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Exhibit No.: SDG&E-02
Witness: Sedgwick

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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SEPTEMBER 25, 2015



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

3
4 **I. INTRODUCTION**

5 Q. Please state your name and business address.

6 A. My name is Karen Sedgwick. My business address is 488 8th Avenue, San Diego, CA
7 92101.

8 Q. What is your current position?

9 A. I am currently employed by Sempra Energy (“Sempra”) as the Vice President of Audit
10 Services. Prior to taking that position, I was involved in settling 2007 wildfire claims. My
11 qualifications are set forth in Appendix 1 hereto.

12 Q. Have you previously submitted testimony before the Commission?

13 A. Yes, I previously submitted testimony in a General Rate Case. I also submitted testimony
14 before the Federal Energy Regulatory Commission (“FERC”) in connection with San Diego Gas
15 & Electric Company’s (“SDG&E”) recovery of FERC-jurisdictional costs related to the 2007
16 wildfires.

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to demonstrate that the costs and legal fees SDG&E
19 incurred to resolve third-party damage claims arising from the Witch Fire, the Guejito Fire, and
20 the Rice Fire that occurred in its service territory in 2007 (“Wildfire Costs”)¹ resulted from a
21 settlement process that was appropriate and reasonable under the circumstances and, therefore,

¹ SDG&E witnesses Mr. Lee Schavrien and Mr. Craig Gentes further explain the Wildfire Costs and indicate the portion of those costs that SDG&E is seeking to recover in rates. When I refer to Wildfire Costs, I am speaking of the total amount SDG&E has paid to third parties to resolve their damage claims.

1 prudent. I also explain that SDG&E's efforts to mitigate the amount of Wildfire Costs for which
2 it seeks recovery – through liability insurance coverage and settlements with third parties – were
3 reasonable and prudent.

4 Q. What experience do you have with respect to the subject matters you discuss in your
5 testimony?

6 A. Beginning in 2012, I was Settlement Officer and Senior Director of Risk Management at
7 Sempra Energy. In that role, I was responsible for the assessment and settlement of wildfire
8 litigation, insurance procurement and enterprise risk management. While I moved to my current
9 position in Audit Services in January, 2014, I have continued to be involved with these matters.

10 Q. How is the remainder of your testimony organized?

11 A. As context for the discussion that follows, I describe the 2007 Wildfire Litigation in
12 Section II. In Section III, I explain the settlement process for wildfire claims. In Section IV, I
13 explain the mediation process that has been used for claims that cannot be settled informally. In
14 Section V, I explain how SDG&E has substantially reduced the amount of Wildfire Costs
15 through liability insurance and contractor settlements. Lastly, in Section VI, I summarize my
16 conclusions.

17 **II. THE 2007 WILDFIRE LITIGATION**

18 Q. Please describe the 2007 Wildfire Litigation.

19 A. In the aftermath of the 2007 wildfires, numerous parties who incurred damages from the
20 fires filed lawsuits against SDG&E and Sempra Energy in San Diego Superior Court seeking
21 recovery of unspecified amounts of damages, including punitive damages. Those parties
22 included owners and insurers of residential and commercial properties, including agricultural
23 properties, that were damaged or destroyed in the fires, as well as governmental entities seeking

1 recovery for property damage and firefighting, emergency response, and environmental costs.

2 The plaintiffs asserted various bases for recovery, including inverse condemnation.²

3 Several of these cases were styled as class actions. SDG&E moved to dismiss the class
4 claims. In October 2010, the California Court of Appeals affirmed the trial court's ruling that
5 these claims must be pursued in individual lawsuits, rather than as class actions on behalf of all
6 persons who incurred wildfire damage. SDG&E also challenged the legal sufficiency of
7 plaintiff's individual claims in many of the cases. Over 100 individual claims were dismissed as
8 a result.

9 Starting in 2009, attorneys representing SDG&E began negotiating the details of a
10 comprehensive mediation program with lawyers representing various plaintiffs. Because it was
11 facing strict liability under inverse condemnation, SDG&E sought to limit its litigation costs and
12 potential exposure by mediating and resolving plaintiffs' claims quickly and efficiently. The
13 parties engaged retired California Court of Appeal Justice, Hon. John Trotter (Ret.) at Judicial
14 Arbitration and Mediation Services ("JAMS") to facilitate negotiations. Around that same time,
15 SDG&E began mediating plaintiffs' individual claims.

16 This mediation process was watched over carefully by San Diego Superior Court Judge
17 Richard E. L. Strauss, to whom the 2007 Wildfire cases had been assigned. The parties were
18 required to provide periodic updates to the Court regarding the status and success rate of the
19 mediation program. The parties also sought the Court's blessing on certain specific parameters
20 of the proposed mediation program. On May 17, 2010, the Court approved a "Stipulation re:

² As discussed by Mr. Schavrien, the plaintiff's inverse condemnation claim was based on a California Court of Appeal's decision holding that a California investor-owned utility was strictly liable – without regard to foreseeability or negligence – for property damage resulting from a power line-related wildfire. Based on this legal precedent, the trial court judge issued an order holding that SDG&E could be liable for inverse condemnation. SDG&E petitioned the Court of Appeal and the California Supreme Court to overturn the trial court's order, but those petitions were denied.

1 Mediation Protocol and Order” between SDG&E and certain plaintiffs which set forth those
2 parameters. That Stipulation included protocols for both traditional mediation and “Binding
3 Mediation,” whereby “[a]t the conclusion of the mediation session, if the parties have been
4 unable to settle the case, the mediator [would] issue a decision binding upon the parties.” Over
5 the next year or so, the parties entered into additional mediation related stipulations, including an
6 April 2011 “Stipulation re: Memorandum of Understanding,” which was adopted as an order of
7 the court on April 5, 2011. These stipulations and Court Orders governed the mediation
8 program.

9 Q. How many lawsuits were filed?

10 A. There were 2,582 total lawsuits filed. Of these, 2,371 were filed by residential property
11 owners, 206 were filed by commercial property owners, and 5 were filed by governmental
12 entities.

13 Q. How many of these lawsuits have been settled or dismissed, and how many are
14 outstanding?

15 A. Of the residential lawsuits, all of them have been settled or dismissed. Of the commercial
16 lawsuits, 205 have been settled or dismissed, and one remains outstanding in the Superior Court.
17 Of the governmental entity lawsuits, all have settled. There is one case on appeal, and one in
18 which an appeal may be taken.

19 Q. In total, how much have the plaintiffs sought to recover from SDG&E and Sempra
20 Energy?

21 A. In total, plaintiffs have asserted claims of approximately \$4 billion.

22 Q. How much has been paid out to date to settle plaintiffs’ claims?

23 A. As of the date of this WEMA application, approximately \$2.4 billion has been paid.

1 Q. Have any of the lawsuits gone to trial?

2 A. No. To date, all have settled or been dismissed.

3 Q. Why is that?

4 A. Mr. Schavrien discusses SDG&E's reasons for pursuing settlement in greater detail.

5 From my perspective, the primary rationale for the settlement approach is that it allows us to
6 avoid the risks, uncertainties and expense of litigation.

7 **III. EVALUATION PROCESS FOR CLAIMS**

8 Q. Please explain the settlement process that SDG&E followed to resolve the claims against
9 it?

10 A. In order to ensure that every settlement was reasonable and prudent, SDG&E undertook a
11 rigorous settlement and mediation process in which it thoroughly evaluated, investigated, and
12 validated the reasonableness of claimant's demands and the amount of the claim with the goal of
13 resolution.

14 Q. How did this claim evaluation process work?

15 A. The extent of the investigation and validation that was required naturally varied from
16 plaintiff to plaintiff, but generally speaking, the claimant's counsel started the process by
17 providing to SDG&E's counsel a confidential mediation demand and supporting documentation,
18 which typically included discovery responses signed under penalty of perjury that describe the
19 claim, the claimant's experts' valuations of claimed damage, third-party invoices and/or
20 estimates for repairing/replacing damaged items, pre- and post-fire photographs of damaged real
21 property, personal property and vegetation, and other information.³

³ In a few instances, SDG&E was able to reach relatively quick settlements with groups of plaintiffs through an abbreviated process. In all such cases, SDG&E took appropriate steps to ensure that

1 Q. How did SDG&E assess the reasonableness of what was being claimed?

2 A. SDG&E hired experienced litigation counsel to defend it in the 2007 San Diego Wildfire
3 Litigation. Together, SDG&E and its counsel assessed the claimants' demands. SDG&E and
4 counsel reviewed the demand and the supporting documentation provided for the claimed
5 amounts, and retained the appropriate subject matter experts to help evaluate the claim.

6 The claim was also independently validated against information such as ownership
7 records, zoning, building permits, market research, employment records, tax returns, satellite
8 imagery, personal property records and other available data. After its initial review of the
9 claimant's supporting documentation, SDG&E requested additional documentation from the
10 claimant for purposes of assessing the claim and scheduled a site inspection (to be attended by
11 the relevant subject matter experts) if the claim involves significant real property damage.
12 SDG&E also had and took the opportunity to take the claimant's deposition where necessary.
13 SDG&E generally had the claimant's complete insurance claim file and reviewed that file for
14 information regarding damage resulting from the 2007 wildfires, claims made to the insurance
15 provider with respect to the 2007 wildfires, and the amounts already paid out to the claimant. As
16 a further check of the reasonableness of each claimant's demands, SDG&E compared the
17 claimant's asserted damages against internal metrics which are targeted and specific to
18 neighborhood, property, and loss types.

19 Q. What types of experts did SDG&E hire to help assess the claimant's demand?

20 A. SDG&E hired a wide variety of experts through its attorneys. Each case presents
21 different factual issues relating to the claimant's alleged damages, so each case required different

these settlements were reasonable and prudent based on the documentation provided, the amount of plaintiffs' demands, and the settlement discount negotiated.

1 experts. For example, SDG&E hired medical doctors to review alleged physical and mental
2 personal injury claims. Additionally, arborists and landscapers were hired to determine the
3 amount of vegetation damage. It hired personal property experts to evaluate claims involving
4 everything from everyday household items like pots and pans to classic cars to rifle collections.
5 It hired appraisers, real estate brokers and construction experts for real property claims. It hired
6 economists to evaluate lost income claims. And it hired environmentalists and land planners to
7 address issues related to the development of property.

8 Q. What was the next step in the evaluation process?

9 A. After the claims were reviewed and valued by SDG&E, its subject matter experts, and
10 counsel, a draft offer and supporting valuation package was prepared. The Settlement Officer
11 and counsel reviewed the draft offer package for accuracy and completeness. Once that analysis
12 was complete, the mediation offer was extended.

13 **IV. MEDIATION**

14 Q. What was the next step in the mediation process?

15 A. After the offer was extended, SDG&E's counsel made every effort to settle the case
16 through direct discussions with claimant's counsel. In those cases where direct negotiations
17 were successful, the cost of a mediation session was avoided.

18 Q. What happened if the claim was not settled directly through counsel?

19 A. If a settlement was not reached, the case proceeded to a mediation session.

20 Q. How does the mediation process work?

21 A. A retired judge or seasoned mediator at JAMS presided over each mediation session,
22 which typically lasted one day. In some complex cases, the mediation sessions extended for
23 several days. Both sides presented their case to the mediator, and often joint sessions were held

1 during which the claimant and SDG&E, and their experts, exchanged information and were
2 allowed to follow up on outstanding issues or concerns. The mediators weighed in on the
3 reasonableness of the claims and the credibility of the claimants and worked hard to facilitate a
4 settlement. Most cases settled after a one day mediation session. Cases that did not resolve in a
5 single day often settled later after the parties exchanged and considered additional information
6 discussed at the mediation.

7 As explained above, in some cases the parties agreed to a “binding” mediation. This
8 process proved extremely useful in resolving cases that would not have settled in a traditional
9 mediation and would normally have required a time consuming and expensive trial. Because the
10 mediator deciding the case was a former judge and/or arbitrator, the amounts awarded were
11 reasonable.

12 Q. Earlier, you mentioned that you provided testimony before the FERC regarding the
13 FERC-jurisdictional portion of the Wildfire Costs. What did the FERC conclude with respect to
14 SDG&E’s settlement and mediation process?

15 A. The Administrative Law Judge assigned to the case issued a decision on February 25,
16 2014. In that decision – which I understand became the final FERC decision because no
17 exceptions were taken to it – the Judge concluded as follows:

18 Under these circumstances, it is clear that SDG&E’s proactive
19 steps in settling the related third-party damage claims were
20 justified since they would have been exposed to strict liability in
21 any event. By settling, SDG&E avoiding facing considerable
22 litigation risk and disposed of the claims for significantly less than
23 the amount demanded by claimants. Therefore, I find SDG&E’s
24 conduct was rational and prudent.⁴

⁴ *San Diego Gas & Electric Co.*, 146 FERC ¶ 63,017 at P 62 (2014).

1 **V. SDG&E'S MITIGATION EFFORTS**

2 Q. According to Mr. Schavrien, SDG&E was able to reduce the amount of the total Wildfire
3 Costs it seeks in this proceeding through, among other items, (1) liability insurance coverage,
4 and (2) recoveries from third parties and contractors. Are you familiar with those recoveries?

5 A. Yes, I am. SDG&E received \$1.1 billion from its liability insurance coverage, and \$824
6 million from settlements with third parties and contractors.

7 Q. Please describe the liability insurance policies pursuant to which SDG&E received \$1.1
8 billion.

9 A. Sempra Energy purchases several layers of general liability insurance on behalf of its
10 affiliates – including SDG&E and Southern California Gas Company – and allocates a portion
11 of the total expense to each affiliate. The \$1.1 billion that was received represented the
12 composite limits of the various layers, or the maximum amount under our coverage.

13 Q. Did SDG&E have a reasonable amount of liability insurance coverage in place prior to
14 the 2007 wildfires?

15 A. Yes, I believe we had a reasonable and appropriate amount of liability insurance coverage
16 in place at the time. First, neither SDG&E nor the other Sempra Energy affiliates covered under
17 the policy had made insurance claims of anywhere near \$1.1 billion in prior years, nor had we
18 ever experienced any liability event approaching that magnitude. As such, we had reason to
19 believe we would never need more than \$1.1 billion.

20 Second, our insurance broker informed us at the time we renewed our insurance coverage
21 for 2007 that we had the maximum coverage that was reasonably available.

22 Third, the other two major California investor-owned utilities – Southern California
23 Edison Company (“SCE”) and Pacific Gas & Electric Company (“PG&E”) – indicated in the
24 Wildfire Expense Balancing Account Proceedings before the Commission that they had

1 comparable levels of liability insurance at the time.⁵ SCE indicated that it “purchased \$650
2 million of liability insurance for the period September 1, 2008 through August 31, 2009,” which
3 represented “an increase of \$50 million from the prior year.” PG&E indicated that its strategy
4 has been “to purchase over \$1 billion of liability insurance” and that its “[b]enchmarking with
5 other gas and electric utilities has indicated that the over \$1 billion limit was at the high end of
6 the range of limits purchased by gas and electric utilities.”⁶ Both PG&E and SCE have service
7 areas that are substantially larger than SDG&E’s service territory.

8 Q. How did SDG&E obtain \$824 million from third parties and contractors?

9 A. In connection with the 2007 Wildfire Litigation, SDG&E filed cross complaints against:
10 (1) Cox Communications (“Cox”), seeking indemnification for any liability that SDG&E might
11 incur in connection with the Guejito Fire; (2) PAR Electrical Contractors, Inc. (“PAR”) and
12 Herman Weissker, Inc. (“Weissker”), seeking indemnification in connection with the Witch Fire;
13 and (3) Davey Tree, seeking indemnification in connection with the Rice Fire.

14 Q. What was the outcome of these cross-complaints?

15 A. SDG&E reached settlements with each of Cox, Weissker, PAR and Davey. More
16 specifically, in December 2010, SDG&E and Cox reached a settlement agreement, resolving
17 SDG&E’s claims against Cox (and Cox’s insurers). SDG&E received a settlement payment of
18 \$444 million. In February 2012, SDG&E and Weissker (and its insurer) reached a settlement
19 agreement. SDG&E received a settlement payment of \$10 million. In September 2012, SDG&E
20 and Davey Tree (and its insurers) reached a settlement agreement. SDG&E received a

⁵ See “Amended and Restated Testimony in Support of Joint Amended Application for Authority to Establish a Wildfire Expense Balancing Account to Record for Future Recovery Wildfire-Related Costs,” pp. 71-85, A.09-08-020 (August 10, 2010).

⁶ *Id.*

1 settlement payment of \$190 million. In November 2012, SDG&E and PAR (and its insurers)
2 reached a settlement agreement. SDG&E received a settlement payment of \$180 million. Mr.
3 Gentes explains the accounting treatment of these settlement payments as it relates to the amount
4 SDG&E is seeking to recover in this case.

5 Q. Did SDG&E obtain reasonable recoveries through these settlements?

6 A. Yes. These settlements were the result of lengthy and difficult negotiations between the
7 parties and their counsel, which included the exchange of the parties' respective liability and
8 damages positions. Through the settlement process, SDG&E received payments at or near the
9 full amount of liability insurance that each third party had in place. SDG&E secured these
10 amounts while avoiding the risk and costs of litigation and the possibility that it might not have
11 collected anything in excess of insurance. Thus, it was reasonable for SDG&E to obtain the
12 settlement recoveries that it did.

13 **VI. CONCLUSION**

14 Q. What is your overall assessment of SDG&E's settlement process and mitigation efforts?

15 A. SDG&E employed a reasonable and prudent process to resolve the 2007 Wildfire claims,
16 and thus the amounts paid were reasonable and prudent under the circumstances. Furthermore,
17 SDG&E took reasonable and prudent steps to mitigate the total amount of Wildfire Costs it seeks
18 to recover through its liability insurance coverage and the recoveries from third parties.

19 Q. Does this conclude your testimony?

20 A. Yes it does.

APPENDIX 1

STATEMENT OF QUALIFICATIONS OF KAREN SEDGWICK

My name is Karen Sedgwick. My business address is 488 8th Avenue, San Diego, California 92101.

I am employed by Sempra Energy (“Sempra”) as Vice President of Audit Services, a position I have held since January, 2014. Prior to assuming that position, I was the Settlement Officer and Senior Director of Enterprise Risk Management at Sempra, reporting to the Chief Financial Officer, a position I began in 2012.

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

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