Application No: A.09-08-xxx
Exhibit No.: ____________
Witness: Deborah Yee

In the Matter of the Application of San Diego Gas & Electric Company (U 902 E) for Authorization to Recover Unforeseen Liability Insurance Premium and Deductible Expense Increases as a Z-Factor Event.	))))))	A.09-08-____ (Filed August 31, 2009)

PREPARED DIRECT TESTIMONY OF

SAN DIEGO GAS AND ELECTRIC COMPANY (U 902 E)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 31, 2009

PREPARED DIRECT TESTIMONY
OF DEBORAH YEE
ON BEHALF OF SAN DIEGO GAS AND ELECTRIC COMPANY

I. Purpose

The purpose of my testimony is to explain the calculation of the $28.884 million incremental Z-factor revenue requirement proposed by San Diego Gas & Electric Company ("SDG&E") to recover unforeseen 2009 liability premium increases. This revenue requirement is the estimated amount needed to recover the 2009 incremental liability insurance operating & maintenance ("O&M") expenses, capital-related costs, and related interest. It represents the 2009 liability premium revenue requirement over the level authorized by the Commission in D.08-07-046, SDG&E's 2008 General Rate Case ("GRC") after subtraction of the $5.0 million Z-factor deductible.

My testimony also describes new segmentation, capitalization, and Federal Energy Regulatory Commission ("FERC") allocation methodologies used by SDG&E to assign the 2009 wildfire insurance premiums. Finally, my testimony will discuss the process SDG&E proposes to use to transform any future unforeseen liability insurance premium expense increases and liability insurance deductible expense increases until the next GRC decision as part of the new advice letter and amortization process being proposed in this Application.

II. Allocation of unforeseen 2009 liability premium increases to SDG&E

As described in the testimony of Mr. De Bont, liability insurance coverage is procured by Sempra Energy and allocated between, SDG&E, Southern California Gas Company ("SoCalGas") and non-SEU business units. In the 2008 SDG&E/SoCalGas GRC, the authorized level of liability insurance expense was $12.8 million, of which $4.5 million was allocated to SDG&E via a multi-factor formula. However, Sempra Energy's liability insurance premium expense in 2009 was actually $58.7 million: $18.6 million for general liability coverage, and $40.1 million for wildfire liability coverage. Of the $58.7 million total, $47.0 million was allocated to SDG&E pursuant to the allocation methodology described by Mr. De Bont.

III. Conversion of unforeseen 2009 liability premium increases to revenue requirement

There are two distinct categories of premiums: general liability and wildfire liability. The conversion from cost to revenue requirement are the same for both categories, however the two categories apply different factors by which expenses are processed into a revenue requirement.

In order to determine the Z-factor revenue requirement, 2009 actual costs are converted to a revenue requirement by applying the following steps: a) segmentation of costs between gas and electric departments; b) capitalization of costs; c) allocation of costs to FERC jurisdiction and application of capital service price to remaining CPUC capital costs; d) adjustment for shared service billings; and e) calculation of interest and franchise fees and uncollectible ("FF&U") expense on O&M expenses.

A. Segmentation of Costs Between Gas and Electric Departments

In general, certain costs incurred by SDG&E are directly associated with the gas or the electric department. However, in some cases costs are not easily assignable to one department and must be allocated. Segmentation refers to the distribution of cost between the gas and electric departments based on a given methodology. In the 2008 GRC, a methodology based on labor statistics was adopted and applied to the general liability premium costs. For the new 2009 wildfire liability premium category, revised factors were developed to more closely link these particular premium costs to the risk drivers of the cost. While fires can potentially have a relationship to SDG&E gas facilities such as natural gas compressors or distribution lines, historical experience has been wildfire claims relating to electric lines rather than natural gas facilities. Based on this historical experience, the risk associated with providing natural gas service was not deemed by SDG&E to be a material factor in the current wildfire liability premium increases. Therefore, the segmentation factors applied by SDG&E to wildfire coverage for the period June 26, 2009 to June 26, 2010 are 100% to the electric department and 0% to the gas department. Segmentation factors will be reviewed on an annual basis.

B. Capitalization of Costs

In the category of general liability coverage, factors authorized in the 2008 GRC were applied to each department's cost to determine capitalized costs. Claims paid in the general liability category are associated primarily with the activities of employees, and therefore this type of cost is allocated to capital projects based on capital labor, and translates to 30.6% of total general liability costs.

Unlike general liability coverage, wildfire liability coverage is associated 100% with fire risk and not with the construction or development of capital projects. Therefore, in accordance with current accounting rules (i.e., Generally Accepted Accounting Principles or "GAAP"), SDG&E has allocated wildfire premiums 100% to O&M expense and 0% to capital.

C. Allocation of Costs to FERC Jurisdiction and Application of Capital Service Price to CPUC Capital Costs

After costs are allocated between capital and O&M, another allocation is made to distribute a portion of these costs to FERC jurisdictional rates. General liability costs are allocated between FERC and CPUC jurisdictional rates based on the factors adopted in the 2008 GRC. Wildfire liability premium allocation factors are based upon the ratio of overhead transmission line circuit miles to total overhead line circuit miles. This results in a FERC allocation factor of 22.6% of total 2009 wildfire premium costs.

After the CPUC jurisdictional capital costs are determined, in the case of general liability premiums, the capital service price is applied to determine the capital-related costs to complete the revenue requirement.[1]

D. Adjustment for Billings to Affiliates

SDG&E provides services to its affiliates and Sempra Energy through shared services billings. Included in the billed costs are adjustments for billing loaders such as insurance costs. The authorized level for the insurance cost loader is a credit of $420,000. It is included at the authorized level because, in spite of the total the pool of costs increasing due to these higher insurance costs, the loader rate adopted in the 2008 GRC was based on recorded 2005 billings and therefore unaffected by this change. The following Table summarizes the adjustments described in subsections above:

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[1] Consistent with Part IV of the SDG&E Preliminary Statement authorized in the 2008 GRC, the capital service price is to be applied to capital costs to determine the capital related z-factor costs. The rate of return ("ROR") included in the capital service rate is currently 8.40%, and will be adjusted in the event SDG&E's ROR is updated in a future cost of capital proceeding. Capital-related components for depreciation and ad valorem tax expenses are consistent with rates adopted in the 2008 GRC.

Table I - Conversion from Cost to Revenue Requirement

(Nominal$ in Thousands)

Line		Total	General		Wildfire	
1	SDG&E Total Allocation	$47,001	$7,136		$39,866	
2	O&M:		Elec	Gas	Elec	Gas
3	a) Segmentation		5,109	2,026	39,866	0
4	b) Capitalization	(2,183)	(1,563)	(620)	0	0
5	c) O&M FERC Allocation	(9,421)	(411)	0	(9,010)	0
6	O&M, Net	35,397	3,134	1,406	30,856	0
7	d) O&M, Shared Services billings	(420)	(303)	(117)	0	0
8	Total O&M	34,976	2,832	1,289	30,856	0
9	Capital:					
10	b) Capitalization from Line 4	2,183	1,563	620	0	0
11	c) Capital FERC Allocation	(313)	(313)	0	0	0
12	Capital, Net	1,871	1,251	620	0	0
13	c) Capital Service Price % (Excl. FF&U)		17.6%	16.2%	17.6%	16.2%
14	Capital Related Rev Req	321	220	100	0	0
15	Total Rev Req Excl FF&U (L8 + L14)	$ 35,297	$ 3,052	$ 1,389	$ 30,856	$ -
			Elec	Gas	Elec	Gas
16	Total Rev Req Excl FF&U By Department	$35,297	$33,908 Electric		$1,389 Gas	

E. Calculation of Franchise Fees and Uncollectible Expense on O&M

The FF&U expense is calculated using the factors authorized in the 2008 GRC for both categories of liability. See Table II, Line 8, in the following section.

IV. Summary of Incremental 2009 Z-factor Revenue Requirement Request Calculation

The incremental Z-factor revenue requirement proposed by SDG&E to recover unforeseen 2009 liability premium increases is $28.884 million. To calculate this incremental revenue requirement, general liability revenue requirement and wildfire liability revenue requirement are added together, authorized costs are subtracted, and then the Z-factor deductible is subtracted from each department's revised cost result. In the case of the gas department, the revised costs were not substantial enough to cover the deductible and the remainder of the gas department deductible was subtracted from the electric department so that the entire $5.0 million Z-factor deductible is absorbed before the requested amount was determined. Interest is calculated by applying the most current forecast of the 3-month commercial paper rate to the estimated monthly balances for the 12-month period ending June 2010. These calculations are summarized in the following table:

Table II - Incremental 2009 Revenue Requirement Request
($ in Thousands)

		SDG&E				
Line		General	Wildfire	Total	Electric	Gas
1	Revised Rev Req, excl FF&U from Table I	$ 4,441	$ 30,856	$ 35,297	$ 33,908	$ 1,389
2	Less: Authorized Revenue Requirement			2,664	1,825	838
3	Incremental Rev Req before deductible (Line 1 - Line 2)			32,633	32,082	551
4	Less: Z-Factor Deductible			5,000	4,449	551
5	Incremental Rev Req after deductible (Line 3 - Line 4)			27,633	27,633	0
6	Add: Interest July 2009 - June 2010			50	50	0
7	Incremental 2009 Rev Req Request Excl. FF&U (Line 5 + Line 6)			27,683	27,683	0
8	Add: FF&U			1,201	1,201	0
9	Incremental 2009 Rev Req Request (Line 7 + Line 8)			$28,884	$28,884	$0

V. Future Unforeseen Liability Insurance Premium Expense Increases and Liability Insurance Deductible Expense Increases

As explained by Mr. Schavrien, SDG&E is requesting approval of an advice letter process for including additional future unforeseen liability insurance premium and deductible expenses tracked in the ZFMA subaccount into rates. Pursuant to this proposed advice letter process, in 2010 and each subsequent year until a decision approving SDG&E's next GRC becomes effective, SDG&E will file an advice letter containing certain information, including a proposed revenue requirement relating to the unforeseen costs.

In order to determine future Z-factor revenue requirements, unforeseen liability insurance premium and deductible expenses tracked in the ZFMA subaccount would be subject to the same conversion process described above for 2009 unforeseen liability insurance premium costs. In particular, such future Z-factor costs would be converted to a revenue requirement by: a) segmentation of costs between gas and electric departments; b) capitalization of costs; c) allocation of costs to FERC jurisdiction and application of capital service price to remaining CPUC capital costs**;** d) adjustment for shared service billings; and e) calculation of interest and FF&U expense on O&M expenses. There would, however, be no removal of the $5,000,000 one-time Z-factor deductible because this amount was already removed from SDG&E's 2009 incremental liability premium expense revenue requirement in this Application. All of these calculations would be described in SDG&E's advice filing(s) relating to the future Z-factor costs.

VI. Witness Qualifications

My name is Deborah Yee. My business address is 555 W. 5th Street, Los Angeles, California, 90013. I am employed by SoCalGas as the GRC Financial Analysis Manager. Although I am employed by SoCalGas, I perform GRC-related work for both SoCalGas and SDG&E.

I received a Bachelor of Science degree in Business Administration from California State University, Los Angeles where my area of concentration was Accounting. I have been employed by SoCalGas in various positions since 1988. My experience includes assignments in General Accounting, Gas Accounting, Financial Planning, and GRC Analysis.

My current responsibilities include managing the development of the base margin revenue requirement for SDG&E in this filing as well as the SoCalGas/SDG&E GRC. I have previously testified before this Commission.

This concludes my prepared direct testimony.