Company: Southern California Gas Company (U 904 G)/San Diego Gas & Electric Company (U 902 M)
Proceeding: 2019 General Rate Case
Application: A.17-10-___
Exhibit: SCG-29/SDG&E-27

SOCALGAS / SDG&E DIRECT TESTIMONY OF NEIL K. CAYABYAB

(CORPORATE CENTER - INSURANCE)

October 6, 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SoCalGas
A Sempra Energy utility® SDGE A Sempra Energy utility®

Doc #317256

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SUMMARY

O&M (Shared)	2016 ($000's)	2019 ($000's)	Change ($000's)
SDG&E Allocations	107,362	126,270	18,908
SoCalGas Allocations	36,183	38,560	2,377
Total Utilities	143,545	164,830	21,285

- The total amount of increase from the General Rate Case (GRC) Base Year 2016 to the GRC Test Year (TY) 2019 is estimated to be $21,285,000 for San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) combined.
  - These changes are based on multiple factors, including expected insurance market conditions, insurance broker estimates (primarily provided by Marsh USA, Inc. (Marsh)), and loss history.
  - Requested increases are primarily driven by primary and excess property, and liability insurance.
    - Primary Property
      - Driven primarily by broker estimates and forecasted increase in values.
    - Excess Property
      - Based on Oil Insurance Limited's (OIL) premium forecast.
    - Excess Liability
      - Driven primarily by underwriter concerns with the California legal environment and broker estimates.
    - Fire Liability
      - Driven by insurer losses worldwide (particularly in California) and underwriter concerns with inverse condemnation.
- SDG&E and SoCalGas request the establishment of a new two-way Liability Insurance Premium Balancing Account. These new balancing accounts are necessary to protect against the possible increase in the need for additional amounts of liability insurance and because of market fluctuations in the cost of liability insurance.

SOCALGAS/SDG&E DIRECT TESTIMONY OF NEIL K. CAYABYAB
(CORPORATE CENTER - INSURANCE)

I. INTRODUCTION

A. Summary of Proposals

I sponsor the TY 2019 forecast for operations and maintenance (O&M) costs associated with Corporate Center Insurance for SDG&E and SoCalGas. Table NKC-1 below summarizes my sponsored costs. As will be discussed in greater detail later in the chapter, our 2019 estimates are based on our loss history, input from our primary insurance broker Marsh, and expected insurance market conditions.

TABLE NKC-1

Insurance

Test Year 2019 General Rate Case
Testimony Table

(2016 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019
A Property	12,160	8,144	20,304	10,117	5,959	16,076
B Liability	151,148	15,817	166,965	133,330	15,232	148,562
C Surety Bonds	199	120	319	98	93	192
Total	$163,506	$24,082	$187,588	$143,545	$21,285	$164,830
Allocations						
SDG&E	107,362	18,908	126,270			
So Cal Gas	36,183	2,377	38,560			
Total Utility	143,545	21,285	164,830			
Global / Retained	19,961	2,797	22,758			
Total	$163,506	$24,082	$187,588			

B. Cost Allocation Methods

The Sempra Energy (Sempra) corporate insurance department procures insurance on behalf of SDG&E, SoCalGas, and other Sempra business units. Our insurance program generally provides coverage for all of Sempra's business units including SDG&E and SoCalGas. Insurance premiums are therefore billed in accordance with the following cost allocation priorities:

1. Direct Assignment,
2. Causal / Beneficial (CB), and
3. Multi-Factor Allocations

a. Multi-Factor Basic

b. Multi-Factor Split

Greater detail on allocation method by line of coverage is provided later in my testimony.

In general, Direct Assignment policies are procured for a specific business unit or when an insurance carrier provides a specific premium allocation for specific business units. These costs are directly allocated to the applicable business unit. For example, there are several railroad protective liability policies[1] and each policy provides coverage for specific projects performed by SDG&E and SoCalGas respectively.

The CB allocation method is used when insurance coverage is provided for multiple business units under a single insurance policy. This method is typically used when the primary driver of premiums is a single key risk factor. For example, the fire insurance premium allocation is based on overhead transmission and distribution miles for SDG&E, SoCalGas, and Sempra Global[2] business units in proportion to the total amount.

Multi-factor allocations are used when insurance policies provide coverage for a broad spectrum of risks that cannot be allocated by a single factor. For example, our excess liability policy provides coverage for non-wildfire third-party bodily injury and property damage. The multi-factor allocation method has been a Commission-approved method in the past. See the testimony and work papers of Corporate Center – General Administration witness Mia L. DeMontigny (Exhibit (Ex.) SCG-28/SDG&E-26) for more detail on the multi-factor allocation methods.

II. SHARED COSTS

SDG&E's and SoCalGas' insurance needs are generally grouped into three categories:

- Property – Provides coverage for losses or damage to Sempra assets;
- Liability – Provides coverage for legal liability resulting from third-party claims; and
- Surety Bonds – Backstops contractual performance obligations Sempra Energy has to other parties.

[1] Provides coverage for Sempra business units' work within a railway's right of ways.

[2] Sempra Global (Global) is the holding company for most of Sempra Energy's business units that are not subject to regulation by the California Public Utilities Commission (Commission or CPUC).

A. Property

Table NKC-2 below provides a summary of Sempra's property insurance and allocation of costs to SDG&E and SoCalGas for TY 2019.

TABLE NKC-2

Property Insurance

Test Year 2019 General Rate Case
Testimony Table

(2016 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019
A-1 Primary	6,082	3,075	9,157	4,796	1,612	6,409
A-2 Excess	4,941	5,253	10,194	4,359	4,549	8,908
A-3 Other Property	1,136	(184)	953	961	(202)	759
Total	$12,160	$8,144	$20,304	$10,117	$5,959	$16,076
Allocations						
SDG&E	6,199	3,710	9,910			
So Cal Gas	3,918	2,249	6,166			
Total Utility	10,117	5,959	16,076			
Global / Retained	2,043	2,185	4,228			
Total	$12,160	$8,144	$20,304			

1. Activity Descriptions and Allocations

a. Primary Property (A1)

Sempra's primary property program (also known as the OIL "wrap" program)[3] provides coverage for direct physical damage to property owned by SDG&E, SoCalGas, and other Sempra business units. Business Interruption coverage is included for Sempra's business units, except SDG&E and SoCalGas, and therefore is not included in the final costs allocated to SDG&E and SoCalGas. Covered perils include machinery breakdown, earthquake, flood, and terrorism. Significant exclusions include electric and gas distribution and transmission lines. Property is valued at full replacement cost.

Allocation of Costs: For Primary Property we allocate costs based on risk-adjusted rates applied to the replacement value of property for each business unit. We use a loss-sensitivity

[3] Referred to as the OIL "wrap" program because it is designed to supplement the excess property program coverage provided by OIL, our insurance mutual). The supplemental coverage includes the lowering of excess property's minimum deductible level, the addition of business interruption insurance (excluding SDG&E and SoCalGas), and additional limits in excess of OIL's maximum limits.

factor for business units that have sustained a loss. The allocation percentages are shown in Table NKC-3 below.

TABLE NKC-3

		Allocation Rates	
		2016	2019
Primary Property	SDG&E	59.2%	53.3%
	SoCalGas	19.6%	16.7%
	Global / Retained	21.1%	30.0%
		100.0%	100.0%

b. Excess Property (A2)

The Excess Property Insurance program (provided by industry mutual OIL) includes coverage for physical damage, earthquake, flood, excess pollution liability, control of well, and does not exclude losses from terrorism. Major exclusions include business interruption, extra expense, and electric transmission and distribution systems.

Allocation of Costs: Excess Property Insurance is allocated based on reported asset values that cover Sempra business units benefitting from the program and is shown in Table NKC-4 below.

TABLE NKC-4

		Allocation Rates	
		2016	2019
Excess Property	SDG&E	47.9%	46.9%
	SoCalGas	40.3%	40.4%
	Global / Retained	11.8%	12.6%
		100.0%	100.0%

c. Other Property (A3)

i. <u>Control of Well (A3.1)</u>

Control of Well provides coverage for gas storage wells for well-control incidents. Coverage includes cost to control a well that is out of control (as that term is defined by the policy). It also includes coverage for the cost to re-drill wells, and any pollution arising from an out-of-control incident.

Allocation of Costs: Primarily covers the well activities for SoCalGas, with a partial amount directly charged to other Global business units with storage facilities.

ii. Crime (A3.2)

Crime insurance provides coverage for employee theft of money or other property. It also insures theft of money or securities from within company premises or during transport by messengers.

Allocation of Costs: Crime coverage costs are allocated using the Multi-Factor Basic, which is depicted in Table NKC-5 below.

TABLE NKC-5

		Allocation Rates	
		2016	2019
Multi-Factor Basic	SDG&E	36.5%	35.3%
	SoCalGas	39.5%	40.9%
	Global / Retained	24.0%	23.8%
		100.0%	100.0%

iii. APS YUMA 500 kV Transmission System – Property (A3.3)

Arizona Public Service Corporation (APS) procures insurance coverage for direct physical damage to property owned jointly by SDG&E and APS, and charges SDG&E for its share.

Allocation of Costs: 100% SDG&E

iv. SONGS Property (A3.6) and SONGS Mesa (A3.7)

Beginning in 2016, the majority of San Onofre Nuclear Generating Station (SONGS) expenses were excluded from the GRC and are being addressed in various nuclear decommissioning proceedings at the Commission. However, the existing SONGS switchyard will be used after decommissioning and will be an ongoing operational expense. Southern California Edison (SCE) procures the insurance for SONGS and then charges SDG&E for its portion. The insurance premium specific to the SONGS switchyard is listed in my workpapers at A3.6.

2. Forecast Approach

A forecast was developed for each individual type of insurance policy. In general, property insurance premiums are influenced by several factors that are directly related to Sempra business unit operations and impacts from the worldwide insurance marketplace. Each of our individual insurance programs are subject to specific market conditions. Worldwide losses such as earthquakes, floods, or hurricanes, as well as Sempra business unit losses, can negatively impact future premiums.

Due to the unexpected nature of perils covered by our commercial insurance policies, it is difficult to forecast future premiums with reasonable certainty. As such, our premiums are primarily based on forecasts provided by our primary insurance broker, Marsh,[4] a forecast received from our Excess Property insurer (OIL),[5] as well as our loss history and projected increase in total insurable values. OIL's base premium is calculated using a post-loss funding mechanism such that incurred losses are paid back over a period of five years. The base premium is then adjusted depending on deductible, limits, assets, and industry segment.

<u>Specific Factors Influencing Sempra within the Property Marketplace</u>:

- Program Structure – Our current property program utilizes a mutual insurance company, OIL and a commercially purchased insurance program (OIL "wrap") that supplements OIL's coverage. This type of program is somewhat unique within the power and utility space as there are a limited number of insurance carriers willing to provide this type of coverage. However, this arrangement results in lower costs and enhanced coverage, such as control of well and excess pollution liability coverage, which generally is not included under most property policies.
- Catastrophe Exposure – SDG&E's and SoCalGas' assets are located in California and subject to potential earthquake risk. Generally, insurance capacity available for catastrophic risks is limited and if offered, is typically available at a higher cost and reduced coverage when compared to OIL.[6]

[4] See the March 6, 2017 letter of Marsh USA titled Premium Estimates (Appendix B).
[5] See the September 12, 2017 premium indication email from OIL (Appendix C).
[6] See the June 6, 2017 email from Marsh outlining the cost to purchase equivalent earthquake coverage from commercial insurance markets (Appendix D).

3. Program Marketing Approach

Our primary property program is comprised of several insurance companies located in the United States (US) , United Kingdom (UK)/Europe, and Bermuda. We access global capacity as a means to diversify and potentially increase the amount of capacity available. This strategy helps to reduce our credit risk and increases competition. For example, in 2014 our property program consisted of approximately 74% UK/Europe and 26% US market participation. As of 2016, our property program consists of approximately 50% UK/Europe, 44% US, and 6% Bermuda participation. We meet with existing and potential new insurance markets annually. During those meetings, we typically review our assets, property risk mitigation strategies, and risk controls in place for each business unit covered by our property program. This strategy has helped reduce our property premiums from 2013 to 2016 as listed in my workpapers at A-1.

Our excess property program insurance is provided by OIL. OIL is a mutual insurance company providing coverage for members engaged in energy operations. Premiums are formulaic, but, as a mutual, OIL relies on member input, which helps to influence product offering, evolution, and development. To that end, OIL holds an annual general meeting to give members an opportunity to provide input and vote on OIL policy proposals. A representative from Sempra's corporate insurance department typically participates in that meeting.

B. Liability

Table NKC-6 below provides a summary of Sempra's liability insurance and allocation of costs to SDG&E and SoCalGas for TY 2019.

Table NKC-6

Liability Insurance

Test Year 2019 General Rate Case
Testimony Table

(2016 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019	Base Year 2016	2016-2019 Incr/(Decr)	Forecast 2019
B-1 General Excess	69,714	(490)	69,224	53,893	(1,110)	52,783
B-2 Fire	74,599	14,667	89,266	74,546	14,644	89,190
B-3 D&O	1,374	173	1,547	687	87	774
B-4 Fiduciary	616	97	713	471	73	544
B-5 Workers Comp	2,689	1,537	4,226	2,357	1,529	3,887
B-6 Other Liability	2,155	(167)	1,988	1,375	10	1,385
Total	$151,148	$15,817	$166,965	$133,330	$15,232	$148,562
Allocations						
SDG&E	101,115	15,115	116,231			
So Cal Gas	32,214	117	32,331			
Total Utility	133,330	15,232	148,562			
Global / Retained	17,818	585	18,403			
Total	$151,148	$15,817	$166,965			

1. Activity Descriptions and Cost Allocation

a. General Excess Liability (B-1)

General excess liability provides coverage against Sempra business units for their legal liability resulting from third-party property damage, bodily injury or personal injury. Coverage includes operational pollution liability, auto liability, and employer's liability. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and pollution liability subsequent to disposal.

Allocation of Costs: Coverage costs are allocated using the Multi-Factor Basic as shown in Table NKC-7 below.

TABLE NKC-7

		Allocation Rates	
		2016	2019
Multi-Factor Basic	SDG&E	36.5%	35.3%
	SoCalGas	39.5%	40.9%
	Global / Retained	24.0%	23.8%
		100.0%	100.0%

b. Wildfire Liability (B2)

i. Wildfire Liability (B2.1)

Wildfire liability provides coverage for third-party liability for bodily injury, property damage or personal injury arising from wildfires. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and international losses.

Allocation of Costs: Costs are allocated based on a causal relationship, using the miles of overhead electrical line as the factor. The allocation is shown in Table NKC-8 below.

TABLE NKC-8

		Allocation Rates	
		2016	2019
Fire Insurance	SDG&E	99.5%	99.7%
	SoCalGas	0.4%	0.2%
	Global / Retained	0.1%	0.1%
		100.0%	100.0%

ii. Wildfire Property Damage Reinsurance (B2.2)

Wildfire property damage reinsurance provides coverage for third-party legal liability for property damage arising out of wildfires. Coverage is provided by reinsurance markets, a different market from the insurers providing coverage in section B2.1 above. Major exclusions include bodily injury and fire following earthquake.

Allocation of Costs: Based on a causal relationship, using the miles of overhead electrical line as the factor, costs are allocated as shown in Table NKC-9 below.

TABLE NKC-9

		Allocation Rates	
		2016	2019
Fire Insurance	SDG&E	99.5%	99.7%
	SoCalGas	0.4%	0.2%
	Global / Retained	0.1%	0.1%
		100.0%	100.0%

c. **D&O Liability (B3)**

Directors and officers (D&O) liability provides coverage for corporate directors and officers against claims alleging financial loss arising from mismanagement. Major exclusions include fraudulent or criminal acts, and claims covered under other liability policies.

Allocation of Costs: Costs are allocated using the Multi-Factor Split as shown in Table NKC-10 below.

TABLE NKC-10

		Allocation Rates	
		2016	2019
Multi-Factor Split	SDG&E	24.0%	23.2%
	SoCalGas	26.0%	26.8%
	Global / Retained	50.0%	50.0%
		100.0%	100.0%

d. **Fiduciary Liability (B4)**

Fiduciary liability provides coverage for liability arising from wrongful acts committed by employee benefit program fiduciaries.

Allocation of Costs: Costs are allocated using the Multi-Factor Basic, as shown in Table NKC-11 below.

TABLE NKC-11

		Allocation Rates	
		2016	2019
Multi-Factor Basic	SDG&E	36.5%	35.3%
	SoCalGas	39.5%	40.9%
	Global / Retained	24.0%	23.8%
		100.0%	100.0%

e. **Worker's Compensation (B5)**

Worker's compensation provides coverage for employee job-related injuries or diseases. Each state requires that benefits be paid to injured employees with the amount and term set by the state based upon the type and extent of injury. These benefits can be paid by insurance or state approved self-insurance. Both may be used as proof that the state-required benefits can and will be paid by the employer.

i. Excess Workers' Compensation (XS WC) Insurance (B5.1)

Sempra self-insures its workers' compensation exposure for Corporate Center, Global, SDG&E, and SoCalGas employees in the State of California. However, Sempra purchases an XS WC policy to provide coverage for large claims for California employees.

Allocation of Costs: Costs are allocated based on payroll per business units covered as shown in Table NKC-12 below.

TABLE NKC-12

		Allocation Rates	
		2016	2019
California Excess Workers Comp	SDG&E	36.4%	36.9%
	SoCalGas	58.8%	57.3%
	Global / Retained	4.8%	5.9%
		100.0%	100.0%

ii. Workers' Compensation & Employers' Liability (WC/EL) Insurance – All states other than California (B5.2)

WC/EL liability insurance provides coverage to Sempra companies outside of California, for statutory benefits payable under the workers' compensation statutes of the various states. It also covers Corporate Center employees permanently assigned outside of California and employer liability arising from employee injuries not covered by workers' compensation.

Allocation of Costs: Coverage costs are allocated based on payroll per business units covered as shown in Table NKC-13 below.

TABLE NKC-13

		Allocation Rates	
		2016	2019
Non-California Workers Comp	SDG&E	4.9%	10.5%
	SoCalGas	0.7%	2.0%
	Global / Retained	94.4%	87.5%
		100.0%	100.0%

f. Other Liability (B-6)

i. Cyber Insurance (B6.1)

Sempra's cyber policy provides coverage for loss of personal information relating to customers or employees that have been caused by a cyber incident. This policy also includes breach response, data asset restoration, and cyber extortion coverage for cyber incidents to Sempra's systems. Sempra purchased cyber liability insurance starting in 2014.

Allocation of Costs: Costs are allocated using the Multi-Factor Basic, as shown in Table NKC-14 below.

TABLE NKC-14

		Allocation Rates	
		2016	2019
Multi-Factor Basic	SDG&E	36.5%	35.3%
	SoCalGas	39.5%	40.9%
	Global / Retained	24.0%	23.8%
		100.0%	100.0%

ii. Auto Liability (B6.2)

Primary auto liability provides coverage for third-party bodily injury and property damage coverage, as well as comprehensive and collision coverage for actual vehicle value. It also covers all autos within the United States except those owned by SDG&E or SoCalGas in California, which are self-insured in the State of California.

Allocation of Costs: Coverage costs are allocated based upon the number of covered vehicles owned per business unit. Corporate Center vehicles are re-allocated by the Multi-Factor method to result in a blended method referred to as "Vehicle." The allocation is shown in Table NKC-15 below.

TABLE NKC-15

		Allocation Rates	
		2016	2019
Vehicle	SDG&E	5.2%	9.3%
	SoCalGas	4.8%	7.6%
	Global / Retained	90.0%	83.1%
		100.0%	100.0%

iii. APS Yuma 500kV Transmission System – Liability (B6.3)

APS procures insurance to cover third-party bodily injury and property damage arising out of the Yuma 500kV transmission system operations, which is jointly owned by APS and SDG&E, and charges SDG&E for its portion.

Allocation of Costs: 100% SDG&E

iv. Railroad Protective (B11)

Railroad protective provides coverage for Sempra business units' work within railway's right of ways.

Allocation of cost: The costs are directly allocated to the applicable business unit.

v. Broker Service Fee (B4 and A8)

Broker service fee represents compensation for broker services.

Allocation of Costs: Costs are allocated using the Multi-Factor Basic as shown in Table NKC-16 below.

TABLE NKC-16

		Allocation Rates	
		2016	2019
Multi-Factor Basic	SDG&E	36.5%	35.3%
	SoCalGas	39.5%	40.9%
	Global / Retained	24.0%	23.8%
		100.0%	100.0%

2. Forecast Approach

A forecast was developed for each individual type of insurance policy. In general, liability insurance premiums are influenced by several factors that are directly related to Sempra business unit operations and conditions that impact the global insurance market place. Each of our insurance programs are subject to specific market conditions that have various impacts on insurance pricing. Significant worldwide losses[7] and Sempra business unit losses can negatively impact future premiums. In fact, the forecast provided herein in my testimony was arrived given the set of circumstances known to me today. If another event in or outside of our service territory were to occur before 2019 when our GRC takes effect, these forecasts could be understated. Due to the unexpected nature of perils covered by our commercial insurance policies, it is difficult to forecast future premiums with reasonable certainty. As such, our premiums are primarily based on forecasts provided by our primary insurance broker Marsh, as well as our loss history and growing insurer concerns with California's legal environment.

Specific Factors Influencing Sempra within the Liability Marketplace:

- Wildfire – Insurers providing wildfire capacity have experienced significant losses within the United States and worldwide. Because of this, the number of insurers willing to provide wildfire insurance is limited. Despite these challenges, from 2013 to 2015, Sempra was able to reduce its wildfire premiums by approximately 18%.[8] However, the September 2015 Butte wildfire in Pacific Gas and Electric Company (PG&E)'s service territory[9] negatively impacted wildfire insurance markets. This resulted in an increase of Sempra's fire insurance costs from approximately $69.7M in 2015 to $74.6M in 2016,[10] and caused several of our existing insurers to reduce their renewed capacity. For example, one insurer reduced its wildfire capacity by approximately 70%. Replacement of lost capacity was ultimately achieved at a higher cost. Increase in premiums and reduction of

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[7] See excerpts from Chubb Bermuda's 2017 Liability Limit Benchmarks & Large Loss Profile by Individual Sector report (Appendix E).

[8] See my workpapers at B-2.

[9] California Department of Forestry and Fire Protection (CAL FIRE) Incident Information for Butte Fire: http://calfire.ca.gov/fire_protection/downloads/FireReports/Butte/(Butte)%2015-CA-AEU-024918_Redacted.pdf. PG&E's initial estimated losses ranged between $350 to $450 million per PG&E 2015 Annual Report. Estimated losses have since increased to $750 million per PG&E 2016 Annual Report.

[10] See my workpapers at B-2.

capacity was based solely on wildfire insurance market conditions because Sempra did not have an insurance loss caused by a wildfire during that time period.

- California Legal Environment relating to strict liability and inverse condemnation – This California doctrine assigns strict liability to the utility through inverse condemnation, such that options for a utility's defense are extremely limited in certain circumstances. As the Federal Energy Regulatory Commission (FERC) has recognized, "California utilities can be held strictly liable for damages caused by their facilities. California's inverse condemnation doctrine can require a utility to pay damages whenever its facilities, operating as deliberately designed and constructed for the public use, are involved in an event that damages third-party property, regardless of fault."[11] Because of California's inverse condemnation doctrine, insurers require a higher premium than in other States with similar exposures, or they may refuse to provide insurance coverage at all.
- Lack of Competition in the Insurance Market – SDG&E and SoCalGas face limited number of insurance companies willing to write utility insurance. Insurer liability losses over the last 10 years within California has been particularly challenging and have caused many insurers to reduce the amount of capacity available. Because of this, in 2010 Sempra began to access property reinsurance markets as a means to broaden the available supply of wildfire insurance.

3. Program Marketing Approach

Our Excess Liability, Excess Fire, and Wildfire Damage Reinsurance programs are comprised of insurance carriers based in the United States, the United Kingdom, and Bermuda. We have meetings with these insurance markets annually to review our risk reduction measures and address any concerns and/or questions underwriters may have for each policy. For instance, wildfire has been a significant concern with insurance carriers over the last several years. In additional to our annual meetings, approximately every two years we invite our underwriters to personally tour our wildfire mitigation assets and meet with our experts to address any concerns.

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[11] *San Diego Gas & Electric Company*, 146 FERC ¶ 63,017 at P 23 (2014). See also 146 FERC ¶ 63,017 at P 61 ("presence or absence of fault by the public entity ordinarily is irrelevant") (quoting *Pacific Bell v. City of San Diego*, 81 Cal. App. 4th 596, 602 (2000); *Pacific Bell v. S. Cal. Edison Co.*, 208 Cal. App. 4th 1400, 1408 (2012) (finding that strict liability applies to inverse condemnation cases involving power lines).

As discussed earlier, this strategy has helped reduce our wildfire insurance premiums from 2013 to 2015. However, we experienced wildfire premium increases in 2016 due to wildfire insurance market conditions, as previously described.

4. Liability Insurance Premium Balancing Account (LIPBA)

Sempra continues to face increased pressures on litigation and regulatory fronts when it comes to insurable incidents. As explained above, we continuously work to lower our insurance costs but have been challenged by insurance industry losses (particularly wildfire) and the California legal environment. For example, California utilities continue to be subject to Inverse Condemnation, by which utilities are strictly liable for property damage, irrespective of fault:

> Article I, section 19 (formerly art. I, § 14) of the California Constitution requires that just compensation be paid when private property is taken or damaged for public use. Therefore, a public entity may be liable in an inverse condemnation action for any physical injury to real property proximately caused by a public improvement as deliberately designed and constructed, whether or not that injury was foreseeable, and in the absence of fault by the public entity.[12]

In 2010, the Commission recognized this problem in granting SDG&E's Z Factor application for liability insurance premium and deductible expense increases: "SDG&E has a heightened risk profile due to its excessive wildfire risk exposure, its legal liability under inverse condemnation, and the imposition on California investor-owned utilities of strict liability for wildfires."[13]

As described in the testimony of Sandra Hrna (Ex. SDG&E-31), Account 925 in the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (18 C.F.R. Part 101), entitled "Injuries and Damages," includes the costs of losses for injuries and damages claims not covered by insurance and these expenses are recoverable through rates according to the standard practice of following FERC's chart of accounts. Further, liability insurance is necessary to provide a level of protection against inverse condemnation claims and ratepayers benefit from having lower amounts of liability claims to pay.

Because of inverse condemnation claims, SDG&E and SoCalGas may require more liability insurance than what is projected in the rest of this testimony. With respect to the 2007 Wildfires, for instance, the amounts SDG&E paid out to property owners in settling inverse

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[12] *Marshall v. Dept. of Water and Power*, 219 Cal. App. 3d 1124, 1138 (1990) (*citing Souza v. Silver Development Co.*, (1985) 164 Cal.App.3d 165, 170).
[13] D.10-12-053, Finding of Fact 8.

condemnation claims exceeded SDG&E's liability insurance. In addition, due to the uncertainty around the need for and the price of additional insurance and because of market fluctuations in the cost of liability insurance, SDG&E and SoCalGas are proposing a new two-way balancing account for liability insurance premiums. The direct testimonies of Norma Jasso (Ex. SDG&E-41) and Rae Marie Yu (Ex. SCG-42) discuss the details of this new account.

C. Surety Bonds

Surety bonds guarantee the contractual performance obligations Sempra Energy has to other parties. Bonds are usually required by city, state or federal governmental agencies. The types of bonds typically required are franchise bonds, tax bonds, license and permit bonds, and appeals bonds. Bond premiums are paid either as a one-time premium for the life of the bond or as an annual premium and are procured on an as-required basis. Costs are directly assigned to the business unit requiring the bond.

III. CONCLUSION

Table NKC-17 below summarizes all forecasted insurance allocations to SDG&E and SoCalGas. The non-Shared Services Administrative and General testimonies for SDG&E and SoCalGas respectively show these allocations as charges under appropriate FERC accounts.

TABLE NKC-17

SDG&E Allocations - Company Code 2100

			Recorded					Forecast		
			FY2012- NSE	FY2013- NSE	FY2014- NSE	FY2015- NSE	FY2016- NSE	FY2017- NSE	FY2018- NSE	FY2019- NSE
2100-8953	Property Insurance (non-nuclear)	**F924.0**	$ 7,013	$ 7,723	$ 7,226	$ 6,097	$ 6,185	$ 6,912	$ 8,076	$ 9,895
2100-8954	Property Insurance (nuclear)	**F924.1**	909	1,050	(369)	16	14	14	14	14
2100-8955	Excess Liability Insurance (PLPD)	**F925.0**	8,388	9,043	9,067	8,673	24,708	19,383	22,699	24,446
2100-8956	Excess Workers Compensation Insuranc	**F925.1**	944	1,086	796	810	909	1,266	1,392	1,529
2100-8957	Other Liability Insurance (non-nuclear)	**F925.3**	3,921	2,482	1,372	855	1,272	1,323	1,362	1,401
2100-8958	Other Liability Insurance (nuclear)	**F925.4**	-	-	-	-	-	-	-	-
2100-8962	Wildfire Liability Insurance	**F925.5**	84,584	85,146	81,824	69,400	74,274	79,930	85,595	88,985
	Total		**$ 105,759**	**$ 106,530**	**$ 99,916**	**$ 85,850**	**$ 107,362**	**$ 108,829**	**$ 119,138**	**$ 126,270**

SCG Allocations - Company Code 2200

			Recorded					Forecast		
			FY2012- NSE	FY2013- NSE	FY2014- NSE	FY2015- NSE	FY2016- NSE	FY2017- NSE	FY2018- NSE	FY2019- NSE
2200-8953	Property Insurance (non-nuclear)	**F924.0**	$ 2,635	$ 3,725	$ 4,022	$ 3,570	$ 3,918	$ 4,058	$ 4,929	$ 6,166
2200-8954	Property Insurance (nuclear)	**F924.1**	-	-	-	-	-	-	-	-
2200-8955	Excess Liability Insurance (PLPD)	**F925.0**	8,646	8,801	9,398	9,285	29,185	23,688	26,610	28,337
2200-8956	Excess Workers Compensation Insuranc	**F925.1**	1,070	1,223	1,235	1,301	1,449	1,947	2,143	2,358
2200-8957	Other Liability Insurance (non-nuclear)	**F925.3**	1,561	1,237	1,585	1,327	1,360	1,355	1,426	1,494
2200-8958	Other Liability Insurance (nuclear)	**F925.4**	-	-	-	-	-	-	-	-
2200-8962	Wildfire Liability Insurance	**F925.5**	314	316	309	258	272	184	197	205
	Total		**$ 14,227**	**$ 15,301**	**$ 16,549**	**$ 15,742**	**$ 36,183**	**$ 31,231**	**$ 35,305**	**$ 38,560**

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Neil K. Cayabyab. My business address is 488 8th Ave, San Diego, California 92101. I am currently employed by Sempra Energy as the Manager - Insurance & Risk Management, a position I was hired into in November 2016. Sempra Energy is the parent company of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas).

Prior to joining Sempra, I was employed at Marsh USA for 10 years where I held various roles ranging from property and casualty placement/client advisor to client executive. My last role at Marsh was as Client Executive/Associate Client Executive with a focus on Power and Utility clients. Prior to joining Marsh, I was employed by the United States Navy serving as nuclear submarine officer for five years.

I received a Bachelor's of Science degree in Marine Engineering Systems from the United States Merchant Marine Academy. I also have Master degrees in Business Administration from Pepperdine University, and Engineering Management from Old Dominion University.

I have not previously testified before the California Public Utilities Commission.

APPENDIX A

GLOSSARY OF TERMS

APS: Arizona Public Service Corporation

CAL FIRE: California Department of Forestry and Fire Protection

CB: Causal/Beneficial

CPUC: California Public Utilities Commission

D&O: Directors and Officers

FERC: Federal Energy Regulatory Commission

GRC: General Rate Case

LIPBA: Liability Insurance Premium Balancing Account

Marsh: Marsh USA, Inc.

O&M: Operations and Maintenance

OIL: Oil Insurance Limited

PG&E: Pacific Gas and Electric Company

SCE: Southern California Edison

SDG&E: San Diego Gas & Electric Company

SoCalGas: Southern California Gas Company

SONGS: San Onofre Nuclear Generating Station

TY: Test Year

UK: United Kingdom

US: United States

USofA: Uniform System of Accounts

WC/EL: Workers' Compensation and Employers' Liability

XS WC: Excess Workers' Compensation

APPENDIX B

Eric Kolstad
Managing Director

Marsh USA Inc.
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www.marsh.com

MARSH

Neil Cayabyab
Manager - Insurance & Risk
Sempra Energy
488 8th Ave
San Diego, CA 92101

March 6, 2017

Subject: Premium Estimates

Dear Neil:

Based upon current market conditions, pricing, expiring program structure and exposures, Marsh projects Sempra Energy's premium to change, at the renewal dates, as follows:

Line of coverage	2017	2018	2019
Property	10.5%	20%	7%
Excess Liability, non-Wildfire	20%	20%	10%
Wildfire, Global Markets	18%	10%	10%
Supplemental Property Damage Wildfire Reins.	-2%	0	5%
D&O	0%	5%	5%
Fiduciary	0%	5%	5%
Work Comp	5%	5%	5%
Excess Work Comp	5%	5%	5%
Auto	10%	5%	5%
Environmental, Gas Storage (Liberty)	0%	5%	5%
International Package	5%	5%	5%
Marine excl Control of Well	3%	3%	3%
Control of Well*	50%	35%	35%
Misc Policies	5%	5%	5%

*contemplates policy audit adjustment estimates

Please keep in mind these projections are based on Sempra's existing market relationships. They do not contemplate additional adverse claims or catastrophic industry losses.

Regards,

Eric Kolstad
Managing Director

EK/vhv

cc: Van H Vong, Marsh
Wendy Sokol, Marsh
Luke Slemeck, Marsh
Janice Kowell, Marsh
Robert Reader, Guy Carpenter
Brenda Shelly, Marsh

document2

APPENDIX C

From:	Dunlop, Nicole C.
To:	Cayabyab, Neil K
Cc:	Dunlop, Theresa
Subject:	[EXTERNAL] FW: Sempra - Premium indication
Date:	Tuesday, September 12, 2017 12:52:51 PM

Neil,

Further to your discussions with Theresa please note the following premium projections for years 2018-2022:

2018	$7,800,000
2019	$10,700,000
2020	$11,000,000
2021	$12,800,000
2022	$13,800,000

You will note that premiums increased from the indication sent to you 24-Feb-17. This is due to the increase in Pool %. Take note as Sempra's UGA increase, their percentage of the pool will increase. Specifically Sempra's UGA increased from $39.6Bn as at 12/31/15 to $45.3Bn as at 12/31/16 (15% increase).

Please let us know if you have any questions.

Regards,
Nicole

APPENDIX D

From:	Slemeck, Luke
To:	Cayabyab, Neil K
Cc:	Kolstad, Eric T; Insurance & Risk Advisory
Subject:	[EXTERNAL] Rate Case - Data Request - REPLACE OIL
Date:	Friday, June 9, 2017 10:09:44 AM

Dear Neil

In the event that we need to replace OIL capacity with the commercial market capacity as follows:

We estimate that a rate of 0.075% would apply for an all risk placement including $200,000,000 of California Earthquake coverage. Using S18,000,000,000 in value premium would be calculated as follows:

- $18,000,000,000 x 0.075% = $13,750,000

As OIL provides $400,000,000 per occurrence limit additional limits would need to be purchased with estimated costs as follows:

- $100,000,000 at $35,000 = $3,500,000
- $50,000,000 at $25,000 = $1,250,000
- $50,000,000 at $18,000 = $900,000
    - SUBTOTAL = $5,650,000

ESTIMATED TOTAL = $19,400,000

NOTES:
This is a desk quote
California Earthquake limit is $400,000,000 per occurrence and in the annual aggregate – OIL is on a per occurrence basis
We have not included any costs that Sempra would incur in exiting from OIL

Kind regards

Luke Slemeck | Managing Director
Marsh | Energy & Power
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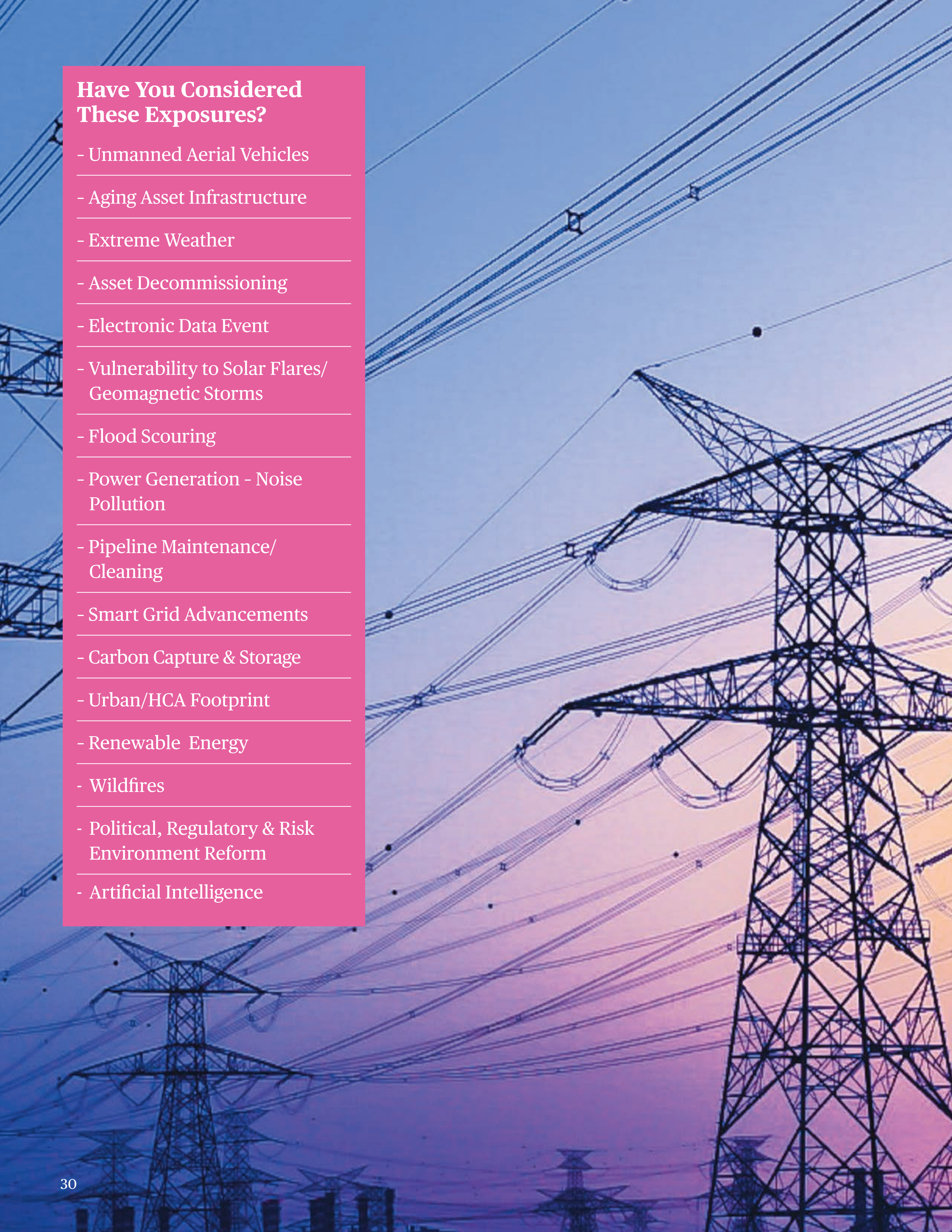
http://www.marsh.com | Follow Marsh on: Twitter | LinkedIn | Facebook | YouTube

California Insurance License 0437153

APPENDIX E



Have You Considered These Exposures?

- Unmanned Aerial Vehicles
- Aging Asset Infrastructure
- Extreme Weather
- Asset Decommissioning
- Electronic Data Event
- Vulnerability to Solar Flares/ Geomagnetic Storms
- Flood Scouring
- Power Generation - Noise Pollution
- Pipeline Maintenance/ Cleaning
- Smart Grid Advancements
- Carbon Capture & Storage
- Urban/HCA Footprint
- Renewable Energy
- Wildfires
- Political, Regulatory & Risk Environment Reform
- Artificial Intelligence

Utilities Sector - Energy

Utilities Sector – Energy

Companies engaged in the generation, transmission and distribution of electricity including the transmission or distribution of gas.

Sample Large Losses for Industry - 10 year

Date of Loss	Loss Details	Location	Incurred Amount
2007	Water from hydroelectric power plant damaged nearby property	USA	$173 million
2007	Wildfire	USA	$2.2 billion
2007	Utility company vessel crashed into anchored oil tanker causing oil spill	China	$142 million
2007	Wildfire	USA	$370 million
2008	Impoundment failure	USA	$1.1 billion[1]
2008	Gas line explosion resulted in fatality and injuries	USA	$25 million
2009	Explosion at hydroelectric plant with multiple fatalities	Russia	3rd Party Unknown
2009	Electrocution caused fatality	USA	$109 million
2009	Bushfire resulted in multiple fatalities and property damage	Australia	$379 million
2009	Bushfire resulted in property damage	Australia	$50 million
2010	Pipeline explosion with multiple fatalities and property damage	USA	$650 million
2010	Natural gas pipeline explosion with multiple fatalities	USA	$27 million
2012	A natural gas explosion resulting in multiple injuries and property damage	USA	Pending
2012	Downed power line caused electrocution resulting in fatality	USA	$60 million
2013	Tree collapsed causing a fatality and multiple injuries	USA	Pending
2013	Gas explosion resulted in fatality and multiple injuries	USA	Pending
2013	Multiple fatalities as a result of electrocution	USA	Pending
2013	Alleged negligence during maintenance resulting in serious injuries	USA	$22 million
2014	Gas explosion at residential building resulted in multiple fatalities and injuries.	USA	$153 million[2, 3]
2014	Contamination of drinking water	USA	Pending
2014	Home explosion resulted in fatality and multiple injuries	USA	Pending
2014	Alleged negligence resulted in apartment explosion	USA	Pending
2015	Wildfire	USA	$750 million[4]
2015	Gas leak caused explosion at residence resulting in third party property damage and several injuries	USA	Pending
2015	Natural gas leak resulted in alleged illnesses and mandatory evacuation of a few thousand families	USA	$717 million[4]
2016	Gas build up in apartment basement lead to explosion and fatalities	USA	Pending
2016	Dam/Reservoir spillway release alleged to contribute to the flooding damage of hundreds of homes	USA	Pending

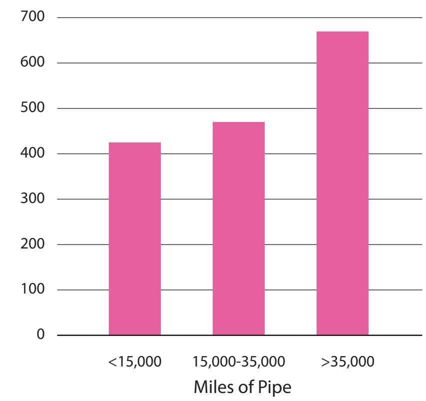
[1] Inclusive of 1st Party Property Damage [2] Civil Claims Pending [3] Inclusive of 1st Party Property Damage and or Economic Loss

[4] Estimate

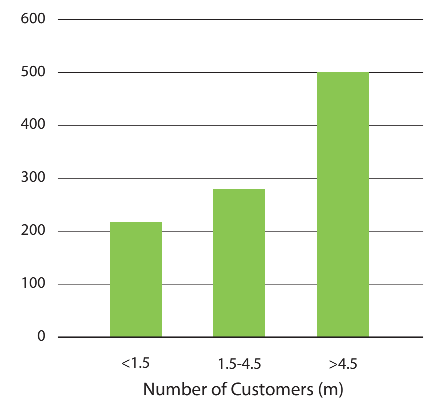
Utilities Sector - Energy

Average Program Limits Purchased Based on Chubb Bermuda's 2016 Portfolio ($M)
(inclusive of Self-Insured Retentions)

Gas



Electric



Combined Gas & Electric