



As approved by the CA Catastrophe Response Council at its meeting on Thursday, October 22, 2020

**CALIFORNIA CATASTROPHE RESPONSE COUNCIL
(WILDFIRE FUND)**

MEETING MINUTES

Thursday, July 23, 2020

2:00 p.m.

**[Teleconference Meeting – Accessible to Public via
+1 (699) 900-6833; Access Code 810 4607 8900#]**

Members of the Council (all participating via teleconference):

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

Staff Members of the California Earthquake Authority (CEA) as Administrator of
the Wildfire Fund (all participating via teleconference):

Glenn Pomeroy, Chief Executive Officer
Tom Hanzel, Chief Financial Officer
Laurie Johnson, Chief Catastrophe Response & Resiliency Officer
Tom Welsh, General Counsel
Suman Tatapudy, Senior Counsel
Shannon McEuen, Governance Liaison
Niki Wehling, Senior Creative Services Specialist

1. Quorum

Call to Order and Member Roll Call

Chair Mark Ghilarducci called the teleconference meeting to order at 2:07 p.m. and welcomed everyone.

Ms. McEuen called the roll and stated that a quorum was present (all Council members present).



2. Minutes

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

MOTION: Ms. Rossman motioned to adopt the April 23, 2020 meeting minutes as written. Ms. O'Connor seconded. The Motion carried unanimously.

3. Executive Report

Report by CEA CEO Glenn Pomeroy on the status of CEA's administration of the Wildfire Fund.

Glenn Pomeroy, Chief Executive Officer, CEA, began by explaining the structure of the CEA and its dual roles of (a) administering a residential earthquake insurance fund, under the direction of CEA's Governing Board, and (b) acting as Administrator of the California Wildfire Fund, under the oversight of this Council.

Mr. Pomeroy introduced two newer members of CEA's executive team: Charlotte Fadipe, Chief Communications Officer, and Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer. He noted that Dr. Johnson will lead all claims activities for the Wildfire Fund.

Mr. Pomeroy reported that CAL FIRE has now determined that PG&E equipment was the cause of the Fall 2019 "Kincade Fire." This means that the fire could ultimately be considered a "covered wildfire" and PG&E could potentially make a claim on the Wildfire Fund if its paid claims exceed \$1 billion and are otherwise "eligible claims" under AB 1054.

Mr. Pomeroy concluded by stating that the Wildfire Fund Administrator is ready for the challenges we face. The CEA is grateful for the confidence placed upon it by the Council, and is respectful of the Council's important role as overseer of the Wildfire Fund Administrator.

Questions and Comments

Mr. Cash asked when the Council will know about the Kincade Fire and how it might affect the fund. Mr. Welsh answered that since last week's cause determination, PG&E's in-house claims people and any vendors they use will start the process of determining what claims they need to pay. The question of whether the Kincade Fire results in a claim on the Wildfire Fund is entirely dependent on the magnitude of the compensable losses. CEA expects to receive estimates of incurred liabilities from PG&E so that CEA can ascertain the likelihood that losses will exceed the \$1 billion retention. That will dictate the level of involvement CEA has in the administration of claims.

Mr. Martinez asked about the component in which the California Public Utilities Commission (CPUC) also makes a determination, based on existing statute,



before the Fund, regarding potential costs and reimbursement of expenses. Mr. Welsh responded that the CPUC will be involved, but the timing and sequencing are such that if there is a “covered wildfire” (one determined by CAL FIRE to have been caused by a utility company) that exceeds \$1 billion, PG&E will have the ability to make a claim against the Wildfire Fund. Such a claim is the trigger for when the utility must start a rate case with the CPUC. The outcome of the rate case will determine whether the utility must pay back some or all of the amounts drawn from the Wildfire Fund. The rate case examines the utility’s “prudence” in its operations: if the utility was “imprudent” and CPUC determines that that it would not be “just and reasonable” for the costs of the wildfire to be borne by ratepayers, then the utility must refund to the Wildfire Fund some or all of the funds drawn, subject to a formulaic “cap” set forth in AB 1054.

Mr. Rosenstiel noted that PG&E was in Chapter 11 bankruptcy when the fire occurred, so there is a 40% limitation on what can be paid. Mr. Welsh explained that AB 1054 provides that the Wildfire Fund will only pay 40% of the allowed amount of an eligible claim that arose during PG&E’s bankruptcy.

4. Legislative Update

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

Mr. Pomeroy stated that at this time, these two pieces of legislation do not impact the Council, and the meeting could move on to the next item. Chair Ghilarducci agreed.

5. Financial Report

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

Mr. Hanzel began with a review of year-to-date financials. He explained the balance sheet. We did not have any inflows between December 31, 2019 and June 30, 2020 so the total net position is up by about \$115 million. That is driven by our portfolio. We have had some improvements in our YTD unrealized gain position.



The income statement shows the unrealized gain position at \$130.9 million. Investment income net of expenses was around \$35 million. Unrealized gain happens when interest rates decline over time as compared with the current interest rates on our book, causing the portfolio value to increase as shown on the income statement.

On the expense side, an expense of \$26 million was related to reinsurance – a risk transfer we purchased before last season that is spread over the life of the contract, which ended on May 31, 2020.

An expense of \$23 million was related to the Surplus Money Investment Fund (SMIF) loan interest.

Following PG&E's exit from bankruptcy, we received a wire from them for their initial capital contribution of about \$4.8 billion and their first annual contribution to the Fund – their portion of the \$300 million per year that the Investor-Owned Utilities (IOUs) will be sending to the Fund – of about \$193 million.

Ms. Rossman asked if the annual contribution from the three utilities was for a partial year – for last year. Mr. Hanzel answered that it was made in December; the premium amount of the annual contribution is due before the end of each calendar year. An annual full-year contribution is \$300 million.

Regarding the expenses to manage the Wildfire Fund, in the first six months of this year it cost about \$1.3 million – a 50/50 split between personnel and all other administrative expenses. Our run rate is probably around \$2.5 million per year.

The investment analysis showed that as of June 30, prior to the investment policy change, the reinvestment rate was .20%. We have worked to revise the investment policy, combining two policies into one, still within the confines of California Government Code section 16430. It became effective near the end of June. Mr. Hanzel explained the changes.

He gave an update on the risk transfer process. In mid-June, about 50 reinsurers engaged in discussions on reinsurer marketing that were hosted by the CEA team and Guy Carpenter's broker team. The next week, the broker team provided a broader and more detailed placement memorandum and modeling information to the reinsurers so they could go deeper into their analysis. The CEA's goal was to receive some quotes from the market by the end of June. Our focus was to help the durability of the Fund.

By consensus, we decided not to go forward with the risk transfer program. In the future, if there is a program that will optimize the Fund and its durability with risk transfer and reinsurers, we will go with that.

Regarding wildfire revenue bonds, part of AB 1054 focused on the need for us to have the ability to raise funds if there is a fire that requires additional capital. It authorized the Department of Water Resources (DWR) to receive from the IOUs the collections of Wildfire Nonbypassable Charges (NBCs). It also authorized



DWR to issue revenue bonds after the legacy Power Supply Revenue Bonds have been paid or defeased at the end of September. There are about 11.5 million customers within the service areas of the IOUs.

CPUC Decision 19-10-056 sets the revenue target at just over \$900 million annually, to be collected as soon as October 1, 2020 and running through January 1, 2036.

Those proceeds are all about securing the Wildfire Revenue Bonds as they are issued. Once the funds are in the Wildfire Fund, they cannot flow back and repay the bonds.

Ms. Rossman asked about the scale of the administrative and operating expenses. Mr. Hanzel explained that CEA has been working with DWR to understand the infrastructure and funding they require to operate and receive the funds from the IOUs. Any flow going out of receipt of the fund impacts durability; we are being careful to account for every dollar. We still have work to do to get to a number with which we all feel comfortable.

Ms. Rossman said that she would expect that expense to be minimal. She would like to know more about it before the Council approves the budget.

Ms. O'Connor agreed – the Treasurer would like some details about how this money will be spent. With the current volatile economy, the Treasurer is strongly in favor of transparency on how money is spent. Experts in that office say that usually what is done in situations like this is to request a line item pro forma workload study that details how DWR would utilize \$25 million.

Mr. Gordon strongly agreed with the need for a detailed accounting. It would ensure that we are maximizing the Fund and its capacity and not subsidizing work that does not need to be done.

Ms. Rossman noted that in the private sector, transferring cash and assets is a relatively automated function. She hoped for a similar kind of efficiency from the government.

Mr. Rosenstiel concurred: we have 20 years of experience with DWR in terms of the work they have done on the power bonds. One of the roles of this Council is to look at the budget of everyone who is helping to service our need, including the CEA, the State Treasurer, and DWR.

Ms. Bando commented that the amount should seemingly be much less than what they are stating. The actual collection of these monies is from the IOUs, and it is part of the waterfall – how much accounting and staff time would it take to manage that until it actually gets to the Wildfire Fund?

Mr. Cash stated that as DWR is within his own agency, he has been working with them on these costs, and they have come down significantly already. He supported the Council's efforts as stated today to take a closer look, ensuring that what they are going to be doing is fair and supported by documentation.



Mr. Hanzel stated that he would work with the CEA team to develop an appropriate process to address the matter of DWR's administration expenses.

Mr. Hanzel resumed the financial presentation. The purpose of the Wildfire Revenue Bonds is to repay the State the \$2 billion the Wildfire Fund received from the SMIF, as well as \$9 million from the General Fund that went to the DWR. There is potential for additional liquidity for the Wildfire Fund if we deem it necessary. Finally, the bonds will pay the cost of issuance for the financing and ensure that we have minimum liquidity in the account based on the documents we are developing.

The high level of the bonds is set at a minimum of \$2 billion for a par amount. We are working on maturities. The bonds will be federally taxable but tax exempt in the State of California.

AB 1054 permits issuance of up to \$10.5 billion of par amount. We are looking at a recommendation of \$2 billion at a minimum, but we like the option to potentially issue more. If we do, we prefer to minimize any kind of negative carry. We are working with the financial advisors and the Treasurer's Office as we analyze the options.

Rates are very low. During this unprecedented time of COVID-19, the markets for issuing municipal bond debt are eager for issuances and are willing to pay a very limited amount above what you would pay for a Treasury security.

Ms. Rossman asked about the interest rate – is there any price talk or ranges? Mr. Hanzel replied that it depends on the amount of issuance and the term of issuance. Some shorter-term repayments – three or three and a half years – could be at 80 basis points. Issuing a larger amount so that we need eight to ten years, could be up to 140 or 150 basis points. That is when you may start to see negative carry. At the full 15 years you are getting closer to potentially 200 basis points.

Mr. Hanzel listed the state agencies and outside parties engaged in the bond sale. Documents are close to being completed.

For the timeline, at the end of September the current surcharge will be turned off and as early as October 1 the Wildfire NBCs will be turned on. Around then we will be posting a preliminary offering statement, and a week or two later we will price the transaction. We will close it a week after that.

With the CEA acting as administrator, the budget process will line up with the CEA process. We are prudent and thoughtful about how we spend both CEA policyholder money and California Wildfire Fund money.

Mr. Hanzel showed the buckets of CEA direct hours worked that are allocated, as well as direct and indirect costs allocated to the Wildfire Fund.



In the coming months, the Wildfire Fund budget will be going through many iterations. The CEA budget will be presented to the CEA Governing Board in December, and in January the CWF budget will be presented to the CCRC.

The finance team will give monthly budgeting actuals and any kind of variances will be addressed. At this time next year, we will be looking at revisions and changes, and presenting them to the Council for review and feedback.

6. Update on Status of PG&E

Update by CEA CFO Tom Hanzel on the Wildfire Fund's receipt of approximately \$5 billion in capitalization from PG&E.

Mr. Hanzel stated that on July 1, 2020, CEA received roughly \$5 billion from PG&E as a final requirement that they had to make to be included and protected by the Wildfire Fund. They are now officially part of the Fund.

When CEA received those monies they worked on extending contracts with existing investment managers. They approved Blackrock as another potential investment manager when they went through a procurement process last June.

Of the \$5.008 billion, \$4 billion was allocated among the existing management team and \$1 billion was allocated to Blackrock. The remainder was available for expenses.

Mr. Hanzel gave the timeline of the process of investing PG&E's contribution as it commenced on July 1.

Mr. Hanzel showed charts of the portfolio on July 13 compared with June 30. We have basically doubled in size.

Questions and Comments

Mr. Martinez noted that he supported the previous remarks of Council members about checking into DWR's expenses. He asked about the investment policy strategy: when does CEA envision coming back to the Council? There have been a series of revisions made to the strategy. Mr. Hanzel answered that for the Wildfire Fund they do not anticipate any revisions. They are fairly close to the full Government Code section 16430 authorization and feel confident with the way it is structured. However, they will make it a living document to accommodate opportunities to help with the durability of the Fund; at such time they will engage the Council.

Mr. Martinez asked about the Wildfire Fund investment managers who oversee the portfolio. Do you strive for diversity in the ownership of the firms? Mr. Hanzel answered that they did as part of their outreach when they looked for additional managers last August; two firms fall into that category. As they receive additional inflows of funds, they have had discussions about another RFP at some point. At that time, they would continue to try to target asset managers who would fit into the diversity categories. It is on their radar.



7. Articles of Governance

Discussion and consideration of adoption of Articles of Governance to set out the roles and responsibilities of the Council and the Administrator.

(At this time Mr. Pomeroy took a moment to welcome new Council member Michael Wara.)

Mr. Pomeroy stated that the Articles of Governance were an outcome of the April meeting; they had decided to set these roles and responsibilities of the Council and the Administrator down on paper.

The Council sets the direction of the Wildfire Fund and establishes the policy, while the Administrator oversees the work of implementing it.

These Articles of Governance have been drafted and circulated among the Council. CEA has received individual comments back which have been incorporated into the final form. Mr. Pomeroy requested the Council to consider approving the document.

There was no public comment on the document.

MOTION: Mr. Rosenstiel motioned to approve the Articles of Governance. Ms. Rossman seconded. Motion carried unanimously.

(Mr. Cash asked if a roll call vote should be done rather than a voice vote. Mr. Welsh replied that the Governor's order suspending that piece of Bagley-Keene is not specific; it has essentially evolved as best practice to take a roll call vote, but is not an admonition in the order. If there had been No votes, we would identify who they were and make a clear record of everyone's vote.)

8. 2019-2020 Plan of Operations

Review and consideration of approval and adoption of the Plan of Operations and, if approved, authorization of the Administrator to deliver the Plan of Operations to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

Suman Tatapudy, CEA Senior Counsel, stated that California Public Utilities Code section 3283 requires the Council to direct the Administrator to prepare and present for approval an annual Plan of Operations. Ms. Tatapudy listed the required contents of the Plan.

Staff has prepared the document by referencing both the legislative history and other general information about AB 1054, and feels that the draft captures the information the Legislature would want to receive from the Administrator and the Council.

When the Plan of Operations is approved by the Council, the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on



Utilities and Energy will receive the document. It will also be posted to the Wildfire Fund website.

An initial draft of the document was circulated to Council members last week. Staff has accepted their comments and edits in a red-line draft and circulated it again to the Council.

For the benefit of the public, Ms. Tatapudy summarized that the first annual Plan of Operations covers the one-year period of July 12, 2019 (effective date of AB 1054, the creation of the Fund) to July 11, 2020. It includes all required statutory categories of information except a plan for winding up the Fund, as current projections do not show that the Fund will be exhausted within the next three years.

If the document is approved, CEA will submit the first annual Plan of Operations to the Legislature and take other steps to make it publicly available.

Comments and Discussion

Ms. Bando stated that she appreciated getting the copy last week for comments. Subsequently the Council was able to look at additional changes in the last 24 hours. She was satisfied that the document was sufficient.

MOTION: Ms. Bando motioned to approve the 2019-2020 Plan of Operations and to authorize the Administrator to take it to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy. Mr. Gordon seconded.

There was no public comment.

VOTE: The Motion carried unanimously.

9. Claims Administration

Update by Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer, CEA, on the status of CEA's preparation of post-event claims policies and procedures that will govern CEA's post-wildfire claims functions.

Dr. Johnson stated that staff would be seeking review and action on the Claims Administration Policy and Procedures at a future Council meeting.

She explained her responsibilities as Chief Catastrophe Response and Resiliency Officer:

- Development of the claims policy and procedures.
- Build out of the operational structure for Wildfire Fund claims administration.
- Claims settlement process.



- Oversight of post-earthquake claim handling by CEA participating insurers (PIs).
- Oversight of CEA and PI readiness.
- Oversight of CEA's organizational response to catastrophic events.

Dr. Johnson reviewed the claims payment and reimbursement sequence.

Guidance from AB 1054 and the Public Utilities Code state that the procedure process is to cover the review, approval, and timely funding of eligible claims. The role of the Fund is to make a determination about reasonable business judgment exercised by a utility in its decisions to pay claims. In addition, we are told to reimburse eligible claims within 45 days within the administrator's settlement approval. We are given some latitude to include processes that facilitate and expedite the review and approval of settled eligible claims. To the extent approved by the administrator, the settlement is not further reviewed by the Public Utilities Commission.

Guidance from AB 1054 and the Public Utilities Code defines "eligible claims" as those that exceed the \$1 billion threshold of the insurance coverage and resulted from a "covered wildfire." Subrogation claims are also defined, and all claims must meet the "reasonable business judgement standard." For an electric corporation subject to insolvency, the fund shall not pay more than 40% of the allowed amount of the claim arising between July 12, 2019 and the date the electric corporation exited bankruptcy.

Dr. Johnson explained a timeline of the development of the claims policies and procedures. Finalization is expected at the January CCRC meeting.

Questions and Comments

Mr. Rosenstiel asked if there is any urgency to having claims administration in place – would waiting until January create any problem in terms of the Administrator carrying out claims responsibilities? Dr. Johnson responded that the process with the Kincade Fire fault declaration with PG&E has just begun. We expect that timeline to go longer than what the claims procedure finalization would take. However, the statute puts us in a tighter box if we were to receive a request for reimbursement prior to the January timeframe. Dr. Johnson emphasized that this is the most public aspect of the Council, so we want to ensure that we offer opportunities for engagement in this process to stakeholders. Mr. Rosenstiel agreed that we need to take the time to get this claims process right – there are many people who have a lot of interest in how we do this and we need to develop a process that people trust.

10. General Discussion

Discussion and general direction to the Administrator regarding the following:



- a) **Development of a process for annual evaluations of the performance of the Wildfire Fund Administrator**
- b) **Protocols for Council Members who receive speaking engagement requests regarding the work of the Council in general or the Wildfire Fund in particular**
- c) **The Council's interest in receiving periodic presentations at future Council meetings from subject matter experts on various topics relevant to the Wildfire Fund**

Regarding point a), Mr. Pomeroy stated that the process for evaluating the Administrator could be basically the same as that used for the CEA CEO. A subcommittee could be appointed to work with the Administrator to rough out a proposed evaluation, to be brought to the next Council meeting.

He listed the categories upon which to evaluate the Administrator.

He requested feedback from the Council on the suggested process.

Ms. Rossmann commented that another way to perform the evaluation is to have the Chair or Vice-Chair call each member individually, then relate what everyone has communicated to that person. She added that in the corporate sector, they evaluate themselves as a governing body.

Ms. O'Connor asked if the Chair having one-on-one meetings with Council members would be a violation of Bagley-Keene. Mr. Welsh stated that there are provisions in Bagley-Keene that allow the formation of subcommittees to do a portion of a state body's work. The Council could formulate what makes the most sense to them, and staff counsel could provide guidance on how that might be accomplished in a way that is compliant. Individual discussions do not necessarily comprise a serial meeting. Ms. O'Connor suggested that the Council could come up with a list of questions for the Chair or Vice-Chair to ask to gain the Council members' feedback, which would then be compiled.

Mr. Rosenstiel commented that he had served on the CalSTRS Board, and those members were able to have private conversations regarding work evaluation with outside entities with whom they had contracts. He added that Council members could volunteer to participate in a subcommittee – it would not have to be comprised of the Chair and Vice-Chair.

Mr. Martinez liked that idea – it would provide opportunity for rotation, and this important responsibility would not always fall on one or two individuals each year. He considered it important for everyone to provide input. He requested an additional layer of metrics to evaluate, objectively and quantitatively, the effectiveness of the claims process.

Mr. Pomeroy responded to the feedback: in October staff will come back with a framework that would include the Chair appointing a subcommittee of two to



work with the Administrator between October and January to develop an evaluation process that may include metrics.

Regarding point **b)**, Mr. Welsh explained that shortly after AB 1054 passed and some members of the Council were identified, they received requests to speak or take meetings. He asked the Council how they want to deal with such requests. There is no obligation to create protocols or understandings. However, there are some legal considerations that would be prudent to think about:

- The Council acts as a body in public meetings in which a majority agree on the position or action.
- The three investor-owned utilities participating in the Fund are all publicly traded companies whose representatives are listening to the meetings so that they can prepare 10Ks and 10Qs, to the extent that any information about their participation in the Fund is relevant to their stockholders and investors.

Accordingly, Council members taking a meeting or speaking engagement should mention that they are present in an individual capacity.

In addition, Council members should avoid talking about individual IOUs. Those administering the Fund are careful to provide uniform feedback and information to the IOUs.

Mr. Martinez commented that he and the Insurance Commissioner had received requests from Wall Street market analysts, prospective and current contractors, the IOUs, panel organizers, and media and the press. He agreed on the need for the Council members to be on the same page in how to tackle these requests; there may be different approaches to be used with the various stakeholder communities. He would be interested in a Council policy or guidelines that we could look to.

Mr. Gordon supported those comments. Having general guidelines would be helpful for when Council members receive requests. Mr. Welsh stated that staff would be happy to prepare general guidelines and admonitions for the Council to consider at the next meeting.

Regarding point **c)**, Mr. Pomeroy asked if the Council members would like to reserve 10-15 minutes during meetings to hear from subject matter experts on relevant topics.

Ms. Bando felt that it would be very beneficial for her to learn more about mitigation measures, the claims process, and so on.

Mr. Gordon commented that we could experiment with this and see how we feel about it over time. He suggested that Mr. Pomeroy could send out the list of topics displayed on the PowerPoint and have the members prioritize the ones they are interested in.



Ms. O'Connor agreed; she would very much like to hear from subject matter experts from outside the Council. It would bring fresh vantage points and perspectives. She was interested in hearing about CAT modeling and wildfire modeling as well as bonds, investment policies, and best practices, in order to better understand the structuring.

Mr. Pomeroy responded that staff would look for a topic and a presenter for the October meeting so the Council could try it. As we try to keep meetings to a two-hour timeframe, it would still be possible to add this item to the agendas.

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 3:55 p.m.