TURN
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May 7, 2019

President Carla J. Peterman
Commissioner Dave Jones
Commissioner Michael Kahn
Commissioner Pedro Nava
Commissioner Michael Wara

Catastrophic Wildfire Cost and Recovery Commission
Governor's Office of Planning and Research

Dear President Peterman, and Commissioners Jones, Kahn, Nava and Wara,

TURN–The Utility Reform Network is submitting this addendum to the comments we submitted on April 22 at the request of Commissioner Wara. It is in response to some of the questions he posed to me about our proposal for a Catastrophic Wildfire Insurance Fund during a telephone conversation on May 6.

<u>California Catastrophic Wildfire Fund: Questions and Answers</u>

How large would the fund need to be to be durable over the anticipated period of time necessary for utilities to make material progress in containing catastrophic wildfire risk?

It depends. The size of the fund, that has a revenue stream from a residential and commercial property insurance wildfire surcharge, is dependent on several policy driven factors.

1) The floor, or minimum amount, before coverage kicks in.
    a. Like catastrophic health care insurance, which carries very high deductibles, a catastrophic wildfire insurance fund should be designed to cover losses only over a certain amount. Whether the deductible per wildfire is $1 billion or $3 billion will be a factor in the size of the fund needed.
2) The cap, or maximum amount, that will be covered.
    a. Establishing a cap for coverage per wildfire of $5 billion vs $10 billion will also be a factor in the size of fund needed.
3) Percentage of insurance losses covered by insurance.
    a. Whether an insurance company can recover policy holders is 40% vs 60% of the amount paid to wildfire victim policy holders in between the floor and the cap makes a difference in the size of the fund.

The size of the fund needed is also dependent on several factors determined by insurance risk modeling based upon past trends, actuarial tables, cost of financing bonds, and other elements that go into modeling future scenarios for cost projections.

How can we design a fund that provides the proper incentives for utilities to invest in prevention to reduce wildfire damages and claims and for property owners to protect themselves by purchasing adequate insurance?

It is critical that we design a fund that requires utilities, property owners, and other human wildfire causes to take action to prevent wildfires and purchase adequate insurance.

1) The best way to provide incentives for utility companies to invest in preventing wildfires is to enforce the bedrock principle of holding corporations responsible for negligence.
    a. Shareholders must be required to reimburse the Fund for any disbursements for wildfires that are determined to be caused by utility negligence.
    b. If the shareholders can't afford to pay all at once, their debt can be securitized over time.
2) The Fund could have a component to subsidize a portion of the cost of wildfire mitigation for low–income property owners living in high risk fire zones.
    a. $5,000 of prevention can save hundreds of thousands in property losses.
3) Homeowners who are underinsured often do not realize it until after disaster has struck, despite their good faith attempt to purchase adequate coverage.
    a. Insurance companies must be required by regulation or statute to offer replacement value policies that cover living expenses during reconstruction, in addition to covering content loss and rebuilding costs.
4) It is not easy to design an insurance fund that covers the losses of wildfire victims who cannot afford to buy homeowner insurance.
    a. As the catastrophic wildfire fund is designed to cover losses from wildfires regardless of origin, there are several potential approaches to handling claims of uninsured property owners that might provide an incentive for everyone to purchase insurance.
    b. The fund could simply deny payments to anyone without insurance, as is currently the case with uninsured victims of the Carr Fire in Redding, determined by CALFIRE to have been ignited by a car trailer hitch.
    c. The fund could offer limited coverage to uninsured low-income homeowners, say 50% of losses up to $25,000 maximum.
    d. Renters are a special category. Regulatory or statutory policy could require landlords to purchase renters insurance on behalf of their tenants.

After emerging from bankruptcy and providing for adequate compensation to its pre-petition wildfire victims, how will PG&E raise the necessary capital to make its contribution to the fund?

Under no circumstances should ratepayers be responsible for contributing a dime to the

Catastrophic Wildfire Fund, given the billions of dollars we are already paying for wildfire prevention, and are likely to pay in costs for 2017 fires that exceed the shareholder liability cap set by the Utility Stress Test proceeding currently before the CPUC.

1) Assuming that capitalization of the Catastrophic Wildfire Insurance Fund will be a one-time event, it makes sense for the source of capitalization to be a one-time infusion.
    a. The State could consider contributing the proceeds of revenue from the 2019 Initial Public Offerings of large technology companies, which is expected to generate billions of additional tax dollars in the short term as a one-time infusion.
2) Since this Fund is designed as a comprehensive fund to cover all wildfires, it is not clear to us why utility shareholders should be expected to contribute to the fund, outside of their obligation to reimburse the fund for wildfires caused by utility negligence.
3) The Fund is designed to procure revenue from a wildfire surcharge on residential and commercial property insurance.
    a. It would be possible to create exemptions for low-income home owners.

How much time will it take to form and capitalize a wildfire fund? How should liability for wildfires that may occur in 2019 prior to the fund's formation be treated? Can the fund be established before PG&E emerges from bankruptcy?

There is a need to initially capitalize a wildfire fund, before enough revenue is collected from property insurance surcharges, which will provide long term stability.

1) It is far more equitable to do so with funding streams which reflect a greater gap between rich and poor, such as property or income sectors, rather than by taxing people for consumption of an essential service such as electricity where the gap between rich and poor is relatively small.
2) Potential liability for 2019 fires should be treated by existing rules like the 2018 fires, and not by the rules established by SB 901 for the 2017 fires.
    a. The other option would be to adopt the wildfire fund on an urgency basis to permit it to take effect upon signing, potentially covering wildfires that may occur in the latter part of 2019.
3) The catastrophic wildfire fund should be established as quickly as possible so that it may take effect by January 2020, if not earlier. Wildfires will not wait for the resolution of PG&E bankruptcy, and neither should policy makers.

Thank you for your consideration,

Mark W. Toney, Ph.D.
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