Company:	San Diego Gas & Electric Company (U 902 M) Southern California Gas Company (U 904 G)
Proceeding:	2016 General Rate Case
Application:	A.14-11-003/004 (cons.)
Exhibit:	SDG&E-221 SCG-220

SDG&E AND SOCALGAS

REBUTTAL TESTIMONY OF KATHERINE CARBON

(CORPORATE CENTER - INSURANCE)

June 2015

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Doc#297772

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SDG&E AND SOCALGAS REBUTTAL TESTIMONY OF KATHERINE CARBON

CORPORATE CENTER – INSURANCE

I. SUMMARY OF DIFFERENCES

SDG&E TOTAL O&M			
	Base Year 2013	**Test Year 2016**	**Change from SDG&E Test Year Request**
SDG&E	**106,520**	**111,513**	
ORA	**101,821**	**104,091**	**(7,422)**
FEA	**106,520**	**103,772**	**(7,741)**
UCAN	**106,520**	**117,020**	**5,507**
TURN	**106,520**	**105,420**	**(1,100)**

SOCAL GAS TOTAL O&M			
	Base Year 2013	**Test Year 2016**	**Change from SoCal Gas Test Year Request**
SoCal Gas	**15,301**	**18,752**	
TURN	**15,301**	**18,878**	**126**

II. INTRODUCTION

A. ORA

Office of Ratepayer Advocates (ORA) issued its report on Corporate Center Shared Services & Shared Assets on April 24, 2015.[1] The following is a summary of ORA's position(s) regarding Insurance:

- Other than Wildfire, ORA did not take specific issue with SoCalGas and SDG&E's insurance forecasts.
- Rather, ORA recalculated the TY 2016 amounts for Wildfire Liability and Wildfire Damage Reinsurance by taking actual 2014 insurance expenses and applying a de-escalation amount to approximate 2013 dollars. ORA then used the "de-escalated to 2013 dollars" to base the TY 2016 forecasts.
- For the Wildfire Liability portion, in recalculating the TY 2016 amounts, ORA used its own escalation factors. From "the de-escalated to 2013 dollars", a 0.96% escalation factor was used to calculate 2014 amounts, 1.213% for 2015, and 3.02% for 2016.

[1] ORA-16, April 24, 2015 Report on Corporate Center, Shared Services & Shared Assets (Jerry Oh), hereinafter "ORA-16 (Oh)," pp. 9-12.

- For Wildfire Damage Reinsurance, ORA kept "de-escalated to 2013 dollars" constant for 2014, 2015 and 2016.
- ORA did not oppose any of the allocation methodologies used for Insurance, including the Multi-Factor trend forecast or the Multi-Factor Split method for D&O Insurance.

B. FEA

The Federal Executive Agencies (FEA) submitted testimony on May 15, 2015.[2] The following is a summary of FEA's position(s):

- For Wildfire Liability, rather than use SDG&E's proposed 3% escalation on base year 2013 actual premiums, FEA calculated the average for the three most recent years of actual expenses including 2014, resulting in a reduction of $5.447 million to SDG&E's request.
- For Wildfire Damage Reinsurance, SDG&E kept its 2013 actual premium constant but FEA proposes to use the actual expenses for 2014, of $32.564 million as the 2016 TY amount which results in a reduction of $2.315 million for SDG&E.FEA states that the actual expenses for the Wildfire Damage Reinsurance "have consistently declined each year from 2012 to 2014."

C. UCAN

The Utility Consumers Action Network (UCAN) submitted testimony on May 15, 2015.[3] The following is a summary of UCAN's position(s):

- UCAN recommends "that SDG&E be permitted to collect $10.5 million in additional insurance expense for the year 2016," although SDG&E has only forecasted a $5 million increase in TY 2016.
- UCAN appears to have mistaken SDG&E's TY 2016 request (of $111.513 million) for SDG&E's 2013 recorded amount, and the SoCalGas TY 2016 request (of $18.752 million) for the requested increase from 2013 to 2016 for both utilities.
- Using various incorrect assumptions throughout his testimony, UCAN witness Mr. Sulpizio makes the following claims:
    - That SDG&E continues to rely solely on the commercial insurance market;

[2] May 15, 2015, Direct Testimony and Exhibit of Ralph C. Smith, CPA, on Behalf of the Department of Defense and All Other Federal Executive Agencies, hereinafter "FEA (Smith)," pp. 80-89.
[3] May 15, 2015, Prepared Testimony of Robert E. Sulpizio on Behalf of the Utility Consumers Action Network, hereinafter "UCAN (Sulpizio)."

- o That SDG&E failed to explore alternative program structures; and
- o That the ratemaking process creates a disincentive for SDG&E to pursue more prudent levels of risk assumption and alternative financing.

D. TURN

The Utility Reform Network (TURN) submitted testimony on May 15, 2015.[4] The following is a summary of TURN's position(s):

- Multi-Factor Basic allocation rates should not be trended, but should be averaged from the most recent data, including 2014.
- TURN claims that Sempra got the math wrong in using the Multi-Factor Split methodology which attributes 50% of the premium to shareholders. They believe Sempra should use the Multi-Factor Basic percentages, and *then* reduce the utilities' share by 50%.

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Non-Shared Services O&M

SDG&E NON-SHARED O&M			
	Base Year 2013	**Test Year 2016**	**Change from SDG&E Test Year Request**
SDG&E	**106,520**	**111,513**	
ORA	**101,821**	**104,091**	**(7,422)**
FEA	**106,520**	**103,772**	**(7,741)**
UCAN	**106,520**	**117,020**	**5,507**
TURN	**106,520**	**105,420**	**(1,100)**

SOCAL GAS NON-SHARED O&M			
	Base Year 2013	**Test Year 2016**	**Change from SoCal Gas Test Year Request**
SoCal Gas	**15,301**	**18,752**	
TURN	**15,301**	**18,878**	**126**

[4] Testimony of William B. Marcus on behalf of The Utility Reform Network Concerning Sempra's Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas (TURN/Marcus), pp. 6-12.

1. Wildfire Liability and Wildfire Damage Reinsurance

a. ORA

ORA did not take specific issue with SDG&E's TY 2016 forecasts,[5] but proposes to take actual 2014 insurance expenses, de-escalate those amounts to 2013 dollars, and recalculate the forecasts using various escalation factors.[6] For Wildfire Damage Reinsurance, ORA kept the "de-escalated to 2013 dollars" amount flat for 2014, 2015 and 2016.[7] In recalculating Wildfire Liability amounts, ORA applied varying escalation factors: a 0.96% escalation factor was used to calculate 2014 amounts, 1.213% for 2015, and 3.02% for 2016.[8] ORA did not provide reasons to support using these escalation factors.

SDG&E disagrees with ORA's methodology. SDG&E's 2013 amounts provided in my direct testimony and workpapers are actual premiums, and not estimates, that were paid by SDG&E for its insurance coverages/renewals in 2013. SDG&E paid $85.147 million for Wildfire Liability insurance and Wildfire Damage Reinsurance in 2013, not ORA's re-calculated 2013 base amount of $80.448 million. It is incorrect to adjust these 2013 actuals downward, and ORA did not offer a basis for doing so.

SDG&E also disagrees with the lower escalation factors used by ORA to project the Wildfire Liability TY 2016 forecast. Again, ORA did not provide calculations or supporting documentation to substantiate these lower factors. As shown below, between the 2009 and 2013 years, we have seen the escalation rates vary between 2% and 16%, showing the high cyclicality of this insurance coverage driven by factors often outside of the control of utilities.[9]

Cost Center: 1100-0445-LIAB INS - EXCESS FIRE

Workpaper: B-2.1 Esc

	Actuals ($000's)				
	2009	**2010**	**2011**	**2012**	**2013**
BILLED COSTS					
SDG&E	$ 39,568	$ 40,517	$ 42,431	$ 49,344	$ 50,352
% increase		2.40%	4.72%	16.29%	2.04%

[5] ORA-16 (Oh), pp. 9-12.
[6] *Id.* at 11-12.
[7] *Id.* at 12.
[8] *Id*.
[9] *See* SDG&E Workpapers to Prepared Direct Testimony of Katherine Carbon, p. 38.

In my several years of experience in the risk management industry, I have seen corporations use 5% as a standard escalation factor to estimate future premiums on all their coverages, to account for the uncertainty of the insurance market. Further support for a standard 5% escalation factor can be found from AEGIS, "a mutual insurer that provides the first layer of excess liability coverage to nearly every investor-owned utility in the United States and Canada."[10] AEGIS' 2013 Annual Report[11] and 2014 Financial Result[12] show the level of premium increases AEGIS has passed on to their members over the past two years, notably 10% for 2013 and another 11% in 2014 for excess liability coverage (within which falls the Wildfire Liability coverage), as a result of high industry loss experience. AEGIS also suspended their member continuity credits for excess liability coverage in 2013 and 2014 and just recently announced they will be suspending credits again in 2015, due to high excess liability losses.[13] (Continuity credits enable members to share in the positive financial results of AEGIS, by line of business, and, when declared, are deducted from member premiums at insurance renewals). SDG&E based its forecast for 2016 on a more modest escalation rate of 3% and 0% for the reinsurance portion.

Many factors influence rates charged by insurance carriers including general market conditions, industry losses, industry (power and utility) specific market conditions as well as company-specific conditions. Primarily with Wildfire insurance, the severe drought in California drives further industry concern that the higher probability factor could increase the chances of fire and the potential for claims. Additionally, utilities operating in California are assigned a higher risk factor due to the inverse condemnation doctrine, and insurance carriers are reluctant to lower premium rates as they more readily would in other states or industries. These conditions drive SDG&E's forecasted rate increases, as described in my direct testimony.[14]

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[10] AEGIS 2014 Annual Report, p. 11, available at https://www.aegislink.com/content/dam/aegislink/about_us/public/annual_reports/2014_AEGIS_Annual_Report.pdf.

[11] Attachment 1 of UCAN Data Request (DR) Set 3, question 13, available at https://www.aegislink.com/content/dam/aegislink/about_us/public/annual_reports/2013_AEGIS_Annual_Report.pdf.

[12] Attachment 2 of UCAN DR-3, question 13, available at https://www.aegislink.com/aegislink/news_events/news/2015/issue_01/2014-aegis-financialresults.html ("Most noteworthy, we exceeded our plan with an 11% premium rate increase across our excess liability book, which is a strong indication of the continuing membership support of AEGIS and our need for premium increases over the past several years.").

[13] https://www.aegislink.com/aegislink/news_events/news/2013/issue_02/continuity-credits-for-2013--2014.html.

[14] SDG&E-21, Direct Testimony of Katherine Carbon, pp. KC-6-9.

While SDG&E was successful in renewing Wildfire Liability coverage for 2014 at slightly lower overall premiums, this is not expected to continue into perpetuity due to the cyclical nature of the market and particularly with the challenges we see in San Diego (inverse condemnation and increasingly severe drought combined with Santa Ana wind events), as insurers are getting more and more concerned over the steady growth in exposure.

b. FEA

FEA indicates that SDG&E did not include changes to Wildfire Liability Insurance expenses and to Wildfire Damage Reinsurance Expenses with revised testimony and workpapers submitted on March 25. 2015 and April 13, 2015.[15] As stated above in our rebuttal to ORA, although SDG&E was successful in renewing Wildfire Liability coverage for 2014 at slightly lower overall premiums, this is not expected to continue into perpetuity due to the cyclical nature of the market and particularly with the challenges we see in San Diego (inverse condemnation and increasingly severe drought combined with Santa Ana wind events), as insurers are getting more and more concerned over the steady growth in exposure. Because of these inherent cost drivers, which are not expected to change in the foreseeable future, we did not think it wise to revise our testimony and make adjustments to our requested Wildfire Liability Insurance expenses and Wildfire Damage Reinsurance expenses for TY 2016.

SDG&E does not agree with FEA's method of using the average of the three most recent years of actual expenses – 2012, 2013, and 2014 – to recalculate the 2016 TY for Wildfire Liability insurance.[16] FEA did not provide supporting documentation to substantiate this method. Based on my extensive experience in the insurance industry, I can comment that insurance carriers do not use an average of the last three years of premiums when pricing out future or renewal premiums. As stated in my direct testimony and above rebuttal for ORA, many factors influence rates charged by insurance carriers including general market conditions, industry losses, industry (power and utility) specific market conditions as well as company-specific conditions. Primarily with Wildfire Liability insurance, the severe drought in California drives further industry concern that the higher probability factor could increase the chances of fire and the potential for claims. Additionally, utilities operating in California are assigned a higher risk factor due to the inverse condemnation doctrine, and insurance carriers are reluctant

[15] FEA (Smith), p. 81.
[16] *Id.* at 84.

to lower premium rates as they more readily would in other states or industries. These conditions are among those discussed in my direct testimony,[17] and influence the estimates for rate increases.

Also, as described in more detail above in my rebuttal to ORA, it is my professional experience that corporations use 5% as a standard escalation factor to estimate future premiums on all their coverages, and this is reasonable. As a result, SDG&E proposes that the overall 2016 TY expense for Wildfire Liability portion stay at $55,340 million, and not FEA's proposed amount of $49.893 million. SDG&E disagrees with FEA's proposal to use actual 2014 expenses as the TY 2016 forecast for Wildfire Damage Reinsurance.[18] Although Wildfire Damage Reinsurance expenses have declined from 2012 to 2014, SDG&E does not expect this to continue into perpetuity due to the cyclical nature of the market and particularly with the challenges we see in California (inverse condemnation, increasingly severe drought, and Santa Ana wind events) as insurers are getting more and more concerned over the steady growth in exposure. For these reasons, SDG&E continues to support adoption of its overall TY 2016 forecast for Wildfire Damage Reinsurance of $35 million. FEA's proposed reduced forecast of $32.564 million should not be adopted.

c. UCAN

UCAN's testimony has numerous errors in theory and mathematical calculations. UCAN recommends the Commission adopt $10.5 million in additional insurance expense for SDG&E in TY 2016, although SDG&E has only forecasted a modest $4.993 million increase in TY 2016. UCAN believes that there is an increase in costs, for SDG&E and So Cal Gas, of $18.7 million from $111.5 million in the 2013 year (test year) to $130.2 million in TY 2016.[19] UCAN apparently misread the summary insurance request in my direct testimony, missing the 2013 column showing the total utilities' base year amount of $121.8 million, not $111.5 million.[20] The summary chart showing the correct amounts is copied for reference below:

[17] SDG&E-21, Direct Testimony of Katherine Carbon, pp. KC-6-9.
[18] FEA (Smith), pp. 85-89.
[19] UCAN (Sulpizio), p. 4.
[20] SDG&E-21 (Carbon), p. KC-iii.

O&M (Shared)	**2013 ($000)**	**2016 ($000)**	**Change**
SDG&E Allocations	106,520	111,513	4,993
SoCalGas Allocations	15,301	18,752	3,451
Total Utilities	121,821	130,265	8,444

There are numerous other errors in UCAN's testimony. For example, UCAN's expert, Mr. Sulpizio, continues to repeat incorrect data from SDG&E's Z-factor proceeding that were explicitly pointed out in SDG&E's rebuttal testimony in that case.[21] The following excerpt from SDG&E witness Maury de Bont's testimony explains Mr. Sulpizio's errors:

I have reviewed Mr. Sulpizio's calculations on page 10 of his testimony and have found numerous errors in Mr. Sulpizio's analysis. First, Mr. Sulpizio incorrectly lists the AEGIS coverage and premiums charged. The wildfire premium charged by AEGIS for wildfire coverage was $4.4 million, not $12.4 million. The $12.4 million premium includes $8 million for non-wildfire liability coverage, and is not applicable to his mathematical example used here. To clarify further, the $35 million limit for non-wildfire liability for $8 million in premium is neither aggregated nor quota-shared.[22]

The Commission recognized this rebuttal and the correct premium amount of $4.4 million in the Z-factor final decision.[23] Despite this clear explanation and correction in 2010, Mr. Sulpizio continues to make the same factually erroneous statements in his testimony for this case:

However, in their 2010 Z-factor case, SDG&E revealed that it was paying AEGIS a premium of $12.4 million for an aggregate amount of $35 million of wildfire liability coverage subject to the 50% quota share participation.[24]

Mr. Sulpizio continues to incorrectly assume that SDG&E's past premiums of $12.4 million applied entirely to the wildfire tower, when in fact this premium applied to both the wildfire and non-wildfire towers. And although the wildfire tower has a 50% quota share, there is no 50% quota share applicable to the excess liability non-wildfire tower. As a result, UCAN's calculations, claiming a net amount of insurance of $5.1 million is incorrect and nonsensical. Further, Mr. Sulpizio's comment that $12.4 million "was not a prudent buying decision in 2010"

[21] *See* A.09-08-019, March 19, 2010, Prepared Rebuttal Testimony of Maury DeBont.
[22] *Id.* at p. MD-11.
[23] D.10-12-053, p. 16.
[24] UCAN (Sulpizio), p. 7.

is not supportable, because his underlying assumptions and calculations are wrong, and because the Commission actually determined that SDG&E reasonably procured insurance costs.[25]

There are numerous complaints and unsupported claims throughout UCAN's testimony for which Mr. Sulpizio offers no recommendations. For example, Mr. Sulpizio states

- *"…SDG&E has continued to pay lip service to the evaluation of alternative risk transfer (ART) mechanisms";*[26]
- *(the) "…ratemaking process has created a disincentive for SDG&E and public utilities…to pursue more prudent levels of risk assumption or alternative financing";*[27]
- *"…the program structure that has existed for the past five years, virtually without any revisions…";*[28] *and*
- *"The 2007 wildfire losses have seemingly frozen SDG&E into inaction."*[29]

These accusations are incorrect opinion that is unsubstantiated by any data held by Mr. Sulpizio. Rather than limiting his comments to evaluating whether SDG&E's risk management efforts are in line with industry benchmarks (which he acknowledges to be the case, albeit obliquely),[30] Mr. Sulpizio appears more focused on telling SDG&E how to manage and run its insurance department, using as his reference points fashionable articles in the general media and other less-than-expert sources of information. SDG&E continues to evaluate very closely the possibility of applicable alternative mechanisms. SDG&E is acutely aware of its responsibility to customers and takes that responsibility very seriously. We continually make positive, applicable changes to our program structure, and continuously evaluate additional opportunities. We are far from "frozen into inaction," as Mr. Sulpizio claims. The previous 15 years of my career have been spent in advanced management of alternative risk vehicles, including a decade for The Boeing Company (30th on Fortune 100, 2014) managing captives in both Vermont and Bermuda, where I sat on the board of a global risk pool and was invited to speak on alternative

[25] In D.10-12-053 (the final decision in SDG&E's Z factor proceeding), the Commission did not agree with any of Mr. Sulpizio's arguments and in fact rejected them all with a simple statement: "Second, SDG&E has reasonably explored Alternate Risk Transfer mechanisms and reasonably determined their mechanisms to be infeasible and not cost competitive with the commercial insurance market….Applying the evidence to the unique facts of this case leads the Commission to conclude that SDG&E did incur the reported costs reasonably, and we therefore find the eighth and final criterion of the Z-factor test has been met." D.10-12-053 at 36-7.
[26] UCAN (Sulpizio), p. 4.
[27] *Id.*
[28] *Id.*
[29] *Id.* at 10.
[30] UCAN (Sulpizio), p. 8.

risk vehicles (and most particularly captives) at industry conferences in Vermont and Bermuda, the captive centers for many U.S. companies.

SDG&E strongly disagrees with Mr. Sulpizio's suggestions that the Commission micromanage insurance negotiations, and notes that the obtrusiveness of Mr. Sulpizio's confidential inquiries for (and insistence on using) commercially sensitive information run the risk of putting SDG&E in a less competitive negotiating position in the insurance market. Moreover, Mr. Sulpizio's recommendations do not appear to be helpful in GRC proceedings,[31] such that providing him access to confidential information has proven to be worth the risk.

Mr. Sulpizio states that SDG&E has "continued to rely exclusively upon the commercial insurance market and has failed to thoroughly explore other possibilities…"[32] This is incorrect: SDG&E continues to look at alternative risk structures on a yearly basis. It goes without saying that, if any of the alternative structures reviewed were feasible (i.e., less costly than the existing programs, and provided equivalent risk mitigation) SDG&E would have pursued these in 2014.

Mr. Sulpizio states that "the ratemaking process has created a disincentive for SDG&E, and public utilities generally, to pursue more prudent levels of risk assumption or alternative financing."[33] While I can't speak for other utilities, I can say that in the case of SDG&E this is absolutely incorrect. Our company works tirelessly to manage its efforts for the benefit of rate payers, and our risk management efforts are no different. On the contrary, our evaluation of possible solutions to drive down costs is ongoing. In fact, year over year changes have been made to the overall programs.

On pages 6, 7, and 8 of his testimony, Mr. Sulpizio states that:

i. *"I have been critical of the incestuous relationship that exists between AEGIS and EIM and its members who participate in the management of the Company."*

- While the member insureds might overlap between these two companies, they are run by separate individuals and they price their insurance products separately. With his extensive experience in the industry, Mr. Sulpizio should know that all mutual insurance companies are established for the purpose of providing a benefit to their member insureds and are

[31] See D.13-05-010, "Based on the evidence presented, we are not persuaded by UCAN's argument that SDG&E failed to pursue whether lower cost alternatives to the wildfire reinsurance could have been procured."
[32] UCAN (Sulpizio), p. 4.
[33] *Id.*.

usually established in industries or specific sectors where the insurance market has been reticent of providing coverage for those particular layers due to the significant perceived exposures by the insurance market. Coverage, provided by a mutual, is typically broader than what is offered in the insurance industry.

- Additionally, utilities provide a service to the general public, a complex system that brings energy to customers' streets and homes. When claims arise, the litigious environment in the U.S. can result in compensations that are extreme. As a result of these exposures, insurance companies have "walked away" from these risks but the mutual insurance companies, such as AEGIS and EIM have paid claims on behalf of their members, and subsequently continued to cover them on future coverages.

ii. *"It is ironic that SDG&E has refused to share information on its program structure and pricing for 'competitive reasons' in this instance when AEGIS members tout the benefit of sharing information."*

- The example Mr. Sulpizio cites from the text relates to the social sharing of qualitative information – something that does indeed characterize our industry, and which is offered in partial justification for Sempra's efforts to closely guard potential competitive information. While we do indeed share "what's on (our) minds, what concerns (us)," we do not share commercially sensitive information.

iii. *"The utility company members who participate in the insurer's management are serving two masters."*

- Given the fact that mutuals are established to serve members, it is only natural that a member would seek to increase its influence in the mutual's decision-making by participating in the mutual's management. Sempra is not alone in doing so, but it would be forfeiting our responsibility to maximize our benefits to rate payers if we were to avoid participating in setting the overall direction of our mutual.

iv. On page 8, Mr. Sulpizio states that *"The reluctance of utilities to entertain alternatives to the industry mutual, AEGIS and EIM, has given these insurers extraordinary pricing leverage over their member companies."*

- Again, I do not agree with this statement, and while I cannot comment on the entire position of the industry, as discussed previously, I have been looking at various alternatives over the past few years at Sempra, including launching a captive feasibility study. Based on my research on captives for utilities, I actually believe that the GRC process and the PUCs themselves have been roadblocks when it comes to utilities being comfortable using captives more extensively as part of the overall risk management process.

Further, Mr. Sulpizio launches into a 2 ½ page discussion under the heading of "SDG&E's Program Structure is Not the Most Effective Way to Build Coverages and Limits," relating how he thinks SDG&E should better manage its insurance programs. Mr. Sulpizio's complaints are unhelpful and not in line with Commission policy that regulates without micromanaging.

Finally, a few items to note about catastrophic ("cat") bonds that Mr. Sulpizio either fails to mention (or has no knowledge of):

- While several corporate cat bonds have been put in place with an indemnity trigger (vs. parametric trigger), none of these to-date have been triggered on this basis, which makes it difficult to predict how these would respond (i.e. if claim is extensively litigated by issuers, disputes arise, etc.). In this early stage, it would be difficult for SDG&E (Sempra) to justify purchasing such a product, incorporate the cost in its rate case, and determine after a loss that the product does not respond as expected to a claim.
- All cat bonds, with one exception, have been placed to cover property exposures, not 3rd party exposures. Only one cat bond was issued to cover a liability exposure (i.e. petroleum industry) and was issued to an insurance company. It covered a 3rd, 4th, and 5th event (and no 1st and 2nd events) and was triggered during Hurricane Katrina, resulting in parties going into arbitration over premiums/disbursement calculations.
- While capacity sources have continued to grow over the years and have placed significant pressure on rates, this is not true for all perils. Well-

modeled perils, such as earthquake and windstorm have benefited from these lower rates, while for such perils as wildfires which are not well understood and modeled, rates have not seen such downward pressures. The research and review we completed on alternative products confirmed this as terms and conditions as well as pricing did not make these feasible. Mr. Sulpizio uses the Metropolitan Transportation Authority (MTA) as an example of a company that used cat bonds to cover their storm surge and flooding exposures – again, this is an example of a well-modeled peril where rates have decreased, so it would have likely been a more cost effective option for the MTA as compared to their insurance market options. Mr. Sulpizio incorrectly assumes when he quotes Guy Carpenter as stating

"…we have seen that the use of capital markets-based capacity has been instrumental in many ways. It provides cost savings to these entities allowing them to utilize such savings to build surplus or buy needed additional coverage; it improves coverage terms… and it provides leverage to keep traditional capacity sources honest and to adjust coverage terms that may not have been feasible without the use of capital markets -based risk transfer capacity."

that this would apply, generally, for all companies and all perils when in fact this is not accurate. And finally, the MTA is likely retaining basis risk, which for example, if a large loss were to occur they may not recover under the bond if the triggers are not met. These several pages are examples of how Mr. Sulpizio is making specific program recommendations without adequate data, while using as his reference points fashionable articles in the general media and other less-than-expert sources of information.

In sum, Mr. Sulpizio's testimony contains factual errors and baseless opinions that are unhelpful at best and should be disregarded.

2. Multi-Factor Allocation

a. ORA

ORA did not oppose any of the allocation methodologies used for Insurance, including the Multi-Factor trend forecast. The Commission should adopt SDG&E's forecast as consistent and reasonable.

b. TURN

For the most part, TURN does not oppose the Multi-Factor methodology or its application to various insurance premiums, but in its report from William B. Marcus TURN does object to the use of a trend formula to forecast the Test Year percentages. They recommend recalculating the Test Year percentages based on a two-year average of 2013-2014 data (even though 2014 data would not have been available at the time of the Application). The result lowers the Test Year rate for SDG&E from 38.9% to 37.3%, and increases it for SoCalGas from 39.0% to 39.2%. For the Insurance area, TURN calculated this would create a reduction of ($969,000) for SDG&E, and an increase of $266,000 for SoCalGas (vs. TURN's estimate of ($586,000) and $113,000 respectively).

The rebuttal testimony of Hannah Devine (SDG&E-220, SCG-219) addresses in detail TURN's approach to the Multi-Factor why its proposal to revise the rates should be dismissed.

3. Allocation of Directors' & Officers' (D&O) Liability Insurance

a. ORA

ORA did not oppose any of the allocation methodologies used by Corporate Center, including the Multi-Factor Split method for D&O Liability. The Commission should adopt SDG&E's forecast as consistent and reasonable.

b. TURN

TURN claims that Sempra got the math wrong in using the Multi-Factor Split methodology which uses Multi-Factor elements within a 50-50% split between the Utilities and the non-regulated affiliates. They believe Sempra should use the Multi-Factor Basic percentages, and *then* reduce the utilities' share by 50%. The impact of reverting to that methodology would reduce D&O by ($131,000) for SDG&E, and ($140,000) for SoCalGas, not including their other adjustments to the Multi-Factor Basic (which are addressed above).

TURN refers to previous cases that have ultimately assigned 50% of D&O costs to shareholders, not just for SDG&E and SoCal Gas, but also PG&E and SCE. We recognized the unanimous position of the CPUC and all intervenors on this topic, and after the last GRC decision began allocating D&O premiums using the Multi-Factor Split methodology, rather than Multi-Factor Basic. This accurately attributes 50% to the Global/Retained category, which is effectively "the shareholders." Calculating it the way TURN proposes would attribute 62% to shareholders. We believe the math is finally correct and compliant, and there is no basis for further reduction.

IV. CONCLUSION

ORA, FEA, and UCAN have all made recommendations for adjustments to SDG&E's requested amounts for Wildfire Liability and Wildfire Damage Reinsurance. SDG&E stands by its original request given the cyclical nature of the market, the severe drought conditions and inverse condemnation. The modest $5 million increase represents an average annual 1.8% escalation rate which should be adopted.

TURN's attempts to revise forecasts are not well founded, result in a higher request for SoCal Gas, and should be dismissed by the Commission.

This concludes my prepared rebuttal testimony.