

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, California 95814**

REG-2007-00049

September 14, 2007

NOTICE OF PROPOSED ACTION AND NOTICE OF PUBLIC HEARING

SUBJECT OF PROPOSED RULEMAKING

Notice is hereby given that the California Insurance Commissioner Steve Poizner proposes to amend Title 10, Chapter 5, Subchapter 7.7, Sections 2697.6 and 2697.61 of the California Code of Regulations (10 CCR §§2697.6 and 2697.61).

AUTHORITY AND REFERENCE

The Commissioner proposes to amend the regulations under the express authority of California Insurance Code Sections 10087, 10089.5(c), 10089.11, 10089.20 and 10089.26(a)(1). The proposed regulations will implement, interpret and make specific the provisions of California Insurance Code Sections 10089, 10089.11(a), 10089.28(b) and 12921.

PUBLIC HEARING

The Commissioner will hold a public hearing to provide all interested persons an opportunity to present statements or arguments, either orally or in writing, with respect to this regulation, as follows:

Date:	November 2, 2007
Time:	10:00 a.m.
Location:	Board Meeting Room State Board of Equalization 450 N Street, 1st Floor Sacramento, California 95814

The hearing will continue on the date noted above until all testimony has been submitted or 5:00 p.m., whichever is earlier.

PRESENTATION OF WRITTEN COMMENTS; CONTACT PERSONS

All persons are invited to present oral and/or written comments at the hearing. Written comments not presented at the hearing must be addressed to the following contact person:

Bruce Patton, Senior Staff Counsel
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Telephone: (916) 492-3560
E-mail: pattonb@insurance.ca.gov

Questions regarding procedure, comments, or the substance of the proposed action should be addressed to the above contact person. If he is unavailable, inquiries may be addressed to the following backup contact person:

Lisbeth Landsman-Smith, Staff Counsel
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Telephone: (916) 492-3561

DEADLINE FOR WRITTEN COMMENTS

All written materials must be received by the Insurance Commissioner, addressed to the contact person at her address listed above, no later than 5:00 p.m. on November 2, 2007. Any written materials received after that time will not be considered.

COMMENTS TRANSMITTED BY ELECTRONIC COMMUNICATION

The Commissioner will accept written comments transmitted by e-mail provided they are sent to the following e-mail address: pattonb@insurance.ca.gov. The Commissioner will also accept written comments transmitted by facsimile provided they are directed to the attention of the contact person for this proceeding using the following facsimile number: (916) 324-1883. **Comments shall be transmitted by one method only and are subject to the deadline set forth above for written comments. Comments sent to other e-mail addresses or other facsimile numbers will not be accepted.**

ACCESS TO HEARING ROOMS

The facilities to be used for the public hearing are accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the contact person for this hearing in order to make special arrangements, if necessary.

ADVOCACY OR WITNESS FEES

Persons or groups representing the interests of consumers may be entitled to reasonable advocacy fees, witness fees, and other reasonable expenses, in accordance with Insurance Code Section 10089.11(c) and the provisions of Subchapter 4.9, Title 10, California Code of Regulations, in connection with their participation in this matter. Persons interested in inquiring about the appropriate procedures should contact the Office of the Public Advisor at the following address:

California Department of Insurance
Office of the Public Advisor
300 Capitol Mall, 17th Floor
Sacramento, California 95814
(916) 492-3559

A copy of any written materials submitted to the Public Advisor regarding this rulemaking shall also be submitted to the contact person for this hearing. Please contact the Office of the Public Advisor for further information.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

The California Earthquake Authority (“CEA”) was established by Legislative enactment of Chapter 8.6 of Part 1 of Division 2 of the Insurance Code (Insurance Code sections 10089.5 et seq.). Certain aspects of the CEA’s operations are identified in Insurance Code Section 10089.11 requiring the promulgation of regulations. In accordance, the Commissioner promulgated certain regulations under Title 10, Chapter 5, Subchapter 7.7 [California Earthquake Authority] of the Code of Regulations (CCR).

Under the existing regulations, the CEA is required to maintain separate financing for its base limits and optional-limits (usually called, "supplemental limits") programs. Also under existing regulations, temporary transfers of capital between programs is authorized, but will sunset on December 1, 2008. The proposed regulations will do away with the separate financing for the programs altogether and treat the financing of the two programs as one and the same. Amendments to 10 CCR § 2697.6 will simplify the description of the coverages available under both programs and removes language that restricts the merging of the two programs finances. Amendments to 10 CCR § 2697.61 will also remove all language restricting merging of the two programs finances and will clarify that any obligations under current inter-program transfers will cease to exist upon enactment of the regulations.

COMPARABLE FEDERAL LAW

There are no existing federal regulations or statutes comparable to the proposed regulations.

OTHER STATUTORY REQUIREMENTS

There are no other specific statutory requirements applicable to the proposed regulation.

The Commissioner has made the following initial determinations:

Mandates On Local Agencies Or School Districts - Regulatory action imposed herein will result in no program mandates on local agencies or school districts.

Fiscal Impact - The regulation will involve no costs or savings to any State agency, no reimbursable costs to local agencies or school districts under Part 7 (commencing with Section 17500) of Division 4 of the Government Code, no nondiscretionary costs or savings to local agencies, and no costs or savings in federal funding to the State.

Impact On Housing Costs - The proposed regulation will have no significant effect on housing costs.

Economic Impact On Businesses - The proposed regulation will not have a significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states because the proposed amendments pertain exclusively to internal CEA procedures.

Cost Impact On Private Persons Or Entities/Businesses – The Commissioner is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

Assessment Regarding Effect On Jobs/ Businesses - The regulation will not affect the creation or elimination of jobs in the State of California, the creation of new businesses or the elimination of businesses in the State of California, and the expansion of businesses currently doing business within the State of California.

Impact On Small Business - The proposed amendment will only affect insurance companies and will therefore not affect small business. Pursuant to Government Code section 11342.610(b)(2), insurers are not small businesses. All reinsurers are necessarily insurers.

ALTERNATIVES

The Commissioner must determine that no reasonable alternative considered by the Commissioner or that has otherwise been identified and brought to the attention of the Commissioner would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action. The Commissioner invites public comment on alternatives to this regulation.

TEXT OF REGULATIONS AND STATEMENT OF REASONS

The Commissioner has prepared an initial statement of reasons that sets forth the reasons for the proposed action. The Commissioner also has available all the information upon which this proposed action is based as well as the express terms of the proposed action. The initial statement of reasons and the text of the proposed amendment are available on the Department's website and may be accessed as explained below.

The Commissioner will have the entire rulemaking file available for inspection and copying throughout the rulemaking process at its office at the address above, which currently includes this notice, the proposed text of the regulation, and the initial statement of reasons. Requests for inspection and copying should be directed to the contact person listed above. The final statement of reasons will be made available for inspection and copying once it has been prepared. Requests for the final statement of reasons should also be directed to the contact person listed above.

AUTOMATIC MAILING

A copy of this notice, including the informative digest, which contains the general substance of the proposed regulation, will automatically be sent to all persons on the Insurance Commissioner's mailing list.

WEBSITE POSTINGS

Documents concerning this proceeding are available on the Department's website. To access them, go to <http://www.insurance.ca.gov>. Find, near at the top of the rightmost column, the pull down menu under the heading "Quick Links." Under the heading, "For Insurers," select the "Regulations" link. On the "Insurers: Regulations" page, click on the "Proposed

