

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA
SECOND APPELLATE DISTRICT

**THE ASSOCIATION OF CALIFORNIA
INSURANCE COMPANIES, et al.,**

Plaintiffs and Appellants,

v.

**STEVE POIZNER, Insurance Commissioner
of the State of California; and CALIFORNIA
DEPARTMENT OF INSURANCE,**

Defendants and Respondents.

Case No. B208402

Los Angeles County Superior Court No. BS109154
The Honorable James C. Chalfant, Judge

RESPONDENT'S BRIEF

EDMUND G. BROWN JR.
Attorney General of California
W. DEAN FREEMAN
FELIX E. LEATHERWOOD
Supervising Deputy Attorneys General
DIANE SPENCER SHAW, State Bar No. 73970
CHRISTINE ZARIFIAN, State Bar No. 212810
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 897-2479
Fax: (213) 897-5775
E-mail: Christine.Zarifian@doj.ca.gov
Attorneys for Defendants and Respondents

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA
THE SECOND APPELLATE DISTRICT

Case Name: THE ASSOCIATION OF CALIFORNIA
INSURANCE COMPANIES, et al. v.
STEVE POIZNER, Insurance
Commissioner of the State of California, et
al.

2009 MAR 30 PM 1:23
Court of Appeal No. B208402
JOSEPH A. LANE CLERK

CERTIFICATE OF INTERESTED PARTIES OR ENTITIES OR PERSONS
(Cal. Rules of Court, Rule 8.208)

(Check One) INITIAL CERTIFICATE SUPPLEMENTAL CERTIFICATE

Please check the applicable box:

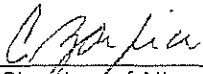
- There are no interested entities or persons to list in this Certificate per California Rules of Court, rule 8.208(d).
- Interested entities or persons are listed below:

Full Name of Interested Entity or Party	Party		Nature of Interest (Explain)
	Check One	Non-Party	
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____

The undersigned certifies that the above listed persons or entities (corporations, partnerships, firms or any other association, but not including government entities or their agencies), have either (i) an ownership interest of 10 percent or more in the party if an entity; or (ii) a financial or other interest in the outcome of the proceeding that the justices should consider in determining whether to disqualify themselves, as defined in rule 8.208(d)(2).

Attorney Submitting Form
CHRISTINE ZARIFIAN
Deputy Attorney General
State Bar No. 212810
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 897-2479
Fax: (213) 897-5775
E-mail: Christine.Zarifian@doj.ca.gov

Party Represented
Attorneys for Defendants and Respondents, Steve
Poizner, Insurance Commissioner of the State of
California and California Department of Insurance



(Signature of Attorney Submitting Form)

3/30/09

(Date)

TABLE OF CONTENTS

	Page
INTRODUCTION	1
FACTUAL BACKGROUND	2
A. The Commissioner Adopts Amendments to the California Code of Regulations.	2
B. The Rate Review Process Following the Commissioner’s Adoption of the Amended Regulations.	4
1. Pre-hearing stage of the rate review process.	4
2. Informal resolution efforts during the pre-hearing stage.....	7
3. The hearing stage of the rate review process.	9
C. Appellants File Writ Petition Challenging the Amended Regulations.....	9
D. The Trial Court’s Hearing and Decision on Appellants’ Writ Petition.	10
E. The Trial Court Awards Attorney’s Fees to FTCR.	12
STANDARD OF APPELLATE REVIEW.....	12
ARGUMENT	14
I. THE COMMISSIONER ACTED WITHIN THE SCOPE OF HIS AUTHORITY IN ADOPTING THE AMENDED REGULATIONS.	14
II. THE AMENDED REGULATIONS ARE CONSISTENT WITH THE HISTORY AND PURPOSE UNDERLYING PROPOSITION 103.....	16
III. THE AMENDED REGULATIONS ARE CONSISTENT WITH SECTIONS 1861.05 AND 1861.10.	19
A. The Commissioner Reasonably Defined the Term “Proceeding.”	19

TABLE OF CONTENTS
(continued)

	Page
B. A “Rate Proceeding” is Permitted Pursuant to Chapter 9.....	23
C. The Phrase “Advocacy Fees” in the Consumer Participation Provision of Proposition 103 Does Not Limit “Proceedings” to Rate Hearings.	26
D. The Legislature Defined “Proceeding” to Include Pre-Hearing Resolution in the Analogous Area of Public Utilities Regulation	27
CONCLUSION.....	29

TABLE OF AUTHORITIES

	Page
CASES	
<i>20th Century Ins. Co. v. Garamendi</i> (1994) 8 Cal.4th 216.....	14
<i>American Healthcare Indemnity Company, et al. v. Garamendi</i> (Super. Ct. L.A. County, 2005, No. BS094515)	2, 3
<i>Bell v. Board of Supervisors</i> (1994) 23 Cal.App.4th 1695.....	12
<i>Calfarm Ins. Co. v. Deukmejian</i> (1989) 48 Cal.3d 805.....	1, 14, 15, 27
<i>California Auto. Assigned Risk Plan v. Garamendi</i> (1991) 232 Cal.App.3d 904.....	16
<i>Communities for a Better Environment v. California Resources Agency</i> (2002) 103 Cal.App.4th 98.....	13
<i>County of Santa Cruz v. State Bd. of Forestry</i> (1998) 64 Cal.App.4th 826.....	13
<i>Economic Empowerment Foundation v. Quackenbush</i> (1997) 57 Cal.App.4th 677.....	18, 27
<i>Farmers Ins. Exchange v. Superior Court</i> (2006) 137 Cal.App.4th 842.....	18, 25, 26
<i>Fireman's Fund Ins. Companies v. Quackenbush</i> (1997) 52 Cal.App.4th 599.....	25
<i>Ford Dealers Assn. v. Department of Motor Vehicles</i> (1982) 32 Cal.3d 347.....	13
<i>Foundation for Taxpayer and Consumer Rights v. Garamendi</i> (2005) 132 Cal.App.4th 1354.....	16

TABLE OF AUTHORITIES
(continued)

	Page
<i>Gustafson v. Zolin</i> (1997) 57 Cal.App.4th 1361	21, 22
<i>Halbert's Lumber, Inc. v. Lucky Stores, Inc.</i> (1992) 6 Cal.App.4th 1233	14
<i>Lungren v. Deukmejian</i> (1988) 45 Cal.3d 727	13, 19
<i>Southern Cal. Gas Co. v. Public Utilities Com.</i> (1990) 50 Cal.3d 31	23
<i>Southern California Edison Co. v. Public Utilities Com'n</i> (2000) 85 Cal.App.4th 1086	12
<i>State Farm Mut. Auto. Ins. Co. v. Garamendi</i> (2004) 32 Cal.4th 1029	1, 13, 14, 16, 17, 18
<i>Tomlinson v. Qualcomm, Inc.</i> (2002) 97 Cal.App.4th 934	12
<i>Transworld Systems, Inc. v. County of Sonoma</i> (2000) 78 Cal.App.4th 713	14
<i>Walker v. Allstate Indem. Co.</i> (2000) 77 Cal.App.4th 750	25
<i>Yamaha Corp. of America v. State Bd. of Equalization</i> (1998) 19 Cal.4th 1	12, 13
 STATUTES	
Evidence Code	
§ 901	22, 23
 Government Code	
§ 800	21, 22

TABLE OF AUTHORITIES
(continued)

	Page
§ 800, subd. (a)	21
§ 11340 et seq.	3, 14
§ 11342.1	14
§ 11342.2	1, 13, 14
Insurance Code	
§ 1861.05	1, 2, 9, 11, 20, 24, 25, 26
§ 1861.05, subd. (a)	17
§ 1861.05, subd. (b)	4, 17
§ 1861.05, subd. (c)	4, 5, 6, 9, 15, 23, 24
§ 1861.055, subd. (a)	15
§ 1861.06	4
§ 1861.07	4
§ 1861.08	9, 25
§ 1861.10	1, 2, 9, 11, 19, 20, 22, 25
§ 1861.10, subd. (a)	6, 15, 17, 18, 19, 21, 23, 24, 26
§ 1861.10, subd. (b)	6, 7, 11, 17, 26
Public Utilities Code	
§ 1801.3, subd. (b)	28
§ 1802, subd. (f)	28, 29
§ 1803, subd. (a)	28

TABLE OF AUTHORITIES
(continued)

Page

REGULATIONS

California Code of Regulations, Title 10

§ 2648.2, subd. (a)	4
§ 2648.2, subd. (b)	4
§ 2648.2, subd. (f)	4
§ 2651.1	1
§ 2651.1, subd. (f)	6
§ 2652.8	4
§ 2653.1	5
§ 2653.1, subd. (a)(3)	5
§ 2653.1, subd. (c)	5
§ 2653.3	5
§ 2653.4	5
§ 2653.5	5
§ 2654.1 – 2655.10	9
§ 2654.1	9
§ 2661.1	1
§ 2661.1, subd. (f)	20
§ 2661.1, subd. (h)	6, 20, 24
§ 2661.1, subd. (i)	25

TABLE OF AUTHORITIES
(continued)

	Page
§ 2661.2	6
§ 2661.3	1, 6
§ 2661.3, subd. (a)	6
§ 2661.3, subd. (g)	6
§ 2661.4	6
§ 2662.1	1
§ 2662.2	6
§ 2662.2, subd. (a)	6
§ 2662.2, subd. (d)	6
§ 2662.3	1
§ 2662.3, subd. (a)	7
§ 2662.3, subd. (b)	7
§ 2662.5	1
§ 2662.5, subd. (a)(1)	7
§ 2662.5, subd. (b)	7
§ 2662.6, subd. (a)	7
§ 2662.6, subd. (b)	7

CONSTITUTIONAL PROVISIONS

California Constitution, Article XII

§ 6	27
-----------	----

TABLE OF AUTHORITIES
(continued)

Page

OTHER AUTHORITIES

Black's Law Dictionary (8th ed. 2004).....20, 25, 27

INTRODUCTION

Appellants The Association of California Insurance Companies, The Personal Insurance Federation of California, The American Insurance Association and The Pacific Association of Domestic Insurance Companies (“appellants”) challenge the trial court’s judgment denying their writ petition and upholding the validity of amended regulations (“amended regulations”)¹ adopted by the Insurance Commissioner of the State of California (“Commissioner”). The Commissioner, consistent with his statutory authority to promulgate regulations to further statutory objectives, adopted the amended regulations to advance the foundational objectives of Proposition 103, an initiative California voters passed in 1988 that encourages consumer participation in the review and approval of insurance rates by the Commissioner.

California law makes clear that the Commissioner has the authority “to implement, interpret, make specific or otherwise carry out the provisions of the statute.” (Gov. Code, § 11342.2.) Indeed, the Commissioner has broad discretion to adopt regulations to promote the public welfare. (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1040 *citing* *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824.) Such regulations are valid so long as they are “consistent and not in conflict with the statute.” (Gov. Code, § 11342.2.) The amended regulations fall squarely within each of these parameters.

At the trial court, appellants asserted that the amended regulations conflict with Insurance Code sections 1861.05 and 1861.10— two statutes Proposition 103 added to the California Insurance Code that govern the rate

¹ The amended regulations at issue are found in Title 10 of the California Code of Regulations, sections 2651.1, 2661.1, 2661.3, 2662.1, 2662.3 and 2662.5.

review process and consumer participation in the process.² Appellants asserted that the amended regulations permit consumer groups to obtain advocacy and witness fees outside of a formal hearing. The trial court correctly found that the Commissioner's amended regulations are valid because (1) the plain language of section 1861.10 broadly allows consumer participation in "any proceeding," not only formal hearings, (2) the Commissioner reasonably interpreted sections 1861.05 and 1861.10 within his authority, and (3) the amended regulations not only comport with those sections, but also advance the objectives of Proposition 103. Because the trial court's ruling is consistent with the Commissioner's authority under Proposition 103, the initiative's objectives, and California Supreme Court precedent, it must be affirmed.

FACTUAL BACKGROUND

A. The Commissioner Adopts Amendments to the California Code of Regulations.

In 2005, the Los Angeles Superior Court considered the Commissioner's regulations governing the process for review of an insurer's rate application and consumer participation in the rate review process in *American Healthcare Indemnity Company, et al. v. Garamendi* (Super. Ct. L.A. County, 2005, No. BS094515). (Clerk's Transcript "C.T." 252-255, 309.)³ After it reviewed sections 1861.05 and 1861.10 as well as the Commissioner's 1995 regulations that were in effect at that time, the superior court held that the 1995 regulations did not authorize consumer groups to obtain advocacy fees for their work performed in a matter where their involvement in the rate review process did not extend beyond

² Unless otherwise indicated, all statutory citations in this brief refer to the Insurance Code.

³ Citations to "C.T." refer to the four-volume Clerk's Transcript prepared for the June 6, 2008 appeal from the judgment.

settlement negotiations. (*Id.*) The Commissioner sought to remedy the superior court's concerns by amending his regulations to clarify that consumer groups can be awarded advocacy fees for their substantial contribution in reaching a settlement. (C.T. 309.) Thus, the Commissioner initiated the rulemaking process in accordance the Administrative Procedures Act to amend his 1995 regulations. (Gov. Code, § 11340 *et seq.*) (C.T. 313-409.)

On September 22, 2006, the California Department of Insurance ("Department") issued a "Notice of Proposed Action and Notice of Public Hearing" ("Proposed Action Notice"), which was mailed to numerous entities, including appellants. (C.T. 316-320, 322-330.) The Proposed Action Notice stated that "the Insurance Commissioner proposes to ... amend Sections 2651.1, 2661.1, 2661.3, 2662.1, 2662.3, and 2662.5 of Subchapter 4.9, Title 10, of the California Code of Regulations.... under the express authority of California Insurance Code Sections 1861.05, 1861.055 and 1861.10" and set a November 6, 2006 public hearing. (C.T. 316.) If adopted, "[t]he proposed regulation [would] implement, *interpret and make specific* the provisions of California Insurance Code Sections 1861.05(a)[,] 1861.05(c), ... 1861.10(a), [and] 1861.10(b)." (Emphasis added.) (*Id.*)

In his "Initial Statement of Reasons" dated September 22, 2006 and made publicly available, the Commissioner stated that the proposed amended regulations would "clarify that consumers, who participate in the approval process after having filed a petition for a hearing, may seek an award of reasonable advocacy fees." (C.T. 343.) The Commissioner also noted that the proposed amended regulations were necessary "to make clear that advocacy performed by a consumer representative ... prior to a decision by the Commissioner to grant or deny a petition for hearing pursuant to Section 1861.05(c) is to be compensated so long as a consumer

has made a 'substantial contribution' to a decision or order ending the proceeding." (*Id.*)

The Commissioner both accepted written comments on the proposed amended regulations over a 45-day comment period, and held a public "rulemaking hearing" on November 6, 2006. (C.T. 348-370, 383-397, 399-502.) Appellants had both their representatives and counsel at the hearing, and presented their position to the Department. (C.T. 349, 353-358.)

On November 14, 2006, after considering both written and verbal comments on the proposed amended regulations, the Commissioner issued his "Final Statement of Reasons" for adopting the proposed amended regulations, and on December 28, 2006, issued an "Addendum to Final Statement of Reasons." (C.T. 379-381.) The proposed amended regulations took effect on January 28, 2007. (C.T. 8.)

B. The Rate Review Process Following the Commissioner's Adoption of the Amended Regulations.

1. Pre-hearing stage of the rate review process.

The rate review process begins when an insurer, which wants either to increase or decrease its insurance rates, files a rate application with the Commissioner. (Ins. Code, § 1861.05, subd. (b); Cal. Code Regs., tit. 10, § 2648.2, subd. (a).) Receipt of the rate application by the Commissioner triggers a 14-day period during which the Commissioner is required to review the application for completeness. (Cal. Code Regs., tit. 10, § 2648.2, subd. (b).) For applications that he deems complete, the Commissioner, within 10 days of such a determination, provides public notice of an insurer's application. (Ins. Code, §§ 1861.05, subd. (c), 1861.06; Cal. Code Regs., tit. 10, §§ 2648.2, subd. (f), 2652.8.) Rate applications submitted to the Commissioner must be made available for public inspection. (Ins. Code, § 1861.07.) The Commissioner then has 60 days from the date of public

notice to review the application and to determine whether to notice a formal hearing “on his or her own motion” for review of the application. (Ins. Code, § 1861.05, subd. (c).)

Concurrently, following public notice of the rate application, consumer groups may hire experts and independently analyze the application to determine if the proposed rate change is reasonable. (C.T. 309-310.) Consumer groups have 45 days, from the date of public notice, to petition the Commissioner to hold a hearing on the application. (Ins. Code, § 1861.05, subd. (c); Cal. Code Regs., tit. 10, § 2653.1.) A consumer group’s petition for hearing is considered a “pleading” and must include “[a]n offer of the evidence [the consumer group] requesting the hearing would present or elicit at the public hearing.” (Cal. Code Regs., tit. 10, § 2653.1, subd. (a)(3).) Moreover, when the consumer group submits its petition for hearing to the Commissioner, it must also serve a copy on the insurer. (Cal. Code Regs., tit. 10, § 2653.1, subd. (c).)

In response to a consumer group’s petition for hearing, the Department’s Rate Enforcement Bureau (“REB”) (the legal department established by the Commissioner to litigate rate application issues) has 3 days from date the petition is submitted to submit a response to the Commissioner. (Cal. Code Regs., tit. 10, § 2653.3.) Additionally, within 5 days from the submission of the consumer group’s petition for hearing, the insurer may submit an answer to the petition to the Commissioner. (Cal. Code Regs., tit. 10, § 2653.4.) After considering the consumer group’s petition for hearing, the REB’s response and the insurer’s answer, the Commissioner will either grant or deny the consumer group’s petition for hearing. (Cal. Code Regs., tit. 10, § 2653.5.) If the Commissioner denies the petition for hearing, the Commissioner is required to issue written findings in support of his decision. (Ins. Code, § 1861.05, subd. (c).) However, the Commissioner *must* hold a hearing on the application in

response to a timely request where “the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines or 15% for commercial lines.” (Ins. Code, § 1861.05, subd. (c).)

As amended, either upon the Commissioner’s notice of a hearing on the rate application on his own motion or upon the submission of a consumer group’s petition for hearing, a “rate proceeding” begins. (Cal. Code Regs., tit. 10, § 2661.1, subd. (h).) A consumer group can intervene in “any proceeding,” including a rate proceeding, by filing a petition to intervene with the Commissioner. (Ins. Code, § 1861.10, subd. (a); Cal. Code Regs., tit. 10, §§ 2661.1, subd. (h), 2661.2, 2661.3, subd. (a), 2661.4.) A consumer group submitting a petition for hearing can combine its petition to intervene with its petition for hearing in one pleading. (Cal. Code Regs., tit. 10, § 2661.3, subd. (a).) If a consumer group who files a petition to intervene meets the requirements of California Code of Regulations section 2661.3, represents the interests of the consumers pursuant to section 1861.10, subdivision (b), and is otherwise eligible to seek compensation in proceedings before the Department pursuant to California Code of Regulations section 2662.2⁴, the petition to intervene shall be granted within 15 days of its submission. (Cal. Code Regs., tit. 10, § 2661.3, subd. (g).) Thereafter, the consumer group is a party to the proceeding. (Cal. Code Regs., tit. 10, § 2651.1, subd. (f).) At the conclusion of the proceeding, an intervening consumer group can then seek advocacy fees and expenses for its work performed if it can show that it:

⁴ Intervenors wishing to recover fees must separately file a request for a finding of eligibility to seek compensation. (Cal. Code Regs., tit. 10, § 2662.2, subd. (a).) A finding of eligibility is like a drivers license. Once granted, it lasts for two years and during those 2 years, consumer groups must petition separately to intervene/participate in each matter in which they wish to intervene/participate. (Cal. Code Regs., tit. 10, § 2662.2, subd. (d).)

(1) represents the interests of consumers, and (2) made a substantial contribution to the adoption of any order, regulation or decision by the Commissioner. (Ins. Code, § 1861.10, subd. (b).)

To recover advocacy fees, intervenors must file a request for an award of compensation, which details the intervenor's services and expenditures, and describes the intervenor's "substantial contribution" to the proceeding. (Cal. Code Regs., tit. 10, § 2662.3, subds. (a), (b).) The "substantial contribution" must be evidenced by specific citations to the intervenor's direct testimony, cross-examination, legal arguments, briefs, motions, discovery, declarations by advocates and/or witnesses, written or oral comments provided to the Department, correspondence with the parties, stipulations or settlement agreements, a decision or order by the Department or Commissioner on a petition for hearing or application issued without a formal hearing, or any other appropriate evidence. (Cal. Code Regs., tit. 10, § 2662.5, subd. (a)(1).) Compensation may be reduced to the extent that the intervenor's substantial contribution "duplicates" that of another party to the proceeding, including the Department's staff. (Cal. Code Regs., tit. 10, § 2662.5, subd. (b).) Thereafter, the Commissioner will issue a written decision determining whether there has been a substantial contribution and specifying the amount of any award. (Cal. Code Regs., tit. 10, § 2662.6, subds. (a), (b).)

2. Informal resolution efforts during the pre-hearing stage.

The Department's practice has been to encourage resolution of rate applications during a rate proceeding, before a hearing is noticed, to avoid lengthy formal hearings. (C.T. 309.) During this period, intervening consumer groups typically will hire experts, analyze rate applications and negotiate with insurers. (C.T. 309-310.) Consumer groups and their experts also analyze additional and/or updated information submitted by the

insurer in response to requests by the Commissioner, as well as publicly available information that may be relevant to a rate application, such as an insurer's quarterly or annual financial statements and reports. (C.T. 309-310.)

Informal resolution efforts, if successful, conserve the Department's resources with respect to the time and costs associated with application proceedings. (C.T. 310.) These cost savings are in the form of reduced expenditures for court reporters, costs associated with the Administrative Hearing Bureau (including the Administrative Law Judge ("ALJ")) and their staff, discovery matters, preliminary motions, preparing and objecting to pre-filed testimony, the hearing itself, and post-hearing briefs and motions. (C.T. 310.)

Historically, consumer groups' participation in pre-hearing processes has led to negotiated resolutions or withdrawals of applications. (C.T. 310.) In several such instances, even before implementing the amended regulations at issue in this appeal, the Commissioner awarded fees for a consumer group's "substantial contribution" even though no hearing was held because "[w]ith respect to the construction of CIC 1861.10, the Commissioner has determined that in fairness to consumers who desire to participate in the public ratemaking process as provided for by Proposition 103, and in furtherance of the purposes of Proposition 103, that a 'proceeding' has been 'initiated,' within the meaning of CIC 1861.10(a) once a Petition for Hearing has been filed pursuant to CCR section 2661.2 and 2661.3(a).'" (C.T. 310.) The amended regulations simply "clarify that consumers, who participate in the approval process after having filed a petition for a hearing, may seek an award of reasonable advocacy fees." (C.T. 343.)

3. The hearing stage of the rate review process.

If the application is not resolved at the pre-hearing stage and the Commissioner has noticed a hearing, the application will then be reviewed in a formal hearing. (Ins. Code, §§ 1861.05, subd. (c), 1861.08; Cal. Code Regs., tit. 10, §§ 2654.1 – 2655.10.) The insurer submitting the application, the intervening consumer group and the Department's Rate Enforcement Bureau will litigate the application at a rate hearing. (C.T. 310.)

The rate hearing is conducted before the Administrative Hearing Bureau (including the ALJ) and in accordance with administrative adjudication provisions of Government Code sections 11500 through 11528. (Ins. Code, § 1861.08; Cal. Code Regs., tit. 10, § 2654.1.) A rate hearing is a formal process, and typically will involve extensive time and resources to engage in discovery, submit and respond to preliminary motions, prepare expert and witness testimony, conduct the hearing itself and prepare post-hearing briefs and motions.⁵ (C.T. 310.) Ultimately the ALJ will issue a decision on the rate application, which the Commissioner can either adopt, amend, or reject. (Ins. Code, § 1861.08.)

C. Appellants File Writ Petition Challenging the Amended Regulations.

On May 25, 2007, appellants filed a petition for a peremptory writ of mandate and complaint for declaratory and injunctive relief ("petition") challenging the Commissioner's amended regulations. (C.T. 6-70.) Appellants claimed that the amended regulations conflict with sections 1861.05 and 1861.10 because:

⁵ See California Code of Regulations, title 10, sections §§ 2654.1 – 2660 for regulations clarifying the rate hearing requirements.

(1) the amended regulations permit consumer groups to obtain “advocacy” and “witness” fees where there has been no actual “proceeding” (C.T. 13);

(2) the statutory scheme intends that consumer groups may only obtain compensation for their participation in “hearings” or similar formal proceedings (C.T. 13-14);

(3) the amended regulations permit a fee award based on a “decision on the merits” however no decision on the merits can be made outside of a formal hearing (C.T. 14);

(4) the amended regulations allow consumer groups to obtain compensation when they submit a petition for a hearing, even where no hearing ultimately occurs, without requiring those groups to “initiate or intervene” in a “proceeding” (C.T. 14-15);

(5) the amended regulations provide fees for the review of a class plan application, which is filed pursuant to section 1861.02 (not section 1861.05) and is fundamentally distinct from a rate application (C.T. 15);

(6) Proposition 103 intended specific limits on a consumer’s ability to obtain compensation and only to encourage consumer participation in public hearings. (C.T. 15.)

The Commissioner and Department answered the petition on July 20, 2007. (C.T. 95-101.) On August 10, 2007, pursuant to the parties’ stipulation, the court entered an order granting The Foundation for Taxpayer and Consumer Rights (hereinafter referred to as “FTCR”) leave to intervene, which thereafter filed a complaint in intervention. (C.T. 122-174.)

D. The Trial Court’s Hearing and Decision on Appellants’ Writ Petition.

After all briefing on appellants’ writ was complete, the trial court heard oral argument on March 7, 2008, after which the trial court adopted

its tentative ruling as the final order of the court, denied appellants' petition, and found that they "failed to demonstrate that the Amended Regulations are inconsistent and in conflict with section 1861.10." (C.T. 699-705.) Specifically, the trial court found that:

(1) section 1861.10 broadly allows consumer participation in "any proceeding" within the rate review process (C.T. 703);

(2) section 1861.10's use of the term "any proceeding" plainly supports the amended regulations, which merely define when a "rate proceeding" begins (C.T. 703);

(3) appellants' contention that "proceeding" refers only to a formal hearing under section 1861.05 is contrary to both the liberal interpretation of Proposition 103 to promote its underlying purposes, and the initiative's central purpose to foster consumer participation (C.T. 703-704);

(4) the Commissioner reasonably interpreted the statutory mandate by adopting amended regulations to aid the objective of Proposition 103 by encouraging consumer participation in the rate review process (C.T. 704);

(5) the amended regulations are consistent with section 1861.10, subdivision (b), allowing consumers to collect advocacy fees, because Proposition 103 encourages consumer participation in the rate review process by allowing the Commissioner to award advocacy fees to consumers (C.T. 704); and

(6) appellants' contention that an advocacy fee award cannot be made unless there is a "final" order or decision on the merits is incorrect since the Commissioner's decision denying the petition for hearing as moot following settlement is an "order" or "decision" for purposes of section 1861.10, subdivision (b). (C.T. 704.)

On April 2, 2008, the trial court entered judgment in favor of the Commissioner, the Department and FTCR, and against appellants. (C.T.

706-711.) Thereafter, on June 6, 2008, appellants filed a notice of appeal to the judgment. (C.T. 719-730.)

E. The Trial Court Awards Attorney's Fees to FTCR.

On June 9, 2008, FTCR filed a motion for attorney's fees. (C.T. (attorney's fees) 18-39.)⁶ On July 25, 2008, after all briefing was complete and following a hearing on FTCR's motion, the trial court issued its final decision granting attorney's fees to FTCR. (C.T. (attorney's fees) 204-209.) Appellants filed a second notice of appeal on September 5, 2008 from the trial court's order granting attorney fees to FTCR. (C.T. (attorney's fees) 210-214.)

STANDARD OF APPELLATE REVIEW

An administrative agency's action comes before a court with a presumption of correctness and regularity. (*Tomlinson v. Qualcomm, Inc.* (2002) 97 Cal.App.4th 934, 941.) Thus, an administrative agency's "regulation, like a statute, is presumed valid and a challenger bears the burden of pleading and proof of invalidity." (*Bell v. Board of Supervisors* (1994) 23 Cal.App.4th 1695, 1710.) Where, as here, a regulation is challenged on its face as not authorized by the governing statute, a question of law is presented that is subject to independent review by this Court. (*Southern California Edison Co. v. Public Utilities Com'n* (2000) 85 Cal.App.4th 1086, 1096.) While the final responsibility for the interpretation of the governing law rests with the courts, "the appropriate mode of review in such a case is one in which the judiciary . . . accords great weight and respect to the administrative construction." (*Yamaha*

⁶ Citations to "C.T. (attorney's fees)" refers to the one-volume Clerk's Transcript prepared for the September 5, 2008 appeal from the order.

Corp. of America v. State Bd. of Equalization (1998) 19 Cal.4th 1, 12.) Indeed, in reviewing an administrative agency's rulemaking, courts will interfere only where the agency "clearly [has] overstepped its statutory authority or violated a constitutional mandate." (*Ford Dealers Assn. v. Department of Motor Vehicles* (1982) 32 Cal.3d 347, 356.)

In reviewing the validity of a regulation, the judicial function is limited to determining whether the regulation is (1) consistent and not in conflict with the governing statute and (2) reasonably necessary to effectuate the purpose of the statute. (Gov. Code, § 11342.2; *see also*, *Yamaha Corp. of America v. State Bd. of Equalization* (1998) 19 Cal.4th 1, 10-11 ["If satisfied that the rule in question lay within the lawmaking authority delegated by the Legislature, and that it is reasonably necessary to implement this purpose of the statute, judicial review is at an end."]) To determine whether a regulation is consistent with the governing statute, the relevant inquiry is whether the regulation alters or amends the governing statute or case law, or enlarges or impairs its scope and is within the scope of the authority conferred. (*Communities for a Better Environment v. California Resources Agency* (2002) 103 Cal.App.4th 98, 108.) Stated differently, "[t]he task of the reviewing court in this regard has been described as 'decid[ing] whether the [agency] reasonably interpreted the legislative mandate.' [Citation.]" (*County of Santa Cruz v. State Bd. of Forestry* (1998) 64 Cal.App.4th 826, 834.)

Courts must construe the governing statutes to ascertain the intent of the voters so as to effectuate the purpose of the law. (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1043.) When interpreting statutes, they must adopt a literal interpretation unless it is repugnant to the obvious purpose of the statute. (*Lungren v. Deukmejian* (1988) 45 Cal.3d 727, 735.) Thus, "court[s] must look first to the words of the statute themselves, giving to the language its usual, ordinary import and according

significance, if possible, to every word, phrase and sentence in pursuance of the legislative purpose.” (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1043.) “If the meaning is without ambiguity, doubt, or uncertainty, then the language controls There is nothing to ‘interpret’ or ‘construe’.” (*Halbert’s Lumber, Inc. v. Lucky Stores, Inc.* (1992) 6 Cal.App.4th 1233, 1239.) Ultimately, “[a]dministrative regulations must be construed in a manner consistent with the legislative purpose.” (*Transworld Systems, Inc. v. County of Sonoma* (2000) 78 Cal.App.4th 713, 717.)

ARGUMENT

I. THE COMMISSIONER ACTED WITHIN THE SCOPE OF HIS AUTHORITY IN ADOPTING THE AMENDED REGULATIONS.

The Administrative Procedures Act (“APA”) for rulemaking (Gov. Code, § 11340 *et seq.*) governs a state agency’s ability to promulgate regulations. It provides that a state agency, by the express or implied terms of any statute “has authority to *adopt regulations to implement, interpret, make specific or otherwise carry out the provisions of the statute.*” (Emphasis added.) (Gov. Code, § 11342.2; *see also* § 11342.1) “Administrative officials may exercise such additional powers as are necessary for the due and efficient administration of powers expressly granted by statute, or as *may fairly be implied* from the statute granting the powers.” (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824-825.) With respect to the rate review process, the Commissioner “has broad discretion to adopt rules and regulations as necessary to promote the public welfare.” (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1040 *citing* *Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 824; *see also* *20th Century Ins. Co. v. Garamendi* (1994) 8 Cal.4th 216, 245.)

In conjunction with the Commissioner's general authority to promulgate regulations, and in line with the Government Code's directive to carry out the provisions of the statute, the Commissioner adopted the amended regulations "under the express authority of California Insurance Code Sections 1861.05, 1861.055 and 1861.10" to "implement, interpret and make specific the provisions of California Insurance Code Sections 1861.05(a), 1861.05(c), 1861.055, 1861.08, 1861.10(a), 1861.10(b)," which form the framework of the rate review process.⁷ (C.T. 316.)

The Commissioner's need to promulgate these regulations is manifest in the limited statutory guidance on the rate review process. The rate review process, as described in the Factual Background, is a complex and multi-step process that, without the Commissioner's regulations, lacks the requisite detail interpreting its various provisions. The California Supreme Court acknowledged as much in stating that Proposition 103 "does not establish a detailed method of processing and deciding rate applications. It contains a few provisions relating to public notice and participation . . . but hearings are generally held in accordance with provisions of the Administrative Procedure Act . . ." (*Calfarm Ins. Co. v. Deuknejian* (1989) 48 Cal.3d 805, 824.) The Supreme Court further recognized that, "[m]uch is necessarily left to the Insurance Commissioner, who has broad discretion to adopt rules and regulations as necessary to promote the public welfare." (Citations Omitted; Emphasis Added.) (*Id.*) The

⁷ Section 1861.055, subdivision (a) provides that, "[t]he commissioner shall adopt regulations governing hearings required by subdivision (c) of Section 1861.05."

Section 1861.05, subdivision (c) provides the process for approval of insurance rates following public notice of an insurer's rate application.

Section 1861.10, subdivision (a) provides for consumer participation in "any proceeding" permitted or established pursuant to this chapter and subdivision (b) allows consumer groups to collect advocacy fees.

Commissioner acted wholly within this scope of authority in adopting the amended regulations to carry out the statutorily mandated rate review process.

II. THE AMENDED REGULATIONS ARE CONSISTENT WITH THE HISTORY AND PURPOSE UNDERLYING PROPOSITION 103.

On November 8, 1988, California voters passed the Insurance Rate Reduction and Reform Act, better known as Proposition 103.⁸ Proposition 103 fundamentally changed how insurance is regulated in California. Prior to the passage of Proposition 103, California was an “open rate” state, permitting insurers to set insurance rates without the Commissioner’s prior or subsequent approval. (*California Auto. Assigned Risk Plan v. Garamendi* (1991) 232 Cal.App.3d 904, 909-910.) Under the open rate system, the Commissioner could prohibit an insurance rate *only if* a reasonable degree of competition did not exist in the area, and the rate was found to be excessive, inadequate or unfairly discriminatory. (*Id.*) Proposition 103 changed this open rate system “to protect consumers from arbitrary insurance rates and practices, to encourage a competitive insurance marketplace, to provide for an accountable Insurance Commissioner, and to ensure that insurance is fair, available, and affordable for all Californians.” (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal.4th 1029, 1041.)

Proposition 103 sought to protect California residents in several ways. First, it made the Commissioner an elected position “responsive to the voters, not the Legislature.” (*Foundation for Taxpayer and Consumer Rights v. Garamendi* (2005) 132 Cal.App.4th 1354, 1372.) Additionally,

⁸ Proposition 103 added article 10, consisting of sections 1861.01 – 1861.14, to chapter 9 of the Insurance Code dealing with insurance rates and rating.

Proposition 103 created a system of rate review which (1) mandated that all insurers seeking to raise insurance rates must obtain approval from the Commissioner, and (2) prohibited the Commissioner from approving any rates that are “excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter.” (Ins. Code, § 1861.05, subds. (a), (b).) Further, Proposition 103 promoted consumer participation in the rate review process. It encouraged consumer groups to “initiate or intervene in any proceeding permitted or established pursuant to this chapter, challenge any action of the commissioner under this article, and enforce any provision of this article.” (Ins. Code, § 1861.10, subd. (a).) Finally, the initiative provided consumer groups with advocacy fees for work that substantially contributed to the Commissioner’s decision on a rate application. (Ins. Code, § 1861.10, subd. (b).) The advocacy fee provision ensures consumer participation because without it, consumer groups that might want to participate could not afford to do so. (C.T. 311-312, 345.)

The Supreme Court has recognized that a central objective of Proposition 103 is “to ‘enable consumers to permanently unite to fight against insurance abuse’ (Ballot Pamp. Gen. Elec. (Nov. 8, 1988) arguments in favor of Prop. 103, p. G88.)” (*State Farm Mut. Auto. Ins. Co. v. Garamendi* (2004) 32 Cal. 4th 1029, 1045.) The trial court correctly relied on the Supreme Court’s decision in *State Farm*, which expressly states that Proposition 103’s goal is “fostering consumer participation in the rate-setting process.” (*Id.* at 1045.) Appellants’ narrow reading of *State Farm* focuses on an undisputed point: that *one* aspect of Proposition 103 was to establish a “public hearing process” for reviewing insurance rate changes. But nothing in *State Farm* limits consumer participation to *only* a “public hearing process.” To the contrary, *State Farm* specifically acknowledges that Proposition 103 was intended to give “the public access to *all* information provided to the Commissioner[,]” not just information

made available during a “public hearing,” which “is wholly consistent with Proposition 103’s goal of fostering consumer participation in the rate-setting process.” (*Id.*) Any other interpretation leads to the absurd conclusion that consumers could access information provided to the Commissioner, but must “unite to fight against insurance abuse” in silence until given an opportunity to participate *if* a hearing is set. Appellants’ strained interpretation of *State Farm* is inconsistent with both the plain language of the case, and the intent of California voters in passing Proposition 103.⁹

Ultimately, Proposition 103 cautions that the “act shall be *liberally construed and applied* in order to fully promote its underlying purposes.” (Emphasis added.) (*Farmers Ins. Exchange v. Superior Court* (2006) 137 Cal.App.4th 842, 852.) Consistent with this directive, the term “any proceeding” must be liberally construed to include consumer group participation in the entire rate review process. (Ins. Code, § 1861.10, subd. (a).) The Department has long encouraged resolution of rate applications during a rate proceeding, before a hearing is noticed, to avoid lengthy formal hearings. (C.T. 309.) Consumer group participation is critical to this objective, often leading to negotiated resolutions and an insurer’s consequent withdrawal of its rate application before a hearing was even noticed. (C.T. 309-311.) The Commissioner rightfully has awarded advocacy fees to consumer groups that have substantially contributed to the

⁹ The Court of Appeal similarly has recognized Proposition 103’s goal of consumer participation in the rate review process. The court in *Economic Empowerment* recognized that the purpose of advocacy fees is to encourage consumer participation in the rate review process. (*Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677, 680.) Indeed, in interpreting the consumer advocacy fee provision, the court made a point to “seek an interpretation of the statute which best facilitates compensation” to effectuate the purpose of Proposition 103. (*Id.*)

settlement. (*Id.*) In construing section 1861.10, the Commissioner “determined that in fairness to consumers who desire to participate in the public ratemaking process as provided for by Proposition 103, and in furtherance of the purposes of Proposition 103, that a ‘proceeding’ has been ‘initiated,’ within the meaning of CIC 1861.10(a) once a Petition for Hearing has been filed pursuant to CCR section 2661.2 and 2661.3(a).” (C.T. 310.) The amended regulations simply “clarify that consumers, who participate in the approval process after having filed a petition for a hearing, may seek an award of reasonable advocacy fees.” (C.T. 343.) Thus, the amended regulations merely advance Proposition 103’s objective that it be liberally construed to encourage consumer participation in the rate review process.

III. THE AMENDED REGULATIONS ARE CONSISTENT WITH SECTIONS 1861.05 AND 1861.10.

A. The Commissioner Reasonably Defined the Term “Proceeding.”

At the very heart of this appeal is the type of “proceeding” in which consumer groups can intervene. Section 1861.10, subdivision (a), governing consumer participation in the rate review process provides:

Any person may initiate or intervene in *any proceeding* permitted or established pursuant to this chapter, challenge any action of the commissioner under this article, and enforce any provision of this article.

(Emphasis added.) Neither section 1861.10, subdivision (a) nor its related sections define “proceeding.” Where as here a statute does not define a term, courts must adopt a literal interpretation – that is they rely on its plain meaning – unless it is repugnant to the obvious purpose of the statute.

(*Lungren v. Deukmejian* (1988) 45 Cal.3d 727, 735.)

The trial court correctly construed section 1861.10 and determined that the plain meaning of “proceeding” is broad in scope and constitutes “[a]ny procedural means for seeking redress from a tribunal or agency; *[a]n act or step part of a larger action.*” (Emphasis added.) (C.T. 703; Black’s Law Dict. (8th ed. 2004).) Consistent with the broad scope of the term “proceeding” and his statutory authority to adopt regulations to interpret and carry out statutory provisions, the Commissioner defined a “rate proceeding” as:

any proceeding conducted pursuant to Insurance Code Sections 1861.01 and 1861.05. For purposes of section 1861.05, a “rate proceeding” is established upon the submission of a petition for hearing in accordance with section 2653.1 of this subchapter, or if no petition for hearing is filed, upon notice of hearing.

(Emphasis added.) (Cal. Code Regs., tit. 10, § 2661.1, subd. (h).)¹⁰ Thus this amended regulation simply clarifies and memorializes what long had been the practice and procedure of the Department – that a “rate proceeding” is a “proceeding” conducted as part of the rate review process contemplated under section 1861.05 during which rate applications are often resolved and that a “rate proceeding” begins when a consumer group submits a petition for hearing.

The effect of this clarification is consistent with both the Department’s practice of resolving rate applications before a hearing is set and Proposition 103’s objective of encouraging consumer participation in the rate review process. The amended regulation expressly allows consumer groups to intervene in a rate proceeding and participate in rate

¹⁰ The Commissioner also defined a “proceeding other than a rate proceeding” as “*any proceeding, including those described in subdivision (e) above, conducted pursuant to Chapter 9 of Part 2 of Division 1 of the Insurance Code which is not a rate proceeding as defined in this section.*” (Emphasis added.) (Cal. Code Regs., tit. 10, § 2661.1, subd. (f).)

application negotiations and resolutions of rate applications, and obviates the need to resolve disputed rate applications in a formal, costly hearing.

In construing 1861.10, subdivision (a) and its use of the term “proceeding,” the trial court did not look at the section in isolation, but rather contemplated the term as defined in other sections. Thus the trial court noted that “[i]n the Code of Procedure, a ‘special proceeding’ is every remedy other than action. CCP § 23.” (C.T. 703.) The trial court also noted that “[i]n the Evidence Code, a proceeding is ‘any action, hearing investigation, inquest, or inquiry (whether conducted by a court, administrative agency, hearing officer, arbitrator, legislative body, or any other person authorized by law) in which, pursuant to law, testimony can be compelled to be given.’ Ev. Code §901.” (*Id.*) Ultimately, the trial court recognized that “consumer participation [is permitted] in ‘any’ proceeding. No limit is placed on the type of proceeding in which consumers can participate” (*Id.*)

Appellants’ reliance on *Gustafson v. Zolin* (1997) 57 Cal.App.4th 1361, 1367 for the proposition that a “proceeding” is akin to an “administrative proceeding,” is misplaced. The appellate court in *Gustafson* construed the definition of the term “administrative proceeding” as set forth in Government Code section 800¹¹ and found that “section 800

¹¹ Government Code section 800, subdivision (a) provides, “[i]n any civil action to appeal or review the award, finding, or other determination of any *administrative proceeding* under this code or under any other provision of state law, except actions resulting from actions of the California Victim Compensation and Government Claims Board, if it is shown that the award, finding, or other determination of the proceeding was the result of arbitrary or capricious action or conduct by a public entity or an officer thereof in his or her official capacity, the complainant if he or she prevails in the civil action may collect from the public entity reasonable attorney’s fees, computed at one hundred dollars (\$100) per hour, but not to exceed seven thousand five hundred dollars (\$7,500), if he or she is

(continued...)

must be limited to an administrative hearing or a similar proceeding that presents an issue for hearing and disposition.” (*Id.*)

But section 800 of the Government Code is not limited in its application to any particular administrative agency, and therefore has not been interpreted by any agency in its regulations. In contrast, section 1861.10 is limited in its application to the Department of Insurance, and the agency has interpreted it consistent with the voters’ intent. Additionally, even the *Gustafson* court recognized that under Government Code section 800 the legislature “chose the broader term ‘proceeding’ rather than limiting it to a ‘hearing.’” (*Id.*) The court took pains to distinguish between decisions in administrative proceedings where a dispute has been officially put at issue, and ministerial decisions by administrators, such as “everyday determinations made by individual building inspectors, appraisers in the assessor’s office, deputies in a tax collector’s office, or officials in a personnel department.” (*Id.*) Here, once a consumer advocacy group files a petition for hearing, the proceeding that follows falls within the former category of proceedings – where a dispute has been officially put at issue. Resolution of such proceedings prior to a hearing or notice of hearing does not make them any less official. It does, however, improve efficiency.

Appellants’ reliance on Evidence Code section 901¹² also is misplaced. Appellants contend that the Commissioner *must* interpret “proceeding,”

(...continued)

personally obligated to pay the fees in addition to any other relief granted or other costs awarded.” (Emphasis added.)

¹² Evidence Code section 901 states: “‘Proceeding’ means any action, hearing, investigation, inquest, or inquiry (whether conducted by a court, administrative agency, hearing officer, arbitrator, legislative body, or any other person authorized by law) in which, pursuant to law, testimony can be compelled to be given.”

defined by Evidence Code section 901, as a government action, hearing, investigation, inquest, or inquiry in which testimony can be compelled. But this Evidence Code definition, found in Chapter 8 dealing with privileges, clarifies that privileges, such as the attorney client privilege, should apply to all proceedings where testimony can be compelled, and not limited for use in the context of the judicial process alone. (Cal. Law Revision Com. com., Evid. Code, § 901; *see also, Southern Cal. Gas Co. v. Public Utilities Com.* (1990) 50 Cal.3d 31, 38, fn. 8.) Appellants' limited definition of proceeding would not be reasonable in the rate review process and there is no authority that compels a different conclusion.

B. A "Rate Proceeding" Is Permitted Pursuant to Chapter 9.

The trial court also correctly noted that "[n]o limit is placed on the type of proceeding in which consumers can participate, except that it must be one permitted pursuant to the statute." (C.T. 703.) This falls squarely within the consumer participation mandate of section 1861.10, subdivision (a), which provides that:

Any person may initiate or intervene in any *proceeding permitted or established pursuant to this chapter*, challenge any action of the commissioner under this article, and enforce any provision of this article.

(Emphasis added.) Appellants maintain that the only "proceeding" permitted in the rate review process is a formal "hearing" under section 1861.05, subdivision (c). That section provides:

The commissioner shall notify the public of any application by an insurer for a rate change. The application shall be deemed approved sixty days after public notice unless (1) a consumer or his or her representative requests a hearing within forty-five days of public notice and the commissioner grants the hearing, or determines not to grant the hearing . . . or (2) the commissioner on his or her own motion determines to hold a hearing . . .

However, section 1861.05, subdivision (c) simply states that following public notice the rate application will be deemed approved unless the Commissioner sets a hearing either on his own motion, or on a consumer group's petition for hearing. Significantly, nothing in section 1861.05 requires that rate applications be resolved *only* through a formal hearing process. Stated differently, section 1861.05 permits resolution of a rate application in a pre-hearing "rate proceeding." (Cal. Code Regs., tit. 10, § 2661.1, subd. (h).) Appellants' proffered interpretation defies logic because, as discussed, Proposition 103 sought to afford consumer groups the opportunity to participate in rate application review process. Thus, to comport with Proposition 103, both the Department and insurers would be required to resolve a rate application only in a formal hearing, expending significant time, costs, and resources.

Consistent with the trial court's interpretation, and contrary to appellants' short shrift dismissal, it is significant that California voters in approving Proposition 103 did not limit consumer participation to "hearings," but rather provided for broad consumer intervention in "any proceeding." (Ins. Code, § 1861.10, subd. (a).) If voters intended to distinguish between pre-hearing and hearing participation, the statute could have easily included the term "hearing" to make clear that consumer participation can only take place in formal hearings. Appellants' unsupported claim that the statute needed to use the expansive term "proceeding" to allow consumer participation in other proceedings within the chapter is simply speculation, as is their claim that the statutes require public, formal hearings to make rate application review out in the open. There is nothing secretive about resolution of the rate application outside of a formal hearing. Settlement discussions are subject to the same protections, but every other aspect of the rate review process is public.

Appellants consistently fail to draw a distinction between “hearing” and “proceeding.” It is axiomatic that under sections 1861.05 and 1861.08, hearings are contemplated by Proposition 103. Indeed, the Court of Appeal has recognized the “hearing process in which consumers and interested parties are encouraged to participate” in “adjudicatory hearings before an administrative law judge . . .” (*Walker v. Allstate Indem. Co.* (2000) 77 Cal.App.4th 750, 756; *see also Fireman’s Fund Ins. Companies v. Quackenbush* (1997) 52 Cal.App.4th 599, 606-608 [the Commissioner does not have the authority to review an ALJ’s interim evidentiary ruling within the administrative hearing because the statute is clear that hearings are to be conducted before an ALJ and the Commissioner will then either adopt, amend, or reject the ALJ’s decision].) The Commissioner, in fact, included a definition of “rate hearing” in his amended regulations. (Cal. Code Regs., tit. 10, § 2661.1, subd. (i).)¹³ But neither section 1861.05 nor relevant case law limit the resolution of rate applications to hearings. The term “permit” means “to consent to formally; to give opportunity for; to allow or admit of.” (Black’s Law Dict. (8th ed. 2004).) By its silence, section 1861.05 makes a proceeding, such as a rate proceeding, possible. Indeed, combined with Proposition 103’s liberal construction, the trial court correctly found that that the Commissioner reasonably interpreted section 1861.10 and amended his regulations to define a “rate proceeding” as a permitted proceeding.

Finally, appellants’ reliance on *Farmers Ins. Exchange v. Superior Court* for the proposition that the only proceedings “permitted or

¹³ “ ‘Rate Hearing’ means a hearing noticed by the Commissioner on his own motion or in response to a petition for hearing pursuant to Insurance Code section 1861.05, which is conducted pursuant to the applicable procedural requirements of Insurance Code section 1861.08, and subchapters 4.8 and 4.9 of this chapter.”

established pursuant to chapter 9” are administrative proceedings to review an application for a rate increase, also is misplaced. (*Farmers Ins. Exchange v. Superior Court* (2006) 137 Cal.App.4th 842, 854.) The issue in *Farmers* was whether section 1861.10, subdivision (a) created a private right of action for an insurer’s violation of Proposition 103’s rate-determination section. (*Id.* at 849.) The court did not find compelling plaintiffs’ position that the term “enforce any provision of this article” in section 1861.10, subdivision (a), even liberally construed, provided independent authority for any person to maintain a civil action to enforce any provision of article 10. (*Id.* at 854.) Here, the terms of section 1861.10, subdivision (a) being construed are different, and the circumstances are wholly inapposite. In this appeal, the term “permitted or established pursuant to chapter 9” is being construed for the authority that a pre-hearing resolution of the rate application in a “rate proceeding” is permitted under section 1861.05. Nowhere in section 1861.05, nor in chapter 9, is there any limitation on when and where a rate application can be resolved, or that an application must be resolved in a formal hearing. That is, nothing prevents resolution of an application in a “proceeding” that precedes a formal hearing, in which a consumer group can intervene.

C. The Phrase “Advocacy Fees” in the Consumer Participation Provision of Proposition 103 Does Not Limit “Proceedings” to Rate Hearings.

Appellants rely on fee compensation provisions in Proposition 103 to argue that a “proceeding” must involve a hearing. Appellants’ argument is flawed. Section 1861.10, subdivision (b), describing when a consumer group can be compensated for its work performed, provides:

The commissioner or a court shall award *advocacy and witness fees* and expenses to any person who demonstrates that (1) the person represents the interests of consumers, and, (2) that he or she has made a substantial contribution to the adoption of any order, regulation or decision by the commissioner or a court.

Where such advocacy occurs in response to a rate application, the award shall be paid by the applicant.

(Emphasis added.) Appellants contend that “advocacy and witness fees” can arise only in the context of a hearing. Appellants’ definition of “advocacy” is unduly restrictive. The plain meaning of “advocacy” is “[t]he work or profession of an advocate[,] [t]he act of pleading for or actively supporting a cause or proposal.” (Black’s Law Dict. (8th ed. 2004).) Such conduct need not be limited only to hearings. To the contrary, a consumer group “pleads” and “actively supports” a consumer’s cause outside of a hearing, for example, in preparing for and participating in multiple rounds of negotiations during a rate proceeding to resolve rate application issues. (C.T. 309-310.) Thus, the Commissioner’s interpretation of the word “proceeding” to include non-hearing matters is entirely consistent with the fee compensation provision of Proposition 103 and the use of the phrase “advocacy and witness fees” in that provision.

D. The Legislature Defined “Proceeding” to Include Pre-Hearing Resolution in the Analogous Area of Public Utilities Regulation

In interpreting Proposition 103 and its various provisions, the California Supreme Court has relied on the “analogous area of public utility regulation.” (*Calfarm Ins. Co. v. Deukmejian* (1989) 48 Cal.3d 805, 825, fn. 16; *see also Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677, 686.) In California, all public utilities are subject to regulation by the Public Utilities Commission (“PUC”), which has the power to “fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt, and prescribe a uniform system of accounts for all public utilities subject to its jurisdiction.” (Cal. Const., art. XII, §6.) Thus, the PUC’s regulatory duties are similar to those of the Department in regulating insurance.

Additionally, the PUC's rate setting process is strikingly similar to the rate setting process California voters implemented through Proposition 103. The statutes provide that legislative intent of the provisions governing intervenor fees, ". . . shall be administered in a manner that encourages the *effective and efficient participation of all groups that have a stake in the public utility regulation process.*" (Emphasis added.) (Pub. Util. Code, § 1801.3, subdivision (b).) Moreover, the PUC may also award advocacy fees for "*participation in a hearing or proceeding* to any customer who . . . makes a substantial contribution to the adoption, in whole or in part, of the commission's order or decision." (Emphasis added.) (Pub. Util. Code, § 1803, subd. (a).)

Like Public Utilities Code section 1801.3, subdivision (b), courts have construed the intent of Proposition 103 to encourage consumer participation. In addition, Public Utilities Code sections 1803 and 1804 set forth almost the *same* requirements as Proposition 103 for an award of intervenor fees, using identical terms such as "hearing" and "proceeding." Therefore, the Public Utilities Act definition of the term "proceeding" found in section 1802, subdivision (f) of the Public Utilities Code is particularly helpful in determining the suitability of the Commissioner's interpretation of the same term under Proposition 103. This section defines "proceeding" as:

an application, complaint, or investigation, rulemaking, *alternative dispute resolution procedures in lieu of formal proceedings as may be sponsored or endorsed by the commission*, or other formal proceeding before the commission.

(Emphasis added.) With due consideration, the legislature defined "proceeding" in a manner consistent with its legislative intent and statutory scheme in the Public Utilities Code and, in that context, determined that a "proceeding" is not limited to a formal hearing. Given the congruent intent and statutory scheme of Proposition 103, the Commissioner's interpretation of "proceeding" cannot be deemed unlawful or unreasonable. It is not any

greater in scope than a “proceeding” under Public Utilities Code section 1802, subdivision (f).

CONCLUSION

For the foregoing reasons, the Department respectfully submits that the ruling of the trial court denying the petition for writ of mandate should be affirmed.

Dated: May 5, 2009

EDMUND G. BROWN JR.
Attorney General of California
W. DEAN FREEMAN
FELIX E. LEATHERWOOD
Supervising Deputy Attorneys General
DIANE SPENCER SHAW
Deputy Attorney General



CHRISTINE ZARIFIAN
Deputy Attorney General
Attorneys for Defendants and Respondents

LA2007601022
CA Court of Appeal (2 Party).doc

CERTIFICATE OF COMPLIANCE

I certify that the attached Respondent's Brief uses a 13 point Times New Roman font and contains 9162 words.

Dated: May 5, 2009

EDMUND G. BROWN JR.
Attorney General of California



CHRISTINE ZARIFIAN
Deputy Attorney General
Attorneys for Defendants and Respondents

DECLARATION OF SERVICE BY U.S. MAIL

Case Name: **The Association of California Insurance Companies et al. v.
Steve Poizner et al.**

No.: **BS109154**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service that same day in the ordinary course of business.

On May 6, 2009, I served the attached **RESPONDENT'S BRIEF** by placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid, in the internal mail collection system at the Office of the Attorney General at 300 South Spring Street, Suite 1702, Los Angeles, CA 90013, addressed as follows:

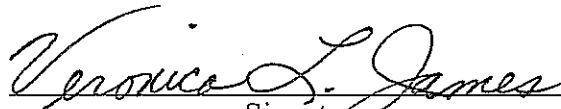
(SEE ATTACHED SERVICE LIST)

On May 6, 2009, I caused four (4) copies of the **RESPONDENT'S BRIEF** in this case to be delivered to the California Supreme Court at **300 S. Spring Street, Los Angeles, CA 90013** by Personal Delivery.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and I am employed in the office of a member of this Court at whose direction the service is made

Executed on **May 6, 2009**, at Los Angeles, California.

Veronica James
Declarant


Signature

SERVICE LIST

PARTIES REPRESENTED (served pursuant to Cal. Rules of Court, rule 8.60(f)):
Steve Poizner, Insurance Commissioner of the State of California Department of Insurance

David M. Axelrad (SBN 75731)
Mitchell C. Tilner (SBN 93023)
HORVITZ & LEVY LLP
15760 Ventura Blvd., 18th Floor
Encino, CA 91436-3000
(818) 995-0800

*Attorneys for Plaintiffs and Appellants The
Association of California Insurance
Companies; The Personal Insurance
Federation of California, The American
Association*

Harvey Rosenfield (SBN 123082)
Pamela M. Pressley (SBN 180362)
The Foundation for Taxpayer
and Consumer Rights
1750 Ocean Park Boulevard, Suite 200
Santa Monica, CA 90405
(310) 392-0522

*Attorneys for Intervener and Respondent The
Foundation for Taxpayer and Consumer Rights*

Robert W. Hogeboom (SBN 61525)
Suh Choi (SBN 217353)
Barger & Wolden LLP
633 West Fifth Street, 47th Floor
Los Angeles, California 90071
(213) 680-2800

*Attorneys for Plaintiffs and Appellants The
Association of California Insurance
Companies; The Personal Insurance
Federation of California; The American
Insurance Association*

The Honorable James C. Chalfant
Los Angeles Superior Court
111 N. Hill Street, Dept. 85
Los Angeles, CA 90012
(213) 974-5889

Judge, Los Angeles Superior Court