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October 17, 2013

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: San Diego Gas & Electric Company, Docket No. ER12-2454-003

Dear Secretary Bose:

Pursuant to "Order Establishing Procedural Schedule," issued herein on July 31, 2013 by Administrative Law Judge Michael J. Haubner, San Diego Gas & Electric Company ("SDG&E") files the following testimony:

- Prepared Direct Testimony of Lee Schavrien (Exhibit No. SDG-1);
- Prepared Direct Testimony of Karen Sedgwick (Exhibit No. SDG-2);
- Prepared Direct Testimony of R. Craig Gentes (Exhibit No. SDG-3) and
 - TO3 Cycle 6 Total Electric Division Wildfire Damage Claims and Legal Fees (Exhibit No. SDG-3-1).

Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,

A handwritten signature in blue ink that reads "Georgetta J. Baker".

Georgetta J. Baker
James F. Walsh

Attorneys for San Diego Gas & Electric Company

LEE SCHAVRIEN

Exhibit No. SDG-1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company) Docket No. ER12-2454-003

SUMMARY OF THE PREPARED DIRECT TESTIMONY OF
LEE SCHAVRIEN

As San Diego Gas & Electric Company’s (“SDG&E”) policy witness, Mr. Lee Schavrien explains why it is sound policy and just and reasonable for \$23.2 million in third-party damage claims and legal costs associated with wildfires that occurred in SDG&E’s service territory in October 2007 to be recovered in transmission rates for the Rate Effective Period September 1, 2012 through August 31, 2013. Under the terms of the rate settlement establishing SDG&E’s Third Transmission Owner Formula (“TO3”), SDG&E may recover costs incurred to provide transmission service that are shown to be prudent, accurately calculated, and consistent with SDG&E’s TO3 Formula Rate mechanism.

The \$23.2 million here at issue were prudently incurred. Wildfires in Southern California are unavoidable. SDG&E takes significant steps to minimize the risk of wildfires from utility equipment. Indeed, these steps demonstrate that SDG&E acted prudently. Nonetheless, utilities can be held liable for damages caused by facilities they own under California’s inverse condemnation doctrine which requires utilities to pay damages whenever their facilities are involved regardless of fault. In 2007, San Diego experienced wildfires that involved SDG&E facilities. SDG&E has followed prudent practices in settling third-party claims associated with the 2007 wildfires ensuring the amounts paid were just and reasonable, accurate, and consistent with SDG&E’s TO3 Formula.

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1 UNITED STATES OF AMERICA
2 BEFORE THE
3 FEDERAL ENERGY REGULATORY COMMISSION
4

5 San Diego Gas & Electric Company) Docket No. ER12-2454-003
6

7 PREPARED DIRECT TESTIMONY OF
8 LEE SCHAVRIEN
9 ON BEHALF OF
10 SAN DIEGO GAS & ELECTRIC COMPANY
11

12 I. INTRODUCTION

13 Q1. Please state your name and business address.

14 A1. My name is Lee Schavrien. My business address is 8330 Century Park Court, San Diego,
15 CA 92123.

16 Q2. By whom and in what capacity are you employed?

17 A2. I am employed by San Diego Gas & Electric Company (“SDG&E”), as Senior Vice
18 President – Finance, Regulatory & Legislative Affairs for San Diego Gas & Electric
19 Company and Southern California Gas Company. My qualifications are set forth on
20 Attachment 1 hereto.

21 II. PURPOSE

22 Q3. What is the purpose of your testimony?

23 A3. I am SDG&E’s policy witness in this proceeding. The purpose of my testimony is to
24 explain why it is sound policy, as well as just and reasonable from a transmission rate
25 perspective, for SDG&E to recover \$23,242,389 [\$23.2 million] that it paid to settle
26 third-party damage claims associated with three wildfires that occurred in SDG&E’s
27 service territory in 2007, the Witch fire, the Rice fire and the Guejito fire (“Wildfire
28 Costs”), for the Rate Effective Period September 1, 2012 through August 31, 2013 under
29 SDG&E’s Third Transmission Owner Formula (“TO3 Formula”).

1 Under the approved TO3 Formula, SDG&E may recover costs incurred in
2 providing transmission service that are prudent, accurately calculated and consistent with
3 SDG&E's TO3 Formula rate mechanism.¹ My testimony provides background on the
4 Wildfire Costs SDG&E is seeking to recover and explains why those costs were
5 prudently incurred. *First*, wildfire costs may unfortunately be unavoidable costs for
6 utilities in Southern California. Even though utilities take prudent preventative actions to
7 reduce the risk of power-line ignited fires, such events can never be entirely eliminated
8 by a utility mandated to provide service to any requesting customer (including those in
9 fire-prone areas). Moreover, when wildfires occur, the factors that influence the
10 magnitude and extent of wildfires and resulting damage—weather, geography, vegetation
11 density, and available local firefighting resources—are all beyond a utility's control.

12 As such, recovery of wildfire costs that are incurred despite preventative measures
13 taken is consistent with the TO3 Formula and with the Federal Energy Regulatory
14 Commission's ("Commission" or "FERC") Uniform System of Accounts. Indeed, as Mr.
15 Gentes discusses in his testimony (Exhibit No. SDG-3), the Commission expressly noted
16 that "third parties have filed claims against SDG&E for real property damage caused by
17 wildfires originating from SDG&E power lines. These types of costs fall squarely under
18 Account No. 925...."² Accordingly, there is no question that these costs are
19 appropriately recoverable in rates if prudently incurred. As demonstrated below, these
20 costs were prudently incurred.

21 *Second*, it was prudent for SDG&E management to settle the claims at issue here
22 because the benefits of early settlement outweighed the risk and cost of continuing to
23 litigate each of these claims, especially given that in California, utilities can be held
24 strictly liable for damages caused by their facilities. Specifically, California's inverse
25 condemnation doctrine has been interpreted to require a utility to pay damages whenever
26 its facilities, operating as deliberately designed and constructed for the public use, are
27 involved in an event that damages third-party property. Liability attaches, regardless of
28 fault, on the grounds that the costs of public-use infrastructure should be spread

¹ Those three criteria—prudence, accuracy and consistency with the TO3 Formula—are set forth in section 1.4 of the TO3 Formula Settlement that the Commission approved and adopted in *San Diego Gas & Electric Company*, 119 FERC ¶ 61,169 (2007).

² *San Diego Gas & Electric Company*, 137 FERC ¶ 61,041 (2011), P. 21.

1 throughout the community, rather than be borne solely by affected third-party
 2 individuals. The trial court in the 2007 San Diego Wildfire Litigation has ruled that
 3 SDG&E can be held liable for inverse condemnation. Given that SDG&E faces potential
 4 strict liability for wildfire-related claims, its decision to settle claims on reasonable terms
 5 is prudent because doing so lowers costs, allows SDG&E to avoid the cost and
 6 uncertainty of trial, *i.e.*, litigation risk, and provides for timely resolution of claims.

7 *Third*, as discussed in the testimony of SDG&E witnesses, Ms. Karen Sedgwick
 8 and Mr. Craig Gentes, SDG&E followed a prudent methodology to ensure that the
 9 amounts paid to settle third-party claims at issue in this proceeding were just and
 10 reasonable, accurate, and consistent with SDG&E's TO3 Formula. SDG&E has been
 11 able to settle more than 99% of the over 2000 claims against it.

12 Q4. Please summarize your testimony, Mr. Schavrien.

13 A4. In addition to the preceding Section I (Introduction) and Section II (Purpose), I address
 14 the following topics in the noted Sections:

- 15 • Section III, Summary of the Testimony of SDG&E's Other Witnesses;
- 16 • Section IV, Background of the Hearing;
- 17 • Section V, Standard for Determining Prudence;
- 18 • Section VI, Wildfires May Be Unavoidable for Utilities in Southern California;
- 19 • Section VII, Prudence of Settling Third-Party Claims;
- 20 • Section VIII, Summary.

21 **III. SUMMARY OF THE TESTIMONY OF SDG&E'S OTHER WITNESSES**

22 Q5. Please summarize the testimony that the other witnesses are submitting in this
 23 proceeding.

24 A5. SDG&E is submitting testimony by two other witnesses in this proceeding:

- 25 • Ms. Karen Sedgwick testifies to the methodology that SDG&E employed prior to
 26 settling the wildfire claims resulting in the \$23.2 million at issue in this
 27 proceeding, *i.e.*, the Wildfire Costs (Exhibit No. SDG-2).
- 28 • Mr. Craig Gentes testifies about how the accounting treatment for these costs is
 29 consistent with SDG&E's TO3 Formula (Exhibit No. SDG-3).

30 **IV. BACKGROUND OF THE HEARING**

31 Q6. Please explain this case, Mr. Schavrien.

1 A6. This case involves the sixth and last Informational Filing (“TO3 Cycle 6 Filing” or
 2 “Filing”) under SDG&E’s TO3 Formula.³ This Filing reflects a base transmission
 3 revenue requirement that will remain in effect for the 12-month Rate Effective Period
 4 beginning September 1, 2012. The rates reflect the following components: (1) a Base
 5 Period revenue requirement (estimates) for the 12-month period ending December 31,
 6 2011; (2) a Forecast Period Capital Addition Revenue Requirement (for forecasting the
 7 capital-addition revenue requirement for the 17-month period covering April 2012
 8 through August 2013); (3) a True-Up Adjustment for the 12-month True-Up Period
 9 ending March 31, 2012, which reconciles recorded revenues to actual costs incurred
 10 during this period; and (4) an Interest True-Up Adjustment.

11 On December 31, 2012, the Commission accepted the Filing and established
 12 hearing and settlement procedures.⁴ On May 10, 2013, SDG&E filed an uncontested
 13 Settlement resolving all issues except for the reserved issue that is being litigated here—
 14 the recovery of the \$23.2 million in third-party wildfire-related costs.⁵ The Commission
 15 approved the Settlement without modification on August 5, 2013.⁶

16 Q7. Please explain the facts underlying the Wildfire Costs at issue in this case.

17 A7. In October 2007, nineteen wildfires burned in Southern California in what has been
 18 described as the “California Fire Siege 2007.”⁷ The California Department of Forestry
 19 and Fire Protection (“Cal Fire”) issued reports concluding that two of the fires in San
 20 Diego County (the Witch and Rice fires) were SDG&E “power line caused” and that a
 21 third fire (the Guejito fire) occurred when a wire securing a Cox Communications fiber
 22 optic cable came into contact with an SDG&E power line. The Witch fire was related to

³ The TO3 Formula requires SDG&E to make annual informational filings, designated as “Cycles.” This is the sixth cycle SDG&E has filed under the TO3 Formula and because the TO3 Formula expires by its terms on August 31, 2013, Cycle 6 is the last cycle.

⁴ *San Diego Gas & Electric Co., Order on Annual Formula Rate Filing and Establishing Hearing and Settlement Judge Procedures*, 141 FERC ¶ 61,273 (2012).

⁵ Section II.F provides that the Settlement “resolves all issues set for hearing and settlement judge procedures in this proceeding, except for the Litigation Issue if litigated.”

⁶ *San Diego Gas & Electric Co.*, 144 FERC ¶ 61,106 (2013).

⁷ *California Fire Siege 2007 – An Overview*, California Department of Forestry and Fire Protection (“Cal Fire”), Governor’s Office of Emergency Services (“OES”), and the United States Department of Agriculture (“U.S. Forest Service”) with the cooperation of other local, state and federal agencies, available at http://www.fire.ca.gov/fire_protection/downloads/siege/2007/Overview_CompleteFinal.pdf.

1 an SDG&E transmission line, and the Rice and Guejito fires were related to distribution
2 lines.⁸

3 In this proceeding, SDG&E has filed to recover \$23.2 million in transmission
4 rates for the Rate Effective Period, which is approximately 14.60% of the costs that
5 SDG&E paid during a portion of the Rate Effective Period here at issue (specifically
6 from December 2011 through March 2012) to settle claims by third parties for damage to
7 their property resulting from the 2007 wildfires.

8 Q8. What is SDG&E required to show under its TO3 Formula to recover the \$23.2 million it
9 paid to settle third party claims for Wildfire Costs?

10 A8. Under the TO3 Formula, SDG&E is entitled to recover the \$23.2 million in Wildfire
11 Costs in Cycle 6 if: (a) the costs and expenditures were prudent; (b) the data are accurate;
12 and (c) recovery is consistent with the TO3 Formula.⁹ The remainder of my testimony
13 supports a determination that the Wildfire Costs were prudently incurred.

14 **V. STANDARD FOR DETERMINING PRUDENCE**

15 Q9. What is your understanding of the standard the Commission applies to determine whether
16 costs were prudently incurred and, therefore, recoverable in transmission rates?

17 A9. It is my understanding that the legal standard for determining “prudence” at the
18 Commission is set forth in *New England Power Company*,¹⁰ wherein the Commission
19 determined prudence by assessing whether the costs at issue were ones “which a
20 reasonable utility management (or that of another jurisdictional entity) would have made,
21 in good faith, under the same circumstances, and at the relevant point in time.”¹¹ In
22 fashioning the reasonable person test, the Commission has noted that appropriate criteria
23 to evaluate prudence include: (1) whether costs were extravagant or unnecessary; and
24 (2) whether management was alert, efficient and responsible.

25 **VI. WILDFIRES MAY BE UNAVOIDABLE FOR UTILITIES IN SOUTHERN** 26 **CALIFORNIA**

27 Q10. Please discuss the significance of wildfires to utility business in Southern California.

⁸ See generally SDG&E’s FERC Form No. 1 at pp. 123.65-123.67 (For Year Ended December 31, 2012).

⁹ See Section 1.4 of the TO3 Settlement.

¹⁰ 31 FERC ¶ 61,047 (1985).

¹¹ *Id.* at 61,084 (1985).

1 A10. The effect of wildfires on utility business may be summarized as follows:

- 2 • The risk of wildfire is inherent in the provision of utility service in Southern
3 California because, unlike other businesses, a utility cannot limit its risk by
4 withdrawing from fire-prone areas. Thus, although a utility, such as SDG&E,
5 seeks to do what it can to eliminate the incidence of wildfires, some power line-
6 caused wildfires will nonetheless occur.
- 7 • Like other natural disasters, the magnitude of wildfires and resulting damages
8 depend on factors beyond a utility's control, such as weather, geography,
9 demography, and local fire-fighting capabilities. Depending on these factors,
10 third-party damage claims can total hundreds of millions or even billions of
11 dollars for a major wildfire.
- 12 • Large uninsured wildfire costs, if not recoverable in rates, could threaten a
13 utility's financial integrity, contrary to the public interest.

14 Q11. You mentioned that the risk of wildfires is inherent in the provision of utility service in
15 Southern California and that utilities cannot eliminate all power-line caused wildfires.
16 Please elaborate.

17 A11. Wildfires have always been part of California's landscape. California as a whole is
18 subject to distinct wet and dry seasons, with the vast majority of precipitation occurring
19 in the late fall through spring. With low humidity and little summer rainfall, the State's
20 natural vegetation can ignite quickly and easily, producing embers that spread fire rapidly
21 in high winds, particularly the hot Santa Ana winds that occur at the end of a long dry
22 summer.¹² As such, these winds can transform a small fire into a fire storm before fire-
23 fighting resources can respond or control the small fire. These risks will only increase if
24 predicted climate change results in more severe weather, including higher winds, higher
25 temperatures and drier vegetation. In addition, the risk of extensive third-party damage
26 from wildfires has increased as populations have spread to canyons and other fire-prone
27 areas, and to areas with limited local fire-fighting resources.

¹² For descriptions of vegetation at risk in California wildfires, see *General Guidelines for Creating Defensible Space*, (February 8, 2006) pp. 6-7, State Board of Forestry and Fire Protection and Cal Fire, available at http://www.fire.ca.gov/cdfbofdb/PDFS/4291finalguidelines2_23_06.pdf.

1 Recent experience demonstrates this increased risk of major wildfires resulting in
 2 significant damage. In October 2003, 14 wildfires raged across Southern California,
 3 destroying 3,700 homes and burning over 750,000 acres.¹³ (None of those wildfires were
 4 attributed to SDG&E power lines.) Those fires marked the worst fire outbreak up to that
 5 point. Four years later, in late October 2007, drought conditions and hot, dry Santa Ana
 6 winds spawned 19 wildfires across Southern California. According to Cal Fire, the 2007
 7 wildfires ultimately burned over 500,000 acres and destroyed approximately 3,000
 8 buildings. The 2007 wildfires also marked the first time fires attributed to utility
 9 equipment resulted in over one billion dollars in damages in California.¹⁴

10 By providing electric service to customers in this environment, a utility faces an
 11 unavoidable risk that its equipment could in some way contribute to a major wildfire.

12 Q12. You mentioned efforts of the utility to avoid the possibility of powerline-caused fires.
 13 What does SDG&E do in that regard?

14 A12. Following the October 2003 wildfires, SDG&E hired a full-time Fire Coordinator who
 15 had an extensive firefighting background. The Fire Coordinator initiated efforts to raise
 16 awareness of wildfire risks by, among other things, developing the *SDG&E Wildland*
 17 *Fire Prevention & Safety Field Guide* and conducting fire safety training for company
 18 employees. The Fire Coordinator also initiated development of a database to track
 19 wildfire causes and identify trends for purposes of addressing them.

20 In addition, SDG&E has several policies, procedures, and programs to decrease
 21 fire risk. For example:

- 22 • SDG&E's Vegetation Management Program tracks and manages over 400,000
 23 trees to ensure they do not grow too close to power lines or otherwise create fire
 24 risks. The program was recognized by the North American Electric Reliability
 25 Council in 2006 as an "Example of Excellence" in vegetation management.
- 26 • SDG&E implements special operating restrictions during Red Flag Warning
 27 periods. These restrictions include certain operational limitations and restrictions

¹³ For a detailed discussion of the 2003 fires, see *California Fire Siege 2003: The Story*, Cal Fire, available at http://www.fire.ca.gov/fire_protection/downloads/2003FireStoryInternet.pdf.

¹⁴ *California Fire Siege 2007 – An Overview*, Cal Fire, OES, and the U.S. Forest Service, with the cooperation of other local, state and federal agencies, available at http://www.fire.ca.gov/fire_protection/downloads/siege/2007/Overview_CompleteFinal.pdf.

1 on certain activities (*e.g.*, blasting, welding, vehicle travel) that could ignite fires
2 in Red Flag Warning conditions.

3 Q13. What other prudent steps has SDG&E undertaken to ensure the safety and integrity of its
4 system?

5 A13. SDG&E thoroughly inspects its facilities on a regular basis to identify and address any
6 safety hazards or compliance issues, including those that may pose a fire risk. These
7 inspections are done pursuant to inspection plans, which are reviewed and accepted by
8 the California Public Utilities Commission (“CPUC”) and the California Independent
9 System Operator (“CAISO”). SDG&E’s compliance with these plans is reviewed on a
10 regular basis. The CAISO annual reviews prior to the October 2007 fires consistently
11 found SDG&E transmission line facilities to be well maintained. Similarly, the CPUC’s
12 audits of SDG&E’s system (pursuant to General Order 95, General Order 128, and
13 General Order 165) have consistently shown a high level of performance.

14 Q14. How would you describe the quality of SDG&E’s overhead inspection program?

15 A14. SDG&E’s inspection programs are well regarded in the state of California and elsewhere.
16 For example, SDG&E’s Corrective Maintenance Program has been looked to by other
17 utilities, including a utility outside of the United States, as a model for improving their
18 existing programs or for developing new programs. Its program is also well regarded by
19 industry organizations. That SDG&E’s facilities are well maintained is confirmed by the
20 reliability of its system. Indeed, in 2006, SDG&E received a Reliability One –
21 Outstanding Reliability Performance West Region award.

22 Q15. You stated that the magnitude of wildfires and extent of damages depend on factors
23 beyond a utility’s control. What do you mean by that?

24 A15. Like other natural phenomena such as tornadoes and earthquakes, wildfire is highly
25 unpredictable. As exemplified by the October 2007 fires, wildfires ignited under similar
26 circumstances may have vastly different results.¹⁵ The fires’ sources bear no discernible
27 relationship to the extent of damages. For example, of the October 2007 fires attributed
28 to power lines, the Sedgwick fire in Santa Barbara County burned only 700 acres and

¹⁵ See *California Fire Siege 2007 – An Overview*, footnote 3, *supra*, at Appendix II for descriptions of each major fire.

1 destroyed no structures, while the Witch fire in San Diego County covered nearly
2 200,000 acres, and destroyed over 1,500 structures, underscoring fire’s capricious nature.

3 The factors that influence the size and course of major wildfires—weather,
4 geography, building standards, vegetation density, and available local firefighting
5 resources¹⁶—are all beyond a utility’s control. Recent research affirms the importance of
6 weather, particularly wind speed, temperature and humidity, in the spread of major fires.
7 As one expert observed: “Wildfires are started all over the landscape, mostly by
8 people. . . . The ones that survive and develop into large fires [do so] because of the
9 meteorology.”¹⁷ Because the elements that shape fire outcomes are beyond the utility’s
10 control, it is appropriate that SDG&E be permitted to recover wildfire-related costs in
11 rates, for the same reasons that the Commission has permitted entities to recover costs
12 associated with other natural disasters, including earthquakes, tornadoes, and major
13 storms, in their rates.¹⁸

14 Q16. In response to Q10, you referred to “uninsured” wildfire costs? Did SDG&E carry
15 insurance coverage for these types of claims and, if so, was the coverage adequate?

16 A16. SDG&E did and does maintain insurance coverage to protect against the cost of large,
17 infrequent and unpredictable losses and will continue to rely on insurance to the extent it
18 can be obtained at a reasonable price. At the time of the 2007 wildfires, SDG&E’s
19 liability coverage was more than \$1 billion. However, even this amount turned out to be
20 less than the total claims resulting from the 2007 wildfires.

21 VII. PRUDENCE OF SETTling THIRD-PARTY CLAIMS

22 Q17. Why was it prudent for SDG&E management to settle third-party damages claims for
23 \$23.2 million (the Wildfire Costs)?

¹⁶ See, e.g., *The Fire Next Time - Will We be Ready?*, San Diego County Grand Jury 2007 - 2008, pp. 1, 13 (finding that San Diego County “does not comply with [national] standards for emergency response time or emergency response locations,” and is “woefully unprepared” for a major fire), available at http://www.co.san-diego.ca.us/grandjury/reports/2007_2008/Firereport.pdf.

¹⁷ UCLA Professor Alex Hall, as quoted by the Los Angeles Times. (Bettina Boxall, “Hot, dry Santa Anas a particular threat in some Southern California areas,” *Los Angeles Times*, April 2, 2010, available at <http://articles.latimes.com/2010/apr/02/local/la-me-firemaps2-2010apr02/2>.)

¹⁸ See e.g., *Sea Robin Pipeline Co., LLC*, 128 FERC ¶ 61,286 (2009), *order on reh’g*, 130 FERC ¶ 61,191 (2010); See also *Sea Robin Pipeline Co., LLC*, 143 FERC ¶ 61,129 (2013).

1 A17. As set forth above, unfortunately wildfires may be unavoidable for a utility in Southern
2 California. Settling claims relating to wildfire costs on a reasonable basis avoids
3 litigation risk and the uncertainty of trial and appeals, especially when a utility faces
4 liability for inverse condemnation.

5 Q18. How did inverse condemnation affect management's decision to settle the claims at issue,
6 Mr. Schavrien?

7 A18. Inverse condemnation assigns responsibility for costs regardless of utility actions, so I
8 believe that any reasonable utility management in the same situation would have taken
9 the same action SDG&E took to settle substantial third-party wildfire claims.
10 Specifically, it is my understanding that under the California Constitution, private parties
11 are entitled to compensation when their property is damaged due to "public use." One
12 way property owners enforce this right is by bringing an action in civil court under the
13 legal doctrine of inverse condemnation. California courts have awarded damages under
14 the inverse condemnation doctrine when public-use facilities, operating as they were
15 deliberately designed and constructed, damage private property. Such damages have
16 been awarded in the absence of a showing of negligence.

17 The trial court judge in the 2007 San Diego Wildfire Litigation ruled that SDG&E
18 is subject to claims for inverse condemnation relating to the Witch, Guejito and Rice
19 fires.¹⁹ In that litigation, thousands of private property owners and businesses, insurance
20 companies, and government entities brought claims against SDG&E for property
21 damaged in fires allegedly caused by utility facilities. All, or nearly all, of the claims
22 included inverse condemnation.

23 Essentially, when utility equipment or facilities are implicated in a fire, a utility
24 faces the prospect of inverse condemnation liability and a broad array of other claimed
25 damages. For a major wildfire, those claims can easily total hundreds of millions or even
26 billions of dollars. As discussed above, the magnitude of the damages caused by
27 wildfires depends on factors beyond the control of any utility. In this way, inverse
28 condemnation has the potential to dramatically increase claims regardless of preventative

¹⁹ *In re 2007 Wildfire Litigation*, January 29, 2009 Minute Orders Overruling SDG&E's Demurrers to the Master Complaints.

1 measures a utility takes regarding wildfires. Given these litigation risks, it is prudent to
2 settle claims when a utility can do so on a reasonable basis.

3 Q19. You also mentioned “litigation risk.” What do you mean by that?

4 A19. It is my understanding that litigation risk includes the risks and costs of continuing to
5 litigate a dispute rather than settling out of court. One of the primary components of
6 litigation risk is the possibility that a jury will award a claimant far more than SDG&E
7 believes the claimant’s claims are worth. Continued litigation also results in higher legal
8 fees. In addition to paying its own legal fees, SDG&E also faces the risk of paying
9 claimants’ legal fees if held liable for inverse condemnation. Jury awards may also
10 include prejudgment interest, which adds to the cost of the overall claim the longer a case
11 is pending. Continued litigation also carries the risk of adverse legal rulings, which could
12 encourage individuals to bring new lawsuits, or existing claimants to assert new claims.
13 Settling a case out of court for a known amount results in final resolution of a dispute far
14 earlier than it would be resolved through litigation and for a known, certain amount, and
15 therefore avoids the risks, costs, and uncertainties attendant to litigation.

16 Q20. You have said several times that it is prudent to settle claims “on a reasonable basis” in
17 light of the factors above. How does SDG&E determine that “reasonable basis” with
18 respect to each claim?

19 A20. As set forth in more detail in the testimony of Karen Sedgwick, SDG&E conducts a
20 rigorous analysis of each individual claim to determine SDG&E’s potential exposure.
21 Based on that analysis, and in light of the litigation risk and applicable law, SDG&E and
22 its counsel determine an amount that would be reasonable to pay to settle a claim. If the
23 claim can be settled for that amount or less, it is prudent to settle. SDG&E has used this
24 process to settle more than 99% of the more than 2000 claims brought to date.

25 Q21. Do you think SDG&E would have a disincentive to take preventative measures if it were
26 assured of cost recovery for Wildfire Costs in excess of insurance coverage?

27 A21. No. Given the uncertainty and unpredictability of wildfires, SDG&E would not
28 knowingly take imprudent risks just because it might eventually be able to recover costs
29 in excess of insurance coverage through rates. SDG&E takes its responsibility to provide
30 safe and reliable service very seriously. Wildfires threaten the lives, livelihoods, and

1 property of our customers and employees (most of whom live with their families in our
2 service territory), our infrastructure and equipment, and our reputations.

3 **VIII. SUMMARY**

4 Q22. Please summarize.

5 A22. Wildfire risks come with the utility franchise and, as such, prudent and accurate costs
6 associated with settling claims arising from wildfire-related damages to third-party
7 property at reasonable levels is recoverable under SDG&E's TO3 Formula rate
8 mechanism.

9 Supplying customers with gas or electricity brings with it an inherent risk of fire.
10 To provide electrical services, a utility such as SDG&E must operate and maintain power
11 lines and other energized equipment that have the potential to cause a fire. Unlike
12 ordinary businesses that can choose whether to take on the risks associated with selling a
13 product, a utility must provide service to all customers throughout its service territory,
14 including customers who live in fire-prone areas.

15 When the risk of fire materializes, third parties may assert claims; and when those
16 claims are asserted against a utility, either under the inverse condemnation theory or
17 otherwise, the resulting reasonable payments to settle those claims are an unavoidable
18 cost of providing utility service. SDG&E is entitled to recover such costs, just as it is
19 entitled to recover all other costs necessary to provide service, as part of the regulatory
20 compact. In exchange for providing utility service under regulated rates, long-standing
21 regulatory policies provide that a utility is entitled to an opportunity to recover its
22 operating costs. Not only is such recovery consistent with long-standing regulatory
23 policies, it is also consistent with SDG&E's TO3 Formula rate mechanism.

24 Thus, for the reasons discussed here, and in the testimony of Ms. Sedgwick and
25 Mr. Gentes, the \$23.2 million that SDG&E paid to settle third-party claims for wildfire-
26 related costs at issue in this proceeding were prudent, accurate and consistent with
27 SDG&E's TO3 Formula rate mechanism and, therefore, are recoverable in the Cycle 6
28 transmission rates.

29 Q23. Does this conclude your testimony?

30 A23. Yes, it does.

1 **IX. QUALIFICATIONS OF LEE SCHAVRIEN**

2 My name is Lee Schavrien. My business address is 8306 Century Park Court, San Diego,
3 California, 92123. I am Senior Vice President – Finance, Regulatory & Legislative Affairs for
4 San Diego Gas & Electric Company (“SDG&E”) and Southern California Gas Company
5 (“SoCalGas”). I have held this position since November 1, 2008. In my present capacity, I am
6 responsible for all federal and state regulatory matters, including revenue requirements and
7 tariffs, as well as all financial and accounting matters for SDG&E and SoCalGas.

8 I joined SDG&E in 1978 as a laborer. In 1979 I began working in the Regulatory Affairs
9 Department. Between 1979 and 1989 I held various positions of increasing responsibility within
10 SDG&E’s Regulatory Affairs Department, including working on numerous SDG&E General
11 Rate Cases. In 1989, I was promoted to Manager of Business Planning and Budgets at SDG&E.
12 In that position I was responsible for SDG&E’s centralized budgeting and business planning
13 activities. In 1991, I became SDG&E’s Manager of Revenue Requirements. My responsibilities
14 included overall project management of SDG&E’s 1993 General Rate Case. In 1992 I became
15 SDG&E’s Manager of Regulatory Affairs, with responsibility for all state regulatory matters,
16 including revenue requirements. In 1996, I became Regulatory Affairs Director. In October
17 1996, I was appointed the project manager of the Enova/Pacific Enterprises Merger. I served in
18 that assignment until I assumed the responsibility of Director Regulatory Affairs for SDG&E and
19 SoCalGas. In January of 2002, I was appointed to the position of Vice President of Regulatory
20 Affairs for SDG&E and SoCalGas. In December of 2006 I was promoted to Senior Vice
21 President of Regulatory Affairs. I held that position until assuming my current position.

22 I have a Bachelor of Business Administration from National University, and I have
23 previously testified before the California Public Utilities Commission.

VERIFICATION

STATE OF CALIFORNIA)
)
COUNTY OF SAN DIEGO) ss.

Lee Schavrien, being duly sworn, on oath, says that he is the Lee Schavrien identified in the foregoing prepared direct testimony; that he prepared or cause to be prepared such testimony on behalf of San Diego Gas & Electric Company; that the answers appearing therein are true to the best of his knowledge and belief; and that if asked the questions appearing therein, his answers would, under oath, be the same.


Lee Schavrien

STATE OF CALIFORNIA,
COUNTY OF SAN DIEGO, to wit:

On this 17th day of October, 2013 before me, ANNIE VICTORIA RUIZ, a Notary Public, personally appeared Lee Schavrien, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Annie Victoria Ruiz

KAREN SEDGWICK

Exhibit No. SDG-2

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company) Docket No. ER12-2454-003

SUMMARY OF THE PREPARED DIRECT TESTIMONY OF
KAREN SEDGWICK

Ms. Karen Sedgwick’s testimony demonstrates that San Diego Gas & Electric Company (“SDG&E”) followed rigorous settlement processes to ensure that the amounts it paid to resolve third-party wildfire damage claims were appropriate and reasonable and therefore prudent.

The settlement process for claims is rigorous: As a starting point, the claimant’s counsel provides to SDG&E’s counsel a settlement demand with supporting documentation, which typically includes discovery responses signed under penalty of perjury that describe the claim, the claimant’s experts’ valuations of claimed damage, third-party invoices and/or estimates for repairing/replacing damaged items, pre- and post-fire photographs of damaged real property, personal property and vegetation, and other information. The claim also is independently validated against information such as ownership records, zoning, building permits, market research, employment records, tax returns, satellite imagery, personal property records and other available data.

If SDG&E is unable to settle a claim it goes to mediation in which a retired judge or seasoned mediator at Judicial Arbitration and Mediation Services presides. Both sides present their case to the mediator and often joint sessions are held during which the claimant and SDG&E, and their experts, can exchange information and SDG&E can follow up on outstanding issues or concerns. The mediators weigh in on the reasonableness of the claims and the credibility of the claimants. More than 99% of cases that have gone through this mediation process have resolved. Fewer than 15 of the over 2,000 cases that have gone through the process remain unresolved and potential trial candidates.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company

Docket No. ER12-2454-003

PREPARED DIRECT TESTIMONY OF
KAREN SEDGWICK
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY

I. INTRODUCTION

Q1. Please state your name and business address.

A1. My name is Karen Sedgwick. My business address is 101 Ash Street, San Diego, CA 92101.

Q2. By whom and in what capacity are you employed?

A2. I am employed by Sempra Energy as Settlement Officer and Senior Director Enterprise Risk Management. My qualifications are set forth in Attachment 1, hereto.

II. PURPOSE

Q3. What is the purpose of your testimony?

A3. The purpose of my testimony is to demonstrate that San Diego Gas & Electric Company (“SDG&E”) followed rigorous settlement processes to ensure that the amounts it paid during the 12-month period ended March 2012, to resolve third-party damage claims associated with wildfires occurring in SDG&E’s service territory in 2007, the Witch fire, the Rice fire and the Guejito fire (“Wildfires”), were appropriate and reasonable under the circumstances and, therefore, prudent. As I understand it, SDG&E is seeking to recover \$23,242,389 [approximately \$23.2 million] of these costs in transmission rates for the Rate Effective Period September 1, 2012 through August 31, 2013. SDG&E witness Mr. R. Craig Gentes explains in his testimony (Exhibit No. SDG-3) the significance of the 12-month period ended March 2012.

Q4. How is the remainder of your testimony organized?

1 A4. Section III discusses the settlement process SDG&E followed to settle the claims at issue
2 in this case. Section IV discusses mediation and Section V summarizes my testimony.

3 **III. SETTLEMENT PROCESS FOR CLAIMS**

4 Q5. Please explain the settlement process that SDG&E followed to resolve claims comprising
5 the approximately \$23.2 million at issue here.

6 A5. SDG&E's settlement process is rigorous. It thoroughly investigates and validates the
7 reasonableness of each claimant's demands and the amount of the claim with the goal of
8 resolution.

9 Q6. As a practical matter, how does the process work?

10 A6. As a starting point, the claimant's counsel provides to SDG&E's counsel a settlement
11 demand with supporting documentation, which typically includes discovery responses
12 signed under penalty of perjury that describe the claim, the claimant's experts' valuations
13 of claimed damage, third-party invoices and/or estimates for repairing/replacing damaged
14 items, pre- and post-fire photographs of damaged real property, personal property and
15 vegetation, and other information.

16 Q7. How does SDG&E assess the reasonableness of what is being claimed?

17 A7. SDG&E has hired experienced litigation counsel to defend itself in the 2007 San Diego
18 Wildfire Litigation. Together, SDG&E and its counsel assess the claimants' demands.
19 SDG&E and counsel review the demand and the supporting documentation provided for
20 the claimed amounts, and retained the appropriate subject matter experts to help evaluate
21 the claim.

22 The claim also is independently validated against information such as ownership
23 records, zoning, building permits, market research, employment records, tax returns,
24 satellite imagery, personal property records and other available data. After its initial
25 review of the claimant's supporting documentation, SDG&E requests additional
26 documentation from the claimant for purposes of assessing the claim and schedules a site
27 inspection (to be attended by the relevant subject matter experts) if the claim involves
28 significant real property damage. SDG&E also has the opportunity to take the claimant's
29 deposition if necessary. SDG&E generally has the claimant's complete insurance claim
30 file and reviews that file for information regarding damage resulting from the 2007
31 Wildfires, claims made to the insurance provider with respect to the 2007 Wildfires, and

1 the amounts already paid out to the claimant. As a further check of the reasonableness of
2 each claimant's demands, SDG&E will compare the claimant's asserted damages against
3 internal metrics which are targeted and specific to neighborhood, property, and loss
4 types.

5 Q8. What type of experts has SDG&E hired to help assess the claimant's demand?

6 A8. SDG&E has hired a wide variety of experts through its attorneys. Each case presents
7 different factual issues relating to the claimant's alleged damages, so each case requires
8 different experts. For example, SDG&E has hired arborists and landscapers to determine
9 the amount of vegetation damage. It has hired personal property experts to evaluate
10 claims involving everything from everyday household items like pots and pans to classic
11 cars to rifle collections. And it has hired appraisers, real estate brokers and construction
12 experts for real property claims.

13 Q9. What is the next step in the review process?

14 A9. After the claims have been reviewed and valued by SDG&E and/or its subject matter
15 experts, a draft offer and supporting valuation package is prepared.

16 Q10. Please continue.

17 A10. The Settlement Officer and counsel review the draft offer package for accuracy and
18 completeness. Once that analysis is complete, the offer is extended and informal
19 negotiations between counsel for the parties begin.

20 **IV. MEDIATION**

21 Q11. What happens if the claim is not settled on an informal basis or the offer is not accepted?

22 A11. If an informal settlement is not reached, the case is mediated.

23 Q12. How does mediation work?

24 A12. A retired judge or seasoned mediator at Judicial Arbitration and Mediation Services
25 presides over the mediations, which typically last one day, but can extend for several
26 days in more complex cases. Both sides present their case to the mediator and often joint
27 sessions are held during which the claimant and SDG&E, and their experts, can exchange
28 information and SDG&E can follow up on outstanding issues or concerns. The mediators
29 weigh in on the reasonableness of the claims and the credibility of the claimants. In some
30 cases, the parties agree to a "binding" mediation. In "binding" mediation, the parties
31 agree in advance that, in the event that the parties' mediation negotiations fail to resolve

1 the case, the mediator will decide the value of the claims and the parties will settle for
2 that amount.

3 More than 99% of cases that have gone through this mediation process have
4 resolved. Fewer than 15 of the over 2,000 cases that have gone through the process
5 remain unresolved and potential trial candidates. Cases that are not resolved in a single
6 day of mediation often settle later after the parties exchange and consider additional
7 information discussed at the mediation.

8 Q13. How does the approximately \$23.2 million compare to the demands for the cases
9 resolved during the 12-month period ended March 2012?

10 A13. The payments made were significantly lower than the amounts demanded.

11 **V. CONCLUSION**

12 Q14. What is your overall assessment of the outcome of the resolution process?

13 A14. Management's assessment is that amounts paid to resolve 2007 Wildfire claims have
14 been prudent and reasonable because of the rigorous process SDG&E has employed in
15 resolving the claims.

16 Q15. Does this conclude your testimony?

17 A15. Yes, it does.
18

1 **VI. QUALIFICATIONS**

2 My name is Karen Sedgwick. My business address is 101 Ash Street, San Diego,
3 California 92101. I am employed by Sempra Energy (“Sempra”) as the Settlement Officer and
4 Senior Director of Enterprise Risk Management, reporting to the Chief Financial Officer.

5 In 2012, I assumed my current role as Settlement Officer and Senior Director of Risk
6 Management. I am responsible for the assessment and settlement of fire litigation, insurance
7 procurement and enterprise risk management.

8 Previously I served as Director of Supply Management for SDG&E and Southern
9 California Gas Company (“SoCalGas”), responsible for the procurement and logistics of over
10 \$1.5 billion annually of goods and services; Director of Real Estate and Land Services,
11 responsible for the real estate portfolio for all of the Sempra Energy companies and the land and
12 right-of-way activities for SDG&E and SoCalGas; Director of Financial Planning and Analysis,
13 responsible for the financial plan, budgeting and claims departments for both utilities and
14 Director of Investor Relations, responsible for communications with investors and shareholders.
15 Prior to my role in Investor Relations, I held numerous positions in Sempra in the areas of
16 Shareholder Services, Strategic Planning and Budgeting.

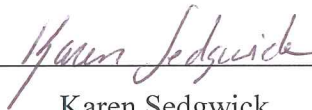
17 I received a Bachelor of Science degree in Business Administration with a major in
18 Finance from San Diego State University in 1988. I received a Master in Business
19 Administration with an emphasis in Finance in 1995 from the University of San Diego.

20 I have previously testified before the California Public Utilities Commission in a General
21 Rate Case proceeding.

VERIFICATION

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN DIEGO)

Karen Sedgwick, being duly sworn, on oath, says that she is the Karen Sedgwick identified in the foregoing prepared direct testimony; that she prepared or cause to be prepared such testimony on behalf of San Diego Gas & Electric Company; that the answers appearing therein are true to the best of her knowledge and belief; and that if asked the questions appearing therein, her answers would, under oath, be the same.



Karen Sedgwick

STATE OF CALIFORNIA,
COUNTY OF SAN DIEGO, to wit:

Subscribed and sworn before me Loida C. Morrison on this 17th day of October, 2013.

WITNESS my hand and official seal.

Loida C. Morrison

(Seal)



R. CRAIG GENTES

Exhibit No. SDG-3

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company) Docket No. ER12-2454-003

SUMMARY OF THE PREPARED DIRECT TESTIMONY OF
R. CRAIG GENTES

Mr. R. Craig Gentes' testimony and single exhibit explains the accounting treatment for wildfire damage claims and associated legal fees that San Diego Gas & Electric Company ("SDG&E") paid to resolve \$23.2 million of third-party claims related to the 2007 Witch fire, Rice fire, and Guejito fire ("Wildfires") during SDG&E's Third Transmission Owner ("TO3") Cycle 6 True-Up period April 2011 through March 2012. His testimony demonstrates that SDG&E has accurately calculated and accounted for the \$23.2 million wildfire costs at issue in this proceeding and is entirely consistent with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and SDG&E's TO3 Formula Rate.

Mr. Gentes' testimony and exhibit reflect total electric division wildfire costs in the amount of \$159.2 million. Following FERC's Uniform System of Accounts instructions SDG&E allocates these total wildfire electric division costs between FERC and California Public Utilities Commission ("CPUC") jurisdiction on the basis of labor ratios. During the TO3 Cycle 6 True-Up period, SDG&E used the 2011 FERC Form 1 labor ratios to allocate 14.60% of the total electric division wildfire costs to transmission (FERC jurisdiction) and the remaining 85.40% to distribution (CPUC jurisdiction). The resulting FERC allocation of wildfire costs is \$23.2 million.

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1 **III. BACKGROUND**

2 Q4. Would you please provide context for the \$23.2 million Wildfire Costs at issue in this
3 case?

4 A4. Yes. In this case, SDG&E is seeking to recover approximately \$23.2 million in
5 transmission rates, which is approximately 14.60% of the \$159,194,000 [or \$159.2
6 million] total electric division wildfire damage claims and legal costs that SDG&E paid
7 from December 2011 through March 2012 to settle claims by third-parties for damage to
8 their property arising from the three wildfires. The months December 2011 through
9 March 2012 constitute the True-Up Period in TO3 Cycle 6 for the reasons explained
10 below in A10.

11 Q5. What is the basis for the 14.60% allocation factor mentioned above?

12 A5. I discuss the allocation factor later in my testimony, but briefly, the TO3 Formula
13 provides that SDG&E allocate costs between its various functions (generation,
14 distribution and transmission) on the basis of labor statistics, as reflected in FERC
15 Form 1. Application of the labor statistics results in an allocation of 14.60% of total
16 Wildfire Costs being allocated to the transmission function.

17 Q6. Before turning to the accounting treatment of the \$23.2 million here at issue, could you
18 first explain the mechanics of the TO3 Formula as it relates to this proceeding?

19 A6. Yes. This proceeding, which is termed Cycle 6 of SDG&E's TO3 Formula (because it's
20 the sixth Informational Filing SDG&E has made under its TO3 Formula), reflects a base
21 transmission revenue requirement that will remain in effect for the 12-month Rate
22 Effective Period beginning September 1, 2012. The rates reflect the following
23 components: (1) a Base Period Revenue Requirement (estimates) for the 12-month
24 period ending December 31, 2011; (2) a Forecast Period Capital Addition Revenue
25 Requirement (forecasting the capital-addition revenue requirement for the 17-month
26 period covering April 2012 through August 2013); (3) a True-Up Adjustment for the 12-
27 month True-Up Period ending March 31, 2012, which reconciles recorded revenues to
28 actual costs incurred during this period and (4) an Interest True-Up Adjustment.

29 Q7. Please continue.

30 A7. As SDG&E witness Mr. Schavrien notes in his testimony, (Exhibit No. SDG-1), in order
31 for SDG&E to recover costs under the TO3 Formula, SDG&E must demonstrate under

1 the TO3 Formula, that it is entitled to recover \$23.2 million in Wildfire Costs in Cycle 6
 2 by showing that the: (a) costs and expenditures were prudent, (b) data are accurate and
 3 (c) recovery is consistent with the TO3 Formula.¹ Mr. Schavrien discusses the prudence
 4 of the Wildfire Costs. My testimony demonstrates that the Wildfire Costs are accurate
 5 and consistent with the TO3 Formula.

6 **IV. ACCOUNTING TREATMENT OF \$23.2 MILLION AT ISSUE IN THIS CASE**

7 Q8. How is SDG&E accounting for the amounts associated with the 2007 Wildfire claims and
 8 legal costs it is seeking to recover from customers in both the California Public Utilities
 9 Commission (“CPUC”) and FERC jurisdictions?

10 A8. In the month that SDG&E pays a claim or a legal invoice in cash the cost is recorded in
 11 the CPUC’s Wildfire Expense Memorandum Account and is also captured for recovery
 12 from FERC jurisdictional customers. SDG&E incurred \$159.2 million in wildfire claims
 13 and legal costs during the portion of the TO3 Cycle 6 true-up period from December
 14 2011 through March 2012. *See* Exhibit No. SDG-3-1, Col. C. For the months January
 15 2011 through November 2011, SDG&E utilized funds received in its settlement with Cox
 16 Communications (“Cox”) to pay for claims and legal costs (reimbursements). Due to the
 17 normal business lag of approximately 30 to 60 days in remitting cash associated with
 18 claims settlements or invoices, the amounts that SDG&E paid during December 2011
 19 related to claims settled or legal invoices received during October and November 2011.
 20 A similar lag exists related to the claims and legal costs paid during the months of
 21 January through March 2012. When \$159.2 million is allocated to transmission this is
 22 equal to the \$23.2 million of TO3 Cycle 6 Wildfire Damage Claims and Associated Costs
 23 at issue here.

24 Q9. Mr. Gentes, why are you using just the True-Up Period recorded wildfire damage claims
 25 and legal costs of \$159.2 million to develop the \$23.2 million allocated to transmission?

26 A9. As indicated above, the TO3 Formula essentially consists of three main parts; a Base
 27 Period, a Forecast Period and a True-Up Adjustment and the sum of these parts is
 28 collected in a future Rate Effective Period. The Base and Forecast Period revenue
 29 requirements serve as an estimate of what SDG&E anticipates its future costs will be in

¹ *See* Section 1.4 of the TO3 Settlement.

1 the future Rate Effective Period. However, the True-Up Adjustment, which is the
2 difference between recorded revenues and True-Up costs during the True-Up Period,
3 reflects actual costs already incurred. Therefore, the Wildfire Costs in the True-Up
4 Period are the relevant costs that must be analyzed.

5 Q10. Mr. Gentes, please explain why Exhibit SDG-3.1 shows only four months of activity
6 while the Rate Effective Period covers 12 months (September 1, 2012 through August 31,
7 2013)?

8 A10. During the TO3 Cycle 6 base period of January through December 2011 and the TO3
9 Cycle 6 true-up period of April 2011 through March 2012 the only months that SDG&E
10 paid claims from its cash were those months listed in Exhibit SDG-3.1. During the other
11 months all claims and legal fees were paid from funds SDG&E received from the
12 settlement with Cox. Those funds were fully expended in mid-December 2011.

13 Q11. For the True-Up Period, how does SDG&E split costs associated with the 2007 wildfires
14 between the jurisdictions of the CPUC and the FERC?

15 A11. For the TO3 Cycle 6 True-Up Period, SDG&E uses labor ratios from its 2011 FERC
16 Form 1 filing to allocate costs associated with the 2007 wildfires, as required by the TO3
17 Formula for costs recorded in the administrative and general Account 925 of the Uniform
18 System of Accounts. The labor ratios, based on data from the 2011 FERC Form 1,
19 allocate 14.60% to electric transmission and 85.40% to electric distribution.

20 Q12. Has the Commission previously addressed the recordation of Wildfire Costs in Account
21 925?

22 A12. Yes, the Commission addressed this accounting issue in SDG&E's TO3 Cycle 5
23 Informational Filing (Docket No. ER11-4318).² There, at Paragraph 21, the Commission
24 stated:

25 The Commission finds that the Wildfire Property Costs are properly
26 recorded in Account 925. This account includes the cost of insurance
27 premiums to protect the utility against injury and damage claims, losses
28 not covered by insurance, and expenses incurred in the settlement of such
29 claims. The inverse condemnation claims involve a liability imposed on
30 SDG&E because of fires related to its ownership of transmission and
31 distribution lines in California. As a result, third parties have filed claims
32 against SDG&E for real property damage caused by wildfires originating

² 137 FERC ¶61,041 (2011).

1 from SDG&E's power lines. These types of costs fall squarely under
2 Account 925. (footnote omitted)

3 My proposed accounting treatment here is consistent with the Commission's directive.

4 **V. CONCLUSION**

5 Q13. Please summarize your testimony.

6 A13. The \$23.2 million in Wildfire Costs that SDG&E paid to settle claims during the True-Up
7 Period have been accurately calculated and accounted for, consistent with SDG&E's TO3
8 Formula and, therefore, are recoverable.

9 Q14. Does this conclude your testimony?

10 A14. Yes, it does.

11

1 **VI. QUALIFICATIONS**

2 My name is R. Craig Gentes. My business address is 101 Ash Street, San Diego,
3 California 92101. I am employed by San Diego Gas & Electric Company (“SDG&E”) as the
4 Director – Utility Accounting within the Controller’s organization.

5 In 2010, I assumed my current role of Director of Utility Accounting. I am responsible
6 for the Financial Accounting, the Regulatory Reporting and Bank Reconciliation and
7 Escheatment functions for both SDG&E and Southern California Gas Company (“SCG”).

8 Previously I have served as Director of Accounting Operations, responsible for the Cost
9 Accounting, the Affiliate Billing and Costing and Sundry Services functions for both SDG&E
10 and SCG; Director of Compliance, responsible for the CPUC and FERC Affiliate Compliance
11 activities, the Accounts Payable function, and Financial Policies and Controls; Manager of
12 Financial Policies and Controls, responsible for the implementation of the compliance process to
13 meet the requirements of the Sarbanes-Oxley Act; and Financial Accounting Manager, primarily
14 responsible for the monthly closing of the financial statements, GAAP accounting issues and
15 research, and participating in SEC and CPUC financial reporting issues and requirements.

16 Prior to joining SDG&E, I worked for Deloitte Haskins & Sells, now Deloitte & Touche,
17 in the auditing department. I obtained my California CPA license in 1984, and that license is
18 currently in active status.

19 I received a Bachelor of Science degree in Business Administration with a major in
20 Accounting from the University of Nebraska-Lincoln in 1982.

21 I have previously testified before the CPUC in two different proceedings.

San Diego Gas & Electric		
TO3 Cycle 6 Total Electric Division Wildfire Damage Claims and Legal Fees		
Base Period January 2011 to December 2011		
True-Up Period April 2011 to March 2012		
A	B	C
Month		Amount SDG&E Paid
December 2011		34,603,106
Claims	51,945,802	
Legal Fees	8,194,434	
Reimbursements	(25,537,130)	
	34,603,106	
January 2012		47,455,970
Claims	46,995,362	
Legal Fees	460,608	
	47,455,970	
February 2012		36,737,294
Claims	33,858,011	
Legal Fees	3,179,283	
Reimbursements	(300,000)	
	36,737,294	
March 2012		40,398,072
Claims	39,611,410	
Legal Fees	5,636,662	
Reimbursements	(4,850,000)	
	40,398,072	
Total		159,194,443
Transmission Labor Ratio		14.60%
Wildfire Costs Allocated to Transmission		\$ 23,242,389
Note: During the TO3 Cycle 6 base period of January through December 2011 and the TO3 Cycle 6 true-up period of April 2011 through March 2012 the only months that SDG&E paid claims from its cash were those listed above. During the other months all claims and legal fees were paid from funds received in the Cox settlement. Those funds were fully expended in mid-December 2011.		

VERIFICATION

STATE OF CALIFORNIA)
)
COUNTY OF SAN DIEGO) ss.

R. Craig Gentes, being duly sworn, on oath, says that he is the R. Craig Gentes identified in the foregoing prepared direct testimony; that he prepared or cause to be prepared such testimony on behalf of San Diego Gas & Electric Company; that the answers appearing therein are true to the best of his knowledge and belief; and that if asked the questions appearing therein, his answers would, under oath, be the same.

R. Craig Gentes

State of California)
County of San Diego)

Subscribed and sworn before me Linda M. BAKER, Notary Public on
October 17, 2013.

WITNESS my hand and official seal.



Linda M Baker

(Seal)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served an electronic copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in Docket No. ER12-2454-003. In addition, I certify that I have also caused the foregoing to be served by overnight delivery upon the following:

Frank Lindh
General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Nancy Saracino
General Counsel
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Dated at San Diego, California, this 17th day of October, 2013.

/s/ JOEL DELLOSA

Joel Delloso