden, Chapter 396, Statutes of 2019), and in 2021 by AB 242 (Holden, Chapter 228, Statutes of 2021).

backed by the NBCs. Additional detail regarding the Fund's contributions as of July 11, 2022 and audited financials as of December 31, 2021 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 third 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 2021 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:

- Established the *Wildfire Fund Claims Administration Procedures* and onboarded Sedgwick as the Administrator's claims review services provider;
- Continued to build out internal protocols, templates, and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment causing covered wildfires;
- Completed the Council's second annual review of the Administrator's performance;
- Continued to repay the $2 billion SMIF loan;
- Created a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund;
- Finalized and issued the uniform Memorandum of Coverage to all three IOUs.

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

(2) Meetings of the Council. The Council was successfully activated in October 2019, and currently has a full roster of active members. On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022. The Council is scheduled to meet on July 28, 2022, and October 27, 2022. Details of these future meetings will be included in the Fourth 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 third 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 2021 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, 2021, and 2022 contributions to the Fund. As we enter the 2022 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 2021 safety certifications.

- The 2021 Wildfire Season. The work the Administrator and Council have performed over the past three 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, 2021 – July 11, 2022
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 28, 2022

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 2021 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 2021, along with supplemental unaudited information related to the Fund's contributions received through July 11, 2022.

California Earthquake Authority

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

December 31, 2021 and 2020

	Custodial Fund	
	2021	2020
Assets		
Cash and investments:		
Cash and cash equivalents	$ 494,362,365	$ 511,921,154
Investments	9,825,798,581	9,583,274,855
Total assets	10,320,160,946	10,095,196,009
Liabilities - Securities payable	94,001,434	387,224
Net Position - Restricted - Restricted for CWF	**$ 10,226,159,512**	**$ 10,094,808,785**

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 and the State Treasurer's Office to evaluate the need for a bond issuance by DWR as a conduit, backed by a pledge of the NBCs as described above. There were no bonds issued or outstanding during the report period.

As the table on the following page shows, as of July 11, 2022, the Fund has received $11,812,669,950 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, 2022

	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
11.	SDG&E 2021 annual contribution	12/15/2021	12,900,000
12.	SoCal Edison 2021 annual contribution	12/27/2021	94,500,000
13.	PG&E 2021 annual contribution	12/30/2021	192,600,000
		Total Contributions	10,400,000,000
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
8.	May 2021 NBC funds	7/14/2021	66,147,221
9.	June 2021 NBC funds	8/5/2021	72,966,332
10.	July 2021 NBC funds	9/15/2021	74,019,191
11.	August 2021 NBC funds	10/7/2021	90,363,775
12.	September 2021 NBC funds	11/10/2021	94,059,781
13.	October 2021 NBC funds	12/7/2021	89,110,057
14.	November 2021 NBC funds	1/10/2022	76,880,056
15.	December 2021 NBC funds	2/10/2022	72,253,134
16.	January 2022 NBC Funds	3/7/2022	64,527,643
17.	February 2022 NBC Funds	4/7/2022	78,912,451
18.	March 2022 NBC Funds	5/10/2022	72,132,388
19.	April 2022 NBC Funds	5/27/2022	85,856,764
20.	May 2022 NBC Funds	6/27/2022	87,030,949
		Total NBCs	1,412,669,950
		Total Funds Received	$ 11,812,669,950

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

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

II. Projections for the Durability of the Fund

This section provides the annual report on the Fund's projected durability. The Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund. If new claims are submitted to the Fund or existing claims, if any, develop adversely such that the projected durability of the Fund changes, the Council and Administrator will update this report.

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

"Durability" Defined. Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. For example, if 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 which exceed the annual aggregate IOU retention of $1 billion potentially exhaust the Fund more quickly. The larger the amount of available Fund sources to pay losses (initial capital, investment income, IOU annual contributions, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses. Of these funding sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund depending on the structure and price. Investment income and the timing of the receipt of the ratepayer funds can also influence durability inasmuch as higher investment returns and timely receipt of the non-bypassable charges increases available funds.

The key factors influencing durability are:

- the dollar amount of wildfire losses,
- a determination of prudency,
- the subrogation settlement rate,
- successful mitigation measures,

- climate change,
- exposure growth, which is the increase in the value of the property at risk for wildfire damage,
- the annual aggregate individual IOU loss retention, which is currently $1 billion, and
- funding.

Estimating Fund Losses – Catastrophe Loss Models. Using catastrophe-loss models to assess the loss potential from hurricanes and earthquakes has been 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 comparison, catastrophe-loss models for wildfire risk are newer, have not been as widely tested in the market, and have significant differences in the approaches used and the modeled results from one model to the next. Nevertheless, the models can be useful in developing a range of potential wildfire losses. The Administrator relies on catastrophe-loss model output from the AIR Worldwide Touchstone 8 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 and payable by the Fund in assessing durability. As noted below, as of June 2022 no IOU has requested reimbursement from the Fund. Consequently, the current durability projections assume that losses attributable or potentially attributable to the IOUs that occurred in the 2019 - 2021 wildfire seasons will not reach the annual aggregate $1 billion IOU retention and thus have no impact on Fund durability.

Modeling wildfire risk is a complex process. The AIR Touchstone 8 model considers such factors as ignition, weather and fuels, topography, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 8 includes individual event scenario losses that can be accumulated and ranked to form a distribution of loss by size of loss. Losses from the 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 (not just insurable property losses) and increased an additional 15% for exposure growth to reflect increases in construction costs.[3] There are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. It must be recognized that actual losses to the Fund will vary, perhaps significantly, from the estimated modeled losses.

[3] Data from California Department of General Services indicates construction costs for California rose 13.4% in 2021 and continue to climb in 2022. DGS California Construction Cost Index CCCI (last checked 6/14/2022).

Financial Models. Because the Fund is a complex mechanism dependent on largely uncertain events, a typical best case, worst case, expected case type of pro-forma analysis is not sufficient to understand the potential range of outcomes. Using the catastrophe loss models and the Fund's financial status as the starting point, a stochastic financial model is built to project the Fund's durability probability for the current period. The financial model used by the Administrator is similar to those developed when the Fund's structure and mechanics were established. Specifically, the Governor's Office engaged a team of experts, including Filsinger and Guy Carpenter, to develop financial models of the Fund to assess durability during the development of the 2019 Wildfire Legislation. CEA, as Administrator, previously engaged both Filsinger and Guy Carpenter and worked with them to make further refinements to the models to aid CEA in monitoring Fund durability.

As noted above, the catastrophe-loss model does not consider who or what is responsible for a wildfire. Modeled losses are attributed to a specific IOU using an attribution rate methodology developed by Guy Carpenter. This is the same methodology used when the Fund was initially created. Guy Carpenter attributes the loss to each IOU in a two-step process. First, the modeled loss is assigned to a specific IOU based on the location of the ignition and the IOU service area. Second, the loss is attributed to the specific IOU based on size and the probability that the modeled loss was caused by an IOU. The probability is based on a review of available data from 2001 – 2019 of total fire ignitions.

The financial model uses the actual financial position of the Fund for the most recent year-end and 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 on the following page.

	Scenario	Estimated Fund Durability for 2022[4]
1.	Base - 60% & 40% settlement rate - 10% mitigation credit -100% prudency	99.5% - 99.7%
2.	Mitigation/Climate Change - 40% settlement rate - Mitigation gains offset by climate change -100% prudency	99.6%
3.	High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency	99.4%

Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[5] Because a higher settlement rate means more losses are paid from the Fund, the 60% settlement rate is associated with a slightly lower durability estimate in the current year. However, the difference is small because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, 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 and local mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is done for two

[4] The estimated one-year Fund durability for 2022 ranges from 99.4% - 99.7% across the scenarios. This can alternatively be stated as a range of 1-in-170 to 1-in-340 chance that the Fund will suffer losses in 2022 that will ultimately exhaust all sources of claim-paying capacity. Due to the length of time from when a wildfire occurs, it is determined to have been caused by an IOU and eligible claims ultimately flow to the Fund, the likelihood that all sources of claim-paying capacity will be exhausted in 2022 is 0%. In other words, on a paid basis, the Fund will most certainly have cash remaining at the end of 2022. However, on an incurred basis, there is a small probability that the losses that occurred (or will occur) in 2022 could ultimately exhaust the Fund.

[5] The term "subrogation settlement rate" refers to settlements between an IOU that caused a covered wildfire, and the insurance companies that initially paid insured losses from the fire, and later seek reimbursement of some or all of their aggregate claim payments from the IOU by way of "subrogation claims." Historically, the insurance companies and IOUs negotiate aggregated settlements for a percentage of the amounts paid out by the insurers.

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.

Mitigation/Climate Change – 2: This scenario is the same as Base scenario 1 with the mitigation credit removed. The intent of this scenario is not to imply that mitigation efforts have been or will be ineffective. Rather, it is intended to provide a means to compare the results of this scenario to the Base –1 scenario and demonstrate the beneficial effects of mitigation on Fund durability. The results can be viewed as a scenario where beneficial mitigation effects are offset by adverse impacts of climate change. This scenario also assumes 100% prudency and likewise presents a more conservative view of durability. The results are shown using a 40% subrogation settlement rate.

High Settlement Rate – 3: This scenario is provided to further explore the effects of settlement rates on Fund durability. This scenario is the same as Base –1 with the settlement rate set at 70%. A 70% settlement rate is associated with a slightly lower durability 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.

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. As with the prior two years, Administrator staff determined that the market pricing and structure did not meet the goal of enhancing the Fund's durability and therefore, did not engage the market for a risk transfer program for the 2022 wildfire season.

Enhancing Durability through the annual aggregate IOU retention. Public Utilities Code section 3293 requires that each of the IOUs "maintain reasonable insurance coverage." Section 3293 also requires the Administrator to periodically review the IOUs' insurance programs and make recommendations to each IOU "as to the appropriate amount of insurance coverage required," taking into account a list of enumerated risk factors and any other factors deemed appropriate by the Administrator.

Section 3293 has the potential to increase Fund durability, if needed, by recommending higher retentions. Based on the Administrator's review, there is currently no indication that the retention amount needs to be raised. The current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent. More information on the analysis of long-term durability is included in the Section entitled "Administrator's Periodic Review of the IOU Wildfire Insurance Programs."

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

Comparison to Prior Year. The financial model used to assess Fund durability begins with the AIR Touchstone 8 wildfire model whereas last year the AIR Touchstone 7 wildfire model served as the starting point. Each catastrophe-loss model update includes more recent historical wildfires, updated fuels data and weather predictions. Additional updates to the financial model include reflecting the most recent year-end financial status, advancing the starting point one year (from 2021 to 2022) and updating the exposure growth assumption from 7% to 15%. The results above maintain the assumption that prior year wildfires will result in no claims to the Fund. As noted later in this report (see *The 2021 Wildfire Season*) no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund from past wildfire seasons, in particular, as a result of the 2019 Kincade fire and the 2021 Dixie fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire (unchanged from last year) and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[6]

If the ultimate liability for the 2019 Kincade fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount, subject to the 40% limitation on claims arising

[6] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade,2020 Zogg and 2021 Dixie fires.)

before emergence from bankruptcy. Similarly, if the ultimate liability for the 2021 Dixie fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount. For the purposes of projecting the durability for the current period, the model assumes that wildfires from past seasons will not result in claims to the Fund. The model will be updated if PG&E makes a claim on the Fund.

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; and (3) provides a summary of incurred claims.

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

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 July 22, 2021 meeting, the Council adopted the final draft *Wildfire Fund Claims Administration Procedures* (Procedures) and authorized the Administrator to make periodic no-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. A copy of the *Wildfire Fund Claims Administration Procedures* can be found in the Council's July 22, 2021 meeting materials: CCRC July 22, 2021 Meeting Materials.

On August 17, 2021, the Administrator issued a Request for Proposal (RFP #06-21) for a Claims Review Services Provider. The Administrator responded to a round of questions on the RFP and received four proposal submissions by its deadline of October 7, 2021. The Administrator's proposal review panel evaluated the proposals and identified three finalists that were invited to make presentations. The company with the highest overall average scores from the review panel was invited on October 27, 2021 to advance to the contract negotiation stage. The Administrator entered into a contract with Sedgwick on January 27, 2022 to serve as the claims review services provider for the Wildfire Fund.

During the report period, the Administrator has been working with Sedgwick to build out the infrastructure and make necessary preparations for the successful and timely execution of the Administrator's claims review process. This work includes development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The Administrator anticipates that this work will be completed by no later than the first quarter of 2023. However, the Administrator and Sedgwick have built in flexibility to be able to undertake the review of any claims that might be submitted in 2022.

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

The Administrator continues to work with the IOUs to develop protocols, templates and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment in causing wildfires, and reporting on these occurrences using pre-approved templates to notify council members. Protocols are now in place to monitor the websites of the CPUC and the IOUs so that the Administrator has prompt notice when an IOU has filed electrical incident reports on incidents with the CPUC, as required under Public Utilities Code section 315. The Administrator is particularly focused on enhancing the Council's timely access to current, substantive and detailed wildfire and claims information.

Annual Review of the Administrator's Performance

During the report period, the Council completed its second annual review of the Administrator. The purpose of this process is to ensure that the Administrator is conducting its activities in a manner consistent with the directions and desires of the Council. Council Members Rich Gordon and Paul Rosenstiel served on the second Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the second annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across seven accountability areas and on an overall evaluation, with that feedback being submitted solely to the Subcommittee. Numerical scores from 1 (Does Not Meet Expectations) to 5 (Exceeds Expectations) were provided for each area by all members of the Council. Administrator staff has developed plans to respond to specific feedback as part of the on-going performance improvement effort.

Category	Averaged Councilmember Performance Rating
Leadership and Culture	4.38 (Range 4-5)
Financial Leadership	4.63 (Range 4-5)
Strategic Development	4.13 (Range 3-5)
Council Relations	4.25 (Range 2-5)
Council Governance and Compliance	4.5 (Range 4-5)
Claims Administration	4.29 (Range 4-5)
Enterprise Risk Management	4.38 (Range 3-5)
Overall Evaluation	4.31 (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.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

As noted above, 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.

As the IOU retention increases, Fund durability increases. The California Legislature expressed a general expectation that the Fund would remain durable during the 10-to-15-year period during which the IOUs would be making enhanced investments in infrastructure safety. Section 3293 can assist the Administrator in managing the durability of the Fund through upward adjustments to the minimum $1 billion retention amount.

During the report period, Administrator staff worked with 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. The framework is designed to indicate whether an upward adjustment in retention may be needed to achieve the Fund durability goals. If an upward adjustment is indicated, then the factors enumerated in Section 3293 will enter the analysis.

Based on the results of its assessment coupled with the facts that there have not yet been claims on the Fund and no material changes have emerged since July 2019, the Administrator informed the IOUs that there will be no changes to the IOUs' $1 billion loss retention for the 2022-2023 wildfire season. Based on the results of the framework, the current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent, unless the average annual eligible claim level exceeds $1.5 billion.

The testing framework will be updated periodically to reflect the total amount of eligible claims paid (or payable) by the Fund as well as changes in the view of wildfire risk consistent with those used for shorter-term durability assessments (see Section II "Projections for the Durability of the Fund" for more information about durability). The Administrator will report updated assessments to the Council and communicate the recommended loss retention to the IOUs so that the information is available for planning their annual insurance programs. More detail about the framework can be found in the Council's April 28, 2022 meeting materials: CCRC April 28, 2022 Meeting Materials.

Memorandum of Coverage

The Memorandum of Coverage is a uniform document, akin to an insurance policy, that sets forth the scope of coverage from the Fund and the conditions for submitting claims, consistent with the Claims Administration Procedures approved by the Council in 2021. The Memorandum of Coverage was carefully drafted to ensure consistency with the 2019 Wildfire Legislation, while filling in administrative details not expressly covered in those statutes. A principle goal of the Memorandum of Coverage is to ensure that each of the three IOUs share a common understanding of the terms and conditions related to their ability to submit eligible claims to the Fund after a covered wildfire. This document will also assist the Administrator in ensuring that the IOUs are treated equally and fairly as they draw on Fund assets when necessary.

Another function of the Memorandum of Coverage is to document each IOU's "coverage year" – the 12-month period during which an IOU's wildfire liabilities are aggregated to meet their $1 billion per year liability retention.[7] The Memorandum of Coverage will remain in effect for the duration of the life of the Fund but will be updated annually to reflect each IOU's "coverage year." In addition, the Memorandum of Coverage will be amended as necessary to conform to any future relevant statutory amendments.

A copy of the final version of the Memorandum of Coverage can be found in the Council's January 27, 2022 meeting materials: CCRC January 27, 2022 Meeting Materials.

Overview of the Council's Public Meetings

On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022.

During its July 22, 2021 meeting, the Council, among other matters, heard a presentation from Caroline Thomas Jacobs, the Director of the Office of Energy Infrastructure Safety (OEIS) within the California Natural Resources Agency. Ms. Thomas Jacobs provided the Council with an overview of the roles and responsibilities of the newly established OEIS, as successor to the Wildfire Safety Division of the CPUC. The Council also discussed and adopted the *Wildfire Fund Claims Administration Procedures*, the 2020-2021 Plan of Operations (Second Annual Report) and authorized 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. Administrator staff also presented on various topics, including the Fund's financial report, a legislative update (concerning AB 242, Holden), and the Wildfire Fund Enterprise Risk Management Program Framework.

During its October 28, 2021 meeting, the Council, among other matters, discussed and adopted a report template and procedures for completion and filing of its Section 3287 Statutory Annual Reports. Administrator staff also presented on various topics, including the Fund's financial report, claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

[7] During the report period, the Legislature enacted AB 242 (Holden, Chapter 228, Statutes of 2021). That bill, among other things, changed the "coverage year" for an IOU to submit eligible claims to the Fund from a 12-month January 1 to December 31 "calendar" year to any 12-month period. This change allows each IOU to align its Fund coverage year with its underlying insurance program.

During its January 27, 2022 meeting, the Council, among other matters, approved the proposed 2022 CWF budget and directed staff to operate CWF business operations within the total approved budget amounts, and appointed two members to the informal Administrator Evaluation Subcommittee for the purpose of preparing the evaluation of CEA as the Administrator for 2021. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, a Fund administration update concerning the Memorandum of Coverage and PUC Section 3293 Framework, an update on claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its April 28, 2022 meeting, the Council, among other matters, presented the results of the Council's evaluation for 2021 of the CEA's performance as Administrator of the Fund, and heard a presentation from Caroline Thomas Jacobs, the Director of OEIS within the California Natural Resources Agency on the scope of OEIS's review of IOU Wildfire Mitigation Plans and issuance of Safety Certifications. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, which included a shift in investment management to emphasize shorter term bonds to preserve capital because of the trend towards increasing interest rates, an update on claims administration, including the onboarding of Sedgwick as the Administrator's Claims Review Services Provider and their scope of work, establishment of the PUC Section 3293 Framework and the determination of the IOUs' liability retention for the 2022-23 wildfire season, and the Wildfire Fund Enterprise Risk Management Program Framework.

The Council is scheduled to meet on July 28, 2022 and October 27, 2022. Information about those future meetings will be included in the Fourth 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 2021 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 its June 2022 rating action commentary related to a PG&E rating, and its May 2022 rating action commentary related to a Southern California Edison rating, Fitch reiterated AB 1054 as a credit-supportive piece of legislation supporting both IOUs' current ratings and Positive Rating Outlooks.[8]

[8] *Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings*, FitchRatings, June 2, 2022, available at Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings (fitchratings.com); *Fitch Assigns a 'BBB+' Rating to Southern California Edison's First & Refunding Mortgage Bonds,* Fitch Ratings, May 18, 2022, available at Fitch Assigns a 'BBB+' Rating to Southern California Edison's First & Refunding Mortgage Bonds (fitchratings.com).

- 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."[9]

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 2022 Wildfire Mitigation Plans and Related Documents is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2022-wmp/.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from OEIS. Safety certifications encourage an IOU to invest in safety and improve safety culture to limit wildfire risks and reduce costs. During the report period, PG&E, SCE, and SDG&E all received their 2021 safety certifications from OEIS. More information on these safety certificates is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/safety-certifications/.

The 2021 Wildfire Season

Amidst the ongoing drought, 2021 was another active wildfire season. Detailed information about the 2021 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2021/. During the report period, there have been five wildfires – Dixie Fire (July 13, 2021), Fly Fire (July 22, 2021 and which subsequently merged with the Dixie Fire)), Coastal Fire (May 11, 2022), Old Fire (May 31, 2022), and Edgewood Fire (June 21 2022) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records.[10] There has been one wildfire, the Dixie Fire (July 13, 2021) that

[9] 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.

[10] 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.

CAL FIRE has determined was caused by PG&E. With the exceptions of the Dixie and Coastal fires, all these actual and potential IOU-caused fires resulted in minimal structural damage. The Dixie Fire burned a total of 963,309 acres, destroyed 1,329 structures and damaged 95 additional structures, and the Coastal fire burned 200 acres and destroyed at least 20 structures.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on January 4, 2022, CAL FIRE determined that the Dixie Fire was caused by a 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 Dixie Fire results in a claim, details will be included in a subsequent annual report.

PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire, $375 million in connection with the 2020 Zogg Fire, and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[11] If the ultimate liability for any of these fires and their corresponding 2019, 2020, and 2021 coverage years exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount.

[11] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade,2020 Zogg and 2021 Dixie fires.)

WILDFIRE FUND ADMINISTRATOR

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

Report Period: July 12, 2021 – July 11, 2022
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 28, 2022

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 third Annual Report covers the one-year period of July 12, 2021, through July 11, 2022.

[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 capitalization of the Fund's $21 billion in claim-paying capacity is split between contributions from the Fund's participating utility companies – San Diego Gas & Electric Company ("SDG&E"), Southern California Edison ("SCE"), and Pacific Gas & Electric Company ("PG&E") (collectively, the "IOUs") – and surcharges on the IOUs' non-exempt ratepayers, which surcharges are also referred to as Wildfire 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, 2022, SDG&E, SCE, and PG&E have all provided their initial, 2020, 2021, and 2022 annual financial contributions. The IOU contributions combined with the SMIF loan total $10.4 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, 2022 total $11,812,669,950. Should the Fund need additional capitalization to meet needs arising from eligible claims resulting from covered wildfires, the Fund can issue additional debt

[2] The 2019 Wildfire Legislation was subsequently amended in 2019 by AB 1513 (Holden, Chapter 396, Statutes of 2019), and in 2021 by AB 242 (Holden, Chapter 228, Statutes of 2021).

backed by the NBCs. Additional detail regarding the Fund's contributions as of July 11, 2022 and audited financials as of December 31, 2021 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 third 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 2021 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:

- Established the *Wildfire Fund Claims Administration Procedures* and onboarded Sedgwick as the Administrator's claims review services provider;
- Continued to build out internal protocols, templates, and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment causing covered wildfires;
- Completed the Council's second annual review of the Administrator's performance;
- Continued to repay the $2 billion SMIF loan;
- Created a framework to periodically review and make recommendations as to the appropriate amount of insurance coverage required of an IOU to access the Fund;
- Finalized and issued the uniform Memorandum of Coverage to all three IOUs.

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

(2) Meetings of the Council. The Council was successfully activated in October 2019, and currently has a full roster of active members. On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022. The Council is scheduled to meet on July 28, 2022, and October 27, 2022. Details of these future meetings will be included in the Fourth 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 third 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 2021 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, 2021, and 2022 contributions to the Fund. As we enter the 2022 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 2021 safety certifications.

- The 2021 Wildfire Season. The work the Administrator and Council have performed over the past three 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, 2021 – July 11, 2022
(Pursuant to Public Utilities Code section 3283)

Date of Report: July 28, 2022

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 2021 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 2021, along with supplemental unaudited information related to the Fund's contributions received through July 11, 2022.

California Earthquake Authority

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

December 31, 2021 and 2020

	Custodial Fund 2021	Custodial Fund 2020
Assets		
Cash and investments:		
Cash and cash equivalents	$ 494,362,365	$ 511,921,154
Investments	9,825,798,581	9,583,274,855
Total assets	10,320,160,946	10,095,196,009
Liabilities - Securities payable	94,001,434	387,224
Net Position - Restricted - Restricted for CWF	**$ 10,226,159,512**	**$ 10,094,808,785**

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 and the State Treasurer's Office to evaluate the need for a bond issuance by DWR as a conduit, backed by a pledge of the NBCs as described above. There were no bonds issued or outstanding during the report period.

As the table on the following page shows, as of July 11, 2022, the Fund has received $11,812,669,950 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, 2022

	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
11.	SDG&E 2021 annual contribution	12/15/2021	12,900,000
12.	SoCal Edison 2021 annual contribution	12/27/2021	94,500,000
13.	PG&E 2021 annual contribution	12/30/2021	192,600,000
		Total Contributions	10,400,000,000
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
8. May 2021 NBC funds	7/14/2021	66,147,221
9. June 2021 NBC funds	8/5/2021	72,966,332
10. July 2021 NBC funds	9/15/2021	74,019,191
11. August 2021 NBC funds	10/7/2021	90,363,775
12. September 2021 NBC funds	11/10/2021	94,059,781
13. October 2021 NBC funds	12/7/2021	89,110,057
14. November 2021 NBC funds	1/10/2022	76,880,056
15. December 2021 NBC funds	2/10/2022	72,253,134
16. January 2022 NBC Funds	3/7/2022	64,527,643
17. February 2022 NBC Funds	4/7/2022	78,912,451
18. March 2022 NBC Funds	5/10/2022	72,132,388
19. April 2022 NBC Funds	5/27/2022	85,856,764
20. May 2022 NBC Funds	6/27/2022	87,030,949
	Total NBCs	1,412,669,950
	Total Funds Received	$ 11,812,669,950

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

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

II. Projections for the Durability of the Fund

This section provides the annual report on the Fund's projected durability. The Council and Administrator are specifically required to report at least annually to the Legislature on the projected durability of the Fund. If new claims are submitted to the Fund or existing claims, if any, develop adversely such that the projected durability of the Fund changes, the Council and Administrator will update this report.

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

"Durability" Defined. Durability is a probability measure expressing the likelihood that the Fund will have sufficient funds to pay eligible claims each year, over a number of years. For example, if 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 which exceed the annual aggregate IOU retention of $1 billion potentially exhaust the Fund more quickly. The larger the amount of available Fund sources to pay losses (initial capital, investment income, IOU annual contributions, risk transfer, if any, and available ratepayer funds), the longer the Fund will remain in a position to pay losses. Of these funding sources, risk transfer is the only one that is flexible and has the potential to significantly enhance the durability of the Fund depending on the structure and price. Investment income and the timing of the receipt of the ratepayer funds can also influence durability inasmuch as higher investment returns and timely receipt of the non-bypassable charges increases available funds.

The key factors influencing durability are:

- the dollar amount of wildfire losses,
- a determination of prudency,
- the subrogation settlement rate,
- successful mitigation measures,

- climate change,
- exposure growth, which is the increase in the value of the property at risk for wildfire damage,
- the annual aggregate individual IOU loss retention, which is currently $1 billion, and
- funding.

Estimating Fund Losses – Catastrophe Loss Models. Using catastrophe-loss models to assess the loss potential from hurricanes and earthquakes has been 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 comparison, catastrophe-loss models for wildfire risk are newer, have not been as widely tested in the market, and have significant differences in the approaches used and the modeled results from one model to the next. Nevertheless, the models can be useful in developing a range of potential wildfire losses. The Administrator relies on catastrophe-loss model output from the AIR Worldwide Touchstone 8 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 and payable by the Fund in assessing durability. As noted below, as of June 2022 no IOU has requested reimbursement from the Fund. Consequently, the current durability projections assume that losses attributable or potentially attributable to the IOUs that occurred in the 2019 - 2021 wildfire seasons will not reach the annual aggregate $1 billion IOU retention and thus have no impact on Fund durability.

Modeling wildfire risk is a complex process. The AIR Touchstone 8 model considers such factors as ignition, weather and fuels, topography, wind, land use and land cover, wildland-urban interface, and building and construction materials. The output from Touchstone 8 includes individual event scenario losses that can be accumulated and ranked to form a distribution of loss by size of loss. Losses from the 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 (not just insurable property losses) and increased an additional 15% for exposure growth to reflect increases in construction costs.[3] There are multiple sources of uncertainty in assessing the amount and frequency of eligible claims flowing to the Fund. It must be recognized that actual losses to the Fund will vary, perhaps significantly, from the estimated modeled losses.

[3] Data from California Department of General Services indicates construction costs for California rose 13.4% in 2021 and continue to climb in 2022. DGS California Construction Cost Index CCCI (last checked 6/14/2022).

Financial Models. Because the Fund is a complex mechanism dependent on largely uncertain events, a typical best case, worst case, expected case type of pro-forma analysis is not sufficient to understand the potential range of outcomes. Using the catastrophe loss models and the Fund's financial status as the starting point, a stochastic financial model is built to project the Fund's durability probability for the current period. The financial model used by the Administrator is similar to those developed when the Fund's structure and mechanics were established. Specifically, the Governor's Office engaged a team of experts, including Filsinger and Guy Carpenter, to develop financial models of the Fund to assess durability during the development of the 2019 Wildfire Legislation. CEA, as Administrator, previously engaged both Filsinger and Guy Carpenter and worked with them to make further refinements to the models to aid CEA in monitoring Fund durability.

As noted above, the catastrophe-loss model does not consider who or what is responsible for a wildfire. Modeled losses are attributed to a specific IOU using an attribution rate methodology developed by Guy Carpenter. This is the same methodology used when the Fund was initially created. Guy Carpenter attributes the loss to each IOU in a two-step process. First, the modeled loss is assigned to a specific IOU based on the location of the ignition and the IOU service area. Second, the loss is attributed to the specific IOU based on size and the probability that the modeled loss was caused by an IOU. The probability is based on a review of available data from 2001 – 2019 of total fire ignitions.

The financial model uses the actual financial position of the Fund for the most recent year-end and 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 on the following page.

	Scenario	Estimated Fund Durability for 2022[4]
1.	Base - 60% & 40% settlement rate - 10% mitigation credit -100% prudency	99.5% - 99.7%
2.	Mitigation/Climate Change - 40% settlement rate - Mitigation gains offset by climate change -100% prudency	99.6%
3.	High Settlement Rate - 70% settlement rate - 10% mitigation credit - 100% prudency	99.4%

Base – 1: The base scenario is the current view of risk considering subrogation settlement rates from 40% - 60%.[5] Because a higher settlement rate means more losses are paid from the Fund, the 60% settlement rate is associated with a slightly lower durability estimate in the current year. However, the difference is small because the probability associated with a modeled loss large enough to exhaust all sources of claim-paying capacity is remote. Over a longer projection period, 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 and local mitigation activities. For all scenarios, prudency is assumed to be 100% throughout the projection period. This assumption is done for two

[4] The estimated one-year Fund durability for 2022 ranges from 99.4% - 99.7% across the scenarios. This can alternatively be stated as a range of 1-in-170 to 1-in-340 chance that the Fund will suffer losses in 2022 that will ultimately exhaust all sources of claim-paying capacity. Due to the length of time from when a wildfire occurs, it is determined to have been caused by an IOU and eligible claims ultimately flow to the Fund, the likelihood that all sources of claim-paying capacity will be exhausted in 2022 is 0%. In other words, on a paid basis, the Fund will most certainly have cash remaining at the end of 2022. However, on an incurred basis, there is a small probability that the losses that occurred (or will occur) in 2022 could ultimately exhaust the Fund.

[5] The term "subrogation settlement rate" refers to settlements between an IOU that caused a covered wildfire, and the insurance companies that initially paid insured losses from the fire, and later seek reimbursement of some or all of their aggregate claim payments from the IOU by way of "subrogation claims." Historically, the insurance companies and IOUs negotiate aggregated settlements for a percentage of the amounts paid out by the insurers.

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.

Mitigation/Climate Change – 2: This scenario is the same as Base scenario 1 with the mitigation credit removed. The intent of this scenario is not to imply that mitigation efforts have been or will be ineffective. Rather, it is intended to provide a means to compare the results of this scenario to the Base –1 scenario and demonstrate the beneficial effects of mitigation on Fund durability. The results can be viewed as a scenario where beneficial mitigation effects are offset by adverse impacts of climate change. This scenario also assumes 100% prudency and likewise presents a more conservative view of durability. The results are shown using a 40% subrogation settlement rate.

High Settlement Rate – 3: This scenario is provided to further explore the effects of settlement rates on Fund durability. This scenario is the same as Base –1 with the settlement rate set at 70%. A 70% settlement rate is associated with a slightly lower durability 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.

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. As with the prior two years, Administrator staff determined that the market pricing and structure did not meet the goal of enhancing the Fund's durability and therefore, did not engage the market for a risk transfer program for the 2022 wildfire season.

Enhancing Durability through the annual aggregate IOU retention. Public Utilities Code section 3293 requires that each of the IOUs "maintain reasonable insurance coverage." Section 3293 also requires the Administrator to periodically review the IOUs' insurance programs and make recommendations to each IOU "as to the appropriate amount of insurance coverage required," taking into account a list of enumerated risk factors and any other factors deemed appropriate by the Administrator.

Section 3293 has the potential to increase Fund durability, if needed, by recommending higher retentions. Based on the Administrator's review, there is currently no indication that the retention amount needs to be raised. The current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent. More information on the analysis of long-term durability is included in the Section entitled "Administrator's Periodic Review of the IOU Wildfire Insurance Programs."

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

Comparison to Prior Year. The financial model used to assess Fund durability begins with the AIR Touchstone 8 wildfire model whereas last year the AIR Touchstone 7 wildfire model served as the starting point. Each catastrophe-loss model update includes more recent historical wildfires, updated fuels data and weather predictions. Additional updates to the financial model include reflecting the most recent year-end financial status, advancing the starting point one year (from 2021 to 2022) and updating the exposure growth assumption from 7% to 15%. The results above maintain the assumption that prior year wildfires will result in no claims to the Fund. As noted later in this report (see *The 2021 Wildfire Season*) no IOU has made a claim on the Fund. However, there is the potential for claims to the Fund from past wildfire seasons, in particular, as a result of the 2019 Kincade fire and the 2021 Dixie fire. PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire (unchanged from last year) and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[6]

If the ultimate liability for the 2019 Kincade fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount, subject to the 40% limitation on claims arising

[6] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade,2020 Zogg and 2021 Dixie fires.)

before emergence from bankruptcy. Similarly, if the ultimate liability for the 2021 Dixie fire exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount. For the purposes of projecting the durability for the current period, the model assumes that wildfires from past seasons will not result in claims to the Fund. The model will be updated if PG&E makes a claim on the Fund.

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; and (3) provides a summary of incurred claims.

<u>Administrative Actions taken by the Administrator, under the Oversight of the Council, to Further Operationalize the Fund</u>

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 July 22, 2021 meeting, the Council adopted the final draft *Wildfire Fund Claims Administration Procedures* (Procedures) and authorized the Administrator to make periodic no-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. A copy of the *Wildfire Fund Claims Administration Procedures* can be found in the Council's July 22, 2021 meeting materials: CCRC July 22, 2021 Meeting Materials.

On August 17, 2021, the Administrator issued a Request for Proposal (RFP #06-21) for a Claims Review Services Provider. The Administrator responded to a round of questions on the RFP and received four proposal submissions by its deadline of October 7, 2021. The Administrator's proposal review panel evaluated the proposals and identified three finalists that were invited to make presentations. The company with the highest overall average scores from the review panel was invited on October 27, 2021 to advance to the contract negotiation stage. The Administrator entered into a contract with Sedgwick on January 27, 2022 to serve as the claims review services provider for the Wildfire Fund.

During the report period, the Administrator has been working with Sedgwick to build out the infrastructure and make necessary preparations for the successful and timely execution of the Administrator's claims review process. This work includes development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The Administrator anticipates that this work will be completed by no later than the first quarter of 2023. However, the Administrator and Sedgwick have built in flexibility to be able to undertake the review of any claims that might be submitted in 2022.

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

The Administrator continues to work with the IOUs to develop protocols, templates and tools for monitoring active wildfires and IOUs' reporting about the potential involvement of their equipment in causing wildfires, and reporting on these occurrences using pre-approved templates to notify council members. Protocols are now in place to monitor the websites of the CPUC and the IOUs so that the Administrator has prompt notice when an IOU has filed electrical incident reports on incidents with the CPUC, as required under Public Utilities Code section 315. The Administrator is particularly focused on enhancing the Council's timely access to current, substantive and detailed wildfire and claims information.

Annual Review of the Administrator's Performance

During the report period, the Council completed its second annual review of the Administrator. The purpose of this process is to ensure that the Administrator is conducting its activities in a manner consistent with the directions and desires of the Council. Council Members Rich Gordon and Paul Rosenstiel served on the second Administrator Evaluation Subcommittee, which entailed aggregating council member responses and delivering the second annual review to the Administrator. Council members were asked to evaluate the Administrator's ongoing performance of core competencies across seven accountability areas and on an overall evaluation, with that feedback being submitted solely to the Subcommittee. Numerical scores from 1 (Does Not Meet Expectations) to 5 (Exceeds Expectations) were provided for each area by all members of the Council. Administrator staff has developed plans to respond to specific feedback as part of the on-going performance improvement effort.

Category	Averaged Councilmember Performance Rating
Leadership and Culture	4.38 (Range 4-5)
Financial Leadership	4.63 (Range 4-5)
Strategic Development	4.13 (Range 3-5)
Council Relations	4.25 (Range 2-5)
Council Governance and Compliance	4.5 (Range 4-5)
Claims Administration	4.29 (Range 4-5)
Enterprise Risk Management	4.38 (Range 3-5)
Overall Evaluation	4.31 (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.

Administrator's Periodic Review of IOU Wildfire Insurance Programs

As noted above, 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.

As the IOU retention increases, Fund durability increases. The California Legislature expressed a general expectation that the Fund would remain durable during the 10-to-15-year period during which the IOUs would be making enhanced investments in infrastructure safety. Section 3293 can assist the Administrator in managing the durability of the Fund through upward adjustments to the minimum $1 billion retention amount.

During the report period, Administrator staff worked with 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. The framework is designed to indicate whether an upward adjustment in retention may be needed to achieve the Fund durability goals. If an upward adjustment is indicated, then the factors enumerated in Section 3293 will enter the analysis.

Based on the results of its assessment coupled with the facts that there have not yet been claims on the Fund and no material changes have emerged since July 2019, the Administrator informed the IOUs that there will be no changes to the IOUs' $1 billion loss retention for the 2022-2023 wildfire season. Based on the results of the framework, the current annual retention threshold of $1 billion is expected to be sufficient to maintain long-term durability consistent with the Legislature's intent, unless the average annual eligible claim level exceeds $1.5 billion.

The testing framework will be updated periodically to reflect the total amount of eligible claims paid (or payable) by the Fund as well as changes in the view of wildfire risk consistent with those used for shorter-term durability assessments (see Section II "Projections for the Durability of the Fund" for more information about durability). The Administrator will report updated assessments to the Council and communicate the recommended loss retention to the IOUs so that the information is available for planning their annual insurance programs. More detail about the framework can be found in the Council's April 28, 2022 meeting materials: CCRC April 28, 2022 Meeting Materials.

Memorandum of Coverage

The Memorandum of Coverage is a uniform document, akin to an insurance policy, that sets forth the scope of coverage from the Fund and the conditions for submitting claims, consistent with the Claims Administration Procedures approved by the Council in 2021. The Memorandum of Coverage was carefully drafted to ensure consistency with the 2019 Wildfire Legislation, while filling in administrative details not expressly covered in those statutes. A principle goal of the Memorandum of Coverage is to ensure that each of the three IOUs share a common understanding of the terms and conditions related to their ability to submit eligible claims to the Fund after a covered wildfire. This document will also assist the Administrator in ensuring that the IOUs are treated equally and fairly as they draw on Fund assets when necessary.

Another function of the Memorandum of Coverage is to document each IOU's "coverage year" – the 12-month period during which an IOU's wildfire liabilities are aggregated to meet their $1 billion per year liability retention.[7] The Memorandum of Coverage will remain in effect for the duration of the life of the Fund but will be updated annually to reflect each IOU's "coverage year." In addition, the Memorandum of Coverage will be amended as necessary to conform to any future relevant statutory amendments.

A copy of the final version of the Memorandum of Coverage can be found in the Council's January 27, 2022 meeting materials: CCRC January 27, 2022 Meeting Materials.

Overview of the Council's Public Meetings

On May 4, 2022, the Senate Committee on Rules appointed Kathleen Ritzman to replace Michael Wara as a member of the Council. The Council met four times during the report period: July 22, 2021; October 28, 2021; January 27, 2022; and April 28, 2022.

During its July 22, 2021 meeting, the Council, among other matters, heard a presentation from Caroline Thomas Jacobs, the Director of the Office of Energy Infrastructure Safety (OEIS) within the California Natural Resources Agency. Ms. Thomas Jacobs provided the Council with an overview of the roles and responsibilities of the newly established OEIS, as successor to the Wildfire Safety Division of the CPUC. The Council also discussed and adopted the *Wildfire Fund Claims Administration Procedures*, the 2020-2021 Plan of Operations (Second Annual Report) and authorized 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. Administrator staff also presented on various topics, including the Fund's financial report, a legislative update (concerning AB 242, Holden), and the Wildfire Fund Enterprise Risk Management Program Framework.

During its October 28, 2021 meeting, the Council, among other matters, discussed and adopted a report template and procedures for completion and filing of its Section 3287 Statutory Annual Reports. Administrator staff also presented on various topics, including the Fund's financial report, claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

[7] During the report period, the Legislature enacted AB 242 (Holden, Chapter 228, Statutes of 2021). That bill, among other things, changed the "coverage year" for an IOU to submit eligible claims to the Fund from a 12-month January 1 to December 31 "calendar" year to any 12-month period. This change allows each IOU to align its Fund coverage year with its underlying insurance program.

During its January 27, 2022 meeting, the Council, among other matters, approved the proposed 2022 CWF budget and directed staff to operate CWF business operations within the total approved budget amounts, and appointed two members to the informal Administrator Evaluation Subcommittee for the purpose of preparing the evaluation of CEA as the Administrator for 2021. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, a Fund administration update concerning the Memorandum of Coverage and PUC Section 3293 Framework, an update on claims administration, and the Wildfire Fund Enterprise Risk Management Program Framework.

During its April 28, 2022 meeting, the Council, among other matters, presented the results of the Council's evaluation for 2021 of the CEA's performance as Administrator of the Fund, and heard a presentation from Caroline Thomas Jacobs, the Director of OEIS within the California Natural Resources Agency on the scope of OEIS's review of IOU Wildfire Mitigation Plans and issuance of Safety Certifications. Administrator staff also made presentations on a variety of topics, including the Fund's financial report, which included a shift in investment management to emphasize shorter term bonds to preserve capital because of the trend towards increasing interest rates, an update on claims administration, including the onboarding of Sedgwick as the Administrator's Claims Review Services Provider and their scope of work, establishment of the PUC Section 3293 Framework and the determination of the IOUs' liability retention for the 2022-23 wildfire season, and the Wildfire Fund Enterprise Risk Management Program Framework.

The Council is scheduled to meet on July 28, 2022 and October 27, 2022. Information about those future meetings will be included in the Fourth 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 2021 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 its June 2022 rating action commentary related to a PG&E rating, and its May 2022 rating action commentary related to a Southern California Edison rating, Fitch reiterated AB 1054 as a credit-supportive piece of legislation supporting both IOUs' current ratings and Positive Rating Outlooks.[8]

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[8] *Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings*, FitchRatings, June 2, 2022, available at Fitch Revises PG&E and Pacific Gas and Electric's Outlook to Positive; Affirms Ratings (fitchratings.com); *Fitch Assigns a 'BBB+' Rating to Southern California Edison's First & Refunding Mortgage Bonds,* Fitch Ratings, May 18, 2022, available at Fitch Assigns a 'BBB+' Rating to Southern California Edison's First & Refunding Mortgage Bonds (fitchratings.com).

- 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."[9]

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 2022 Wildfire Mitigation Plans and Related Documents is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2022-wmp/.

In addition, AB 1054 creates incentives by way of cost-recovery from the Fund, for IOUs to obtain and maintain safety certifications from OEIS. Safety certifications encourage an IOU to invest in safety and improve safety culture to limit wildfire risks and reduce costs. During the report period, PG&E, SCE, and SDG&E all received their 2021 safety certifications from OEIS. More information on these safety certificates is available at OEIS's website: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/safety-certifications/.

The 2021 Wildfire Season

Amidst the ongoing drought, 2021 was another active wildfire season. Detailed information about the 2021 wildfire season is available at CAL FIRE'S website: https://www.fire.ca.gov/incidents/2021/. During the report period, there have been five wildfires – Dixie Fire (July 13, 2021), Fly Fire (July 22, 2021 and which subsequently merged with the Dixie Fire)), Coastal Fire (May 11, 2022), Old Fire (May 31, 2022), and Edgewood Fire (June 21 2022) – that may have been caused by IOUs that have been reported to CAL FIRE or in the IOUs' CPUC incident records.[10] There has been one wildfire, the Dixie Fire (July 13, 2021) that

[9] 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.

[10] 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.

CAL FIRE has determined was caused by PG&E. With the exceptions of the Dixie and Coastal fires, all these actual and potential IOU-caused fires resulted in minimal structural damage. The Dixie Fire burned a total of 963,309 acres, destroyed 1,329 structures and damaged 95 additional structures, and the Coastal fire burned 200 acres and destroyed at least 20 structures.

While to date no IOU has made any claims on the Fund, the Administrator is aware that on January 4, 2022, CAL FIRE determined that the Dixie Fire was caused by a 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 Dixie Fire results in a claim, details will be included in a subsequent annual report.

PG&E's Form 10-Q for the quarterly period ending March 31, 2022, notes that it has recorded an aggregate liability of $800 million in connection with the 2019 Kincade fire, $375 million in connection with the 2020 Zogg Fire, and $1.15 billion for claims in connection with the 2021 Dixie fire. Additionally, PG&E Corporation and the Utility state that "these liability amounts correspond to the lower end of the range of reasonably estimable probable losses, but do not include all categories of potential damages and losses."[11] If the ultimate liability for any of these fires and their corresponding 2019, 2020, and 2021 coverage years exceeds $1 billion, PG&E may be eligible to make a claim to the Fund for the excess amount.

[11] PGE-03.31.22-10Q (q4cdn.com) (See pages 70 – 74 for a discussion of the 2019 Kincade,2020 Zogg and 2021 Dixie fires.)

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 6: Financial Report

Recommended Action: No action required – information only

CEA Controller Ben Kirwan will provide the California Catastrophe Response Council with a financial report on the Wildfire Fund as of June 30, 2022 and 2021.

CALIFORNIA EARTHQUAKE AUTHORITY

Wildfire Fund Administrator

FINANCIAL REPORT

June 30, 2022

Financial Report Table of Contents

Financial Statements

California Wildfire Fund
Balance Sheets

UNAUDITED

	June 30, 2022	June 30, 2021
Assets		
Cash and investments:		
Cash and cash equivalents	$ 455,627,542	$ 298,824,394
Investments	9,293,304,591	9,658,866,267
Total cash and investments	9,748,932,133	9,957,690,661
Interest receivable	43,469,173	40,790,984
Prepaid expenses	41,666	41,666
Total assets	$ 9,792,442,972	$ 9,998,523,311
Liabilities and Net Position		
Securities payable	$ 39,416,548	$ 25,998,440
SMIF loan interest payable	4,718,671	9,622,123
Accounts payable and accrued expenses	1,529,115	1,529,120
Related party payable - CEA	477,145	245,248
Total liabilities	46,141,479	37,394,931
Net position:		
Restricted for CWF	9,746,301,493	9,961,128,380
Total net position	9,746,301,493	9,961,128,380
Total liabilities and net position	$ 9,792,442,972	$ 9,998,523,311

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

UNAUDITED

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Additions to fund assets:		
Rate payer monthly NBCs	$ 537,593,385	$ 388,410,209
Total contributions	537,593,385	388,410,209
Investment income & expenses	53,329,321	48,105,002
Change in unrealized gain/(loss)	(671,028,163)	(157,131,668)
Net investment income	(617,698,842)	(109,026,666)
Total additions to fund assets	(80,105,457)	279,383,543
Deductions to fund assets:		
SMIF loan principal payments	420,000,000	420,000,000
SMIF loan interest expense	10,565,985	20,350,356
General and administrative expenses	1,182,019	1,071,072
Personnel expenses	269,582	418,690
Total deductions to fund assets	432,017,586	441,840,118
Increase/(decrease) in net position	(512,123,043)	(162,456,575)
Net position, beginning of year	10,258,424,536	10,123,584,955
Net position, end of period	$ 9,746,301,493	$ 9,961,128,380

California Wildfire Fund
2022 Approved Budget vs 2022 Actual Activity
as of June 30, 2022

	Actual Activity for Six Months Ended June 30, 2022	Approved Budget for Six Months Ended June 30, 2022	Actual Activity for Six Months Ended June 30, 2021	Approved Budget for FYE 2022
Additions to fund assets:				
Rate payer monthly NBCs, net	$ 537,593,385 *	$ 448,335,326	$ 388,410,209	$ 984,738,067 **
Utility annual contributions	-	-	-	300,000,000
Investment income (net of expenses)	53,329,321	51,819,199	48,105,002	104,053,321
Total additions to fund assets	**$ 590,922,706**	**$ 500,154,525**	**$ 436,515,211**	**$ 1,388,791,388**
Deductions to fund assets:				
SMIF - principal payment	$ 420,000,000	$ 420,000,000	$ 420,000,000	$ 840,000,000
SMIF - loan interest	10,565,985	10,565,985	20,350,356	16,344,411
Personnel expenses:				
Personnel expenses - allocated from CEA	269,582	467,950	418,690	935,900
Total personnel expenses	269,582	467,950	418,690	935,900
General and administrative expenses:				
Other contracted and consulting services	689,918	750,102	340,927	1,500,200
Direct legal services-general	16,138	127,500	394,218	255,000
Financial services consulting	137,500	137,500	135,000	278,442
Bank fees	120,011	119,857	116,535	240,583
G&A expenses - allocated from CEA	216,677	188,003	75,850	555,333
Travel	-	2,500	-	5,000
Software and licenses	844	3,000	1,021	6,000
Direct IT services	-	6,000	224	12,000
Advertising administration - RFQ	-	-	5,500	-
Audit fees	-	4,000	1,327	4,000
Printing & stationary	-	300	-	600
Governing board meeting expenses	931	600	470	1,200
Total general and administrative expenses:	1,182,019	1,339,362	1,071,072	2,858,358
Total deductions to fund assets	**$ 432,017,586**	**$ 432,373,297**	**$ 441,840,118**	**$ 860,138,669**
Change in unrealized gain/(loss)	(671,028,163)	- ***	(157,131,668)	-
Increase/(decrease) in net position	**$ (512,123,043)**	**$ 67,781,228**	**$ (162,456,575)**	**$ 528,652,719**

* - NBC funds received by CWF in 2022 are net of DWR administrative and operating expenses of $4.6mm. The $4.6mm is made up of $2.4mm of DWR A&O expenses paid from Nov'21 through May'22 and $2.2mm of funds retained in the DWR Charge Fund to pay future A&O expenses.

** - Budgeted NBC funds to be received by CWF in 2022 are net of $5.1mm for DWR administrative and operating expenses.

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

Contributions & NBCs Received

California Wildfire Fund
Contributions & NBCs Received
As of June 30, 2022

	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.	IOUs 2020 annual contributions	December-20	300,000,000
9.	IOUs 2021 annual contributions	December-21	300,000,000
		Total Contributions	10,400,000,000
1.	2021 NBC funds received	12-months of 2021	875,076,565
2.	November 2021 NBC funds	1/10/2022	76,880,056
3.	December 2021 NBC funds	2/10/2022	72,253,134
4.	January 2022 NBC funds	3/7/2022	64,527,643
5.	February 2022 NBC funds	4/7/2022	78,912,451
6.	March 2022 NBC funds	5/10/2022	72,132,388
7.	April 2022 NBC funds	5/27/2022	85,856,764
8.	May 2022 NBC funds	6/27/2022	87,030,949
		Total NBCs	1,412,669,950
		Total Funds Received	$ 11,812,669,950

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

Note 2:
Amounts highlighted in blue represent funds received subsequent to the April 28, 2022 CCRC meeting.

Investment Analsyis

Economic and Financial Markets Update

Inflation has increased significantly over the last six months and is expected to continue until at least the end of 2022 even though the employment picture is still stable. Inflation initially started because of demand surge in goods. COVID lockdowns created global supply constraints, and the significant fiscal stimulus measures in the total amount of $5.7 trillion or approximately 24% of GDP resulted in unprecedented demand surge. Since February 2022, inflation has become worse with Russia's invasion of Ukraine, which has significantly increased energy, food, and commodity prices and now inflation has shifted from goods to services as labor shortage continues and demand surge has moved from goods to services. To manage inflation in 2022, the Fed has increased its fed funds target rate three times by a total of 1.50% to the current target rate of 1.50%-1.75%. This includes the most recent 0.75% increase on June 15th, which resulted in the largest rate hike since 1994. The Fed has also communicated that it plans to raise rates expeditiously to control inflation. The market expects the Fed to increase rates by an additional 1.25%-1.50% points over the next three meetings before taking a pause in December or to 2.75%-3.00% by the end of 2022.

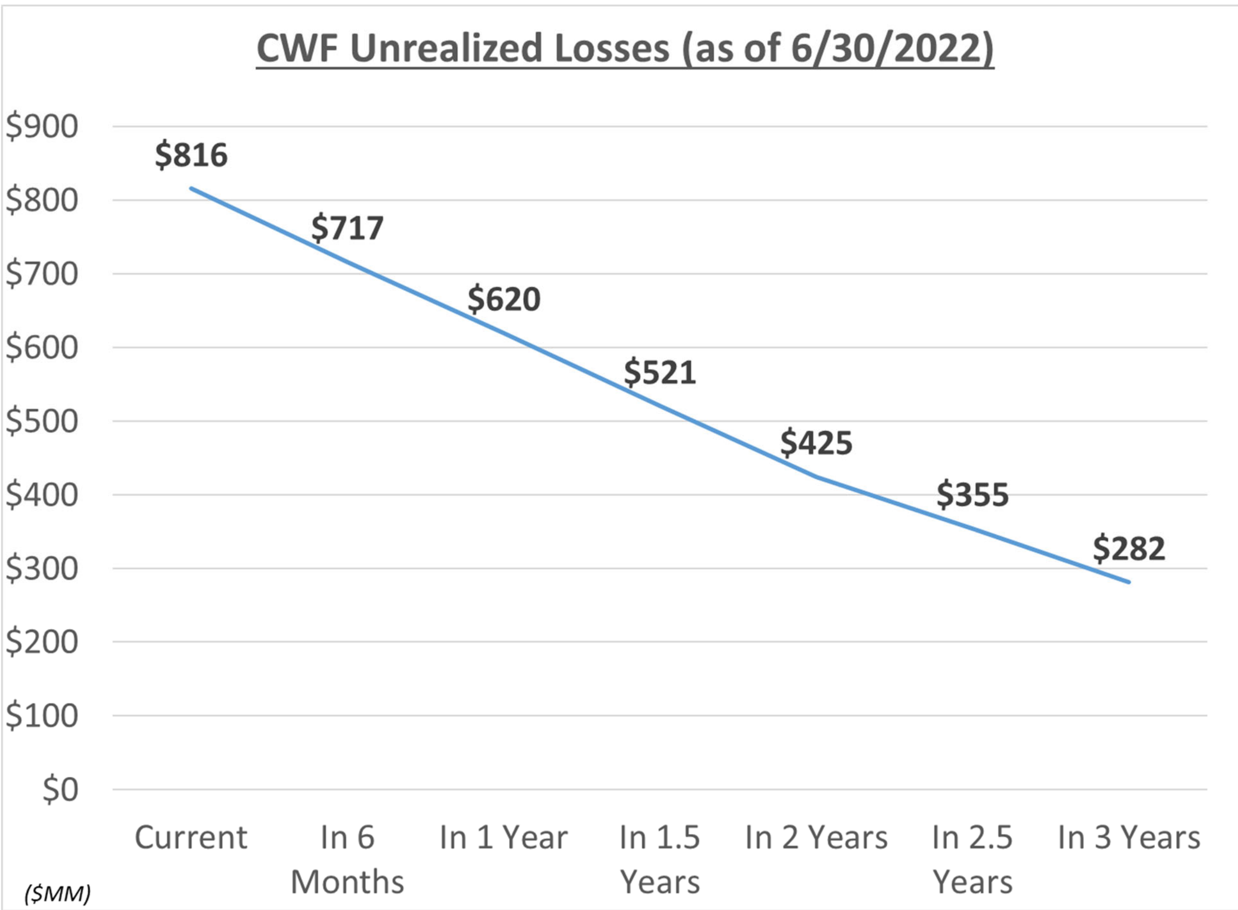
Interest rates have responded to the Fed's rate increases and has significantly increased over the last six months. Over the last year, the 1-year Treasury has increased from 0.07% to 3.13%, 2-year Treasury has increased from 0.20% to 3.15%, the 5-year Treasury has increased from 0.80% to 3.06%, and the 10-year has increased from 1.30% to 2.96%. The yield curve is very flat to slightly inverted reflecting the expectation of continued Federal Reserve rate increases as seen in the spread between the 2-year and 10-year Treasury rate, which is currently -0.19%. This spread was 0.98% one year ago and the average over 5-years is 0.55%. We believe rates have moved up too quickly and expect Treasury rates to come down as the economy slows down.

U.S. Treasury Rates

	1-Year	2-Year	5-Year	7-Year	10-Year	2-10 Yr Spread
Current (7/18)	**3.13**	**3.15**	**3.06**	**3.05**	**2.96**	**(0.19)**
1 Yr Prior	0.07	0.21	0.70	0.97	1.19	0.98
2 Yrs Prior	0.14	0.16	0.28	0.46	0.62	0.46
3 Yrs Prior	2.00	1.87	1.88	2.00	2.13	0.26
4 Yrs Prior	2.43	2.67	2.84	2.92	2.96	0.29
5 Yrs Prior	1.23	1.37	1.83	2.07	2.26	0.89
5-Yr Average	1.28	1.40	1.66	1.83	1.95	0.55
10-Yr Average	0.83	1.01	1.53	1.83	2.07	1.06
Current as % Above / Below 5-Yr Average	144%	125%	85%	67%	51%	-134%
Current as % Above / Below 10-Yr Average	279%	211%	99%	67%	43%	-118%

Economic and Financial Markets Update (continued)

This has also impacted our investment portfolio as interest rates have significantly increased and that has resulted in unrealized losses in our portfolio. As a function of time, unrealized losses in the portfolio will decrease as bonds mature and the proceeds are reinvested in a rising interest rate environment leading to higher investment income.



California Wildfire Fund
CWF Portfolio Overview
6/30/2022

June 30, 2022

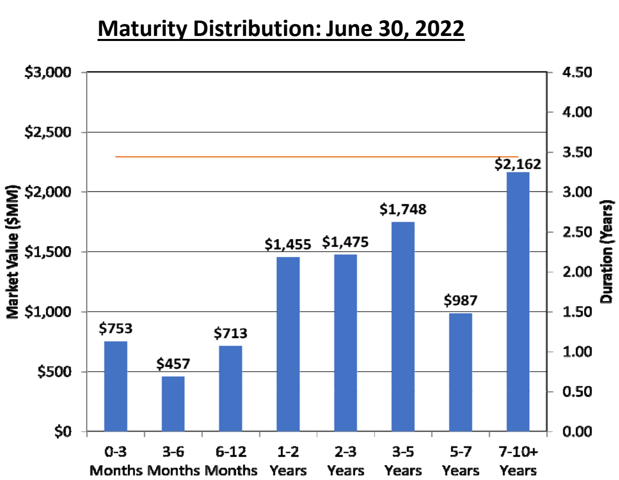
The CWF's total portfolio market value for June 2022 was $9.75 billion with an average duration of 3.44 years and average credit ratings of "AA+".

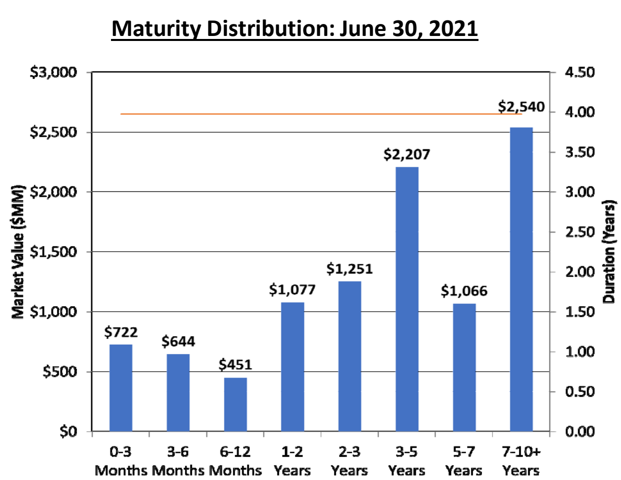
CWF Investment Portfolio as of June 30, 2022				
Sector	**Value ($MM)**	**% of Portfolio**	**Avg Credit Rating**	**Duration (Yrs)**
U.S. Treasury	$ 5,546	56.9%	AAA	2.5
U.S. Agency & Supranational	$ 1,044	10.7%	AA+	3.65
Corporates	$ 3,094	31.7%	A+	5.12
U.S. TSY MMF	$ 65	0.7%	AAA	0.46
Total	**$ 9,749**	**100.0%**	**AA+**	**3.44**

June 30, 2021

The CWF's total portfolio market value for June 2021 was $9.96 billion with an average duration of 3.97 years and average credit ratings of "AA+".

CWF Investment Portfolio as of June 30, 2021				
Sector	**Value ($MM)**	**% of Portfolio**	**Avg Credit Rating**	**Duration (Yrs)**
U.S. Treasury	$ 5,688	57.1%	AAA	2.64
U.S. Agency & Supranational	$ 1,103	11.1%	AA+	4.25
Corporates	$ 3,145	31.6%	AA+	6.29
U.S. TSY MMF	$ 22	0.2%	AAA	0.46
Total	**$ 9,958**	**100.0%**	**AA+**	**3.97**



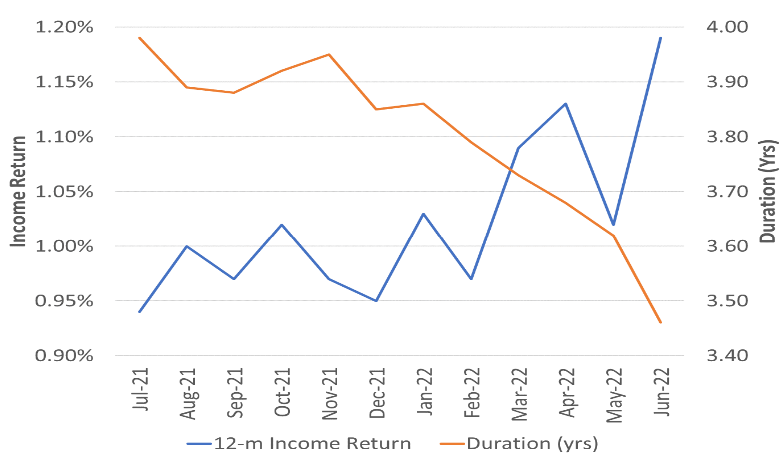


California Wildfire Fund
CWF Portfolio 12-Month History
6/30/2022

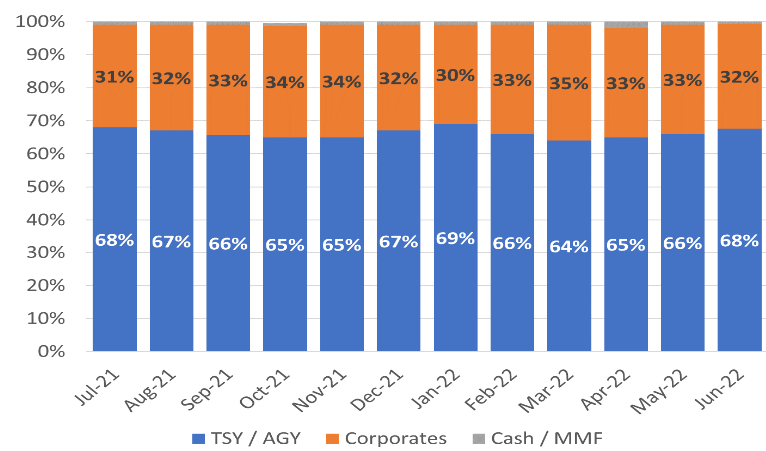
CWF Investment Portfolio Overview												
	Jul-21	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Jan-22**	**Feb-22**	**Mar-22**	**Apr-22**	**May-22**	**Jun-22**
Total Portfolio												
Market Value - Cash & Investments ($MM)	$9,967	$9,979	$9,937	$9,883	$9,968	$10,320	$10,126	$10,099	$9,829	$9,623	$9,909	$9,749
Investment income ($MM) *	8.18	8.63	8.38	8.73	8.34	8.35	9.14	8.49	9.36	9.51	8.61	10.09
Change in unrealized gain/(loss) ($MM)	61.26	(25.93)	(63.24)	(51.46)	(2.06)	(19.54)	(146.77)	(70.39)	(212.35)	(198.73)	56.66	(99.44)
Investment management fees and bank fees ($MM)	0.33	0.33	0.33	0.33	0.33	0.33	0.34	0.34	0.33	0.33	0.33	0.33
fees as a % of average AUM	0.0033%	0.0033%	0.0033%	0.0034%	0.0033%	0.0033%	0.0033%	0.0033%	0.0033%	0.0034%	0.0034%	0.0034%
Income return gross of fees	0.98%	1.04%	1.01%	1.06%	1.01%	0.99%	1.07%	1.01%	1.13%	1.17%	1.06%	1.23%
Income return net of fees	0.94%	1.00%	0.97%	1.02%	0.97%	0.95%	1.03%	0.97%	1.09%	1.13%	1.02%	1.19%
Yield to Maturity	0.81%	0.75%	0.88%	1.03%	1.05%	1.11%	1.49%	1.69%	2.28%	2.80%	2.73%	3.10%
Duration (Yrs)	3.98	3.89	3.88	3.92	3.95	3.85	3.86	3.79	3.73	3.68	3.62	3.44
Portfolio Composition (%)												
TSY / AGY	68%	67%	66%	65%	65%	67%	69%	66%	64%	65%	66%	68%
Corporates	31%	32%	33%	34%	34%	32%	30%	33%	35%	33%	33%	32%
Cash / MMF	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%	1%	1%

***** - Investment income does not include bank and investment manager fees. The amount includes the following: (1) interest income and interest purchased (2) Accretion - discount (3) Amortization - premium (4) Realized gain/(loss)

Income Return and Duration



Sector Composition



Cost Allocation

California Wildfire Fund
Cost Allocation Methodology and Calculation for the Six Months Ended June 30, 2022 and 2021
6/30/2022

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'22 and June'21.

	6 months ended June'22		6 months ended June'21	
Department	**Hours**	**Salaries & Benefits**	**Hours**	**Salaries & Benefits**
1. Comms	128.3	12,728	119.8	10,569
2. Exec	166.5	39,691	262.8	62,338
3. Finance	927.9	88,281	1,369.6	122,308
4. IT	16.5	1,072	58.0	4,568
5. Internal Ops	6.5	1,154	38.5	5,464
6. Insurance Ops	206.2	40,415	333.3	64,080
7. Legal	573.3	63,937	1,009.7	132,304
Total Direct Hours/Costs	2,025.0	247,277	3,191.7	401,631

	June'22		June'21
CWF Salary & Benefit costs =	247,277	A	401,631
CEA Salary & Benefit costs =	13,140,749	B	12,851,596
	13,388,026	C	13,253,227
Allocation % =	1.85%	= A/C	3.03%

All other indirect costs were allocated to the CWF based on the 1.85% and 3.03% allocations noted above. The following indirect expenses were charged to the CWF:

Account Name	Acct #	Amount	Amount
Rent-Office and Parking	86400-16	11,403	20,782
Rent-Office Equip/Furniture	86450-16	551	1,318
Building Maintenance and Repairs	86475-16	227	360
Furniture/Equipment <$5000	86500-16	72	-
EDP Hardware <5000	86505-16	861	1,367
EDP Software <5000	86506-16	29,321	40,300
Office Supplies	86510-16	61	146
Postage	86530-16	19	58
HR and IT staff allocation	85101-16	22,305	17,059
Telecommunications	86550-16	2,021	5,785
Insurance Expense	86600-16	7,442	-
Other Administration Services	88175-16	516	676
Direct Investment Technology Support	89805-16	164,183	5,058
	Total Indirect Costs	238,982	92,909
	Total Costs	486,259	494,540

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 7: Claims Administration Update

Recommended Action: No action required - Information only.

Background

The California Catastrophe Response Council (Council) adopted the *Wildfire Fund Claims Administration Procedures* (Procedures) on July 22, 2021 and authorized the Administrator to make periodic non-discretionary, conforming changes to the Procedures as necessary to ensure that the Procedures conform to any statutory amendments that may be enacted in the future.

These actions are in keeping with Public Utilities Code section 3284(g), which requires that the Administrator prepare and seek Council approval for written procedures for the review, approval, and timely funding of eligible claims. The Council's adoption of the Procedures is also in keeping with the Articles of Governance, in which the Administrator is authorized to operate the Fund (Fund) within the framework established by law and in accordance with the Procedures approved by the Council.

Implementation of the Claims Administration Procedures

The Administrator continues to work with Sedgwick to complete the scope of work for Phase 1 of its contract to provide claims review services for the Wildfire Fund. The claims review services provider's scope of work is divided into two phases:

- Phase 1 – Claims Review Readiness, focuses on building out the infrastructure and completing the preparations necessary for the successful and timely execution of the Administrator's claims review process. This includes development of an Operations Manual; the data management infrastructure for claims intake, review, and reporting; a statistical approach to the claims review process; quality control procedures; and a claims review personnel plan and training program. The work plan is intentionally iterative so that the full operational approach will be mapped out, then tested before finalization. Work during this phase will take a maximum of one year; however, the iterative approach will give the Administrator the necessary flexibility to undertake the review of any claims that might be submitted during 2022.

- Phase 2 - Delivery-on-Demand of Claims Review Services, will extend up to 3 years, with an option to extend the contract up to 5 years from the date of execution. Work will include development and execution of an implementation plan for the on-demand claims review services, including claims intake and review; reporting in specified formats for the Threshold Amount claims report and Eligible Claims report, as applicable; and management of Threshold Amount claims and Eligible Claims review processes. A maintenance services plan will also be developed to ensure that, if claims are not submitted for an extended period of time over the life of the contract, the claims review personnel and infrastructure will remain trained and ready to provide on-demand claims review services whenever claims are submitted.

In this second quarter of Phase 1 work, the claims review services provider has been drafting the Operations Manual, building out the data management structure and claims review forms for the Threshold Claims and Eligible Claims review processes, developing the approach for statistical analyses of claims data, working with the Administrator and Participating Utilities on data management and data security, and developing the claims review quality control plan.

Wildfire Monitoring and Notification

The Administrator is actively monitoring and reporting to the Council on active wildfires during the 2022 season as well as the status of potentially Covered Wildfires in the 2019, 2020 and 2021 coverage years.

There is little change in the status of potentially Covered Wildfires since the Administrator's report at the April 28, 2022 Council meeting. Reported losses, in aggregate, for the 2019 and 2020 coverage years for each of the three Participating Utilities have not yet exceeded the current $1 billion threshold necessary for any of the Participating Utilities to make a claim on the Fund. The Administrator continues to monitor the reported losses for two major fires—the October 2019 Kincade Fire and the September 2020 Zogg Fire.

For the 2021 coverage year, the Administrator is monitoring the reported losses for the July 2021 Dixie Fire, in particular. PG&E's 10-Q report to the Securities and Exchange

Commission (SEC) for the quarterly period ending March 31, 2022 estimates potential aggregate liability for the 2021 Dixie Fire of $1.15 billion with a potential recovery of $150 million from the Fund. The Administrator will continue to closely monitor PG&E's 2021 losses and plan for the potential submission of claims.

Next Steps

Staff from CEA and Sedgwick will report on the status of work by the claims review services provider during this Council meeting.

Wildfire Fund Administrator

California Catastrophe Response Council Memorandum

July 28, 2022

Agenda Item 8: Enterprise Risk Management Program

Recommended Action: No action required – information only

Risk Reporting

The 2nd quarter 2022 scorecard is presented below and provides the status of each priority risk. The column named Residual Risk Score indicates the current risk status after controls have been applied.

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
Wildfire Modeling	Distorted or incorrect view of Wildfire Fund durability due to invalid, inaccurate, or outdated methods or assumptions in external or internal wildfire models	High	Strong	Medium
Workforce	Adverse impacts to the administration of the Wildfire Fund that occur due to a workforce issue or constraint at CEA	Medium	Strong	Low
Mitigation	Durability of the Wildfire Fund is dependent on successful mitigation activities which are outside the direct control of CEA as the Wildfire Fund Administrator but that must be monitored	Medium	Medium	Medium

CALIFORNIA EARTHQUAKE AUTHORITY
Wildfire Fund Administrator

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
Risk Transfer	Reasonably priced risk transfer products for wildfire cover are not available when needed	Medium	Strong	Low
Reputation	Public's 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	Medium	Strong	Low
Legislative/Regulatory	Legislative, regulatory, or political actions that materially change the Wildfire Fund Administrator and/or Council's ability to fulfill its current obligations or mission	Medium	Strong	Low
Legal	Harm to the Wildfire Fund resulting from (a) disputes with third parties, (b) regulatory/legislative enforcement actions, and/or (c) compliance lapses	Medium	Strong	Low
Investments	Losses to the Wildfire Fund due to failure to adhere to established investment guidelines and/or performance objectives not achieved	Medium	Strong	Low
Information Security	Losses due to unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of information and/or accessibility of IT systems	Medium	Strong	Low
Financial Reporting	Inaccurate financial accounting or reporting or inadequate controls that result in a material error in published financial statements	Medium	Strong	Low

Risk Name	Description	Inherent Risk Score	Control Effectiveness	Residual Risk Score
Claims Management	Issues, conflicts, or delays arising from or associated with IOU claims management	High	Medium	Medium
Business Continuity	Delayed continuity of the California Wildfire Fund essential business functions	Medium	Medium	Medium

Additional Comments on Priority Risks

COVID-19 Response and Impact on Business Operations (Business Continuity and Workforce)

With the surge of cases in California and specifically in Sacramento, we continue to actively monitor our risks with COVID-19 top of mind. Throughout the pandemic, the Administrator has been able to operate successfully with no adverse impact on business operations or the Fund's financial position. We have been essentially immune to supply chain issues affecting other businesses.

Most staff continue to work remotely. Planning is underway for an alternate workspace which envisions a hybrid work force and smaller physical footprint.

Mitigation

As noted above, wildfire mitigation activities are outside the control of the Administrator. However, an awareness of mitigation activities is beneficial in understanding risks to projected Fund durability.

Investor-owned electrical corporations are required to submit Wildfire Mitigation Plans (WMP) assessing their level of wildfire risk and providing plans for wildfire risk reduction. In February 2020 each of the IOU participants in the Fund submitted their three-year 2020 – 2022 WMPs and have submitted annual updates in 2021 and 2022.

The Office of Energy Infrastructure Safety released its evaluation and approval of San Diego Gas and Electric's (SDG&E) 2022 Wildfire Mitigation Update on July 5, 2022.[1]

The evaluation notes that SDG&E has made significant progress over the past year including increased transparency into its decision-making processes and moving ahead with a new model to scope and forecast Public Safety Power Shutoff events which includes consideration of vulnerable communities.

The evaluation also identifies 30 areas for continued improvement and required progress including more rigorous validation of its Wildfire Risk Reduction Model and participating in an Energy Safety-led scoping meeting to discuss how utilities can best learn from each other and future topics to explore regarding vegetation management best practices.

As of July 5, 2022, 2022 WMP updates for Pacific Gas & Electric (PG&E) and Southern California Edison (SCE) remain under review. A draft evaluation for SCE was published June 2, 2022. Publication of PG&E's draft evaluation is expected by September 30, 2022.

As noted earlier, the Administrator will be asking each IOU to make periodic presentations to the Council on mitigation activities.

[1] A copy of the complete evaluation is available at NEWS RELEASE: Energy Safety Approves SDG&E's 2022 Wildfire Mitigation Plan Update | Office of Energy Infrastructure Safety (ca.gov)