

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA
KARL-FREDRIC SELIGMAN, ADMINISTRATIVE LAW JUDGE

In the Matter of the)	
Rate Application of:)	
)	File Nos. PA-2024-00011
STATE FARM GENERAL INSURANCE)	PA-2024-00012
COMPANY,)	PA-2024-00013
)	
Applicant.)	Volume III
_____)	

CERTIFIED COPY

TRANSCRIPT OF PROCEEDINGS

Thursday, April 10, 2025

Reported by:

CHRISTINA L. RODRIGUEZ
Hearing Reporter

Job No.:
54434 INS

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TRANSCRIPT OF PROCEEDINGS, taken at
1901 Harrison Street, 3rd Floor, Oakland,
California, commencing at 10:08 a.m. on
on Thursday, April 10, 2025, heard before
KARL-FREDRIC SELIGMAN, Administrative Law Judge,
reported by Christina L. Rodriguez, Hearing
Reporter.

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I N D E X

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IRH-SFG-151 [SFG-VW-8] [2020-11-02] Consumer Watchdog's Combined Appellant s Reply Brief and Cross-Respondent s Brief in State Farm General Ins. Co. V. Ricardo Lara, No. D075529 (Cal. Ct. App.)	110
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IRH-SFG-167	State Farm, Rental Dwelling Insurance https://www.statefarm.com/ insurance/rental-properties/ rental-homes	110
IRH-SFG-168	State Farm, What is home insurancecoverage? https://www.statefarm.com/ insurance/homeowners/home- insurance-coverage	110
IRH-SFG-172	California FAIR Plan Property Insurance, Key Statistics & Data. https://www.cfpnet.com/key- statistics-data/	110
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IRH-CWD-211	Commissioner Lara letter to State Farm regarding State Farm's emergency interim rate approval request proposing February 26, 2025 informal conference	111
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IRH-CWD-218 Consumer Watchdog letter to Commissioner Lara regarding statements made by Haden Kirkpatrick	111
IRH-CWD-219 Transcript of Proceedings, Follow-Up Meeting re State Farm Request for Emergency Interim Rate	111
IRH-CWD-220 State Farm letter to Deputy Commissioner Lucy Wang regarding State Farm's emergency interim rate approval request	111
IRH-CWD-221 State Farm letter to Commissioner Lara regarding State Farm's emergency interim rate approval request	111
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IRH-CWD-234 State Farm General Insurance Company California Homeowners Insurance Rate Filing, SERFF Tracking #: SFMA-133569018, State Tracking #: 23-613, Company Tracking #: HO-45657, PDF File HO Filing Exhibits , Rate Level History, Exhibit 2	111
IRH-CWD-235 S&P Global Ratings, State Farm General Insurance Co. AA Ratings Placed on Credit Watch, Negative On Weakening Capital Position	111
IRH-CWD-236 Jean Eaglesham, Wall Street Journal, State Farm Was All in on California Until It Pulled the Plug Before the Fires	111
IRH-CWD-237 Actuarial Standard of Practice No. 29, Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention	111

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IRH-CWD-242	Juan Carlos Arancibia, Investor s Business Daily, Homebuilding Stocks Reverse Higher As This Key Material Escapes Tariffs	111
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IRH-CWD-246	2014 California P & C Market Share Report, Homeowners Multiple Peril	111
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1 THURSDAY, APRIL 10, 2025

2 10:08 a.m.

3
4
5 THE COURT: Good morning. My name is Karl-Fredric
6 Seligman. I am the Administrative Law Judge presiding
7 over this matter. Today is Thursday, April 10th, 2025,
8 and we're here on our third day of the evidentiary hearing
9 on the stipulation of the matter of State Farm General
10 Insurance in cases PA-2024-00011, 00012, and 00013.

11 With that, I will start with appearances,
12 starting with State Farm General, please.

13 MR. TETI: Yes, Your Honor. Jordan Teti with Hogan
14 Lovells for State Farm General.

15 MS. WELLINGTON: Katherine Wellington with Hogan
16 Lovells for State Farm General.

17 MR. MADDIGAN: Good morning, Your Honor.
18 Michael Maddigan with Hogan Lovells for State Farm
19 General.

20 THE COURT: Thank you.

21 And the Department, please.

22 MS. McKENNEDY: Good morning, Your Honor.
23 Nikki McKennedy for the California Department of
24 Insurance.

25 MR. MONTGOMERY: Duncan Montgomery for the Department

1 of Insurance.

2 THE COURT: Thank you.

3 And Consumer Watchdog, please.

4 MR. PLETCHER: Good morning, Your Honor.
5 Will Pletcher on behalf of Consumer Watchdog.

6 MS. PRESSLEY: Good morning, Your Honor. It's
7 Pamela Pressley with Consumer Watchdog.

8 THE COURT: Good morning, once again, and thank you.

9 So we, yesterday, concluded with the
10 witness -- the last witness from State Farm General, I
11 believe, with the expectation that we would be turning
12 this morning to the Department calling its first witness,
13 perhaps the only witness.

14 And is that still the plan, Ms. McKennedy?

15 MS. MCKENNEDY: Yes, Your Honor. Would you like me to
16 start with an offer of proof as to what Ms. Shaw's
17 testimony will show?

18 THE COURT: Well, let's talk about that. We kind of
19 navigated around the issue of the -- the objection with
20 the -- in connection with the motion in limine; also, in
21 the record, the objections as to both the RBC and the
22 standing objection on all financial information, which
23 would be largely attributable to most of the testimony
24 from all the witnesses.

25 So I'd like the tools to be assigned to the

1 right -- the right purpose, ideally; but I'm going to ask
2 Consumer Watchdog what they -- what they're thinking and
3 the alternative to the examination.

4 MS. PRESSLEY: Your Honor, I think that we were going
5 to proceed with cross-examination, and, to the extent that
6 those issues come up, it can be noted. I know we were
7 served with the Department's opposition to the motion on
8 the RBC issues with relation to the -- Shaw's testimony
9 and Appel's testimony, so we haven't read that yet.

10 THE COURT: Sure. That just came in.

11 MS. PRESSLEY: Yeah.

12 THE COURT: So I think, like I said, it's better to
13 have the right tools for the right thing. If I granted
14 the motion and excluded the evidence, then we'll be
15 looking more to voir dire type approach with an offer of
16 proof. Even though this is administrative law and we can
17 kind of play with the tools, it's better if we line them
18 correctly.

19 And since you're prepared to handle it in that
20 manner, came to the suggestions/reminders that I made
21 yesterday. Please try to be mindful of keeping the record
22 as clear as we can.

23 We'll talk about that a little bit later before
24 we conclude today so that I can ask the parties to help in
25 making sure that that happens, but as the presentation of

1 evidence is going forward with the testimony, then we know
2 what parts of the transcript in the record that you're
3 objecting to.

4 MS. PRESSLEY: Okay. Your Honor, so would you like me
5 to make those objections as the testimony comes in? Or at
6 the beginning of that?

7 THE COURT: Well, giving that -- giving Consumer
8 Watchdog a standing objection as to financial information,
9 so I think that that's pretty broad, but that goes to
10 almost everything, but I'm more concerned with the RBC as
11 it's -- so that we don't have a problem with discerning
12 that from the record.

13 MS. PRESSLEY: Okay.

14 THE COURT: So I understand it, and I've repeatedly
15 said I'm going to continue to recognize it, and I will
16 deal with it in the decision -- your concerns with regard
17 to that. I want to be able to know where in the record,
18 the long run, what subject to strike if I were to agree
19 with you. Right. So I would rather us know where those
20 points are on that specific information.

21 MS. PRESSLEY: We can do that, Your Honor, thank you.

22 THE COURT: Okay. So if you're going to object to
23 that, make it clean and what aspects of it depending on
24 how the questioning goes. And it would piece out in your
25 cross, of course. That's helpful.

1 Okay. Is there anything further on that? Or
2 before we get underway with calling the witness?

3 MR. MONTGOMERY: Your Honor, did we wear out the last
4 court reporter? I'm sorry, do we have a new court
5 reporter?

6 THE COURT: Ms. Rodriguez, we're please to have here
7 today. As a reminder, this is the general ones, please
8 try to avoid cross-talk and not talk too quickly. She's
9 pretty good but -- if not excellent, for sure -- but we
10 want to make sure that she can lay the record down.

11 But, yes, welcome to the reporter.

12 THE REPORTER: Thank you.

13 THE COURT: Okay. With that, you want to call the
14 witness, please.

15 MS. McKENNEDY: Yes, Your Honor. The Department calls
16 Tina Shaw.

17 THE COURT: Make your way to the stand, please.

18 Ms. Shaw, I think you've been here a use of times
19 during the presentation of evidence, but just as a
20 reminder, please pause if you're asked -- if there's an
21 objection or something comes up in connection with your
22 testimony so I can make a ruling on that; and speak, you
23 know, at a moderate speed so the reporter, like I just
24 mentioned for everybody, can get everything.

25 You don't have to turn to me. I can see you on

1 the screen here myself, so you can focus on counsel who's
2 asking you the questions.

3 With that, I'm going to ask the reporter to put
4 you under oath.

5 (Reporter response)

6 THE COURT: I'll do it.

7
8 TINA SHAW,

9 Produced as a witness, and having been first duly sworn by
10 The Administrative Law Judge, was examined and testified
11 as follows:

12 THE WITNESS: I do.

13
14 DIRECT EXAMINATION

15 BY MS. McKENNEDY:

16 Q Good morning, Ms. Shaw. Could you please state
17 your full name for the record.

18 A Tina Shaw.

19 Q What position do you hold here at CDI?

20 A I'm the chief actuary of the rate regulation
21 branch.

22 Q And what do you do in that role?

23 A I have a team of 15 actuaries. We oversee the
24 top 20 California riders for personal auto and home owners
25 insurance. We enforce rules from Prop 103, make sure that

1 the findings adhere to actuarial standards, and we also
2 consult with the branch on actual matters.

3 THE REPORTER: Sorry. Is your mic on?

4 THE WITNESS: Nope. Is that better?

5 THE REPORTER: Yes. Thank you.

6 BY MS. McKENNEDY:

7 Q And I just want to make sure that the record is
8 clear. The last words you said were "actuarial matters;"
9 correct?

10 A Correct.

11 Q Not actual.

12 Ms. Shaw, why are you here today?

13 A I'm here to testify and be an expert witness in
14 State Farm's interim rate request.

15 Q And what were you asked to do in this matter?

16 A I was asked to provide my expert opinion.

17 Q Regarding?

18 A The State Farm Insurance rate request. Sorry.

19 Q No worries. Would you please provide a brief
20 description of your actuarial experience?

21 A Yes. I'm a fellow of the property
22 casualty -- I'm sorry. Let me start over.

23 I'm a fellow of the Casualty Actuarial Society.
24 I have 30 years experience working in the industry, and I
25 have experience in different actuarial practice areas

1 including pricing, reserving, capital modeling, and
2 enterprise for risk management.

3 A large portion of my career of 20 years was
4 spent at Farmers Insurance where I developed expertise in
5 financial risk management. I was often asked to quantify
6 material risk facing the organization and their impacts on
7 solvency surplus and solvency.

8 In the course of that work, I often have to
9 project capital surplus levels and its -- their
10 relationship to the NAIC RBC, and a rating agency -- A.M.
11 Best and S&P -- capital requirements in resulting
12 financial rating.

13 Q Thank you. On the witness stand, I saw you bring
14 some papers up. Could you please tell us what those are.

15 A These are -- I have three documents: I have my
16 declaration, my curriculum vitae, and the materials that I
17 relied on for my analysis.

18 Q Thank you. And the Department marked IRH-CDI-002
19 as your curriculum vitae; would you please confirm that
20 this is a current copy of your curriculum vitae.

21 A Yes, it is.

22 Q And does it contain an accurate overview summary
23 of your relevant actuarial experience?

24 A Yes.

25 Q And looking at your declaration, the Department

1 has marked that as IRH-CDI-001; is this a copy of the
2 declaration you previously submitted in this matter?

3 A Yes, it is.

4 Q Is your testimony in this declaration truthful
5 and accurate?

6 A Yes.

7 Q Did you intend this declaration to serve as your
8 direct testimony in this matter?

9 A Yes.

10 Q And do you adopt it as part of your expert
11 testimony here today?

12 A Yes.

13 Q And looking at the materials you relied upon in
14 drafting your declaration, the Department has marked those
15 as IRH-CDI-003; can you please describe those materials
16 for the record.

17 A These are excerpts from the publicly available
18 annual statement information; specifically, five-year
19 historical data, and also an exhibit from State Farm's
20 most finding from June.

21 Q Thank you.

22 Your Honor, I don't believe there are objections
23 to these exhibits, so the Department will move them into
24 evidence.

25 THE COURT: Anything I need to hear in connection with

1 the readmission?

2 MS. PRESSLEY: No, Your Honor.

3 MR. TETI: No, Your Honor.

4 THE COURT: There being none, they're received.

5 (Department's Exhibits IRH-CDI-001 through
6 IRH-CDI-003 were received into evidence.)

7 THE COURT: If you would, please, repeat each of them
8 so the record is absolutely clear that we received them
9 because you -- might number.

10 MS. McKENNEDY: IRH-CDI-001 is a copy of Ms. Shaw's
11 expert declaration, IRH-CDI-002 is a copy of Ms. Shaw's
12 current curriculum vitae, and IRH-CDI-003 are the
13 materials that she relied upon in forming her can expert
14 opinion.

15 THE COURT: Thank you. They are received.

16 MS. McKENNEDY: Thank you, Your Honor.

17 BY MS. McKENNEDY

18 Q Ms. Shaw, are there any other materials that you
19 reviewed and relied upon in forming your expert opinions
20 in this matter?

21 A I reviewed State Farm's filing from June -- all
22 of its supports. I also looked at State Farm's annual
23 statement information, and then commissioner's interim
24 rate order.

25 Q Are the materials in IRH-CDI-003 the same

1 publicly available information that Dr. Appel testified
2 to using to calculate State Farm's RBC ratios?

3 A I believe so.

4 Q Did you review the RBC instructions in drafting
5 your declaration?

6 A I did not.

7 Q Can you please turn to your declaration at
8 page 5. Starting on line 14 and proceeding through line
9 19, you referenced the RBC instructions; correct?

10 A Yes.

11 Q Why did you do that?

12 A It was for background and context.

13 Q Are you familiar with the RBC instructions?

14 A Yes.

15 Q When was the last time that you reviewed the RBC
16 instructions?

17 A I would say probably about 10 years ago.

18 Q That was before you came to the department;
19 correct?

20 A Correct.

21 Q How did you know how to calculate the RBC ratios
22 in your declaration?

23 A In my previous experience as an actuary working
24 in financial -- the financial department, I was often
25 asked to look at any RBC.

1 Q When was the first time you ever learned about
2 RBC ratios?

3 A It was part of our examination process to become
4 an associate or a fellow of the
5 Casualty Actuarial Society.

6 Q So please don't take offense, but was that a
7 number of years ago?

8 A Yes.

9 Q Ms. Shaw, did you use any confidential
10 information at all to calculate your estimated RBC ratios
11 for State Farm General?

12 A I did not.

13 Q Did you talk with anyone at CDI who's authorized
14 to look at confidential RBC reports or RBC plans or other
15 confidential RBC information in order to draft your
16 declaration?

17 A I did not.

18 Q Are the RBC ratios that you have calculated in
19 your declaration the same thing as the RBC instructions?

20 A No.

21 Q Are they the same thing as an RBC report?

22 A No.

23 Q Are they the same thing as an adjusted RBC
24 report?

25 A No.

1 Q Are they the same thing as an RBC plan?

2 A No.

3 Q Are they the same thing as a revised RBC plan?

4 A No.

5 Q Are RBC ratios that you calculated the same thing
6 as any statutorily required filing that an insurance
7 company is required to submit to its regulator?

8 A No.

9 Q Did you use the RBC ratios as part of a rate
10 making formula to determine State Farm General's interim
11 rate increase?

12 A No.

13 Q Did you use the RBC ratios to determine the 17.0
14 interim rate increase?

15 A No.

16 Q What did you use the RBC ratios to do?

17 A I used the RBC ratio to provide context in
18 relating to State Farm's current surplus position.

19 Q Where did you get the 17.0 interim rate increase?

20 A It was provided to me by my counsel. I
21 understand that the offer came from State Farm.

22 Q Have you done an actuarial analysis of the
23 interim rate increase request by State Farm General under
24 the Prop 103 rate-making regulations?

25 A I did not.

1 Q Why not?

2 A I took a holistic approach in looking at the
3 interim rate request in terms of State Farm's current
4 financial situation.

5 State Farm originally filed the Variance 6
6 filing, which they claim that they're already in financial
7 -- their surplus had gone -- decreased to a level that was
8 alarming to the Illinois Department of Insurance that they
9 were on a company action plan. They needed to have a plan
10 to restore their capital so they could restore their
11 solvency sufficiently.

12 With the LA wild fires in January, I understand
13 that their capital position had deteriorated further, and
14 now that -- their solvency position could be -- is in even
15 worse position than when they first filed the June filing.

16 And, with that, in consideration, this -- the 17%
17 is an emergency stop gap measure to make sure, along with
18 the surplus notes that the parent is offering, that State
19 Farm General can get to a soft landing. And the 17%, like
20 I said, is an emergency rate request.

21 The Commissioner has ordered that the data, as in
22 Q1 2025, could be submitted to the Department so that we
23 can fully bet all the details at the assumptions and the
24 methodology in the filing to make sure that we keep State
25 Farm honest.

1 And, to that process, if we find that the rate is
2 excessive, the rate will be required -- State Farm will be
3 required to return the excess rate back to the
4 policyholders with interest.

5 Q So let me just make sure I'm clear. Are you
6 comfortable recommending the interim rate increase, as
7 stipulated by State Farm General and the Department, even
8 without all of the updated Quarter 1 2025 data?

9 A Yes.

10 Q Do you understand State Farm General to have
11 abandoned it's Variance 6 request?

12 A Not to my knowledge.

13 Q Are the Variance 6 request still in the rate
14 applications?

15 A Yes, it is.

16 Q So based on State Farm General's current
17 financial condition, as you've analyzed it, do you agree
18 that the Commissioner should grant the interim rate
19 increase request subject to refunds with interest
20 following the full rate hearing?

21 A Yes. That would be my recommendation.

22 Q And that's based on the two main reasons you gave
23 before; correct?

24 A Correct.

25 Q If the Commissioner does not grant the interim

1 rate request, and everything else stays the same, what, in
2 your expert opinion, is likely to happen?

3 A So, currently, State Farm's surplus level is in
4 the very alarming low position. And so, in the industry,
5 sometimes we look at lines that are prone to catastrophes,
6 high-risk portfolios to have a premium-to-surplus ratio
7 about one-to-one.

8 So, today, State Farm's net would accrue about \$3
9 billion. So if you apply the one-to-one rule, they should
10 have about \$3 billion in surplus. My best estimate right
11 now, with the surplus levels, is somewhere between \$600
12 million and a billion dollars.

13 You know, if you flip that equation around, that
14 means, today, they're really only -- should be only
15 supporting \$600 million to a billion dollar book of
16 business. And so this is very troubling to me because we
17 want to keep State Farm in the marketplace to continue
18 offering insurance to policyholders. If they're not able
19 to, then, I think, we would really disrupt the entire
20 marketplace.

21 Q Why is that?

22 A Well, there are a few scenarios, right.
23 Consumers will, potentially, could be non-renewed, in
24 which the case would have a fair plan. And, as I
25 understand, fair plan offers a limited policy; they only

1 cover the fire bill.

2 Customers would have to get another difference in
3 condition policy to cover the other parallels -- water,
4 theft. And so, typically, what we -- what I know, based
5 on my, you know, based on my experience, is that that
6 policy with the wraparound is much higher than potentially
7 the 17% that the customer will be charged by State Farm.

8 You know, if and when the customer can -- does
9 not like the 17% -- can find other insurance in the
10 marketplace. I think that's another scenario.

11 But given what I've seen -- all the rate calls,
12 all the rate find that come into my office -- whenever
13 there's a rate increase that we process, the second
14 question that we ask is, you know, "Would you be opening
15 to have your book to writing in business?" And so far, we
16 haven't had any takers. So based on that, we know that
17 the California homeowners market is currently in a crisis.

18 Q In your opinion, is it appropriate as an actuary
19 to consider a company solvency or financial condition when
20 evaluating rate request?

21 A It depends.

22 Q And what --

23 A Sorry.

24 Q That's okay. What does it depend on?

25 A So when a company comes to us with a variance

1 request, and I think there may be three in our statute,
2 then that's something that we would take into
3 consideration.

4 Q And, just to be clear, I think you meant in our
5 regulation; is that correct?

6 A Yeah.

7 Q And for the record, just so the Judge can find it
8 later on, this is Title 10, California Code of
9 Regulations, Section 2644.27; correct?

10 A Correct.

11 Q And do you happen to know the provisions in
12 Section 2644.27 that allow a variance from the rate-making
13 formula based upon solvency or financial condition?

14 A I believe those are Variance 5, 6, and 10.

15 Q And also, just to explain, what is a variance to
16 the rate-making formula. What do I mean by that?

17 A It's the insurance company's request to deviate
18 from the rules that are required in our regulation.

19 Q So a company can request a variance from strict
20 application from the Prop 103 rate-making regulations due
21 to solvency or financial condition concerns; is that
22 correct?

23 A That's correct.

24 Q Other than RBC ratios, are there other ways to
25 measure a company's solvency?

1 A There's no strict ways to measure that. I think
2 we can use a rule of thumb to gauge where the company
3 would like to hold capital, but there is no other measure.

4 Q And to be clear, the rule of thumb is the
5 premium-to-surplus one-to-one ratio you previously
6 mentioned that's appropriate for catastrophe lines; is
7 that correct?

8 A That's correct.

9 Q Are IRIS ratios a sufficient way to measure
10 solvency, in your opinion?

11 A IRIS ratio is an early -- is an early warning
12 test. It's a trend test to measure from year-to-year
13 progress. And if the ratios goes sideways, that's when
14 regulators take note, but it's not a definitive answer in
15 terms of the company's financial solvency position.

16 Q Thank you. Ms. Shaw.

17 Your Honor, the Department is concluding its
18 direct.

19 THE COURT: Okay. Thank you very much. And I really
20 appreciate some of the detail that you included in your
21 questioning in order to help us understand some of those
22 key points.

23 Are you -- is State Farm General planning to ask
24 this witness what questions before I turn to
25 cross-examining.

1 MR. TETI: We do not have any questions at this time,
2 Your Honor.

3 THE COURT: Okay.

4 So Consumer Watchdog, are you ready?

5 MS. PRESSLEY: Yes. We're ready, Your Honor.

6 THE COURT: All right. Very good. Please proceed.

7 MS. PRESSLEY: Thank you.

8
9 CROSS-EXAMINATION

10 BY MS. PRESSLEY:

11 Q Good afternoon, Ms. Shaw.

12 A Good morning.

13 Q Good morning.

14 THE COURT: It was planned for the afternoon. That's
15 probably why --

16 MS. McKENNEDY: That was her honesty test, right, Your
17 Honor.

18 BY MS. PRESSLEY:

19 Q It feels like afternoon.

20 So you gave a little bit of your background. I'm
21 just going to ask you a few questions to get a little more
22 information on that.

23 So prior to working and becoming employed by CDI
24 in 2024, you worked for Farmers Insurance Group from about
25 2001 to 2023?

1 A That's correct.

2 Q And what was your position in those years?

3 A I had several positions with the company. I
4 started in the reserving department, then I moved to a
5 newly created capital modeling financial analysis unit,
6 and then I -- when I left Farmers, I was a chief-risk
7 officer overseeing enterprise risk management for the
8 organization.

9 Q Okay. And you also worked as an actuary for
10 Farmers during the years 1995 to 1998?

11 A That's correct.

12 Q Did any of your work at that time with Farmers
13 involve contact with the California Department of
14 Insurance?

15 A No.

16 Q Did you ever testify in any administrative or
17 civil proceedings on behalf of Farmers?

18 A No.

19 Q Did you ever advise Farmers on any positions it
20 may have taken in any rulemaking proceedings regarding CDI
21 regulations?

22 A No.

23 Q On behalf of any other insurers, did you take
24 any -- did you advocate for any rulemaking amendments?

25 A No.

1 Q And, since working with the CDI, have you worked
2 on any Farmers' filings?

3 A No, I have not.

4 Q And in your capacity as Chief Actuary of the CDI,
5 have you advised the CDI on any amendments to the prior
6 approval rate regulations -- specifically regarding the
7 allowance of reinsurance in rate making?

8 MS. McKENNEDY: Objection, your Honor.

9 This is going to get into internal deliberations,
10 privileged information, and it's not relevant to this
11 proceeding.

12 THE COURT: Can I ask you where you're going,
13 Ms. Pressley?

14 MS. PRESSLEY: Sure, Your Honor.

15 I believe that as we've talked about in the issue
16 with Ms. Watkins, I'm just trying to figure out --

17 MS. McKENNEDY: It's also beyond the scope of the
18 direct exam and the direct testimony.

19 THE COURT: Okay. Let me hear what she has.

20 MS. PRESSLEY: Sure.

21 There has been testimony in this proceeding about
22 the cost of reinsurance and whether that's appropriate in
23 terms of the cost that State Farm has been paying, so I'm
24 just trying to get some background whether this witness is
25 familiar with reinsurance issues and has worked on those

1 internally with its work.

2 MS. McKENNEDY: Your Honor, she's not entitled to find
3 out what this witness has worked on internally at the
4 department. If she wants to ask the witness if she has
5 specific reinsurance information with respect to this
6 interim rate proceeding, that will be an appropriate
7 question.

8 THE COURT: I think it's fair that she asked about
9 her, very generally, whether she's got experience or
10 exposure to those. So I'm going to allow that at first,
11 and we'll see whether you still have concerns.

12 MS. McKENNEDY: I do have concerns, but let's go
13 ahead, Your Honor.

14 THE COURT: Well, she is proffered as the expert. So
15 let's see.

16 BY MS. PRESSLEY:

17 Q Do you have any experience since becoming
18 employed by the CDI in working on reinsurance issues?

19 A I am part of a team at putting together the
20 reinsurance regulations.

21 MS. McKENNEDY: And, Your Honor, I would say that the
22 team -- the work done by the team is covered by the
23 internal of deliberations process.

24 MS. PRESSLEY: Your Honor, I'm not planning to ask
25 about -- specifics about what was discussed in the

1 internal meetings.

2 THE COURT: Okay. I understand.

3 MS. PRESSLEY: I can move on.

4 THE COURT: If that was your point, I don't have a
5 problem with that. It was overruled technically to allow
6 that answer, but I didn't go further than that. So we
7 didn't get that far.

8 BY MS. PRESSLEY:

9 Q Ms. Shaw, do you have any degrees,
10 certifications, or professional affiliations in finance?

11 A No.

12 Q Okay. So moving on to preparation of your
13 declaration.

14 At any time, when you are preparing your
15 declaration, did you perform an independent rate
16 indication calculation under the standard ratemaking
17 formula?

18 A No.

19 Q So did you review State Farm's maximum permitted
20 rate indication of 21.8%? And that's supporting Exhibit 9
21 submitted on SERFF in February -- I think it was February
22 5th in SERFF.

23 A I looked at the document.

24 Q Have you testified in your declaration that the
25 21.8% rate is actuarially sound?

1 A The 21.8 is part of an emergency interim rate
2 request, and I think the Commissioner has ordered the full
3 data as of Q1 2025 be submitted so that we can look at
4 that re-filing in it's entirety at a rate hearing.

5 And I think I'm going to have to say if that rate
6 is found to be excessive, we'll have to -- State Farm will
7 be required to refund it, plus interest.

8 MS. McKENNEDY: Your Honor, related objection that the
9 declaration speaks for itself.

10 BY MS. PRESSLEY:

11 Q So it's your opinion, Ms. Shaw, that in order to
12 perform your own independent calculation of the maximum
13 permitted earned premium, you would need a fully updated
14 rate application, including data through first quarter of
15 2025?

16 A As part of the -- sorry. As part of the full
17 rate hearing rule, we will be looking at the Q1 data.
18 Yes.

19 THE COURT: I'm going to stop you for a moment.

20 So I didn't really -- there was no answer to
21 whether or not -- it was the actuarial question, and then
22 an objection. So is there a yes or no as to whether or
23 not there was a -- you consider it's actuarially sound?

24 If you can repeat -- go back to the question.

25 MS. PRESSLEY: Sure, Your Honor.

1 BY MS. PRESSLEY:

2 Q The question was: Have you testified or do you
3 believe that the 21.8% rate indication is actuarially
4 sound?

5 THE COURT: And I think that -- Counsel, was that when
6 you raised your concern that was the declaration spoke for
7 itself? Or was it there after?

8 You're respective. We got a narrative answer.

9 Was that satisfactory, Counsel? You moved on.

10 MS. PRESSLEY: I would like a yes or no to that
11 question.

12 MS. McKENNEDY: Your Honor, if I may. Just for the
13 record, the reason why I made the related objection about
14 the declaration is I think the declaration focuses on the
15 17.0, not the 21.8%. So that's part of my concern -- that
16 it's misstating the declaration.

17 THE COURT: Okay. On redirect, though, you can pick
18 up to clarify that. And if she's simply asking whether or
19 not there was, you know -- I don't want to speak for the
20 witness. It seems like she can answer that question.

21 MS. PRESSLEY: Yes. Your Honor, I would just explain
22 that in her declaration, she does start with an analysis
23 that the starting point is the 21.8%, and then she
24 explains how she got from there to the --

25 THE COURT: It's a fair question. You can ask it.

1 BY MS. PRESSLEY:

2 Q I would just like to know if you do believe that
3 21.8% rate increase was actuarially sound?

4 A It may be actuarially sound. We'll have to wait
5 for the the Quarter 1 data is available.

6 Q And you indicated that you did look at the
7 information that was submitted with the interim rate
8 request on February 5th that included the rate templates
9 showing those calculations and the Exhibit 9s?

10 A Yes. I looked at it.

11 Q Do you agree that State Farm's calculation, with
12 the cat load in that rate template then the company in
13 Exhibit 9, is actuarially sound and complies with the
14 regulations?

15 A I think the -- I think State Farm made a
16 preliminary showing that the LA wildfire was catastrophic.

17 Q Have you done your own calculation of the
18 appropriate cat load in coming to your opinion about the
19 appropriate interim rate?

20 A No. I wouldn't think it was necessary.

21 Q So in your opinion, in coming to the conclusion
22 to agree upon this 17.8% -- I'm sorry, 17% rate hike
23 that's in the April 4th supplement to the stipulation,
24 have you performed any calculation to perform an opinion
25 on whether that 17% is either at or below the maximum

1 permitted rate indication based on your independent
2 analysis?

3 A My review -- oh, I'm sorry. I didn't mean to cut
4 you off, Ma'am.

5 Q I just -- to clarify -- under the standard
6 ratemaking formula without any variance.

7 A I looked at the 17% in the context of the
8 situation that State Farm has come to us that their
9 surplus is at a dangerously low level.

10 Q Okay. So that's a no? You did not do an
11 analysis to see if the 17% is below the maximum permitted
12 under the premium -- under the formula?

13 A I did not perform an independent analysis.

14 Q Okay. So it'd be fair to say you also haven't
15 done any analysis to show that another number -- I'll just
16 choose 9%, for example -- would be sufficient to ensure
17 that State Farm remains financially stable?

18 A I have not, and I'm waiting for the Q1 data to be
19 available.

20 Q Okay. So would it be fair to say that your
21 analysis started with State Farm's calculations -- the
22 21.8% -- and then you made some reductions to get to the
23 17%?

24 A I indicated I didn't come up with the 17%. It
25 was given to me by my counsel.

1 Q You referenced Variance 6 -- the solvency
2 variance -- in your declaration at paragraph 7; have you
3 formed any opinion of whether State Farm qualifies for
4 Variance 6?

5 A I think that finding is still under
6 review -- sorry.

7 Q Okay. And it's to your understanding that State
8 Farm has not used or in any way invoked Variance 6 in
9 calculating the interim rate that it's seeking?

10 A In the current -- in the interim rate, they did
11 not use Variance 6, but that's associated with the
12 Variance 6 finding. So this is only to show that, given
13 the LA wildfire, their experience -- their rate increase
14 still exist.

15 Q Okay. So is your belief that the 17%, as you
16 stated in your declaration, you believe that that's
17 fundamentally fair and reasonable. Is that opinion based
18 on any analysis of whether that indication is excessive or
19 inadequate under the maximum permitted rate formula?

20 A So if you were to take their surplus -- their
21 financial situation -- in context, given the rate that
22 they're charging today, they're in -- their surplus
23 position is very poor. Their solvency position is very,
24 very poor also.

25 And so, I think, you know, one of the tenets in

1 ratemaking is that rates can't be inadequate so the
2 company go out of business. So if you look at from that
3 perspective, we can argue that the rate is inadequate.

4 Q Okay. But, again, my question was: Your opinion
5 that the 17% is fundamentally fair, adequate, and
6 reasonable is not based on any opinion of whether that
7 indication is excessive under the maximum permitted rate
8 formula?

9 A I think I answered that it's inadequate, so I
10 would say it's not excessive.

11 Q Okay. Is that based on the calculation under the
12 inadequate -- the minimum permitted?

13 A I don't think those two are associated together
14 that way.

15 THE COURT: Ms. Shaw, if you don't know or you don't
16 understand the question, you can say that and say, "I
17 don't know." So I know if there's a great distinctive
18 desire to, like, provide a narrative answer to try to help
19 answer completely, but the attorneys are really good at
20 it. And so on redirect, if not on cross, they will
21 probably pick it up --

22 THE WITNESS: I see.

23 THE COURT: -- and get to that. Okay.

24 THE WITNESS: I see.

25 ///

1 BY MS. PRESSLEY:

2 Q Okay. Maybe I can just ask one follow up
3 clarification.

4 Your analysis is not based on any calculation
5 that the -- that a number below 17% would be inadequate
6 under the standard ratemaking formula?

7 A I have not performed that analysis.

8 Q Okay. Have you performed any analysis of the
9 impact on State Farm's financial condition if State Farm
10 Mutual were to contribute \$500 million in surplus notes as
11 requested by the Commissioner?

12 A I think that was -- I think that may be a
13 scenario that we ran through.

14 Q Was that in your declaration?

15 A No, it's not.

16 Q But you do have those calculations available?

17 A I think with the Commissioner --

18 MS. McKENNEDY: Objection, your Honor. That wasn't
19 offered as part of her declaration.

20 THE COURT: I'm not going to hold -- as I've told the
21 parties strictly the scope in traditional -- it is
22 administrative law, but where are we going with this?
23 Because I also don't want to get into confidences or --

24 MS. PRESSLEY: Sure, Your Honor.

25 I mean, we did discuss some wide latitude on some

1 cross just because we were not allowed discovery, and so
2 we're trying to just get at if this witness knows if they
3 have any underlying calculations on what the impact on
4 State Farm's financial condition would be if the parent
5 were required to give a 500 million surplus note as
6 opposed to the 400 million that was agreed upon.

7 THE COURT: Okay. Let's hear what your next question
8 is and take it piece-by-piece.

9 MS. PRESSLEY: Okay. Are you saying that she can't
10 answer that question?

11 THE COURT: No -- well, repeat your question. Let's
12 see where we're at with it. Given that context -- the
13 explanation.

14 BY MS. PRESSLEY:

15 Q Ms. Shaw, do you have any calculation of
16 whether -- do you have any calculation of the impact on
17 State Farm's financial condition if the parent company,
18 State Farm Mutual, will require to give a \$500 million
19 surplus note instead of the agreed-upon \$400 million
20 surplus note?

21 MS. McKENNEDY: And, Your Honor, objection. I'm not
22 clear on what does she mean by "do you have any
23 calculation." Is she asking the expert to apply into a
24 hypothetical?

25 THE COURT: Ms. Pressley, you're asking specifically

1 whether she's performed that? Or whether she has that in
2 her --

3 MS. PRESSLEY: We'll take it one-by-one.

4 BY MS. PRESSLEY:

5 Q Have you performed any calculation of that impact
6 of providing a \$500 -- I'm sorry, \$500 million surplus
7 note?

8 A Yes, I have.

9 Q Okay. And, as you sit here today, could (sic)
10 you have recollection of what that impact was?

11 A No. It was many scenarios that we ran.

12 Q Okay. Thank you. Okay.

13 And just to come back to the -- the two variances
14 that you mentioned under the Regulation's 2644.27,
15 Subdivision (f)(6), and Subdivision (f)(10) -- the
16 solvency and confiscation variance. The interim filing,
17 to your knowledge, is not based on either of those
18 variances; correct?

19 MS. McKENNEDY: Objection. Misstates testimony.
20 There are three variances.

21 MS. PRESSLEY: I'm just asking about two variances.

22 THE COURT: I think she's just asked that. That's
23 overruled. She asked about two variances. She can do
24 that.

25 THE WITNESS: Can you ask the question again -- sorry.

1 BY MS. PRESSLEY:

2 Q With regard to the rate regulations that provide
3 for variances, one is known as the solvency variance, and
4 that's under 2 --

5 (Reporter interruption)

6 Q Sure.

7 With regard to the rate regulations under 10 CCR
8 Section 2644.27, Subdivision (f)(6), known as the solvency
9 variance, the interim rate filing is not based on that --
10 the request for that variance; correct?

11 A The interim rate filing is based off of the
12 original filing back in June; so, therefore, the Variance
13 6 still applies.

14 Q But the rate calculation under the template that
15 was submitted in support of 21.8% -- did that use a
16 Variance 6 to get to the maximum permitted rate
17 indication?

18 A I don't -- I don't know.

19 Q Okay. And, to your knowledge, did the interim
20 rate include any request for a confiscation variance under
21 26.27, Subdivision (f)(10)?

22 A Not to my knowledge.

23 Q And you haven't formed any opinion on whether
24 State Farm's current rates, without any rate increase, are
25 confiscatory; correct?

1 A I -- I don't know.

2 Q Okay. Were you at the February 26 informal
3 conference that was held by the Commissioner regarding
4 State Farm's interim request?

5 A No, I was not.

6 Q Okay. Do you have any opinion of whether State
7 Farm General has the ability to pay claims from the recent
8 January 2025 LA fires without the interim rate?

9 A Can you define "the ability to pay claims"?

10 Q Without getting the interim rate request, would
11 they be able to cover the claims that are coming in for
12 the 2025 LA wildfires?

13 A I believe State Farm -- they are paying claims,
14 but the problem is that their surplus now is maybe close
15 in \$600 million instead of where they need to be.

16 Q Okay. Ms. Shaw, in your declaration, starting at
17 page 4, line 12, you discussed Applicant's deteriorating
18 financial condition as a basis for why they needed interim
19 rate increase; correct?

20 A Correct.

21 Q Does the standard rate-making calculation under
22 2644.2 of the Department's regulations list deteriorating
23 financial condition as a consideration in the rate
24 analysis?

25 A Isn't that what the -- sorry. Would that be -- I

1 think that would be addressed under Variance 6.

2 Q Under the variance, but not under the standard
3 rate-making formula?

4 A No.

5 Q Does that rate-making formula take into
6 consideration RBC ratios?

7 A No.

8 Q Okay. Turning to -- I believe you have a binder
9 of Consumer Watchdog's Exhibits in front of you. That
10 should be the thick one.

11 A There are three binders in front of me. I don't
12 know which one it is.

13 MS. PRESSLEY: It looks like this.

14 MR. PLETCHER: Your Honor, may I approach to assist
15 the witness?

16 THE COURT: Yes.

17 The record will reflect that Mr. Pletcher's
18 approaching the witness.

19 BY MS. PRESSLEY:

20 Q Okay. You have Consumer Watchdog's exhibits
21 before you?

22 A Yes.

23 Q Okay. If you could turn to Consumer Watchdog
24 Exhibit No. 239, and let me know when you have that.

25 A Okay.

1 Q So are you familiar with this document? It's
2 called the Actuarial Standard of Practice No. 53 that is
3 by the Actuarial Standards Board?

4 A Yes.

5 Q And that's related to the actuarial standards
6 that are used for ratemaking? It's called estimating
7 future cost for prospective property casualty risk
8 transfer and risk-free tension?

9 A That's correct.

10 Q Does that Actuarial Standard of Practice No. 53
11 discuss the consideration of deteriorating financial
12 condition?

13 A I'm sorry. Can you repeat the question.

14 Q Does the Actuarial Standard of Practice No. 53
15 discuss the consideration of the deteriorating financial
16 condition in ratemaking?

17 A Okay, I see. I think it's implied in terms of
18 the capital -- the leverage ratio and the return on the
19 cost of capital -- so it's considered within those
20 provisions.

21 Q Okay. But the term "deteriorating financial
22 condition" is not used in that standard of practice?

23 A I can't -- you know, I don't know. I don't have
24 this memorized, so I can't tell you without doing a
25 surgeon PDF (phonetic).

1 Q Okay. And the leverage ratio is a specific
2 component of the standard rate-making formula; is that
3 what you're referring to?

4 A Yes.

5 Q Okay. And that leverage ratio has specific
6 values -- or it has a specific instruction of how that's
7 calculated under the regulation; correct?

8 A Correct.

9 Q Okay. And it doesn't take into account just a
10 broad deteriorating financial condition standard; correct?

11 A It's a standard -- it's a standard factor that
12 applies to all insurers.

13 Q Okay. Can you just briefly give a definition of
14 the leverage factor?

15 A So leverage factor is a ratio -- a surplus
16 premium.

17 Q Thank you. Okay. And can you turn to Consumer
18 Watchdog Exhibit 240. The very next exhibit.

19 A Okay.

20 Q And this one is called the Statement of
21 Principles Regarding Property and Casualty Insurance
22 Ratemaking, adopted by the Board of Directors of the
23 Casualty Actuarial Society on May 1988; are you familiar
24 with this Statement of Principles?

25 A Yes.

1 Q Okay. And anywhere in this Statement of
2 Principles is the deteriorating financial condition used
3 as a consideration?

4 A Again, without doing an infer search, I
5 don't -- I'm not seeing it on the first pass, but the
6 principle says no. Yeah. I'm not seeing just based on
7 first pass, but I don't know it by heart.

8 Q Okay. No worries. Thank you.

9 Okay. In your declaration, you testify about
10 State Farm Mutual, the parent company of State Farm
11 General, and how it's your belief that they should have
12 some responsibility for helping to improve State Farm
13 General's financial condition; correct?

14 A I don't know if those were my specific words.
15 Can you repeat that again?

16 Q In your declaration, you testified that State
17 Farm Mutual should have some rule in providing help to
18 improve State Farm General's financial condition?

19 A I think --

20 MS. McKENNEDY: Objection.

21 THE WITNESS: Yeah. Sorry.

22 MS. McKENNEDY: Sorry. Your Honor, objection.
23 Misstates declaration of testimony.

24 MS. PRESSLEY: Okay. I can --

25 THE COURT: Do you want to rephrase?

1 BY MS. PRESSLEY:

2 Q Sure.

3 I can wait to the part of your declaration.

4 Okay. In paragraph 15 of your declaration, you
5 stated, "I do not believe that the deterioration of
6 Applicant's surplus and RBC ratios has been solely cause
7 by allegedly-insufficient homeowners rates."

8 A Wait, I'm sorry. This is 15? Can you tell me
9 what line? It's a little bit hard to navigate.

10 Q Yeah. Sure. It's page 8 --

11 A Okay.

12 Q This is paragraph 15. But on page 8, starting at
13 line 7.

14 A Okay.

15 Q "I do not believe that the deterioration of
16 Applicant's surplus has been solely caused by allegedly
17 insufficient homeowners rates; rather, I believe there are
18 other steps. Applicant should be encourage and required
19 to take to improve its financial condition."

20 And then you go on in the next paragraph to say:

21 "As a first step, I agree with the Commissioner
22 that Applicant requires an immediate capital infusion in
23 order to increase its RBC ratios above the current
24 Authorize Action Level."

25 So you have, in your declaration, testified that

1 you believe that -- that State Farm Mutual should have a
2 role in playing -- in improving State Farm General's
3 financial condition with a capital infusion?

4 MS. McKENNEDY: Objection. Misstates the testimony.

5 THE COURT: You can answer now.

6 MS. PRESSLEY: You can answer --

7 THE COURT: It's overruled.

8 BY MS. PRESSLEY:

9 Q You can answer the way you would characterize
10 your testimony?

11 A I think I wouldn't say that they're required to.
12 I think, in this situation, the parent will provide a
13 400-million surplus note.

14 THE COURT: As a reminder to the witness. You can
15 answer yes or no to questions.

16 THE WITNESS: Thank you.

17 THE COURT: So if something's a no, just say "no."

18 THE WITNESS: Sorry. It's my first rodeo.

19 THE COURT: No worries. You're doing great.

20 BY MS. PRESSLEY:

21 Q Okay. I'm just going to ask one more time.

22 Do you believe that State Farm Mutual, the parent
23 company of State Farm General, should play a role in
24 helping to improve State Farm General's financial
25 condition?

1 A I think that depends.

2 Q What would be the factors that that would depend
3 on?

4 A Whether or not State Farm Mutual would like State
5 Farm General to continue to serve -- sell insurance in the
6 State of California.

7 Q Are you aware that State Farm General is a stock
8 company?

9 A I'm sorry. Can you repeat that?

10 Q Are you aware that State Farm General is a stock
11 company?

12 A No.

13 Q Are you aware that it's a 100% completely owned
14 by State Farm Mutual?

15 A Yes.

16 Q So going back to your testimony, again, you
17 stated that you don't believe the deterioration of -- I'm
18 sorry. You don't believe that the deterioration of
19 Applicant's surplus has been solely caused by allegedly
20 insufficient homeowners rates.

21 Who, in your opinion, is responsible for State
22 Farm General's current financial condition?

23 A It's not solely caused by homeowners. They have,
24 also, other lines of business that they provide, so the
25 combination of all of those lines of business is causing

1 their current condition.

2 Q Okay. Would you say that the CDI has any
3 responsibility for State Farm General's deteriorating
4 financial condition by not approving rate increases in a
5 timely manner?

6 A No.

7 Q Does State Farm General responsible for asking
8 for multiple 6.9% rate increases?

9 MS. McKENNEDY: Objection, Your Honor, to the extent
10 this witness knows because she's only been at the
11 Department for one year.

12 THE COURT: Yeah. Let's look into the instructions I
13 provided the witness.

14 Answer whether you -- you want to answer only
15 what you actually, personally know or don't know. And if
16 you don't know, then you say so.

17 THE WITNESS: Yeah, I don't know.

18 BY MS. PRESSLEY:

19 Q Okay. So you're not aware that State Farm
20 General asked for 6.9% rate increases during the time
21 period of 2017 to 2022?

22 A Only what I heard in this courtroom this week.

23 Q Okay. You did state that at the outset of your
24 testimony that you have reviewed the June homeowners
25 insurance rate application in preparing your testimony.

1 Are you familiar with the exhibit in that filing that list
2 the State Farm General rate-filing history?

3 A I have looked at it. Yes.

4 Q Okay. And do you recall, based on that review,
5 whether State Farm General asked for 6.9% rate increases
6 during the time period of 2017 to 2024?

7 A I'd have to go -- I don't recall, since we only
8 use one year in the rate template.

9 Q Okay. But State Farm General is the party that
10 would have chosen to apply for a 6.9% rate increase that's
11 not set by the Department; correct?

12 A No.

13 Q Okay. And in your review of this rate filing,
14 did you look at any of those past rate filings where State
15 Farm General asked for a 6.9% rate increase?

16 A I did not.

17 Q In general, if a company -- if -- okay. Let's
18 just give the example of this rate filing.

19 If a company's maximum permitted rate indication
20 is calculated under the standard CDI rate-making formula
21 is higher than 6.9, can the company ask for a rate that's
22 higher than 6.9 up to their maximum permitted rate
23 indication?

24 A I'm sorry. Can you repeat that again?

25 Q Sure.

1 If a company's rate templement -- I'm sorry. If
2 a company's rate template that's submitted with their rate
3 application shows that the maximum permitted premium, as
4 calculated under the minimum permitted rate-making
5 formula, is higher than 6.9, would they be entitled to
6 request a rate up to that maximum indication?

7 A Yes.

8 Q Okay. So, again, going back to the issue of the
9 declining surplus, as you testified, do you believe that
10 policyholders are responsible of State Farm's
11 deteriorating surplus?

12 MS. McKENNEDY: Objection. Vague.

13 THE COURT: Can you rephrase that.

14 BY MS. PRESSLEY:

15 Q If you can answer it.

16 You testified in your declaration that you don't
17 believe the deterioration of Applicant's surplus has been
18 solely caused by allegedly insufficient homeowners rates.

19 The question is: Are policyholders, who paid
20 premiums to State Farm General, responsible for State Farm
21 General's declining surplus?

22 A Not directly.

23 Q Do you think it's fundamentally fair, in your
24 opinion, for policyholders to pay an interim rate increase
25 now that could later be determined to be excessive?

1 A I think that depends.

2 Q Have you considered that policyholders who can't
3 afford the interim rate request that's being sought might
4 be forced to drop coverage if they can't afford that new
5 rate hike?

6 A I'm sorry. Can you repeat the question?

7 Q If the interim rate hike is approved at the 17%,
8 do you believe that there may be customers who can't
9 afford that rate increase would have to drop coverage?

10 A That's a possibility.

11 Q Under the proposed stipulation under
12 the -- I guess you would call it the original stipulation,
13 plus the April 4th supplement to the stipulation -- would
14 State Farm General have to take those policyholders back
15 if they decided to return?

16 A I'm sorry. Could you put it -- could you repeat
17 that for me again?

18 Q Sure.

19 Under the proposed stipulation -- which includes
20 the original February 7th stipulation between the CDI and
21 State Farm General, plus the supplement that was signed
22 and submitted on April 4th -- are there any provisions in
23 that stipulation that State Farm General would have to
24 take to write policyholders who had dropped coverage
25 during the -- after the interim rate goes into effect?

1 A Could you break it -- I'm not following -- a
2 little train of thought. I'm sorry.

3 Q Okay.

4 MS. McKENNEDY: Your Honor, if I may, does she have a
5 copy of these stipulations in front of her on the witness
6 stand? She has not been offered as someone to testify to
7 the contents of the stipulations.

8 MR. TETI: Your Honor, I just add an objection to the
9 extent this calls for a legal conclusion.

10 MS. McKENNEDY: Join.

11 THE COURT: As to both, you can ask her to refer to
12 that, if you'd like. But she can answer preliminarily
13 whether if she's aware of the terms.

14 MS. PRESSLEY: Okay.

15 THE COURT: Just as laying a basic foundation --

16 MS. PRESSLEY: Your Honor, this witness is being
17 offered as the only actuary that is here today or in the
18 entire course of these three days supporting this
19 stipulation.

20 She signed a declaration under penalty of
21 perjury, and I would expect that she would know the
22 context of the stipulation that she's supporting. So.

23 THE COURT: And I understand that, and you can ask
24 whether or not she's aware of the provision or
25 non-provision of what you're doing, but she's losing track

1 with all of that. And I think it's leading the rest of
2 the room to not be sure what she's actually being
3 questioned about.

4 MS. PRESSLEY: I mean it would take me a minute to
5 just find what number --

6 THE COURT: Take your time.

7 MS. PRESSLEY: -- the stipulation is in the evidence.

8 MS. McKENNEDY: And, Your Honor --

9 THE COURT: Maybe we'll take a break. You can get the
10 rest of your cross ready.

11 You remain under oath, but we'll take a break for
12 10 minutes. Let's come back at -- or let's just take a
13 full break. 11:30. 15 minutes.

14 Off the record.

15 (Break)

16 THE COURT: All right. Back on the record
17 after a fifteen-minute recess. In the continuing
18 examination of the Department's witness in the case of
19 the Rate Applications of State Farm General Insurance
20 Company, file numbers PA-2024-00011, 12, and 13.

21 Are we continuing with the witness?

22 MS. PRESSLEY: Yes, Your Honor.

23 THE COURT: Okay. And if you could please
24 retake the stand, Ms. Shaw, and I remind you that you're
25 under oath. Thank you.

1 BY MS. PRESSLEY:

2 Q. Ms. Shaw, do you have a binder in front of you
3 that has the State Farm General's exhibits? I believe
4 it's to your right, the far right, and it starts with
5 State Farm Exhibit 101.

6 A. Okay.

7 Q. Okay. So I believe State Farm General Exhibit
8 101 is the original two-way stipulation that was signed
9 by the California Department of Insurance and State Farm
10 General that was filed with AHB on March 17th, executed
11 by the parties on February 7th. Do you see that
12 stipulation as Exhibit 101?

13 A. Yes.

14 Q. And this is the stipulation that your April
15 2nd declaration was submitted in support of; correct?

16 MS. McKENNEDY: Objection, Your Honor.
17 Misstates testimony.

18 THE COURT: She can answer as to whether or
19 not she's aware of it being filed in support of that.

20 THE WITNESS: I believe my declaration is
21 supporting this supplemental stipulation -- or the
22 stipulation with two additional items. So I guess it
23 would be this plus the supplemental stipulation.

24 BY MS. PRESSLEY:

25 Q. Okay. At the time that you filed your

1 declaration -- or at the time that your declaration was
2 signed on April 2nd, did the parties have a supplemental
3 stipulation?

4 MS. McKENNEDY: Objection, Your Honor. Where
5 is she going with this?

6 THE COURT: Are you trying -- where is this
7 line of questioning in the sense -- I mean, she can
8 answer whether she was aware of there being one at that
9 time but what -- why?

10 MS. PRESSLEY: Okay. The prior questions
11 leading up to the break, we were asking about specific
12 terms of these two documents, so I'm just trying to
13 establish whether she is aware of these two documents
14 and the sequence of when she filed her declaration in
15 relation to the two documents.

16 THE COURT: Okay. And your question, could
17 you put it back in the record? Please repeat it.

18 BY MS. PRESSLEY:

19 Q. Okay. So you just -- in response to my last
20 question, you said that you are -- you -- your
21 declaration was specifically supporting the terms of the
22 supplemental stipulation; correct?

23 A. Correct.

24 Q. Okay. At the time that you filed your
25 declaration, to your knowledge, was the supplemental

1 stipulation, had that yet be executed?

2 MS. McKENNEDY: Objection, Your Honor. The
3 supplemental stipulation is dated. The witness does not
4 have it in front of her. She's been directed to the
5 first stipulation, so I don't know that the witness can
6 answer this based on memory.

7 MS. PRESSLEY: Your -- Your Honor, I would
8 just --

9 MS. McKENNEDY: And it's beyond the scope,
10 Your Honor.

11 MS. PRESSLEY: Your Honor, I would just ask
12 you to remind Counsel that when she's stating her
13 objections, to state her objections but not to be
14 coaching the witness in her objections.

15 MS. McKENNEDY: Your Honor, my objection
16 stands. The supplemental stipulation is dated, and on
17 the date it was executed, it was filed and served. It's
18 a legal document.

19 THE COURT: I think --

20 MS. McKENNEDY: This witness is not here to
21 testify --

22 THE COURT: I think it's fair in the interest
23 of foundation to direct her to the supplemental, if you
24 can, so we're all on the same page.

25 MS. PRESSLEY: Okay.

1 BY MS. PRESSLEY:

2 Q. Are you aware --

3 THE COURT: Otherwise, she may have to answer
4 she doesn't know.

5 MS. PRESSLEY: Okay.

6 BY MS. PRESSLEY:

7 Q. Are you aware of the terms of the supplemental
8 stipulation that was filed with AHB on April 4th?

9 A. I don't know the timing of everything.

10 Q. Okay. Can you turn to Exhibit 102 that's in
11 the binder in front of you?

12 A. Yes.

13 Q. And can you turn to the last page where the
14 parties' signatures appear?

15 A. Okay.

16 Q. What was the date of that supplemental
17 stipulation?

18 A. April 4th, 2025.

19 Q. And what date did you execute your
20 declaration?

21 A. April 2nd, 2025.

22 Q. Okay. But as you're testifying here today,
23 you are supporting the original February 7th declaration
24 with the additional terms that are contained in this
25 supplemental April 4th stipulation?

1 MS. McKENNEDY: Asked and answered.

2 THE COURT: You mean "stipulation"?

3 MS. McKENNEDY: Asked and answered.

4 THE COURT: Let's let it clarify, because this
5 is supplemental. This is -- you can ask the question
6 again, but she's asking you whether or not your
7 declaration and your testimony supports both the
8 stipulation as it was originally entered into and -- and
9 supplemented, however, you want to call the terminology.
10 Is that "yes" or "no"?

11 THE WITNESS: I'm sorry. Can somebody repeat
12 this again? I'm sorry.

13 THE COURT: Does your -- does your testimony
14 here today in the declaration that you filed, is it in
15 support of the stipulations that were entered into
16 between the Department and State Farm General that's
17 subject in this matter?

18 THE WITNESS: Yes.

19 THE COURT: Is there more that has to be
20 settled Ms.

21 MS. McKENNEDY: Yes, Your Honor. Her
22 declaration speaks for itself, and I don't think this
23 witness has the foundation to testify with respect to
24 the first stipulation, and she may have just not
25 understood the questions.

1 THE COURT: Okay. I understand the
2 distinction, but she's not -- but at the point that the
3 declaration is proffered and have been now admitted, the
4 point is that both stipulations, whether you call them
5 the supplement to the original or the original
6 supplemented, however the terminology the parties can
7 agree on, her testimony here today and her declaration
8 are in support of approving it.

9 MS. McKENNEDY: Thank you, Your Honor. I
10 think with that clarification, the original stipulation
11 as supplemented and refined by the supplement.

12 THE COURT: That was my purpose in trying to
13 screen on that, but I didn't do very good. So I
14 understand your answer to be in the affirmative. It's
15 "yes" to that? You support the stipulation as it's been
16 supplemented?

17 THE WITNESS: Correct.

18 THE COURT: Continue. Continue.

19 MS. PRESSLEY: Okay.

20 BY MS. PRESSLEY:

21 Q. Apologies for the confusion, but because there
22 were two separate documents submitted and we're trying
23 to combine the terms, the second stipulation that was
24 filed on April 2nd that contains the additional terms
25 that you testified to in your declaration, the

1 additional --

2 MS. McKENNEDY: Objection. Misstates. It was
3 not filed on April 2nd.

4 MS. PRESSLEY: April 4th, Your Honor. I'm
5 sorry.

6 BY MS. PRESSLEY:

7 Q. The supplemental stipulation that was filed on
8 April 4th, in that supplemental stipulation it says that
9 it incorporates the prior parties' stipulation that was
10 executed on February 7th with the additional terms; is
11 that your understanding?

12 A. I'm sorry. I'm really confused by all these
13 dates so --

14 Q. I am, too. I believe me; I am, too. The
15 supplemental stipulation that you are supporting with
16 your declaration, in that stipulation -- it's in front of
17 you as Exhibit 102; correct?

18 A. Okay. I didn't read the supplemental
19 stipulation in detail, but -- so I -- but I'm aware of
20 the -- maybe if you talk in terms in numbers for me,
21 that might be a little easier.

22 MS. McKENNEDY: Your Honor, I repeat her
23 concerns with lack of foundation with this witness to
24 testify to the terms of the legal documents that are the
25 stipulated agreements.

1 THE COURT: That -- that may be appropriate,
2 but I haven't heard the question asking that yet.

3 MS. McKENNEDY: Okay.

4 THE COURT: All I've heard her to is to refer
5 to the document, but I understand a little bit of
6 frustration because we're going a little bit circular
7 here, and I'm trying to give Counsel an opportunity to
8 get their -- what is their point into the record but
9 also be mindful of your concerns.

10 MS. McKENNEDY: Thank you, Your Honor.

11 MS. PRESSLEY: Yes, it's very difficult to get
12 the question out when there's speaking objections after
13 every question to direct a witness of how to respond,
14 so.

15 THE COURT: And I appreciate that, too, but
16 I'm getting -- it's hard to follow because I know you're
17 working hard to try to give us some of the breadcrumbs.

18 MS. PRESSLEY: Yes.

19 THE COURT: Okay.

20 MS. PRESSLEY: Okay.

21 BY MS. PRESSLEY:

22 Q. You just testified a second ago that you
23 support the supplemental stipulation?

24 A. Yes.

25 Q. With your declaration?

1 A. Yes.

2 Q. Did you also just testify that you have not
3 reviewed that supplemental stipulation?

4 A. That's not -- sorry. I may have -- I reviewed
5 the documents -- sorry. I looked at the document, but
6 it's legalese, and the two numbers that I picked out, 70
7 percent and \$400 million.

8 Q. Okay. Thank you.

9 MS. McKENNEDY: Your Honor, can I ask for
10 clarification? 17.0 percent, not 70 percent?

11 THE WITNESS: 17. Sorry. I can't annunciate
12 sometimes.

13 MS. PRESSLEY: Again, Your Honor, I would just
14 object to --

15 THE COURT: Yes, it's irregular, but we want
16 to get through it, so please --

17 MS. PRESSLEY: Okay.

18 THE COURT: I appreciate your patience,
19 Ms. Pressley, but as for other things, try to take note
20 of them so that on -- on redirect you can ask them, but
21 it was a good point.

22 BY MS. PRESSLEY:

23 Q. Okay. So are you reading -- the document
24 that's before you is Exhibit 102. That's called the
25 supplement to the stipulation. Do you see that in front

1 of you?

2 A. Yes.

3 Q. Is this your first time reading that document?

4 A. No.

5 Q. Okay. So you're just -- you're saying that
6 you're just supporting the numbers in the supplemental
7 stipulation but not anything else?

8 MS. McKENNEDY: Misstates testimony.

9 THE COURT: I'm going to sustain that. It's
10 not really. You can -- you can get to that -- what --
11 where you're trying to go with it, but you'll have to
12 build it in smaller pieces.

13 MS. PRESSLEY: Sure.

14 BY MS. PRESSLEY:

15 Q. Okay. Looking at the supplemental stipulation
16 that's in front of you as Exhibit 102, are you aware of
17 any terms in that stipulation that would require State
18 Farm General to accept policyholders who are forced to
19 non-renew or -- let me rephrase that.

20 If the 17 percent rate hike that is being
21 proposed by the Department of Insurance and State Farm
22 General is approved, you stated earlier that some
23 policyholders -- it's a possibility that some
24 policyholders might have to drop their coverage because
25 they can't afford the 17 percent; correct?

1 A. Yes.

2 Q. Okay. For those policyholders that may be
3 forced to drop their coverage because they cannot afford
4 the 17 percent rate hike, are there any terms in this
5 supplement to the stipulation that's before you as
6 Exhibit 102 that would require State Farm General to
7 take those policyholders back as their customers at the
8 point in time when the additional -- when the -- when
9 the final rate is approved --

10 A. I don't know.

11 Q. -- at a lower rate? Okay. Thank you. I'm
12 sorry that took so long to get to, but I understand we
13 need to break everything down. Okay.

14 So going back to your declaration, at page 2
15 of your declaration, okay, it's lines 20 through 23 of
16 your declaration.

17 THE COURT: On what page?

18 MS. PRESSLEY: Page 2.

19 BY MS. PRESSLEY:

20 Q. You stated, "The interim rate in the surplus
21 note that the Department's staff are recommending are
22 stopgap measures and will be subject to further
23 investigation and proof as part of the full rate hearing
24 process, as well as the possibility of refunds with
25 insurance if the interim rate turns out to be

1 excessive."

2 Do you recall that statement in your
3 declaration?

4 A. I see it in front of me, yes.

5 Q. Okay. Is that still -- is that still your
6 opinion?

7 A. Yes.

8 Q. Is it your opinion that the cost of the
9 steps -- I'm sorry. Is it your opinion that the cost of
10 the stopgap measure that's in the form of the interim
11 rate hike should be borne by homeowners insurance
12 policyholders?

13 MS. McKENNEDY: Objection. Vague.

14 THE COURT: Overruled. She can answer that.

15 THE WITNESS: Can you repeat the question?

16 BY MS. PRESSLEY:

17 Q. Sure. In your declaration you referred to the
18 interim rate and the surplus note as stopgap measures
19 that will be subject to further investigation. Is it
20 your opinion that the stopgap measures of the interim
21 rate hike of 17 percent should be borne by homeowners
22 insurance policyholders?

23 A. That's what the rate increase implies.

24 Q. Okay. And what would you consider a stopgap
25 measure? How would you define that?

1 A. In my previous testimony, I mentioned that
2 State Farm's in a serious financial position, and with
3 the 17 percent rate increase and the \$400 million
4 surplus notes gets them to a soft landing spot; It
5 doesn't get them completely out of the woods, and so
6 this is what I mean by "stopgap measure."

7 Q. Okay. So essentially a stopgap measure is
8 something to get State Farm financially stable until
9 such time as it can fully prove its requested rate hike?

10 A. I'm sorry. Can you repeat that again?

11 Q. You would say a stopgap measure is a measure
12 that would be intended to get State Farm financially
13 stable until such time as the final rate indication is
14 approved after the hearing -- after they have an
15 evidentiary hearing?

16 A. Correct. And then that would be subject to
17 the excess and would be subject to refund this interest.

18 Q. Okay. You also testified in your declaration
19 that -- strike that. I'll come back to that.

20 Let's turn to paragraph 5 of -- of the
21 original stipulation, which is State Farm General
22 Exhibit 101. Do you have that?

23 A. Okay. Yes.

24 Q. Okay. And there's a line in that stipulation
25 in paragraph 5 that says, "The Department further

1 believes and thereon alleges that this stipulation is in
2 the public interest in order to maintain maximum
3 availability of homeowners insurance options in
4 California."

5 Do you agree with that statement?

6 A. Yes.

7 Q. And do you agree with that statement both as
8 to the February 7th stipulation and the supplement to
9 that stipulation that was filed on April 4th?

10 A. This is in the first stipulation, so -- I'm
11 sorry. Can you help me understand the question relating
12 to the supplemental?

13 Q. Well, it's my understanding that the two
14 documents are now one agreement; correct? The -- the
15 original stipulation --

16 A. Is this just how you phrase it? You have to
17 say both things at the same time? I'm sorry.

18 Q. Okay. My question is -- I believe you just
19 answered that you agree with the statement that in the
20 original stipulation that says, "The Department further
21 believes and thereon alleges that this stipulation is in
22 the public interest in order to maintain maximum
23 availability of homeowners insurance options in
24 California"?

25 A. Yes.

1 Q. Okay. So as it stands today, the agreement
2 between the Department of Insurance and State Farm
3 General that is the subject of this rate hearing,
4 including the 17 percent plus the additional terms that
5 are agreed to in this supplement, it's your position
6 that that agreement is in the public interest?

7 A. This interim rate, yes, is in the public.

8 Q. Okay. So do you believe that raising State
9 Farm General homeowners rates by 17 percent will lead to
10 more homeowners being able to afford State Farm General
11 policy?

12 MS. McKENNEDY: Objection. Argumentative.
13 Beyond the scope.

14 MS. PRESSLEY: Your Honor, she just testified
15 that she believes that the stipulation is in the public
16 interests in order to maintain availability.

17 THE COURT: I'm overruling it. I'm going to
18 allow you some questioning on this, but try to keep it
19 tight.

20 MS. PRESSLEY: Okay. Okay.

21 BY MS. PRESSLEY:

22 Q. Do you believe that raising State Farm General
23 homeowners policy rate by -- policyholders rates by 17
24 percent will lead to more homeowners being able to buy a
25 State Farm General homeowners policy?

1 A. Rather than buy, I would say just to have
2 insurance.

3 Q. Okay. So -- okay. Have you done any analysis
4 to show how raising State Farm's homeowners rate by 17
5 percent will maintain the maximum availability of
6 homeowners insurance options in California?

7 A. I have not.

8 Q. Okay. In the April 4th supplement to the
9 stipulation -- if you could look at paragraph 3.

10 A. Are we going back to 102?

11 Q. This is 102, yes.

12 A. Okay.

13 Q. I apologize. I don't have the line number in
14 front of me, but I could read to you from a quote from
15 paragraph 3. It says, "State Farm General does not
16 agree and stipulate to cease its currently implemented
17 and ongoing nonrenewal program that was initiated in
18 March 2024 in the lines represented by the
19 applications."

20 A. This is in paragraph 3 in the supplemental?

21 Q. Yes.

22 A. I'm not seeing that.

23 Q. Okay.

24 MS. PRESSLEY: Your Honor, may I ask Counsel
25 for State Farm General to provide us with the binder of

1 State Farm General's -- I just don't have it in front of
2 me.

3 MS. McKENNEDY: I don't either, Your Honor.

4 THE COURT: Is the State Farm General -- do
5 you have that available for Counsel as a courtesy?

6 MR. MONTGOMERY: Yes, Your Honor. Just to
7 clarify, is that a request for SFG-102? What exhibit
8 number?

9 MS. PRESSLEY: Do you have an extra binder
10 with your exhibits? I know the witness has one, and we
11 didn't get one at our counsel table. I think we
12 provided you with a binder of our exhibits, but I just
13 would like a binder with your exhibits, so.

14 MR. MONTGOMERY: All of our exhibits?

15 MS. PRESSLEY: Just the initial binder that
16 has 201 and 202 -- I'm sorry. 101 and 102.

17 MR. MONTGOMERY: 101 and 102. Yes, we can get
18 that. It may take one moment.

19 MR. PLETCHER: May I walk across?

20 THE COURT: Sure.

21 MR. PLETCHER: This -- this, I believe, is
22 it -- we -- we have been taking some out --

23 MS. PRESSLEY: Okay.

24 MR. PLETCHER: -- so --

25 MS. PRESSLEY: Thank you.

1 MR. PLETCHER: That's kind of the original.
2 So we'll take it back when you're done.

3 MR. MONTGOMERY: Sure. Absolutely.

4 THE COURT: Are you working off the electronic
5 version? Is that what you're doing? It's wonderful
6 until you can't find the electronic version.

7 MS. PRESSLEY: And the Wi-Fi is not always
8 accessible. Okay. So this is Exhibit 102, which it
9 looks like it's missing from this binder.

10 MS. McKENNEDY: Your Honor, would you like me
11 to help the witness?

12 THE COURT: Sure. That'd be great.

13 MS. PRESSLEY: I'm just going to pull up the
14 digital copy because it's not in the binder.

15 THE WITNESS: That can be hard to read.
16 Sometimes that happens to me.

17 MS. McKENNEDY: Ms. Shaw --

18 THE COURT: If you could -- I think she's
19 trying to direct you to the right point in the document.

20 MS. McKENNEDY: I think page numbers might
21 help, Your Honor.

22 MS. PRESSLEY: Yes, Your Honor. That's why
23 I'm trying to find the document and then I'm going to
24 give her the page and line number. I know it's in
25 paragraph 5, so just give me a sec.

1 THE WITNESS: I thought you said 3. I'm
2 sorry.

3 MS. McKENNEDY: You did say paragraph 5.

4 THE WITNESS: 5?

5 MS. McKENNEDY: No, 3. She said 3. It's on
6 page 3.

7 BY MS. PRESSLEY:

8 Q. I said -- I'm sorry. I said paragraph 5 of
9 the February 7th two-party stip, which is Exhibit 102.

10 A. Wait, what was the date again? This is April
11 4th; right?

12 Q. Correct.

13 A. I just heard February. I'm so sorry.

14 MS. McKENNEDY: Objection, Your Honor. This
15 is very confusing. I don't know which stipulation we're
16 on.

17 MS. PRESSLEY: Your Honor, I'm referring to
18 Exhibit 102. This is the April 4th supplement to the
19 stipulation.

20 THE WITNESS: Okay.

21 THE COURT: And the witness is shaking her
22 head in the affirmative manner that suggests that she
23 has it in front of her.

24 MS. PRESSLEY: Paragraph --

25 THE COURT: She's found that.

1 MS. PRESSLEY: Paragraph 5 -- I read a quote
2 from paragraph 5, which the witness she could not find,
3 so I'm looking up the page and line number in paragraph
4 5, if you could give me one second.

5 MS. McKENNEDY: It is page 4, Your Honor if
6 that helps.

7 THE COURT: Counsel for the Department seems
8 to think it's on 4, but we'll wait and see if we can
9 locate it so you're looking at the same thing, everybody
10 all at once.

11 BY MS. PRESSLEY:

12 Q. Okay. I apologize. I misspoke. It was
13 paragraph 3, and it's on page 3. Okay?

14 In that paragraph, page 3, starting around
15 line 15, it says, "Applicant maintains that it would be
16 contrary to prudent management of the company and
17 fiscally irresponsible to agree and stipulate to cease
18 its currently implemented ongoing nonrenewable program
19 that was initiated in March 2024 in the lines
20 represented by the applications."

21 Do you see that?

22 A. Yes.

23 Q. Okay. It further goes on to say, "And
24 therefore, it reports that it would complete that
25 program by yearend 2025."

1 A. Yes.

2 Q. Okay. I just want to keep -- have you keep
3 that statement in your mind. You testified in your
4 declaration -- I believe it was at paragraph 17 of your
5 declaration. Do you have that in front of you?

6 A. Yes.

7 Q. You testified that "Applicant has reported
8 that since March 2024, it has non-renewed approximately
9 12,677 policyholders and is currently in progress to
10 non-renew its additional 11,016 policyholders."

11 A. Yes.

12 Q. Okay. So is it your understanding that from
13 the statement that is in paragraph 3 of the supplement
14 to the stipulation that State Farm is not agreeing to
15 pause those additional 11,000 non-renewals than it
16 initiated in the nonrenewal program that started in
17 March of 2024?

18 MR. PLETCHER: Your Honor, we object. This is
19 way beyond the scope of direct.

20 THE COURT: Overruled. It's in the
21 declaration and I'm going to allow beyond the scope.

22 BY MS. PRESSLEY:

23 Q. Okay. And I believe you actually testified in
24 your declaration that part of the intent of reducing the
25 20 -- the original 28.1 percent --

1 A. 21.8.

2 Q. -- 21.8 to 17 percent was to account for the
3 fact that State Farm was not agreeing to stop all of its
4 non-renewals of that block nonrenewal program; correct?

5 A. Yes.

6 Q. Okay. So based on your declaration in
7 paragraph 17 where you said that Applicant has reported
8 that it has non-renewed 12,677 policyholders already and
9 is currently in progress to non-renew its additional
10 11,000 policyholders, that's a -- roughly 23,500
11 policyholders that were combined part of that 2024
12 nonrenewal program; correct?

13 A. I can't do the math as fast as you, but I
14 believe you.

15 Q. How, in your opinion, does State Farm
16 General's nonrenewal of over 23,500 policyholders
17 maintain the maximum availability of homeowners
18 insurance options in California?

19 MS. McKENNEDY: Misstates testimony.
20 Argumentative.

21 THE COURT: I don't think she referred to her
22 testimony. Overruled.

23 THE WITNESS: Can you repeat the question?
24 BY MS. PRESSLEY:

25 Q. How does State Farm General's nonrenewal of

1 over 23,500 policyholders maintain the maximum
2 availability of homeowners insurance options in
3 California?

4 A. State Farm has 3.2 million policies on their
5 books, their homeowners policy. They have 2.2 million
6 customers. 1.2 million of them belong to the homeowners
7 policy you were referring to. If State Farm were unable
8 to -- if the surplus issued was unable to support their
9 ongoing business concerns, I think the number would be
10 greater than this 23,000 policyholders that you're
11 referring to.

12 Q. Okay. Can you turn to the supplemental stip
13 which is -- we're still on Exhibit 102, paragraph 6.
14 And that is on page 4, lines 18 through 20.

15 A. Yes.

16 Q. Okay. And that portion of the stipulation
17 reads, "The parties stipulate and agree that Applicant
18 shall not initiate any new block nonrenewal programs in
19 the lines represented by applications through yearend
20 2025."

21 Are you familiar with that?

22 A. Yes.

23 Q. Okay. Do you have an understanding of what is
24 meant by the term "block nonrenewal programs"?

25 A. No, I don't -- I don't know the full

1 definition, but I think I can infer from the text.

2 Q. Okay. So -- but your understanding is that
3 this stipulation prohibits State Farm General from
4 implementing any new block nonrenewal programs through
5 the end of this year, the end of the calendar year 2025?

6 A. Yeah. I believe they are allowed -- sorry.
7 Whatever they have on -- as a transaction, they can
8 take, but they can't initiate any new ones.

9 Q. Any new ones. That's excluding the one we
10 just discussed that was initiated in March 2024;
11 correct?

12 A. Correct.

13 Q. Okay. So other than block non-renewals, is it
14 your understanding under the supplement to the
15 stipulation that State Farm General can still non-renew
16 policyholders on an individual basis in 2025?

17 A. I think that would depend on State Farm.

18 Q. Okay.

19 A. Because it could for be many reasons.
20 Nonpayment is one; right?

21 Q. Correct. So the prohibition in paragraph 7
22 and the stipulation only applies to block non-renewals;
23 correct? And I understand --

24 A. That's what the text reads.

25 Q. Okay. Okay. And according to that term as to

1 block non-renewals starting in eight months on January
2 1st, 2025, State Farm could --

3 A. Wait. January '25?

4 Q. I'm sorry. January 1st, 2026. Under this
5 term, it says "Applicant shall not initiate any new
6 block nonrenewal programs through yearend 2025."

7 So starting on January 1st, 2026, would this
8 stipulation prevent State Farm General from implementing
9 a new non -- a new -- sorry -- a new block nonrenewal
10 program starting January 1st of 2026?

11 A. I don't know.

12 Q. Okay. But as to this term, it only applies
13 through yearend 2025; correct?

14 A. That's what it reads, yes.

15 Q. Okay. Thank you. Okay. Going back to your
16 declaration in paragraph 18, do you have that?

17 A. Yes.

18 Q. Okay. In that paragraph you stated that the
19 reduction in the interim rate from 21 percent -- I'm
20 sorry -- 21.8 percent to 17 percent was intended to,
21 quote, take into account the potential effects of
22 Applicant continuing these non-renewals.

23 Do you see that?

24 A. Yes.

25 Q. Okay. But then you went on in that same

1 paragraph. You stated that "the reduction of the
2 interim rate to 17 percent made either over or
3 underestimate the potential rate impact of the ongoing
4 nonrenewal program, and, therefore, the Department
5 intends to fully investigate the actual rate impact, if
6 any, of these non-renewals during the full rate hearing
7 process."

8 Do you see that?

9 A. Yes.

10 Q. Okay. And is that still your testimony today?

11 A. Yes.

12 Q. Okay. So is the 17 percent interim rate
13 that's been agreed upon by the Department of Insurance
14 and State Farm General based on your calculation of the
15 maximum rate indications using the CDI rate templates?

16 MS. McKENNEDY: Your Honor, asked and answered
17 several times. Can I ask how much longer we're going to
18 be with this witness, or should we break for lunch?

19 THE COURT: Well, it does -- on the objection
20 itself, I thought we covered this ground, Ms. Pressley.

21 MS. PRESSLEY: It's one question, Your Honor.
22 I'm just trying to -- in relation to --

23 THE COURT: Okay.

24 MS. PRESSLEY: I'm asking --

25 THE COURT: I'll overrule it --

1 MS. PRESSLEY: Sure.

2 THE COURT: -- to let you clear it up, but I
3 do think it was covered.

4 MS. PRESSLEY: Okay.

5 THE COURT: You can answer the question,
6 Ms. Shaw.

7 MS. PRESSLEY: It's just that this paragraph
8 is specifically dealing with that calculation, so I'm
9 just trying to --

10 THE COURT: You want the specificity?

11 MS. PRESSLEY: Yes, correct.

12 THE WITNESS: I did not calculate the 17
13 percent. It was given me by my Counsel, and I
14 understand it came from State Farm.

15 BY MS. PRESSLEY:

16 Q. Okay. So it's your opinion that you would
17 need more information than what was currently in the
18 rate applications and in the record in order to, quote,
19 fully investigate the actual rate impact of those
20 non-renewals; correct?

21 A. Yes.

22 Q. So as of today, you don't have an opinion of
23 whether 17 percent is above or below the maximum
24 permitted rate indication under the regulations?

25 A. I don't have an opinion.

1 Q. Okay. Also in your declaration I believe
2 at -- there is a chart. Paragraph -- it looks like
3 paragraph 17. It's on page 10 of your declaration. And
4 there's estimated premium -- there's a second column in
5 that chart Estimated Premium Impact. Do you see that?

6 A. Yes.

7 Q. Okay. To what premium basis and dollar value
8 did you apply the requested 21.8 percent to arrive at
9 the estimated premium impact of \$530 million in your
10 declaration?

11 A. The 2024 gross-earned premium as calculated in
12 annual statement.

13 Q. I'm sorry. Can you restate that? 2024 --

14 A. Gross -- gross-earned premium from the annual
15 statement.

16 Q. Okay. And what was the effected date for the
17 requested 21.8 percent rate increase that you used to
18 estimate that \$530 million?

19 A. This is a high-level financial estimate. It's
20 not from the rate template.

21 Q. Okay. Okay. And I believe you testified in
22 your declaration that once this -- once the premium
23 dollars that start coming in from the rated -- the rate
24 hike are reflected in the data, I think you testified
25 that that would be about 12 to 24 months result in --

1 improvement to insurer surplus position would take about
2 12 to 24 months for that rate impact to improve the
3 surplus?

4 A. It's in my declaration, yes.

5 Q. Okay. When you made that statement, did you
6 consider any potential changes in loss experience during
7 that timeframe?

8 A. Yes. This is a high-lever rate impact. This
9 is just top line premium. I haven't estimated what the
10 combination ratio is going to be or what the loss would
11 be or gain.

12 Q. Okay. But would you agree that there would be
13 an impact from whatever the loss is or --

14 A. Right. But so -- so that's why we're
15 including all of this. So this would assume that the
16 combined ratio is 100 percent, that all of this increase
17 would flow to the bottom line.

18 Q. Okay. Okay. Going to page 5 of your
19 declaration. Okay. And I believe this was asked -- a
20 question was asked about this by your counsel earlier,
21 which is why I'm raising it. It's regarding the RBC
22 ratios, so I'm asking it in response to what you stated
23 earlier in the question that was asked by your counsel.

24 In your declaration it says, "I've
25 independently calculated Applicants' RBC ratios based

1 upon publicly available information in its annual
2 statements using the same formula set forth in the RBC
3 instructions that are published by the NAIC for property
4 and casualty insurance."

5 MS. McKENNEDY: What's the question?

6 BY MS. PRESSLEY:

7 Q. Is that your testimony?

8 A. Yes.

9 Q. Okay. So were your calculations based on your
10 understanding of what the instructions that -- the RB
11 instructions that are published by the NAIC the same
12 formula that's in those instructions? Was that used in
13 your calculations?

14 MS. McKENNEDY: Objection. Asked and
15 answered.

16 THE COURT: Overruled.

17 THE WITNESS: Can you repeat your question?

18 BY MS. PRESSLEY:

19 Q. Sure. The RBC ratios that you calculated that
20 are contained in your testimony, did you use the same
21 formulas that are in the RBC instructions that are
22 published by the NAIC to calculate those ratios?

23 A. It's consistent with the NAIC RBC
24 instructions, yes.

25 Q. Okay.

1 MS. PRESSLEY: I'm just going to renew our
2 motion to strike any the specified page and line numbers
3 that referred to the RBC calculations.

4 THE COURT: So noted for the record. We'll
5 visit that at the conclusion of the day, too, so that we
6 can manage it.

7 MS. PRESSLEY: Okay. Thank you.

8 BY MS. PRESSLEY:

9 Q. Okay. Moving on to page 8.

10 MS. PRESSLEY: And just for timing purposes,
11 this is my last line of questioning, so I think I can
12 wrap up in about ten minutes.

13 THE COURT: Okay. Does that work for
14 everybody? We're going later than the usual, so people
15 are getting kind of grumbly, and we appreciate your
16 moving on.

17 BY MS. PRESSLEY:

18 Q. Okay. So going to page 8 of your declaration,
19 starting at line 6. Okay. Yeah, it's actually starting
20 at line 5.

21 You said, "Based upon my very early stage
22 preliminary analysis, which I intend to further
23 investigate and develop during discovery as part of the
24 full rate hearing process, I do not believe the
25 deterioration of the Applicant surplus in RBC ratios has

1 been solely caused by allegedly insufficient homeowners
2 rate."

3 Do you see that?

4 A. Yes.

5 Q. So you -- at this stage in time, you're not
6 certain of what the impact of those causes are; right?

7 MS. McKENNEDY: Asked and answered.

8 THE COURT: Overruled.

9 THE WITNESS: The -- State Farm had made a
10 preliminary showing in this interim -- emergency interim
11 rate request that they had a catastrophic loss that
12 impacted their financial severity.

13 And while the interim rate is an interim rate,
14 we will get all our data and support as to 2025 as
15 instructed by the Commissioner so that we can fully
16 investigate this during the rate hearing. And, I'm
17 going to add, any -- if we determine the rate to be
18 excess, it will be refunded plus interest.

19 BY MS. PRESSLEY:

20 Q. Okay. So then the only showing from State
21 Farm that you're looking at is the -- the January 2025
22 loss event?

23 A. I'm sorry. I couldn't quite hear you. Can
24 you speak into the microphone, please?

25 Q. So the only showing from State Farm General

1 that you're looking at is the loss event, the 2025
2 fires?

3 MS. McKENNEDY: Objection. Misstates
4 testimony.

5 THE COURT: She's asking whether or not she's
6 referring to it. I'll allow it. Overruled.

7 THE WITNESS: Can you ask your question again?
8 BY MS. PRESSLEY:

9 Q. So the only information or the only showing
10 from State Farm General that you're looking at is the
11 losses -- the loss event from the 2025 -- January 2025
12 fires?

13 A. I believe we covered that yesterday. There
14 are two new additional pieces of information. One is
15 the effective date. The other one is the CAT exhibit.

16 Q. Okay. But, again, at this stage, you
17 characterize your analysis of the causes of the
18 deterioration of Applicant surplus as very early stage
19 preliminary analysis that you intend to investigate
20 further; correct?

21 A. That would be the rate impact, and they came
22 to us back in June with deteriorated financial
23 conditions. That was alarming. And now with the
24 wildfires, it's getting very serious.

25 Q. Okay. And, again, you testified that you

1 don't believe that the deterioration of surplus was
2 solely caused by insufficient homeowners rates?

3 MS. McKENNEDY: Asked and answered, Your
4 Honor, several times.

5 THE COURT: Ms. Pressley, is this question --
6 why is it necessary?

7 MS. PRESSLEY: I'm just reminding -- I'm
8 reminding her to -- as -- that that's what she
9 testified, to ask the next question that's related to
10 that question --

11 MS. McKENNEDY: Argumentative.

12 MS. PRESSLEY: -- which is a different
13 question.

14 THE COURT: All right. Proceed.

15 BY MS. PRESSLEY:

16 Q. Okay. So what are some of the -- I'm just
17 reminding you, you stated that insufficient homeowners
18 rates are not the only cause. What are some of the
19 other causes that you believe, based on your preliminary
20 analysis, have been part of the cause of that
21 deterioration of surplus?

22 A. I thought I answered that already. I said
23 State Farm writes different books of business.
24 Homeowners, commercial, multi- -- multi parol
25 (phonetic), and SSI liability. And I think they should

1 look at all their lines of business in addition to
2 homeowners.

3 Q. Okay. And then in that same -- yes, in the
4 same paragraph of 15 you said, "I believe there are
5 other steps Applicant should be encouraged and required
6 to take to improve its financial condition."

7 What are those other steps that you believe
8 they should be encouraged to take?

9 A. I would encourage them to file a rate
10 application for their other lines of business, which
11 they have. We have a few on the docket right now.

12 Q. For other lines other than homeowners?

13 A. That's correct.

14 Q. In that same sentence you said, "I believe
15 there are other steps Applicant should be encouraged and
16 required to take."

17 What are the steps that should be required --
18 that State Farm should be required to take to improve
19 its financial condition?

20 A. I can't -- sorry. I don't know. I don't
21 recall.

22 Q. Is it your opinion that the parent, State Farm
23 Mutual, should contribute more than \$400 million in the
24 surplus note to improve State Farm General's financial
25 condition?

1 A. That's not for me to answer.

2 Q. But you do support a capital infusion from
3 State Farm Mutual?

4 A. What I have in front -- oops. Sorry. What I
5 have in front of me is \$400 million surplus notes, and
6 I'm in support of that.

7 Q. Okay. And would you agree if State Farm
8 Mutual gave a \$500 million surplus note, that would
9 improve their financial condition more than a \$400
10 million surplus note?

11 A. Well, I'm not aware that offer is on the
12 table. \$500 million is a greater number than \$400
13 million.

14 Q. Okay. Regardless of whether that offer is on
15 the table, is it your opinion that a \$500 million
16 surplus note would improve their financial condition
17 more than if the parent company gave \$400 million?

18 A. Yes, 500 is greater than 400.

19 Q. Okay. Thank you.

20 THE COURT: We're going to take that as more
21 money is better so --

22 THE WITNESS: Okay.

23 THE COURT: -- we don't just beat around the
24 bush continuously. We all get it.

25 MS. PRESSLEY: Okay. I believe that's it, and

1 we're done with cross.

2 THE COURT: All right. And I know there's an
3 interest in the break. I do want to take a full break,
4 or do you want to take something less today? This
5 witness, how much time do you think you need on
6 redirect?

7 MS. McKENNEDY: Five minutes, Your Honor.

8 THE COURT: Real quick. Do you want to do
9 that now, or do you want to push through or --

10 MS. McKENNEDY: I could --

11 THE COURT: We're probably going to have to
12 break no matter what because we have staff and stuff.
13 We can't, you know, just keep going.

14 MS. McKENNEDY: Why don't we break? It's
15 12:30.

16 THE COURT: You want to come back at like
17 1:30, so we're just on an hour break? Is that going to
18 work for everybody, or do you need longer?

19 MR. PLETCHER: That's fine with us, Your
20 Honor.

21 THE COURT: All right. So we're in recess
22 until 1:30.

23 (Lunch recess)

24 THE COURT: Good afternoon. Back on the
25 record after a break for lunch in the matter of this

1 rate applications of State Farm General Insurance
2 Company specifically the evidentiary hearing concerning
3 the stipulation. This is Case Nos. PA-2024-00011, 12,
4 and 13.

5 Before taking our lunch break, we were -- we
6 had completed, actually, the direct -- the
7 cross-examination of the Department's witness, and we're
8 getting for redirect.

9 Are you ready to proceed, Ms. -- got your mic
10 on? Is the Department ready to proceed once they have
11 mic?

12 MS. McKENNEDY: We are ready to proceed, You
13 Honor, but we have no further redirect.

14 THE COURT: Oh, you don't. Okay.

15 Is there any questions still outstanding from
16 State Farm General on this witness?

17 MR. TETI: No, your Honor.

18 THE COURT: All right. Very good.

19 Is there any reason that this witness could
20 not be excused. I know she's sitting in the gallery,
21 but that's okay.

22 There being none, we thank you for your
23 testimony, Ms. Shaw, and appreciate your time.

24 THE WITNESS: May I approach to get my stuff?

25 THE COURT: Absolutely. Absolutely.

1 MS. McKENNEDY: We've already trained her on
2 how to be a lawyer, Your Honor.

3 THE COURT: She's doing real well. If you
4 want to keep her, better be careful how experienced she
5 gets. She'll become an expert witness, all kinds of
6 things.

7 Okay. So we transition now to -- are there
8 any more witnesses to be called?

9 MS. McKENNEDY: Not by the Department, Your
10 Honor.

11 MS. WELLINGTON: No, Your Honor.

12 THE COURT: Consumer Watchdog.

13 MR. PLETCHER: No, Your Honor.

14 THE COURT: All right. So we have some
15 remaining housekeeping to accomplish.

16 One is that I have a couple of lists of the
17 things that have come into evidence, but I want to make
18 sure that we address outstanding ones. I also wanted to
19 turn to the request for notice, if that is something
20 that we're going to address on the record beyond the
21 admissions that were admitted exhibits.

22 And then -- well, let's stick with that first.
23 Where are we at with exhibits? We'll take them in
24 order.

25 MR. MADDIGAN: I can speak to that, Your

1 Honor. The parties met and conferred extensively, led
2 by my colleague, and I have agreed on the admission of
3 almost all the exhibits with a few exceptions. We have
4 a list we are prepared to submit, and, also, we can --
5 we're prepared to read it in the record as well.

6 THE COURT: It's best if we read them into the
7 record at this stage, but we also would appreciate
8 having what you've prepared.

9 MS. CASSEL-WALKER: Thank you, Your Honor.
10 Johannah Cassel-Walker on behalf of State Farm General.

11 THE COURT: Thank you. And take your time,
12 and proceed when you're ready. Just tell me where
13 you're at so I can take notes as you go along, along
14 with the reporter.

15 MS. CASSEL-WALKER: Thank you, your Honor.

16 I'm looking at the parties' April 10th, 2025
17 revised joint exhibit list for hearing on proposed
18 interim stipulation.

19 THE COURT: I was just looking at that. Go
20 head.

21 MS. CASSEL-WALKER: Starting on page 1.

22 The parties have stipulated to the admission
23 of:

24 IRH-CDI-002, IRH-CDI-003.

25 Moving to page 2: IRH-SFG-101, IRH-SFG-102,

1 IRH-SFG-104, IRH-SFG-105, IRH-SFG-106, IRH-SFG-107.

2 Turning to page 3: IRH-SFG-108, IRH-SFG-109.

3 Turning to page 4: IRH-SFG-112, IRH-SFG-114,
4 IRH-SFG-115, IRH-SFG-116, IRH-SFG-117, IRH-SFG-118,
5 IRH-SFG-119.

6 Page 5: IRH-SFG-120, IRH-SFG-121,
7 IRH-SFG-122, IRH-SFG-123, IRH-SFG-124, IRH-SFG-125,
8 IRH-SFG-126, IRH-SFG-127, IRH-SFG-128, IRH-SFG-129,
9 IRH-SFG-130, IRH-SFG-131, IRH-SFG-132, IRH-SFG-133,
10 IRH-SFG-134, IRH-SFG-136, IRH-SFG-137, IRH-SFG-138.

11 Page 7: IRH-SFG-140, IRH-SFG-141,
12 IRH-SFG-142, IRH-SFG-143, IRH-SFG-144, IRH-SFG-145,
13 IRH-SFG-146.

14 Page 8 -- I don't know if it makes more sense
15 to do these in batches. We have a range of numbers here
16 from IRH-SFG-147 through IRH-SFG-162.

17 Would you like those individually?

18 THE COURT: It could be the way that you just
19 stated, since we're not indicating the material with
20 this in order to be expedient.

21 MS. CASSEL-WALKER: All right. Great.

22 THE COURT: So 147 to 162.

23 MS. CASSEL-WALKER: Correct.

24 THE COURT: Are --

25 MS. WELLINGTON: Are stipulated to the admission

1 by all parties.

2 THE COURT: Okay.

3 MS. CASSEL-WALKER: We can then move to page
4 10, which is IRH-SFG-167.

5 On page 11: IRH-SFG-168.

6 Page 12: IRH-SFG-172 through 174. On the
7 same page, IRH-SFG-176 through 179.

8 On page 13, we have IRH-CWD-201 through
9 IRH-CWD-205. And then on the same page -- IRH-CWD-207
10 through IRH-CWD-211.

11 Page 14: IRH-CWD-212 through IRH-CWD-223. On
12 the same page, we also have IRH-CWD-225.

13 On page 15, we have IRH-CWD-226.

14 On the same page, we have IRH-CWD-230 through
15 238.

16 On page 16: IRH-CWD-239. On the same page,
17 we have IRH-CWD-242 and 243; IRH-245 through 249.

18 On page 17: IRH-CWD-250; and then IRH-CWD-252
19 through 254.

20 And turning back to page 1, I would like to
21 read into the record the conditions on the parties'
22 stipulations. Said, "This is the following charts
23 reflects the parties exhibit list and to note where the
24 parties have stipulated to admit a particular exhibit
25 into the record for the hearing on the proposed interim

1 rate stipulation.

2 By stipulating to admit an exhibit, the
3 parties do not waive their right to object to the
4 improper use of a particular exhibit; nor do they waive
5 any objections regarding whether an exhibit constitutes
6 or contains hearsay, which shall not be sufficient in
7 itself to support a finding; nor do they waive any
8 arguments regarding an exhibit's relevance or weight
9 that it may be afforded in determining whether to
10 improve the proposed interim rate stipulation.

11 In addition to the exhibits listed below, the
12 parties stipulate that all filings in the three rate
13 applications CDI File Nos. 23-1271/SERFF -- that's
14 S-E-R-F-F -- #134139896, No. 24-1273/SERFF #134139931,
15 and No. 24-1330/SERFF #134139850, as posted on the
16 systems for electronic rates and forms filing as of
17 April 8th, 2025, are admitted into the record for the
18 hearing on the proposed interim rate stipulation.

19 There are a number of additional -- I want to
20 confirm that we also admitted into the record for the
21 parties' stipulation IRH-CWD-227.

22 In addition to that exhibit, the parties have
23 a number of conditional stipulations regarding exhibits
24 related to the Watkins declaration for the following
25 exhibit numbers.

1 The parties stipulate to the admission as part
2 of State Farm General's offer of proof, but CWD and CDI
3 object to the exhibit as part of their objections to the
4 Watkin's testimony.

5 (Reporter interruption)

6 MS. CASSEL-WALKER: Watkins, W-A-T-K-I-N-S.

7 And you start on page 3. We have IRH-SFG-110
8 and 111.

9 On page 4: IRH-SFG-113.

10 On page 6: IRH-SFG-135.

11 On page 7: IRH-SFG-139.

12 On page 9: IRH-SFG-163.

13 On page 18: IRH-SFG-164 through 166.

14 On page 11: IRH-SFG-169 through 171.

15 And then there are also a few exhibits which
16 the parties stipulate to, except that Consumer Watchdog
17 preserves its objection with respect to RBC; and this
18 includes on page 1: IRH-CDI-001.

19 On page 2: IRH-SFG-103.

20 And on page 12: IRH-SFG-175.

21 I think the remaining exhibits, if any, need
22 to be admitted would be moved in by the respective
23 parties.

24 THE COURT: Okay. Thank you.

25 So for the Department, does that accurately

1 describe the conditions and represent the exhibits to
2 which they're -- you have agreed to --

3 MS. McKENNEDY: Yes, Your Honor.

4 THE COURT: Stipulated to their admission.

5 MS. McKENNEDY: Yes, Your Honor. We do want
6 to say thank you for State Farm's Counsel for doing an
7 admirable job of corralling all these exhibits and
8 getting the agreements from the parties.

9 THE COURT: Yes. It saves us a considerable
10 time.

11 MR. PLETCHER: We would also join that
12 appreciation.

13 THE COURT: So stipulated?

14 MS. McKENNEDY: And for Consumer Watchdog?

15 MR. PLETCHER: Yes, Your Honor.

16 THE COURT: All right. So the
17 stipulations -- because there's more than one -- they
18 are confirmed as having -- as represented, and the
19 exhibits are so received.

20 (State Farm General's Exhibits 101 and
21 102, 104 through 107, 108 and 109, 112,
22 114 through 134, 136 through 138, 140
23 through 162, 167 and 168, 172 through
24 174, 176 through 179 were received into
25 evidence.)

1 (Consumer Watchdog's Exhibits
2 201 through 205, 207 through 223, 225 and
3 226, 230 through 239, 242 and 243, 245
4 through 250, 252 through 254 were
5 received into evidence.)

6 THE COURT: So we have what remaining that is
7 going to be moved in independently that she just
8 mentioned; anything?

9 MS. PRESSLEY: Your Honor, I believe she went
10 through all of our exhibits that are currently -- have
11 been currently lodged with the AHB.

12 THE COURT: All right.

13 MS. WELLINGTON: Nothing further from State
14 Farm.

15 THE COURT: Is there anything further or on
16 request for notice or anything that I'm missing in that
17 regard?

18 MR. MADDIGAN: No.

19 MS. McKENNEDY: I don't believe so,
20 Your Honor.

21 THE COURT: The record will so reflect that
22 the parties are indicating in the negative.

23 Other pieces that I'm -- and I could have
24 missed this because there's a lot of paper -- the two
25 previous -- the proceedings before the Commissioner.

1 The transcripts.

2 MS. McKENNEDY: Yes, Your Honor. I did lodge
3 those as part of an opposition to a motion in limine.
4 Would you like the complete documents as part of the
5 record?

6 THE COURT: I want to have them in the record.
7 So we just have to -- they can -- we can refer to them,
8 and we have copies of them, of course. I'd have to take
9 a minute to get them, and either party can bring them in
10 or, you know, you can do is as a joint stipulation or
11 you can even be ALJ exhibit. It doesn't really matter.

12 MS. McKENNEDY: Would you like me to read a
13 description of those documents into the record, Your
14 Honor?

15 THE COURT: As long as we can have something
16 sufficient to mark it. We're going to have to mark some
17 things.

18 MS. McKENNEDY: I have a the exerts, Your
19 Honor. Do you want the entirety?

20 THE COURT: Yeah. We're going to need the
21 whole transcript. So why don't we just take a quick
22 break in order to sort out the papers for that. And
23 then before we do, let me see what else I have to be
24 reminded of.

25 Do you have a full copy of that, Counsel? Or

1 does someone have it with you?

2 MS. McKENNEDY: I have it electronically, Your
3 Honor, and we're having printing difficulties, so I'm
4 scrambling right now.

5 THE COURT: Surprise with all this paper.

6 Let's go off the record for a few
7 minutes -- about five-minute break.

8 Off the record.

9 (Break)

10 THE COURT: Back on the record in -- for a
11 longer expected break so we can do some printing -- on
12 the matter of State Farm General Insurance Company and
13 the stipulation in evidentiary hearing in
14 Case Nos. PA-2024-00011, 12, and 13.

15 Thank you for your patience while we got that
16 coordinated. And I understand that Counsel's going to
17 offer additional exhibits I solicited now.

18 MR. MADDIGAN: Yes. Thank you, Your Honor.

19 Off the record, as you said, the parties were
20 discussing the transcripts for two dates of proceedings
21 in this matter. Partial transcripts of these
22 proceedings already were included on the exhibit list,
23 but we now want to amend the exhibit list to add the
24 full transcript, so I'll do that. And we'll make them
25 State Farm's exhibits.

1 So Exhibit IRH-SFG-180 will be the
2 transcript -- transcription of proceedings from
3 Wednesday, February 26, 2025, in the State Farm
4 Emergency Interim Rate Approval matter.

5 And Exhibit IRH-SFG-181 will be the transcript
6 from the March 11th, 2025, proceeding in the this
7 matter.

8 THE COURT: All right.

9 Any questions about the identification?

10 MS. McKENNEDY: No, Your Honor.

11 MR. PLETCHER: No questions regarding
12 identification, and we have no objections to the full
13 transcripts coming in.

14 Just, with respect to what I was just handed,
15 I don't know if this is a full transcript. I know it
16 seems to end with a question that was directed towards
17 me. I don't recall if there was any more discussion
18 after that point, so I'm just not sure if this
19 particular paper copy, that I've been given, is the full
20 transcript. But we do have --

21 THE COURT: Does somebody else have a copy to
22 compare again to see if that particular copy is missing
23 a page.

24 MR. PLETCHER: That may not matter because we
25 don't object to the full transcript coming in.

1 THE COURT: Okay.

2 Counsel, is your last page on the February 26
3 Official Court Reporters -- is that the one you were
4 referring to, Mr. Pletcher?

5 MS. PRESSLEY: The March 11.

6 MR. PLETCHER: The March 11th.

7 THE COURT: The March 11th --

8 MR. MADDIGAN: The printout of the March 11th
9 one, that I have, is it also ends with a question.

10 MR. PLETCHER: And maybe that's how it is.

11 THE COURT: That's all we had, so I
12 will -- what we'll do is we'll just receive it as is and
13 if there's some reason to amend the record, it will have
14 to be dealt with then, if that's what we have.

15 As being -- for that -- it looks like
16 somebody's looking for something. We'll give them an
17 extra moment or two to see if they have a different
18 thing.

19 MR. MADDIGAN: I think we have the last page
20 here.

21 THE COURT: Okay. I wonder why I'm missing
22 the last page -- isn't that interesting. Maybe what you
23 could do is maybe share that last page, and we can all
24 agree that that's the complete --

25 MR. MADDIGAN: Okay. I'm sharing.

1 THE COURT: Okay. Just share with Counsel,
2 and then we'll make copies.

3 Thank you for pointing that out, Mr. Pletcher;
4 and thank you, Counsel, for facilitating in making sure
5 we have it complete.

6 MR. MADDIGAN: There you go. I can hand it to
7 you with this page.

8 THE COURT: That would be great. I
9 actually -- I would need the page, and I'll give you
10 back the page in a few minutes.

11 MR. MADDIGAN: Okay. There's the missing
12 page.

13 THE COURT: That's what I need. Okay. All
14 right.

15 So as so identified and marked, stipulate that
16 I placed it into evidence.

17 Department?

18 MS. McKENNEDY: Yes, Your Honor.

19 THE COURT: Consumer Watchdog?

20 MS. PRESSLEY: Yes, Your Honor.

21 THE COURT: State Farm General.

22 MR. MADDIGAN: Yes.

23 THE COURT: All right. As received. Thank
24 you.

25 Is there anything that you've added to the

1 trailing things before I jump into what I want -- it's
2 mostly recap. Anything to add that we need to deal
3 with?

4 MS. WELLINGTON: Your Honor, the only thing we
5 wanted to add is that we are planning to do a closing.

6 THE COURT: Yes. We'll get to that.

7 MS. WELLINGTON: Thank you.

8 THE COURT: We'll absolutely get to that.

9 Once we do the closings, it's often hard to
10 hold onto, so I don't want to let this run.

11 We have filings in this case -- both
12 prehearing as well as continuing with in limine and
13 during hearing -- so just as a short recap and make sure
14 that we're all on the same page with regard to that.

15 We had the motion to strike by State Farm
16 General, which was filed on April 3rd, 2025. Note that
17 all these dates that I'm about to mention may not be
18 your lodging date. You may have filed it on the
19 following date.

20 There was an opposition to it on April 4th,
21 2025, from Consumer Watchdog. It was withdrawn on April
22 8th during the hearing by the movement. So no action
23 was taken on that.

24 There was the matter of the Department's
25 motion to limit or exclude the witness, Nancy Watkins,

1 filed on April 7th, 2025, pertaining to the declaration
2 that was filed with AHB on April 2nd, 2025.

3 State Farm General filed a response in part
4 one of their April 8th, 2025, filing. There was also a
5 declaration -- subsequent declaration filed April 9th,
6 2025. I granted this motion on the exclusion basis
7 disqualifying the witness and striking the declarations
8 to the extent they were in the record but allowing them
9 for purposes of offers of proof if -- together with any
10 others that might be requested.

11 And I understand that, earlier, with regard to
12 the conditional stipulations, is to preserve that
13 status. And that's already been confirmed, as not
14 adjusted, by virtue of my recap here.

15 So amongst the other filings, we have some
16 traditional filings that are, for example -- or more
17 traditional in an untraditional situation. The Consumer
18 Watchdog's initial March, 24th, 2025, objections and the
19 defense from State Farm General on April 2nd, 2025.

20 There was also a State Farm General response
21 to the objections on April 3rd, 2025. There was a
22 letter addressed to me from Consumer Watchdog on March
23 28th, 2025; and in addition to that, we had the -- we
24 had some motion where, which I indicated on the record
25 earlier in the week, we have overlap as to some of the

1 arguments that had either been repeated or expanded
2 upon.

3 But among other things that have been filed
4 are a motion to strike in sanctions by Consumer Watchdog
5 on April 7th, 2025, to which State Farm General filed an
6 opposition on April 8th, 2025.

7 Consumer Watchdog had also brought in limine
8 motion No. 1 on April 7th, 2025, which targeted
9 precluding financial information as to financial
10 conditions being introduced as evidence, and State Farm
11 General responded at that in their parts two and three
12 in their April 8th, 2025, filing.

13 This also -- this also -- this response also
14 responded to Consumer Watchdog's other in limine motions
15 in part; mainly in limine motion No. 2, which was filed
16 also on April 7th, 2025, to exclude the supplemental
17 stipulation as to the stipulation from the -- between
18 the Department and the State Farm General.

19 And Consumer Watchdog's third in limine
20 motion, which is also filed on April 7th, 2025,
21 targeting the RBC calculations. It was also additional
22 filing for Consumer Watchdog to exclude and to provide
23 further briefing on the RBC calculations filed on April
24 8th, 2025, to which State Farm General responded on
25 April 9th, 2025.

1 Wow, that was a lot to try to get out. But I
2 try to actively display that we have these things that I
3 realize are there. They are -- there is some overlap as
4 between them, and I have indicated that I will address
5 the matters in it in the various filings in connection
6 with the decision that was also repeated when it came to
7 preserving Consumer Watchdog's objections accordingly on
8 the record.

9 I understand you've done the hard work with
10 regard to the exhibits, and I greatly appreciate that
11 because it helps. As I repeated over and over again
12 during this proceeding to make sure our record is clean
13 as we can make it when other people are looking at it.
14 It's -- things that seem clear in the room are not clear
15 later, so I try to -- even if it's a weird bread-crumb
16 trail to give them, as best I can, a complete one.

17 With regard to the transcript, however, when
18 it comes to identifying the aspects that would be
19 subject to strike, if Consumer Watchdog's position was
20 maintained, I want to turn to the parties to see how
21 they might suggest handling that. I have ideas, but I'd
22 like to know from you first how you would go about that.

23 Do you want to proffer something in a filing
24 that identifies that? Do you want to try to stipulate
25 with the parties as to which aspects would be

1 attributable to that? Again, it also goes for complete
2 record even if I rule ultimately not in your favor.

3 MR. PLETCHER: Your Honor, we're happy
4 to -- once we have the transcript -- to go through it
5 and identify lines that discuss the RBC issue and
6 identify that, you know, line-by-line.

7 We'll certainly take an attempt to agree with
8 Counsel that, you know, not that they would agree that
9 the information should come out, but that is the
10 universe of information that discusses RBC.

11 If we could do it by stipulation, we'll do it
12 that way; otherwise, we'll submit it and let you know
13 that Counsel don't agree, but this is our position.

14 THE COURT: The only thing I'll ask for the
15 other Counsel to be reviewing that, and that sounds like
16 a good approach and the most expedient one because it is
17 up to Consumer Watchdog to try and identify what it is
18 that they have a problem with if there's an issue or
19 whoever's looking at it, but please don't unreasonably
20 withhold consent as to agreeing to what that is.

21 I mean, I'm not saying to not make your --
22 argue your case and represent. But if it's apparent,
23 then please don't make it harder than it has to be so
24 that we can get through it because we're all on a tight
25 timeframe, which also turns to briefing.

1 If you want to talk about this now or if you
2 want to have closing remarks first, either is fine.

3 MR. PLETCHER: Your Honor, just while we're
4 still on the RBC issue, as you were going through your
5 list -- and I apologize if I misunderstood you -- but I
6 think there's been additional briefing this morning both
7 from the Department and for Consumer Watchdog the
8 opposition that the Department had discussed, and then
9 we got a reply.

10 THE COURT: I do have those, and those are
11 both filed today -- those two documents. And I
12 apologize I admitted them from my comments there, but
13 both are -- we have both, and they'll both will be
14 considered in connection with those matters.

15 MR. PLETCHER: That's fine. I just wanted to
16 double check on that. C.

17 THE COURT: Thank you very much.

18 MS. PRESSLEY: And, Your Honor, just to
19 clarify -- you did also mention the motion that we filed
20 on April 9th; correct?

21 THE COURT: I did.

22 MS. PRESSLEY: Okay. Thank you.

23 THE COURT: Yeah. That's the motion --

24 MS. PRESSLEY: To exclude the testimony.

25 THE COURT: -- to exclude the testimony, yeah.

1 But it still goes to the -- to the initial complaints.
2 That's why I'm trying to consolidate the handling of
3 them and nevertheless give everybody some kind of
4 response to their concerns.

5 MS. McKENNEDY: Your Honor, I have a small
6 question. In terms of the parties trying to meet infer
7 on the portions of the RBC testimony that CW would
8 request be stricken specifically, do you have a timeline
9 for that? How does that impact your ability to issue a
10 proposed decision?

11 THE COURT: I was going to ask the question in
12 connection with briefing, because ideally, it would sort
13 it out --

14 MS. McKENNEDY: Sorry, Your Honor.

15 THE COURT: Sort of speak close to the
16 briefing because I think that everybody realizes I'm
17 going to be working on this immediately, so it's not
18 going to be waiting, but I also will be looking for
19 whatever else you have to include so I can make that
20 careful consideration.

21 And I, too, have to wait for the transcript
22 for that part. So if we're talking about that, we might
23 as well get into that.

24 Have you all placed orders for transcripts?

25 MS. PRESSLEY: No, Your Honor.

1 THE COURT: What's happened with -- are you --
2 no? Don't know yet.

3 MS. McKENNEDY: Your Honor, I believe the
4 Department automatically gets a transcript.

5 THE COURT: Yeah, we get them.

6 MS. McKENNEDY: Thank you.

7 THE COURT: Do you know when you're going to
8 get the transcript?

9 MR. TETI: No.

10 MS. PRESSLEY: When I spoke --

11 MR. MADDIGAN: We haven't placed an order yet,
12 I don't think.

13 THE COURT: It still can be.

14 Go ahead, Ms. Pressley.

15 MS. PRESSLEY: When I spoke to the court
16 reporter yesterday, he had said that on an expedited
17 basis, the earliest would be the Tuesday transcript he
18 could have by Friday, but we decided not to order the
19 expedite. So I think the regular turnaround is 10 days.

20 THE COURT: They have various times, so I
21 can't speak to what you were told or what their offer
22 is. We may have the condition -- we may have to ask you
23 to indicate when the transcript's been received so we
24 can time when briefing is due.

25 I hate to do it that way because it doesn't

1 give us a date on the calendar. It's like this floating
2 day. But I realize that we have to get the transcript
3 in order for you to finish your work.

4 MS. PRESSLEY: And I would just want to point
5 out that our original motion that we filed on the 9th --
6 the motion to exclude testimony -- did identify by page
7 and line number -- the Shaw declaration.

8 THE COURT: Yes. And I appreciate it, but
9 those pieces are not as concerned -- I'm concerned about
10 the transcript. So what I would envision you doing, if
11 we're going to go back to that, is you will review that
12 in order to determine what parts of it you find are
13 attributable to your standing objection -- excuse
14 me -- yeah, your standing objection on financial
15 matters.

16 But on RBC matters that you have motion in
17 limine on, if you have additional briefing on -- and I
18 told you you would preserve your rights on to identify
19 what parts of the transcript -- just as Mr. Pletcher
20 indicated -- are a problem or somehow.

21 I don't think you have to traditionally meet
22 and confer, unless you get into a dispute, you know,
23 communicate that to the other parties to see whether
24 they consent, and if they don't, then by all means try
25 to talk in some manner to resolve whatever that

1 outstanding problem is.

2 But I try not to get into mechanics too much
3 because I find that the parties sometimes have their own
4 mechanics, and if that works for you, I want you to do
5 it. But I would envision you do something like that
6 because there's no -- if there's no impetus for them to
7 identify what parts of the transcripts you have a
8 problem with --

9 MS. PRESSLEY: Right.

10 THE COURT: -- it would be subject to strike.
11 So it's really on you. I know it's more work for
12 Consumer Watchdog.

13 MS. PRESSLEY: Your Honor, I appreciate that.
14 And I do note that -- because Ms. Shaw went today, she's
15 more fresh in my mind -- so I don't think there's
16 extensive portions because most of the discussion on
17 that issue was asking for -- it was more to go towards
18 what she did for in terms of the motions.

19 THE COURT: Sure. Which saves us a lot of
20 time, which will be nice. So hopefully it will be
21 small.

22 Okay. So I guess we're beating around the
23 bush about how we structure briefing, you know, it has
24 to be pretty tight. So do I have some suggestions as to
25 how tight is not too tight?

1 MS. WELLINGTON: Your Honor, we wanted to ask
2 what you were envisioning on post-hearing briefing. I
3 don't know if you're necessarily intending the
4 post-hearing briefing unless Your Honor wants to hear on
5 specific issues, although we certainly reserve the
6 right, if that's whatever else we're going to do.

7 THE COURT: I welcome the briefing, and I
8 would expect some sort of briefing in this case. Even
9 if it's to highlight, you know, your points. But if you
10 don't want to brief, it's not a mandatory brief.

11 I think that you can, by the nature of things
12 you've already been addressing, you have worked hard to
13 be comprehensive, so I'm not trying to suggest that
14 there's a gap in -- in your arguments or analysis that I
15 don't understand and won't study more. But I'd like to
16 give you the opportunity to do it.

17 MS. McKENNEDY: Your Honor, the Department
18 would recommend briefing just because the issues in this
19 matter are pretty complicated.

20 THE COURT: Other people might be looking at
21 this -- well, they will be. How far, I don't know.

22 MR. PLETCHER: Your Honor, we would happy to
23 take option to briefing.

24 THE COURT: So everybody else will brief, so I
25 expect you to follow -- jump in that bandwagon and do a

1 little bit of briefing too, but it's up to you.

2 How many days after receiving the transcript
3 do you think you need? Can you do it in five? I was
4 going to say five.

5 MR. PLETCHER: We was hoping for 10, Your
6 Honor.

7 THE COURT: I know five is hard, but we really
8 have to move it along.

9 MS. McKENNEDY: I think -

10 THE COURT: This is the thing when you don't
11 know exactly when you're going to get the brief -- the
12 transcripts and so. It's subject to these different
13 times because you can order expedited transcripts, so
14 I'm going to get them in five days. I can tell you
15 right now. I actually don't know if they count
16 weekends. I never asked that question, but I get mines
17 by five weekdays. So that will be some time next week.

18 MS. McKENNEDY: Your Honor, if I may, the
19 transcripts are one thing, but Your Honor's rulings on
20 some of the admissibility of evidence and declarations
21 and testimony might really impact the briefing.

22 THE COURT: That was -- that's expecting you
23 to do that in advance and not in the PD. So doing it in
24 the PD is very typical in administrative law, and that's
25 what I was planning to tackle.

1 I won't promise to do that in advance. So
2 you'll have to operate outside of that, unless we'll
3 alert you that I'm going to be able to do that -- in
4 which case I will follow the same rule of fairness that
5 I ask the parties to. We'll alert you in some way so
6 that you'll know, and you can manage that accordingly.

7 MS. McKENNEDY: Thank you, Your Honor.

8 MS. PRESSLEY: Your Honor --

9 THE COURT: So I -- I think that because, you
10 know, it's not like we excluded people. We
11 didn't -- except for the one disqualified witness, and
12 that wouldn't be something that we would come back to
13 revisit at this stage, so I think we can do it
14 adequately with the decision in addressing the
15 outstanding matters.

16 MS. McKENNEDY: Your Honor, CW's motion to
17 exclude Ms. Shaw's declaration is basically all the
18 substance of paragraphs, so if that is excluded, then
19 the Department has very little left.

20 THE COURT: Yeah, but I didn't exclude
21 Ms. Shaw.

22 MS. McKENNEDY: But you asked us to meet and
23 confer -- I'm sorry, Your Honor, maybe I misunderstood.
24 I thought CW and the Department were to meet and confer
25 over the portions to be excluded or stricken.

1 THE COURT: Well, that was -- I mean, I wanted
2 to know if there was -- if that happened, but I
3 didn't -- right now we've taken her testimony. The
4 declarations are in. Even if the declarations fell in
5 the PD, they would still be treated as office of proof
6 in that context, so they'd still go up.

7 MS. McKENNEDY: Okay. Thank you, Your Honor.

8 MS. PRESSLEY: Your Honor, my understanding
9 was the meet and confer is over the portions of the
10 transcripts. We already identified the portions of the
11 declaration.

12 THE COURT: Yes. The part earlier today is
13 about the transcript, the other day, we were talking
14 other parts of it. But today is the transcript, when we
15 receive it, as to the RBC material. You know, they can
16 literally point to what it is that would then subject to
17 be struck.

18 MS. McKENNEDY: Okay. Thank you, Your Honor.

19 THE COURT: So that's on the them to start
20 that process. I would like to except be contemporaneous
21 with the briefing even though it's more work, if all
22 possible, because otherwise it holds up closing the
23 record out even if I don't know what -- I don't have the
24 piece clear or it's left for me to decide.

25 MS. PRESSLEY: Yeah.

1 THE COURT: I think we would not rather do
2 that. We handle it this way as an expediency measure
3 because otherwise we would've had to nitpick a little
4 early.

5 MS. PRESSLEY: I think the missing piece is we
6 just need to figure out the timelines for getting the
7 transcript.

8 THE COURT: So we can do a couple of things.
9 We can set it as the floating, which I've already said a
10 couple of times, which is based on when the transcript
11 is received. You can expedite it, I think, real fast.
12 There's just a couple of stages; but, unfortunately, the
13 way that it comes here, sometimes somebody has it or
14 earlier than another depending on their order.

15 MS. WELLINGTON: Your Honor --

16 THE COURT: If you're going to get it -- go
17 ahead.

18 MS. WELLINGTON: I just had one question. We
19 had read the orders set in this hearing as requiring a
20 decision within 10 days of the conclusion of the
21 hearing, so I don't know if that is accurate, but we
22 should take that into account. I assume that --

23 THE COURT: I did. We don't consider it
24 closed until we have closed record.

25 MS. WELLINGTON: I see. Okay. So it would be

1 10 days after the close of the record?

2 THE COURT: Yes. But I'm still trying to hold
3 your toes to the time, that's why we'll talking about
4 it. I realize that I want to adhere to a expedited
5 process, so I don't want to flaunt the expectation by
6 basically everybody who's looking at this matter to, you
7 know, just to see something soon. So that's why I'm
8 thinking five days to receive the transcripts, but I
9 don't want it to be, you know, so detractive that we're
10 pushing it so far out that it's a problem.

11 MS. PRESSLEY: Are you asking for five days to
12 identify the material? Or five days for the briefing?

13 THE COURT: Well, they can both run
14 contemporaneously with one another. I don't
15 know -- which is why I asked you to do that. Let's stick
16 with one thing. You know, if you say you can't -- that
17 you can't do two things then, you know, I appreciate
18 that. We'll manage it some way, but let's stick with the
19 briefing right now.

20 I think we're -- I'm going to ask the parties
21 to stick with five days to receive the transcript. But
22 we're going to have to set a -- let's set it.

23 MS. McKENNEDY: Your Honor, how about April
24 21st. That's 11 days.

25 THE COURT: Is that where I was going? Where

1 is it a no later than date.

2 MS. McKENNEDY: Correct, Your Honor. It's 11
3 days, but it's a Monday. So that seems much more humane
4 than Sunday.

5 MS. WELLINGTON: Are we talking about the 21st
6 of April?

7 MS. McKENNEDY: Yes.

8 MS. WELLINGTON: 20th is Easter Sunday, just
9 for the record.

10 MS. PRESSLEY: And I'm unclear because if it's
11 taking us until at least five days to get the
12 transcript, then that's not 11 days. It's only one
13 business day and a weekend.

14 MR. MONTGOMERY: What we're talking about now
15 is briefing, right?

16 THE COURT: Yes. They're studying the
17 calendar cautiously and see what it is that they don't
18 inadvertently consent to something that becomes too
19 burdensome -- it's all burdensome, but -- because it's
20 an expedited process.

21 MS. PRESSLEY: Again, it depends on where the
22 transcripts falls because there's going to be a couple
23 of days that fall on that week that --

24 THE COURT: Well, no matter how we do it, we
25 land in that week. Because it's just when we're -- you

1 know, it's the time now and today. So.

2 MS. McKENNEDY: How about April 22nd, Your
3 Honor.

4 MS. PRESSLEY: I would say -- I mean, two
5 weeks from today is the 24th, right? It's going to take
6 us at least -- I mean, assuming that we even get the
7 transcript by the 17th, that's only one week. And
8 that's only one to five working days, excluding the
9 Easter weekend.

10 THE COURT: Easter is -- let me look. Just a
11 second.

12 MS. PRESSLEY: I just know, from the
13 experience that we just had, that we don't want just,
14 like, two business days and then two weekend days. That
15 will not work.

16 MS. McKENNEDY: Your Honor, it may be helpful
17 to the parties if you limit the page number of the
18 briefs, because in some ways, maybe that helps break
19 this job down to manageable size.

20 THE COURT: I appreciate the suggestion. I
21 usually don't because the other side of it is, you know,
22 or felt it was unfairly restricted. And we have lots of
23 paper in this case already, so what's a little bit more.
24 If you really want to stay up all night to do it, I will
25 read it. I, too, will stay up all night not

1 withstanding that you might not realize that I'm doing
2 that.

3 Okay. So today's date is the 10th.

4 MS. WELLINGTON: Your Honor, we had one
5 clarifying question when you have a moment.

6 THE COURT: Go ahead.

7 MS. WELLINGTON: When is the end of the
8 hearing proceeding for purposes of the 10-day clock? Is
9 it when we receive the transcripts, or is it when this
10 briefing is submitted? We would just like to know --

11 THE COURT: We typically issue a notice that
12 the record has been closed, so it's not often. But
13 sometimes something happens that requires coming back to
14 the parties. I don't anticipate that happening in this
15 case, so if you're trying to stab at the idea that we
16 move quickly, that's my intention, which is why I'm
17 pondering this as long as I am because I'm sensitive
18 with the fact that we have to have the transcript, but
19 at the same time want to bring this to conclusion.

20 So to answer you more of that, this ends the
21 evidentiary presentation phase unless something causes
22 us to reopen it which I do not anticipate happening.
23 But nevertheless, the record remains open if, for
24 nothing else, the transcripts come into it after, which
25 provided, I concluded there's a complete record upon

1 which a decision can be rendered, I issue you a notice
2 indicating that.

3 And then -- even the 10-day thing is in
4 dispute because of the procedure being in dispute, but
5 whatever clock starts first then -- unless there's some
6 other statutory or regulatory basis upon which to say
7 that it doesn't or that there's a different timeline so
8 that's basically how it plays out.

9 MS. WELLINGTON: Thank you, Your Honor.

10 THE COURT: But I think what we'll do
11 is -- we'll -- so we're not being too disruptive to the
12 sensitivity around the time and the Easter weekend,
13 which falls in an unfortunate period for our process.

14 I'll set them as due on the 23rd -- April
15 23rd. And I really don't want to see a request to have
16 to change that, but if something weird happens with, you
17 know, receiving the transcripts or something -- you know
18 the process needs to come to play to deal with that.

19 I don't -- I think that that's going to give
20 you extra time, frankly, because in my experience,
21 they're usually very, very good about getting them to
22 us. But I can't promise that'll happen -- you know
23 there's the Murphy's Law. This is the one case rule
24 where it won't.

25 MS. PRESSLEY: Your Honor, can I make a

1 suggestion?

2 THE COURT: Sure.

3 MS. PRESSLEY: So I would request that we have
4 at least five business days, working days, from when we
5 get the transcript. So Your Honor's suggestion of the
6 23rd would work if we get the transcript by the
7 16th -- which is one, two, three, four business days
8 from today, which I'm assuming that they're not going to
9 start working on it until tomorrow. So.

10 THE COURT: They usually always start it,
11 actually.

12 MS. PRESSLEY: I think we just have to confirm
13 if we can get the transcript by the 16th, then the 23rd
14 works. But if we're going to be getting the transcript
15 later than that, then we're getting into a crunch.

16 THE COURT: We can't confirm it because we
17 have no way no way to do it. But what we can do is if
18 there's a problem, you can alert me.

19 Like I said, you could bring -- my intention
20 is to give you five days to work on it. Let's just put
21 it that way. If something derails that, bring it to my
22 attention. Hopefully we'll have more, and, you know,
23 we'll have a little cushion there.

24 Let's try to stick with this schedule unless
25 there's reasons that make it not doable.

1 MS. WELLINGTON: One final question, if I may,
2 Your Honor. Is there a page limit?

3 THE COURT: I didn't set a page limit, not
4 withstanding the suggestion from Ms. McKennedy, which is
5 a quick one and many people appreciate, but I'm not
6 going to do that, and I'm not going -- we just don't
7 have time to entertain reply briefs, so I'm not planning
8 to solicit that to the extent that, you know, I think
9 that you know what the other parties are arguing.

10 So to the extent you speak to them, this
11 is -- I've been extra -- I've done all the extra things
12 I could do during the proceeding to allow ongoing motion
13 practice, you know, the whole thing. You should know
14 what we're dealing with.

15 And so, if you're going to tackle those things
16 again in your briefing, you know how to tailor it there
17 and, to your discretion, how much attention you give at
18 any particular issue. Okay. And I think that's more
19 than fair.

20 MS. WELLINGTON: Thank you, Your Honor.

21 THE COURT: If it ends up being disputed,
22 you'll have another opportunity to convince somebody
23 else. The only wrinkles -- let's not stay with wrinkles.
24 But you're probably all aware of the subsection if I
25 were to decide that there's, for some reason, something

1 else to suggest, I have to give you three days. I think
2 it's very correctly to look at it. So not saying that's
3 happening, that's not a premonition. I'm just saying
4 that -- deal with it as things come, but for now,
5 briefing is due then and the 23rd.

6 You can even file them after hours. In other
7 words, if it doesn't make the 4/30 deadline, you can
8 lodge it after hours, and that will be accepted. So
9 we'll make it as late as 11:59 on April 23rd.

10 All right. With that, are you ready for
11 closing remarks or do you need to take a drink of water?
12 Everybody seems ready.

13 (Reporter interruption)

14 THE COURT: Sure. We'll just go off for five
15 minutes. Five-minute recess.

16 (Recess)

17 THE COURT: All right. Back on the record
18 after our break in State Farm General Insurance Company
19 in the matter pertaining to the stipulation. This is
20 case number PA-2024-0011, 12, and 13.

21 After having handled our administrative tasks
22 following the receipt of evidence, we are now at the
23 stage where we're looking at closing remarks from each
24 of the parties. And so with that, I understand
25 everybody's ready to go, and I will turn to State Farm

1 General to begin.

2 MS. WELLINGTON: Just to clarify, you would
3 like us to go first? I think we would typically go
4 last, but we're also happy to go first, if you'd like.

5 THE COURT: It's your case, Deponent. How
6 would you -- I mean, I don't know that it matters.

7 MS. WELLINGTON: I agree, Your Honor. If you
8 would like us to go, we can.

9 THE COURT: Does the Department have a
10 different preference on order?

11 MS. McKENNEDY: Your Honor, we're the mutual
12 parties, here, so.

13 THE COURT: The middle person.

14 MS. McKENNEDY: We are the middle person,
15 but --

16 THE COURT: I mean, we can look to -- I mean,
17 was CW planning to go first?

18 MR. PLETCHER: No preference, Your Honor.

19 THE COURT: Okay. Well, since you're the
20 objecting party, you know, I guess we can turn to you
21 and ask you to make your closing first, I guess.

22
23 CLOSING STATEMENT

24 MR. PLETCHER: All right. Thank you, your
25 Honor.

1 Your Honor, first I wanted to extend my thanks
2 to all the parties here and the Court and the staff and
3 everyone's hard work and commitment to hold this hearing
4 on an emergency basis to present these issues in a
5 public hearing.

6 And I think this hearing shows that
7 Proposition 103, these rate hearings, aren't a source of
8 delay; there are source of process, and we've seen here
9 that process can be adapted to urgent circumstances when
10 required.

11 Your Honor, this case comes down to the same
12 clear question we started this hearing with: Has State
13 Farm justified an emergency rate increase under
14 California law? The answer is clearly no.

15 First, I want to be clear about what State
16 Farm is not arguing. We're not saying that State Farm
17 can't ever get a rate increase or that the Commissioner
18 can never grant a request for interim rate relief, and
19 the legal standard for such relief has been met.

20 All we are arguing is that all rate increases
21 must be legally justified and factually supported with
22 the burden on the insurer to prove that support of
23 actuary analysis.

24 If an interim rate is requested, the insurer
25 must first show actuarially that the rate is plainly

1 filed under California law. That's it. That's how we
2 prove up rate in rate proceedings; through actuarial
3 work, not through appeals to financial conditions or
4 risks.

5 Now, I'd like to be clear about what I think
6 State Farm wants this Court to do; approve an interim
7 rate hike now, and then prove up it's rates later due to
8 State Farm's financial pressures and market concerns,
9 not because of a demonstrated need under the rate
10 formula.

11 What State Farm is really saying is, they're
12 saying they're too big to fail. They're arguing their
13 size and market position exempt them from the usual
14 rules. We're not disputing State Farm's importance.
15 Millions of Californians relay on State Farm.

16 And State Farm has every right to ask for rate
17 increases. But under Proposition 103, California's
18 Insurance Consumer Protection Law, they must prove those
19 increases are justified before they take effect.

20 Too big to fail is not a legal argument; it's
21 a scare tactic of a parade of speculative horrors. We
22 apply it to serious, systemic issues. Here, we've heard
23 about insurance market stability, or breakdown in the
24 availability, or threats about 680,000 mortgages
25 suddenly needing new policies.

1 We say these issues aren't relevant here. We
2 are not saying they aren't important; we're just saying
3 these broader systemic problems, like other
4 too-big-to-fail problems, need a whole government
5 response. They belong with the legislature with the
6 governor, the Insurance Commissioner with his conduct
7 powers, but they don't belong and can't be allowed to be
8 relevant here in a rate hearing.

9 Now I'd like to turn to the actual legal
10 standard that we think you must apply, and that's the
11 plainly invalid standard under Cal Farm. This standard
12 does not involve any determination on State Farm's
13 overall financial condition or marketplace conditions.

14 The Supreme Court has set a clear standard for
15 interim rate relief. The Insurance Commissioner under
16 Cal Farm can adjust plainly invalid insurance rates
17 through interim -- through these interim rates, the
18 interim processes.

19 Now, in this proceeding, just like in Cal Farm
20 at page 824, we've used "plainly invalid" to refer to
21 rates that are inadequate because Proposition 103
22 prohibits both rates that are excessive and rates that
23 are inadequate, both the high and low balance of the
24 allowed rates.

25 The ratemaking formula -- and this is a quote

1 from 20th Century Insurance -- "The ratemaking formula
2 is used to fix" -- here's an ellipses in the quote -- "
3 that continuing the range of rates within the balance of
4 the excessive and the inadequate." That's 20th Century
5 Insurance, page 285.

6 And under Proposition 103's prior approval
7 regulations, a rate is inadequate if it is lower than
8 the minimum permitted earned premium. That's at 10 CCR
9 section 2644.3. And this is the same analysis we see in
10 20th Century.

11 State Farm has provided no actuarial analysis
12 to justify their request. They've relied on financial
13 conditions and market data, which we argue are factors
14 that should be strictly insulated in a hearing
15 proceedings, both based on the Insurance Code and for
16 important public policy reasons.

17 Now, only Consumer Watchdog has presented a
18 thorough actuarial analysis here, and that analysis
19 shows even when we use State Farm's assumptions and
20 calculations, it shows that State Farm's rates aren't
21 inadequate or plainly invalid because the minimum rate
22 change shown in State Farm's February 5th prior approval
23 rate template, as Mr. Armstrong discussed in his five
24 scenarios, the minimum rate change there is a negative
25 value, and that means the rate isn't inadequate and it's

1 not invalid, so State Farm doesn't clear their first
2 legal hurdle.

3 Abandoning Cal Farm to determine if an insurer
4 is eligible for interim rate relief doesn't leave us
5 with any workable standard to evaluate interim rate
6 relief requests.

7 Every mudslide, wildfire, major atmospheric
8 river event -- and as much as we all enjoy living in
9 California, some area or another of California faces
10 these things regularly -- all of these events could open
11 the floodgates to insurers demanding an emergency
12 interim rate hike based solely on temporary financial
13 setbacks or market fears.

14 State Farm is the largest insurer, but the
15 second, the third, the fourth largest insurers are also
16 impacted by the LA wildfires. They should not qualify
17 for emergency increases without actuarial support,
18 either. Without a clear standard, the Commissioner
19 can't evaluate -- this Court can't evaluate interim rate
20 reports.

21 Now, the second question that Your Honor has
22 to consider, because this is a stipulation on a
23 settlement, is whether the stipulation as a whole is
24 fundamentally fair, adequate, reasonable, and in the
25 interest of justice. That's the standard for approving

1 a settlement at 10 CCR section 2656.1.

2 Fundamental fairness has to mean, at the very
3 least, evaluating a deal from both sides, including from
4 the viewpoint of consumers. But Dr. Appel, State Farm's
5 expert on market conditions, said that the interim rate
6 increase poses no risk to policyholders. He declared
7 there's an absence of risk to policyholders.

8 That statement completely ignores what it
9 truly means for a family sitting at their kitchen table
10 struggling to budget their monthly bills to suddenly see
11 their insurance increase by \$40 or \$50 a month based on
12 the average increase of \$470 or \$600 a year. An extra
13 \$40 or \$50 a month can be a significant hardship for
14 many California families.

15 For many, this increase could mean choosing
16 between paying for groceries, for medication, for
17 childcare, or even just keeping the lights on. It's
18 simply not credible to dismiss this hardship as no risk
19 or an absence of risk.

20 It's clear Dr. Appel evaluated the settlement
21 solely from State Farm's perspective and the market's
22 perspective. He said the interim rate increase is not
23 only reasonable and justified but, in fact, critical to
24 the health of State Farm and the California homeowners
25 insurance market.

1 Now, we assume the settlement is good for
2 State Farm because they have agreed to it. Perhaps it's
3 good for the market. But this entirely disregards
4 consumer hardships and realities. This isn't fairness,
5 and that's one-sided advocacy for Dr. Appel.

6 There are multiple risks that policyholders
7 face here. They can be forced to find more affordable
8 coverage. They'll have to immediately begin higher
9 rates. And there's no guarantee in any of the
10 stipulations that they won't be dropped the next time
11 their policies come up nonrenewable after the nonrenewal
12 periods end.

13 Dr. Appel also thinks the Insurance
14 Commissioner's main job is to protect insurance
15 companies from going broke. He totals that the
16 Commissioner's primary roll is maintaining the solvency
17 of insurers.

18 Commissioner Lara himself disagrees. In his
19 letter of February 14th in this matter, he stated
20 clearly, "My primary responsibility is to the people of
21 California." That's at Exhibit 149, page 3. The
22 Commissioner's letter also emphasizes that Proposition
23 103 expressly precludes him from proving rates that are
24 excessive, inadequate, unfairly discriminatory, or
25 otherwise in violation of the Insurance Code.

1 And he emphasizes the burden is on the insurer
2 to demonstrate and support its rate requests. All of
3 this -- prior approval, demonstrated support for
4 requests, all of this -- State Farm is asking you to
5 disregard and just to look at financial condition in a
6 one-sided way because they've asked for this rate
7 increase.

8 Now, part of State Farm's argument about the
9 fundamental fairness of this stipulation is that even if
10 the stipulations aren't fair, that's okay because
11 refunds will fix it. But refunds at some unknown future
12 date, after State Farm exhausts all of its legal
13 remedies, that if it doesn't think the final rates
14 ordered are too low -- I'm sorry -- it does think the
15 final rates ordered are too low, it won't fix the
16 immediate harm that families here face.

17 Families must rearrange their budgets now or
18 have to cut back on essentials. Refunds will also help
19 families who need money now who are still recovering
20 from the recent fires. This is what the Proposition is
21 supposed to do: Protect consumers to justify their
22 rates first before they take effect to prevent this kind
23 of immediate, irreversible harm.

24 Now, there's evidence here on adequacy and
25 reasonableness, which are the next two factors that you

1 have to consider. There's only one actuary for the
2 proponent of the two-way stip, and that's Ms. Shaw.
3 She's the only expert who testified on the numbers of
4 the interim rate proposal.

5 She thinks than an increased rate is unlikely
6 to be sufficient by itself to affect long-term
7 improvement to State Farm's financial condition. She
8 further explained here in testimony that State Farm
9 needed to look at its other rates.

10 And now -- and State Farm is, because there
11 are other rates involved in here; there's the renters
12 and the rental property. Homeowners is the driver here
13 as far as numbers go, and that's the number we've looked
14 at most frequently here in this proceeding because
15 there's no argument that homeowners is the driver as far
16 as the costs go.

17 So if the homeowners rate increases alone,
18 well, it wouldn't help improve the number one problem
19 that State Farm's witness, Dr. Appel, and the
20 Department's witness, Ms. Shaw, identified, which is
21 financial condition.

22 Then why are we considering taking money from
23 consumers and giving it to an insurer before a rate hike
24 is justified when the Department's own witness doesn't
25 think a higher homeowners rate alone is a long-term fix?

1 Why implement a cure that won't work? That's not
2 adequate. That's not reasonable.

3 Shaw also says that she needs information.
4 She says this is very early stage preliminary analysis.
5 She says she intends to further investigate and develop,
6 during discovery as part of the full rate hearing
7 process, because she believes there are other steps that
8 State Farm should be encouraged and required to take to
9 improve its financial condition.

10 It's fine to be need more information to
11 better understand State Farm's rate increases. Consumer
12 Watchdog needs that information, too, but this is a
13 request to go to a full rate hearing with full
14 discovery, not a reason that a stipulation is adequate
15 or reasonable.

16 And, again, refunds can't make the stipulation
17 adequate or reasonable, just like they can't cure the
18 stipulations to make them fair. It's not reasonable to
19 take money from someone in violation of the law here,
20 Proposition 103, with a future conditional promise to
21 maybe pay someone back.

22 The last factor this Court must consider under
23 section 2656.1(c) is the interest of justice, which
24 invokes many concepts of equity, and justice, and the
25 rule of law, but all of these revolve at the core of not

1 respecting following the law.

2 Here, we think the law is clear. It's Cal
3 Farm that gives the standard to see if the interim rate
4 is warranted in the first instance, or if the Applicant
5 should proceed to a full rate hearing. If the current
6 rate is plainly invalid through actuarial analysis and
7 it's inadequate under the regs, then an interim rate
8 should be considered.

9 But as we've seen, Mr. Armstrong, the only
10 actuary who ran through these calculations, doesn't find
11 that the rate is inadequate, that it's not plainly
12 invalid even using all State Farm's assumptions. This
13 is all clearly defined in the regulations; the
14 Commissioner has a duty to prevent inadequate rates,
15 just as much as he must prevent excessive rates.

16 The interest of justice also must be following
17 the regulatory standards for approving settlements, and
18 we explained here that the proponents of the
19 stipulation, their witness, and evidentiary support,
20 they don't meet these standards.

21 Mr. Ehrhart talked about reinsurance, which
22 brought some criticism that Consumer Watchdog raised
23 about a State Farm's business decisions, but he doesn't
24 address the fundamentally fair, adequate, reasonable, or
25 interest of justice standards at all. Dr. Appel, he

1 dismisses the risk to consumers. That -- that's not
2 fair.

3 Ms. Shaw doesn't speak to the adequacy or
4 reasonableness. She's taking numbers that were given to
5 her, acknowledging that more parental support will be
6 better; more money would help more from the parent. She
7 also doesn't think a homeowners rate increase by itself
8 would help in the long term, and she wants more
9 information through a full rate hearing.

10 Ms. Shaw raises significant issues, and all of
11 these issues need a full rate hearing. We think
12 Ms. Shaw is correct wanting more information in a full
13 rate hearing so that a determination can be made on the
14 appropriate rate based on a full record.

15 State Farm can and should make its case fully
16 in that setting. But granting an unjustified interim
17 increase now undermines Proposition 103 and hurts
18 California families.

19 We respectfully ask you to reject the two-way
20 stipulations, the proposed interim rate increases, and
21 send this matter to proceed to a full evidentiary
22 hearing that's already noticed on this expedited notice
23 as the parties and Court can accommodate. That ensures
24 fairness, accountability, and adherence to California
25 law. Thank you.

1 THE COURT: Thank you.

2
3 CLOSING STATEMENT

4 MS. McKENNEDY: Thank you, Your Honor.

5 I think it's really important to remember this
6 is not a final rate hearing or full rate hearing. This
7 is an interim rate hearing on a stipulation on CW's
8 objections to that stipulation.

9 As I said at the beginning of this week, the
10 Department -- I said we would show, and I believe we
11 have shown, that State Farm General is currently in an
12 emergency situation. State Farm General needs help now,
13 not 12 to 15 months from now after a full rate hearing.

14 We're not trying to execute a long-term fix
15 here. We're trying to buy time so that the Department,
16 State Farm General, and, hopefully, consumer
17 representatives including Consumer Watchdog, can work
18 together collaboratively to execute broader fixes so
19 that State Farm General doesn't continue to have these
20 problems.

21 But we can't do that if State Farm General
22 goes bankrupt in the meantime. State Farm General
23 doesn't have 12 to 15 months, so this is why the
24 Commissioner has already provisionally approved State
25 Farm General's request for emergency relief in the form

1 of an interim rate increase subject to refunds with
2 interest following the full rate hearing process.

3 The hearing this week was to ensure that
4 Consumer Watchdog had a full and fair opportunity to
5 raise any and all objections it may have to this interim
6 rate increase stipulation. But now having heard
7 extensively from CW and its expert witness, Department
8 staff reiterate our recommendation that this Court
9 propose, and the Commissioner adopt, the emergency
10 interim rate increase subject to refunds with interest.

11 Nothing that CW has raised this week has
12 caused the Department to change our recommendation. CW
13 attacks the interim rate as being unsupported by the
14 Prop 103 ratemaking formula, but as we've -- as Ms. Shaw
15 testified, there are allowable exceptions built into the
16 ratemaking formula.

17 CW -- CW's expert did not take into
18 consideration the Variant 6. CW argues that State Farm
19 abandoned Variant 6. Your Honor, it is still in the
20 rate applications. The Department is still having to
21 consider it.

22 We have a company before us that has told us
23 its solvency is at stake. They have publicly said
24 this. We have to take this seriously. I agree that Dr.
25 Appel might have spoken a little more narrowly --

1 narrowly than I agree with when he said that the
2 Commissioner's primary duty is to protect the solvency
3 of insurers.

4 That's only partially correct. The
5 Commissioner's overall primary duty is to protect
6 Californians. Keeping insurers solvent is but one part
7 of achieving that goal. Other factors include
8 maintaining the overall health of the market place in
9 order to ensure that insurance is available to
10 Californians who want to buy it.

11 Consumer Watchdog assumes that insurance is a
12 given that consumers can get anywhere, anytime they want
13 at any price, but this is just not true in today's
14 market unfortunately.

15 The Commissioner's already executed his
16 sustainable insurance strategy in an attempt to begin to
17 address the fundamental problems underlying the
18 California insurance market right now, but it needs
19 time, again, to fully -- for the fixes to fully be
20 realized.

21 We also heard a lot about how this interim
22 rate increase might make State Farm General insurance
23 unaffordable for a few of its policyholders, and, of
24 course, we regret that.

25 But if State Farm proves it's entitled to this

1 interim rate increase, if it proves it's entitled to as
2 much as a 30 percent increase after a full rate hearing,
3 those same policyholders would be faced with the same or
4 greater difficulties. It's just a reality.

5 The price of eggs is going up, and,
6 unfortunately, the price of insurance is also going up.
7 Again, Department staff and State Farm General have
8 agreed that the interim rate increase will be subject to
9 full investigation and proof as part of the complete
10 rate hearing process.

11 If the interim rate increase turns out to be
12 excessive, State Farm General has agreed and stipulated
13 that it will pay refunds plus interest to its California
14 policyholders. This is not a rate hearing; this is a
15 hearing on CW's objections under Regulation 2656.1.

16 The legal standard that should be applied is
17 whether the stipulation is fair, adequate, reasonable,
18 and in the interest of justice. We have heard nothing
19 from CW that calls that into question.

20 The problem with ratemaking regulations
21 expressly allow the Commissioner to apply exceptions to
22 the ratemaking formula. Based upon State Farm's showing
23 of emergency circumstances, the Commissioner should
24 grant State Farm General the emergency relief it
25 requests.

1 THE COURT: Thank you. Thank you very much.
2 You ready, Counsel?

3
4 CLOSING STATEMENT

5 MS. WELLINGTON: I am. Thank you. And I want
6 to just start by saying thank you to Your Honor and the
7 courtroom staff and the security team here. We very
8 much appreciate all of your time.

9 Your Honor, we're here to address an emergency
10 situation. The testimony you've heard confirms that the
11 emergency is real and that it urgently needs a solution.
12 Across four witnesses and three days of testimony, no
13 one disputes that State Farm General's financial
14 condition is seriously deteriorating. That's a direct
15 quote from Consumer Watchdog's actuary yesterday.

16 No one disputes that State Farm General's
17 surplus has decreased from about \$4 billion ten years
18 ago to about \$600 million after the Los Angeles
19 wildfires. No one disputes that over the past decade,
20 State Farm General has paid \$1.26 in claims for every
21 \$1.00 in premiums.

22 No one disputes that the risk of catastrophic
23 wildfires in California is increasing or that another
24 catastrophic wildfire like the one in Los Angeles could
25 happen at any time. And no one disputes that State Farm

1 General's financial strength rating is at risk of
2 imminent downgrade, which could impact hundreds of
3 thousands of people in California who may suddenly lose
4 their homeowners insurance and likely have to go on the
5 Fair Plan with less coverage and more premium.

6 We're here today because the California
7 Department of Insurance and State Farm General both
8 agree that the interim rate increases are warranted.
9 Both parties accordingly entered into the supplemental
10 stipulation which is fundamentally fair, adequate,
11 reasonable, and in the interest of justice.

12 Consumer Watchdog claims that this is an issue
13 for the governor or the legislature, but Proposition 103
14 was adopted by the people, and a central objective of
15 Proposition 103 is to keep insurance available. The
16 stipulation does just that.

17 We accordingly Your Honor to recommend that
18 the Commissioner approve the supplemental stipulation
19 with the full interim rates. That result is completely
20 consist with Prop 103 and Cal Farm. We heard on Tuesday
21 and Wednesday from Mr. Appel, who is a renowned
22 economist with over four decades of experience and who
23 has been familiar with Prop 103 from its inception.

24 As Mr. Appel explained, the interim rate
25 increases will help support State Farm General's

1 financial strength, which will in turn help prevent a
2 ratings downgrade.

3 This benefits consumers because it helps them
4 keep their insurance, and it doesn't create a risk for
5 consumers because if the interim rates are later found
6 to be too high, consumers will be entitled to a refund
7 with interest for the difference.

8 The supplemental stipulation will also improve
9 State Farm General's financial condition because if the
10 Commissioner improves the full interim rate increases in
11 the supplemental stipulation of 17 percent for the
12 homeowners line and the other stipulated rate increases,
13 State Farm General has stipulated that it will obtain
14 capital from its parent company, State Farm Mutual, in
15 the form of a \$400 million surplus note.

16 Ms. Shaw is the chief actuary of CEI's rate
17 regulation branch and expert on financial risk
18 management. As Ms. Shaw has explained, the \$400 million
19 surplus note, combined with the full interim rate
20 increases, will affect a substantial improvement in
21 State Farm General's financial condition, and that this
22 is in the public interest.

23 Ms. Shaw testified that State Farm General's
24 surplus has declined to a level that is alarming to
25 State Farm General's Illinois solvency regularity. She

1 further testified that the stipulated 17 percent
2 increase together with the \$400 million surplus note
3 will help improve State Farm General's financial
4 condition.

5 She testified that if the Commissioner does
6 not approve the interim rate increase, State Farm
7 General's policyholders could potentially have to go on
8 the Fair Plan and obtain wraparound insurance, which she
9 testified would likely cause the consumer more than the
10 17 percent stipulated rate increase for the homeowners
11 line.

12 The alternative, which is what Consumer
13 Watchdog is asking for, is to do nothing. But if the
14 Commissioner does not act, State Farm General's
15 financial strength rating may be downgraded at any time,
16 which could negatively impact hundreds of thousands of
17 State Farm General's policyholders and send shock waves
18 through the entire California insurance market.

19 We had the opportunity to hear yesterday from
20 one of the foremost reinsurance experts in the world
21 with over forty years of experience. And as Mr. Ehrhart
22 explained, hundreds of thousands of State Farm General
23 policyholders lose their insurance. There simply isn't
24 enough insurance available in California to find new
25 insurance outside of the Fair Plan.

1 I want to address the RBC issue, which the
2 parties also addressed in briefing to the Court. Your
3 Honor has not yet ruled on Consumer Watchdog's
4 objections to Mr. Appel and Ms. Shaw's testimony on
5 State Farm General's RBC ratios.

6 As State Farm General has explained by its
7 plain text, section 730.8 doesn't apply to RBC ratios.
8 It applies to the specific reports and documents that
9 were not used in this proceeding; rather, Mr. Appel and
10 Ms. Shaw made a simple calculation of a ratio based on
11 two lines in State Farm General's annual statement,
12 which is all publicly available, so we don't think
13 that testimony should be excluded.

14 But more importantly, Your Honor, even if Your
15 Honor were to exclude this testimony, there is plenty of
16 other evidence that State Farm General is in a weakened
17 financial condition and that Your Honor should recommend
18 that the Commissioner approve the supplemental
19 stipulation.

20 That evidence is described by Mr. Appel and
21 includes State Farm General's declining surplus, the
22 amount State Farm General has paid in claims compared to
23 the amount that is collected in premiums, State Farm
24 General's IRS ratios, the financial strength rating
25 downgrade by A Invest, and the negative rating watch by

1 SFP, among other evidence.

2 I want to emphasize, Your Honor, that Consumer
3 Watchdog does not dispute this evidence. Even
4 Mr. Armstrong agreed that State Farm General's financial
5 condition is weak, and if the ratings downgrade
6 occurs, State Farm General policyholders with mortgages
7 may lose their insurance.

8 Instead, Consumer Watchdog argues that the
9 Commissioner should deny an interim rate increase
10 despite all of this evidence for two reasons; first,
11 Consumer Watchdog argues that State Farm General's
12 weakened financial condition is the result of its
13 reinsurance contracts with State Farm Mutual.

14 But that doesn't make any sense. As
15 Mr. Ehrhart explained, based on his extensive knowledge
16 of the reinsurance market, State Farm General's decision
17 to buy reinsurance from affiliated companies was prudent
18 and highly beneficial to State Farm General's
19 policyholders, particularly in light of the Los Angeles
20 wildfires.

21 Mr. Ehrhart testified that State Farm General
22 cannot buy the reinsurance it needs from nonaffiliated
23 reinsurers on the open market at any price. There is
24 simply not enough reinsurance (indiscernible), which
25 means that not enough reinsurers are willing to assume

1 many billions of dollars of exposure to California
2 property by reinsuring State Farm General.

3 And even if State Farm General could buy that
4 much insurance from nonaffiliated reinsurers, Mr.
5 Ehrhart calculated they would be four times more
6 expensive. Consumer Watchdog did not rebut this
7 testimony.

8 Mr. Appel explained that State Farm General's
9 declining surplus is not the result of its reinsurance
10 contracts but is instead because State Farm General has
11 paid in more claims than has collected in premiums for
12 many years. That's basic math, and we're trying to fix
13 the equation through the interim rate increases.

14 Consumer Watchdog implies that State Farm
15 General should have sought rate increases at certain
16 points in the past which would have led to a higher rate
17 now. But if that's true, it suggests Consumer Watchdog
18 believes that State Farm General's rates should be
19 higher now.

20 That's an argument in favor of an interim rate
21 increase, not against it. And, to be frank, a
22 significant reason State Farm General has not been able
23 to obtain the rate increases that is needed in years
24 past is because of the inherent challenges with
25 obtaining rate increases in California.

1 The litigation over State Farm General's 2014
2 rate application was not resolved for eight years. And
3 during that period State Farm General's rates were
4 incorrectly reduced until the California Court of
5 Appeals sided with State Farm General in 2022.

6 For the past ten years, State Farm General's
7 market share has remained stable, and Consumer Watchdog
8 has not presented any evidence of predatory pricing.
9 Consumer Watchdog's second argument is a technical one.
10 It claims that the Commissioner can approve an interim
11 rate only if State Farm General's current rates are
12 plainly valid.

13 To be clear, that's not the standard in
14 section 2656, which permits the Commissioner to approve
15 a stipulation that is fundamentally fair, adequate,
16 reasonable, and in the interests of justice. This is
17 not a rate hearing. It's a hearing on a stipulation.

18 In section 2656, a standard is plainly met
19 here where the stipulated rate increase is crucial to
20 both State Farm General's policyholders and the
21 California insurance market as a whole. CDI agrees with
22 this analysis.

23 And even if plainly invalid is the right
24 standard, it doesn't mean what Consumer Watchdog says.
25 A rate is plainly valid if it violates Proposition 103,

1 which means that if a rate is not sufficient to maintain
2 insurance availability in California, an interim rate
3 increase, pending a full rate hearing, is warranted.

4 The plainly invalid standard is thus met here
5 where an interim rate increase will help preserve
6 insurance availability in California. Consumer Watchdog
7 rejects that straightforward conclusion and instead
8 myopically focuses on its inhouse actuary's rate
9 template calculations that are riddled with errors.

10 But Consumer Watchdog's actuary reached
11 completely unreasonable conclusions about the lawful
12 range of rate indications including the view that
13 reducing State Farm General's current rates by as much
14 as 25 percent would be lawful and within the zone of
15 reasonableness.

16 That cannot possibly be right. There is no
17 universe in which a 25 percent rate decrease is
18 appropriate given the circumstances here. Instead, Your
19 Honor should conclude that the people of California,
20 under Proposition 103, gave the Commissioner the
21 authority to address emergencies like this one by
22 approving the stipulated interim rates.

23 As Mr. Armstrong's testimony demonstrated,
24 this actuarial analysis simply cannot be relied on.
25 Mr. Armstrong agrees this analysis was rushed, and he

1 freely admitted that he made multiple mistakes.

2 In his testimony yesterday, Mr. Armstrong
3 agreed that he didn't follow applicable regulations in
4 the loss development factor, and he admitted that he
5 made a plain old mistake on the AYI trend factor. Those
6 are two major errors in Mr. Armstrong's declaration.

7 Correcting for those errors, under Mr.
8 Armstrong's approach, the maximum rate indication
9 changes from negative 0.1 percent to plus 7. That's a
10 big change. And those aren't the only problems with
11 Mr. Armstrong's analysis.

12 As Mr. Armstrong's testimony yesterday
13 demonstrated, he didn't show his work or explain his
14 conclusions as to several important parts of his model,
15 such as the net trend and his waiting scheme.

16 Surprisingly, Mr. Armstrong complains that
17 State Farm General refreshed Exhibit 9 with new quarter
18 2025 data for its catastrophe ratio to support the
19 interim rate. But that update accounts for the Los
20 Angeles fires, and is consistent with the Commissioner's
21 request to include updated data in this proceeding.

22 Ms. Shaw testified on that issue today, and
23 she said that State Farm General made a preliminary
24 showing that the Los Angeles wildfires were
25 catastrophic.

1 The full rate hearing will involve a further
2 developed set of cat and non-cat data through the end of
3 the first quarter of 2025 when the full data becomes
4 available as Mr. Armstrong and Ms. Shaw acknowledged.

5 Mr. Armstrong admitted that there his
6 actuarial analysis was preliminary and not intended to
7 reflect Consumer Watchdog's position regarding the
8 appropriate maximum and minimum permitted rates. And in
9 general, Mr. Armstrong's pattern of errors calls into
10 question the reliability of his analysis as a whole, and
11 his testimony should not be entitled to any weight in
12 these proceedings.

13 More fundamentally, Mr. Armstrong agrees that
14 his analysis didn't take into account State Farm
15 General's financial condition or the risk of a financial
16 strength rating downgrade to State Farm General's
17 policyholders or to the California insurance market as a
18 whole.

19 Consumer Watchdog didn't present any testimony
20 to dispute or minimize the seriousness of these issues,
21 which are the key reasons why State Farm General and CDI
22 entered into the supplemental stipulation in the first
23 place.

24 State Farm General acknowledges that the Court
25 has excluded Ms. Watkinson's testimony, but that does

1 not change the outcome here. Whether to approve the
2 stipulated interim rates is ultimately about Proposition
3 103 and the availability of insurance.

4 Ms. Shaw's testimony today further supports
5 the conclusion that the Commissioner's approval of the
6 stipulation will support the continued availability of
7 insurance in California. I want to add for the record,
8 and as Ms. Shaw confirmed, that State Farm General has
9 not abandoned Variant 6.

10 It's still part of State Farm General's rate
11 application which will be analyzed during the full rate
12 hearing. But that's not what this hearing is about.
13 This hearing is about the stipulated interim rates.

14 Your Honor, Consumer Watchdog simply hasn't
15 presented any credible evidence that the stipulated rate
16 increases are not fundamentally fair, adequate,
17 reasonable, and in the interest of justice.

18 If the Commissioner approves the full interim
19 rates in the supplemented stipulation, State Farm
20 General will obtain a \$400 million surplus note from
21 State Farm Mutual.

22 As the stipulations states, the \$400 million
23 surplus note is contingent on the Commissioner approving
24 the full interim rate of 17 percent for the homeowners
25 line and the other rates in the supplemental

1 stipulation.

2 To conclude, Your Honor, State Farm General
3 asks this Court to recommend that the Commissioner
4 approve the supplemental stipulation. All of the
5 parties have had a full and fair opportunity to present
6 their positions over this three-day hearing.

7 And as the testimony and evidence presented
8 demonstrates, it is fundamentally fair, adequate, and
9 reasonable to approve the stipulated rate increases in
10 this moment of crisis. The stipulated rate increases
11 will help improve State Farm General's financial
12 strength and help prevent an imminent ratings downgrade.

13 Approving the stipulation is in the interest
14 of justice because it will help State Farm General's
15 policyholders and the California insurance market as a
16 whole. Thank you.

17 THE COURT: Thank you very much. With that,
18 is there anything else? All right. That concludes the
19 evidentiary presentation phase of this proceeding.

20 And with there being nothing further, I thank
21 the parties and their counsel for their work in
22 connection with this hearing and for your advocacy.
23 It's greatly appreciated. I will consider these very
24 important matters incredibly carefully in rendering a
25 decision.

1 There being nothing further, that concludes
2 these proceedings that I set for today, and we are going
3 off the record in the matter of State Farm General
4 Insurance Company as to the stipulation and the
5 evidentiary hearing in connection with its approval
6 request in case numbers PA-2024-00011, and PA-024-00012,
7 and PA-2024-00013. Thank you again. And we're all
8 done.

9 (Off the record)

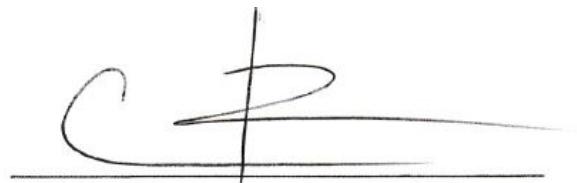
1 HEARING REPORTER'S CERTIFICATE

2
3 I, Christina L. Rodriguez, Hearing Reporter in
4 and for the State of California, do hereby certify:

5 That the foregoing transcript of proceedings
6 was taken before me at the time and place set forth,
7 that the testimony and proceedings were reported
8 stenographically by me and later transcribed by
9 computer-aided transcription under my direction and
10 supervision, that the foregoing is a true record of the
11 testimony and proceedings taken at that time.

12 I further certify that I am in no way
13 interested in the outcome of said action.

14 I have hereunto subscribed my name this 15th
15 day of April.

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21 Hearing Reporter

22 CHRISTINA L. RODRIGUEZ
23
24
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