Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.	A.10-12-005 (Filed December 15, 2010)
Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.	A.10-12-006 (Filed December 15, 2010)

Application: A.10-12-006
Exhibit No.: SDG&E-224 / SCG-218

PREPARED REBUTTAL TESTIMONY OF

MAURY B. DE BONT

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY

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

OCTOBER 2011

SDG&E/SCG Doc# 260218

TABLE OF CONTENTS

I. INTRODUCTION 1

II. MULTI-FACTOR ALLOCATION 2

III. ESCALATION RATE ADJUSTMENT 3

IV. PROPERTY INSURANCE 5

A. Excess Property - Cost Center 1100-0404 5

B. SONGS Nuclear - Cost Center 1100-0401 6

C. Multi-Factor Allocation Changes 7

V. LIABILITY INSURANCE 8

A. Wildfire Liability - Cost Center 1100-0445 9

B. Wildfire Reinsurance - Cost Center 1100-0446 9

C. Directors & Officers (D&O) Liability - Cost Center 1100-0427 11

D. Excess Worker's Compensation - Cost Center 1100-0429 13

E. Global Worker's Compensation - Cost Center 1100-0439 13

F. SONGS Nuclear Liability - Cost Center 1100-0425 14

G. Group Executive - Cost Center 1100-0433 15

H. Liability Insurance Allocation Adjustment 17

VI. SURETY BONDS 17

VII. REBUTTAL TO UCAN WITNESS ROBERT SULPIZIO REGARDING WILDFIRE INSURANCE 17

A. Summary 17

B. Overview 18

C. Analysis of UCAN's Assessment on SDG&E's Efforts to Negotiate the Best Possible Terms. 21

D. There Were No Offsetting Revenues as UCAN Alleges. 29

E. SDG&E's Analysis of UCAN's Other Wildfire Catastrophe Risk Alternative Strategies and Options 30

VIII. SUMMARY AND CONCLUSION 37

ATTACHMENT A 1-A

PREPARED REBUTTAL TESTIMONY OF

MAURY B. DE BONT

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

The following rebuttal testimony regarding Corporate Center Insurance Expenses addresses the intervenor testimony dated September 2011 of Division of Ratepayer Advocates (DRA), Utility Consumers Action Network's (UCAN) testimony by William B. Marcus and Robert Sulpizio dated September 2011, and the testimony of Ralph C. Smith on behalf of the Federal Executive Agencies (FEA).

The responsibility for designing and implementing Sempra Energy's insurance program is centralized at the Corporate Center as an approved shared service in the Insurance & Risk Advisory department ("Insurance & Risk"). With few exceptions, Insurance & Risk procures insurance coverage on a corporate –wide basis for all Sempra Energy business units (regulated and unregulated). Unless they can be directly charged, each business unit is allocated a share of premium expenses. In the case of San Diego Gas & Electric (SDG&E) and Southern California Gas Company (SCG), Insurance & Risk performs this allocation in accordance with Commission-approved allocation methodologies.

Insurance & Risk forecasts an overall escalated budget in Test Year 2012 (TY2012) of $126.4 million, which includes $97.5 million to SDG&E and $15.9 million to SCG.

DRA seeks to reduce the SDG&E allocations to $84.7 million and SCG allocations to $14.2 million. Proposed DRA reductions of $14.4 million are from:

- $13.5 million to Liability Insurance, mostly due to an incorrect assumption regarding Wildfire Insurance.
- $887,000 to Property Insurance
- $43,000 to Surety Bonds

UCAN seeks to reduce SDG&E allocations by $36.8 million for a total TY2012 forecast of $89.6 million. Their reductions are from:

- $35.8 million to Wildfire Insurance
- $964,000 to Nuclear Property Insurance
- $55,000 to Nuclear Liability Insurance

FEA seeks to reduce SDG&E allocations by $14.567 million for a total TY2012 forecast of $111.86 million. Their reductions are from:

- $13.7 million to Wildfire Insurance
- $867,000 to Liability Insurance

This rebuttal testimony will address each of the intervenors' testimony points. My testimony is organized as follows:

- Section II – Multi-Factor Rebuttal;
- Section III – Escalation Rate Rebuttal;
- Section IV – VI Insurance and Surety Bond Rebuttal;
- Section VII – Wildfire Insurance Rebuttal to UCAN;
- Section VIII – Summary and Conclusion

II. MULTI-FACTOR ALLOCATION

DRA's auditor has taken issue with components of the multi-factor allocation method used by Sempra Energy for many types of corporate and shared costs when a more causal-beneficial allocation method is not available[1]. Sempra Energy disagrees with DRA's conclusions and recommends that the multi-factor allocation method be calculated as submitted. The detailed rebuttal is located in Bruce Folkmann's rebuttal testimony (SDG&E Exhibit-223 / SCG-217).

[1] Exhibit DRA-50 chapter 2.

1 **III. ESCALATION RATE ADJUSTMENT**

2 Rebuttal to DRA:

3 DRA is recommending lower escalation rates than proposed by Insurance & Risk by
4 using Global Insight Power planner index as the basis for their escalation rates[2]. However, they
5 provide no rationale or justification for its use.

6 The 3.5% escalation factor used by Insurance & Risk is a management assumption used
7 primarily to account for pressures unique to the insurance market. Insurance forecasts in this
8 GRC are not subject to the standard escalation factors used by other utility areas. Property
9 Insurance has increased by approximately 6% per year (based on a simple average), between
10 2005-2010:

11 $10.6 million in 2005 Actuals
12 $13.8 million in 2010 Actuals
13 $ 3.2 million increase / $10.6 2005 = .302 / 5 years = 6%

14 Liability Insurance (excluding Fire coverage, B-2) has increased by nearly 8% per year (based on
15 a simple average), between 2005-2010:

16 $20.9 million in 2005 Actuals
17 $29.1 million in 2010 Actuals ($94.1 total minus $65 Fire)
18 $ 8.2 million increase / $20.9 2005 = .392 / 5 years = 7.8%

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[2] Exhibit DRA-27.

Because certain premium increases may be attributed to program and property additions, Insurance & Risk selected a more conservative 3.5% assumption -- somewhat higher than standard non-labor, but lower than overall recent experience for insurance. This information was provided to DRA in response to data requests DRA-SDG&E-088 Q8 and Q13. DRA proposes to reduce Insurance & Risk's already conservative rates even further using national indices that are not specific to the region or policy type, insurance market conditions, nor take into relevant insurance risk factors unique to SDG&E and SoCalGas. Insurance & Risk's proposed escalation factors are reasonable based on the relevant factors described here, in testimony and in workpapers and therefore should be adopted.

Rebuttal to FEA:

FEA also recommends reducing the escalation rate to be consistent with CPI escalation used for other expenses.[3] However, they provide no calculations or recommended reductions, nor do they state what baseline they would use. Insurance costs do not escalate the same way as other expenses. Instead, rates vary widely depending on market pressures, such as loss history (individual as well as market), insurers' perception of future risk of loss, economic factors, and insurers' investment results. Because insurance costs are not imposed on an economy-wide basis, a generic CPI index for escalation should not be applied to insurance. FEA has not provided actual calculated disallowance recommendations and are therefore unsupported. As stated above, Insurance & Risk's escalation rates are conservative compared to the actual historical growth rates, therefore the Commission should reject both proposals for reductions and adopt Insurance & Risk's recommended escalation factors.

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[3] FEA Testimony, page 76.

IV. PROPERTY INSURANCE

Insurance & Risk forecasts an overall budget in TY2012 for Property Insurance of $15.9 million, of which it proposes to allocate $5.4 million to SDG&E and $3.3 million to SCG. DRA seeks to reduce the SDG&E allocation to $4.8 million and SCG allocation to $2.9 million[4].

DRA has recommended that $887,000 in Property Insurance allocations to SDG&E and SCG be removed from the test year[5]. DRA based this proposal on trend data, changes to the assumptions used in the multi-factor, and escalation rate change recommendations, which will be addressed by insurance policy type below.

UCAN has recommended that $964,000 in Property Insurance allocations for SONGS nuclear be removed from the test year[6], which will also be addressed below.

A. Excess Property - Cost Center 1100-0404

DRA has recommended that $499,000 be removed from SDG&E allocations and $311,000 from SCG allocations, for a total of $810,000[7]. $115,000 of the disallowance is due to the change in escalation rates discussed in section III above. SDG&E proposes an escalated TY forecast in the amount of $7.012 million.

DRA states that over the last four years, the total costs in this cost center have trended lower. This is incorrect; costs have not trended lower. For the prior five years, all premiums for this cost center have been higher than $6 million, and in fact show no clear trend. 2010 was the only year in recent history to fall below $6 million. DRA's use of 2010 data is inappropriate here, and it ignores the fact that costs for this group were unusually low in 2010 due to Insurance & Risk's choice to opt out of the hurricane insurance coverage pool (applicable only for one of Sempra Energy's Global business units and not the utilities). Furthermore, Insurance & Risk's

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[4] Exhibit DRA-27, page 9.
[5] Exhibit DRA-27, page 8.
[6] UCAN Testimony of William B. Marcus (UCAN-2), page 82.
[7] Exhibit DRA-27, page 7

forecasted growth is consistent with the capital spending plan at the utilities. DRA's use of 2010 recorded costs is not an accurate basis for TY2012, and therefore the proposed adjustment should be rejected.

B. SONGS Nuclear - Cost Center 1100-0401

Rebuttal to DRA:

DRA has recommended that $63,000 be removed from SDG&E allocations, of which $28,000 is due to the revised escalation rate discussed in Section III above. The remaining $35,000 disallowance is based DRA's assertion that 2010 actual costs are an accurate basis for the forecast, citing a Commission decision.[8] DRA also states that their proposed reduction of $63,000 included their recommended changes to the multi-factor; however this cost center is allocated 100% to SDG&E and thus is not subject to the multi-factor rates. DRA's recommendations should be denied. Insurance & Risk disagrees with the use of 2010 recorded costs in this instance, as the forecast we proposed was based on specific and relevant information detailed below in the response to UCAN.

Rebuttal to UCAN:

UCAN asserts that the entire $964,000 forecast in 2012 be disallowed on the basis that the Nuclear Electric Insurance Limited ("NEIL") credits will continue to offset premiums in forecast years[9]. UCAN is basing its assumption on outdated data (dated May 7, 2010 and April 14, 2010). SDG&E's forecast is based on much more current and applicable 2011 information obtained from SONGS insurance broker Marsh[10] during the course of discussions with nuclear property insurer NEIL.

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[8] Exhibit DRA-27, page 7.

[9] UCAN Testimony of William B. Marcus (Exhibit UCAN-2), page 82.

[10] It should be noted that Marsh is not an "actuary" as UCAN has stated. Marsh is the world's leading insurance broker and risk adviser. Marsh provides brokerage and claims advocacy services, consultative risk management advice, captive management and advisory services, and many other innovative tools and service platforms to clients in over 100 countries.

In the absence of formal notification from NEIL to date in 2011, Marsh has provided guidance to clients' in August 2011 that NEIL will not declare a distribution, and that clients should budget for <u>no distribution</u> in 2012. It is imperative to state that distributions are not guaranteed, and past history of declaring distributions should not be used to determine future declarations. NEIL's board determines if a policyholder distribution should be made each December. Should loss experience and investment income be unfavorable, NEIL's board may not decide to issue a distribution to the NEIL policyholders.

Marsh further anticipates that the distributions are not likely for the near future. Supporting documentation for this outlook is provided in Appendix A to this testimony. Given that the Crystal River loss will continue to grow in scope and size, and that distributions are not guaranteed, SDG&E and Marsh anticipate that the future distributions are not likely in 2013 and 2014.

In addition, NEIL had announced to its' insured members their intent to increase premium rates for the primary property policy in future years, starting in 2012. Marsh has advised clients of NEIL's increase in premium rates as well, due primarily to the largest historical loss in NEIL's history. NEIL plans a 30%-40% increase in property premium over the next three years. Data provided to Insurance & Risk subsequent to our initial GRC filing indicates that the increase in 2012 is now expected to be 15%, and 25% in 2013, with the balance of the increase (0%-10%, to be determined by NEIL) coming in 2014. Regardless of the exact magnitude of these increases, the 3.5% requested by Insurance & Risk is conservative by comparison. Therefore, the Commission should accept our forecast of $964,000.

C. Multi-Factor Allocation Changes

DRA proposes that $14,000 be removed from the combined utility allocations to reflect DRA's proposed changes to the multi-factor. Data provided to DRA during the course of the proceeding detailing the effect of the proposed change showed a reduction of $13,175, not

1 $14,000. Despite the error within DRA's testimony, Insurance & Risk rebuts DRA's proposed
2 adjustments to the multi-factor and in the rebuttal testimony of witness Bruce Folkmann (Exhibit
3 SDG&E-223 / SCG-217).

4 **V. LIABILITY INSURANCE**

5 Insurance & Risk forecasts an overall budget in TY2012 for Liability Insurance of
6 $109.378 million, including $78.667 million for fire-related policies, primarily for SDG&E.
7 DRA recommends that $13.486 million of Corporate Liability Insurance allocations be
8 removed from the 2012 test year.[11] They based the majority of this adjustment on an incorrect
9 adjustment to 2010 recorded costs, changes to the assumptions used in the multi-factor, and
10 escalation rate change recommendations.
11 UCAN recommends a reduction of $35.8 million of Wildfire Insurance allocations[12] and
12 $55,000 of SONGS Nuclear Liability Insurance allocations be removed from the 2012 test
13 year.[13] The majority of UCAN's proposed reduction is based on the premise that the cost of
14 Wildfire Insurance is not cost effective or justified, which will be addressed in SDG&E's
15 response to UCAN's witness Robert Sulpizio in Section VII below. FEA also recommends a
16 reduction in Wildfire Insurance of $13.7 million[14], equating the total TY2012 forecast to the
17 amount of the total recorded 2010 actuals. FEA also recommends reductions of $828,000 to
18 D&O insurance and $39,000 to Group Umbrella insurance.[15]
19 Insurance & Risk's rebuttal to the proposed changes by intervenors is discussed by
20 insurance policy type below.

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[11] Exhibit DRA-27, page 7.
[12] UCAN Testimony of Robert Sulpizio (Exhibit UCAN-10), page 18.
[13] UCAN Testimony of William B. Marcus (Exhibit UCAN-2), page 82.
[14] FEA Testimony, page 70.
[15] FEA Testimony, pages 72 and 76.

A. Wildfire Liability - Cost Center 1100-0445

DRA incorrectly asserts that the 2010 recorded costs include $8.376 million that belong in cost center 1100-0446 below and has therefore removed it from its base for escalation.[16] In addition, $766,000 of the proposed disallowance of $8.981 million in utility allocations is due to the change in escalation rates discussed in section III above.

The 2010 recorded liability insurance costs provided to parties by Applicants during the course of the proceeding are accurate as provided and do not warrant DRA's proposed adjustment. DRA apparently assumes the costs have been double counted between this cost center and cost center 1100-0446. There is no double counting and no further adjustment is needed; the recorded costs of $40.729 million represent the total actual renewal amounts for this policy only.

DRA also indicates that their proposed disallowance of $8.981 million includes their recommended changes to the multi-factor; however, DRA ignored the fact that this cost center allocation method is not impacted by multi-factor rates. DRA's adjustment therefore should be rejected.

The commission should reject DRA's proposed adjustments in their entirety and adopt Insurance & Risk's TY2012 forecast of $42.9 million.

B. Wildfire Reinsurance - Cost Center 1100-0446

Rebuttal to DRA:

DRA asserts that the recorded costs of $24.23 million for 2010 exclude the first installment of the policy because it was included in cost center 1100-0445.[17] In addition, they recommend an additional $772,000 in reductions due to changes in escalation rates discussed in Section III above.

[16] DRA-27, page 11.
[17] Exhibit DRA-27, page 12.

The assertion that the expense is being double counted between this cost center and cost center 100-0445 is inaccurate, as discussed in the previous section above. The recorded actual costs in this cost center include only three installments, as this policy was not procured until June 2010. Thus the 2010 actual costs do not represent a full year of premiums and should therefore not be used as a basis for an annual forecast. DRA incorrectly annualized the $24.23 million to arrive at a base of $32.606 million and used that as the basis for their forecast.

DRA also states that their proposed reduction of $1.6 million include their recommended changes to the multi-factor; however this cost center is allocated 100% to SDG&E and not subject to the multi-factor rates. The Commission should reject all of DRA's proposed reductions and adopt Insurance & Risk's forecast of $35.8 as reasonable.

Rebuttal to FEA:

Insurance & Risk proposes a 2012 forecast of $35.8 million FEA recommends that $13.7 million be removed from SDG&E allocations in 2012[18], using 2010 recorded costs as a base. The 2010 actual costs should not be used as a basis for the forecast, as it is not accurately representative of the TY 2012 forecast. FEA provides no rationale for their proposed reduction, other than allegations of fault in two wildfire lawsuits. The use of 2010 recorded actual costs has no connection with their recommendation, as they are not proposing a reduction based on these allegations, but rather a proposed reduction on spending to 2010 levels. In addition, the 2010 recorded costs only contain three quarterly payments, as the policy was not in place for the entire year. Therefore, 2010 recorded data does not represent a full year premium. The Commission should therefore deny FEA proposals for this reason and for the reasons listed above. Insurance & Risk's forecast is accurate and reasonable.

[18] FEA Testimony, page 70.

1 **C. Directors & Officers (D&O) Liability - Cost Center 1100-0427**

2 Rebuttal to DRA:

3 DRA recommends disallowing 50% ($982,000 to SDG&E and $971,000 to SCG) of the
4 allocation for D&O insurance, citing past Commission decisions that describe such insurance as
5 benefitting both shareholders and ratepayers.[19] First, the decisions cited by DRA were not
6 precedent-setting, and therefore cannot be cited as a basis for disallowance in the current GRC
7 proceeding. D&O insurance is no different from any other type of insurance, where it is a risk
8 mitigation tool that protects against catastrophic losses. In this case, the catastrophic losses
9 would be incurred by Sempra Energy's Board members and officers. Second, there is no direct
10 benefit to shareholders as DRA suggests. This insurance is one of the factors that aid in attracting
11 and retaining qualified officers and directors, which is in the best interests of both ratepayers and
12 shareholders. Additionally, shareholders are already paying for a portion of this insurance since
13 the costs are allocated based on the multi-factor formula. Finally, DRA's proposed adjustments
14 contained mathematical errors that would result in less than 50% allocation to ratepayers.[20] The
15 Commission should reject DRA's proposal to change allocation methods.

16 DRA claims that over the last four years, the cost center has trended lower. DRA is
17 wrong. In direct contrast to DRA's assertions, since 2005 the policy has had fluctuations both
18 higher and lower than the 2012 forecast with no trend easily identifiable.

19 2010 is the lowest year in the last six years, but this is an aberration, not a downward
20 trend. In 2010, the policy was lower due to Sempra Energy's favorable risk profile and a soft
21 insurance market. Insurance & Risk anticipates that the insurance market will tighten and the
22 lower rates from 2010 will not be sustained. Therefore, 2010 recorded actuals are not an

[19] DRA-27, page 12.
[20] The correct calculation would have been a 50% sharing of the premium before any allocations, resulting in a decrease of $1.4M, and not the $1.9M DRA proposed.

1 accurate basis for 2012 and the Commission should accept Insurance & Risk's 2012 forecast of
2 $4.2 million.
3 Rebuttal to FEA:
4 FEA recommends a reduction of $828,000 in D&O insurance for SDG&E's allocations
5 based on an assertion that the insurance only comes into play when and if a shareholder sues the
6 officers and directors.[21] FEA further asserts that since this insurance benefits both ratepayers
7 and shareholders, the costs should be split equally between the shareholders.[22] As described in
8 rebuttal to DRA above, D&O insurance is essentially no different from any other type of
9 insurance; it is a risk mitigation tool that protects against catastrophic losses. In this case, the
10 catastrophic losses would be incurred by Sempra Energy's Board members and officers. FEA
11 implies that the ratepayers are bearing the entire burden for this policy. In fact, the costs are
12 allocated based on the multi-factor method which already charges a portion to the shareholders.
13 The benefit of this insurance is that it is one of the factors that aid in attracting and retaining
14 qualified officers and directors, which is in the best interests of both ratepayers and shareholders.
15 The Commission should reject FEA's request to change the allocation method.
16 FEA further states that since the costs in this cost center have trended lower, the most
17 recent year 2010 costs should be used.[23] Insurance & Risk disagrees. As stated above in the
18 rebuttal to DRA, since 2005 the policy has experienced fluctuations both higher and lower than
19 the TY2012 forecast with no trend easily identifiable. It appears that both DRA and FEA have
20 chosen 2010 costs because it is the lowest year of the last six years. This is not a sound
21 argument on which to base a TY forecast. The lower 2010 costs are not a result of a downward
22 trend, but instead due to a lower policy premium as a result of Sempra Energy's favorable risk

[21] FEA Testimony, page 71.
[22] FEA Testimony, page 73.
[23] FEA Testimony, page 72.

1 profile and a "soft" [24] insurance market. The D&O insurance market has been soft for an
2 extended period of time. Rates have hit near bottom, and insurers cannot underwrite the risk
3 exposure and continue to lower rates. Based on the current market conditions, Insurance & Risk
4 anticipates that the D&O insurance market will tighten, and the lower rates from 2010 will not be
5 sustained. The Commission should adopt Insurance & Risk's more realistic TY2012 forecast
6 and reject the use of 2010 recorded costs as they are not an accurate basis as proposed by FEA.

7 **D. Excess Worker's Compensation - Cost Center 1100-0429**

8 DRA recommends that $87,750 be removed from the TY2012 forecast, reducing SDG&E
9 and SCG allocations by $39,000 and $48,000, respectively. $42,750 of that reduction is the result
10 of using 2010 recorded cost as the basis for the forecast.[25] The remaining $45,000 is due to
11 revised escalation rates discussed in Section III above. Insurance & Risk disagrees with DRA's
12 escalation proposal as noted above, and disagrees with the use of 2010 data in this instance as
13 well as the use of Global Insights for the escalation.

14 **E. Global Worker's Compensation - Cost Center 1100-0439**

15 DRA recommends that all costs associated with the Global Worker's Compensation
16 premium be disallowed ($1,000 to SDG&E, $0 to SCG)[26], even though utility employees are
17 covered. The actual number of utility employees covered has been specifically provided to DRA
18 in response to data request DRA-SDG&E-088-DFB, Q11 and Q12. DRA provides no specific
19 rationale for the proposed disallowance and has apparently ignored the additional supporting
20 data. This policy is allocated based on actual premiums per business unit and therefore there is
21 no reason for this disallowance.

22 In addition, DRA recommends changing the allocation method based on 2010 recorded
23 costs, reducing SDG&E's allocations by 0.28%. If adopted, the resulting change would only be

[24] A "soft" market is characterized by the availability of adequate types and amounts of insurance.
[25] Exhbit DRA-27, page 14.
[26] Exhibit DRA-27, page 14.

$418, which is immaterial. Regardless of its size, the Commission should reject DRA's recommendation.

DRA also stated that their proposed reduction included their recommended changes to the multi-factor; however it should be noted that this cost center allocation method is not impacted by multi-factor rates, and therefore such a reduction would be inappropriate.

F. SONGS Nuclear Liability - Cost Center 1100-0425

Rebuttal to DRA:

DRA recommends that Insurance & Risk's TY2012 forecast of $462,000 be reduced by $112,000[27]. DRA claims that over the last four years, the cost center has trended higher and proposed that in this instance, the most recent year 2010 cost could be used. This is inappropriate because 2010 costs data contained a credit that was received in March 2010, but was applicable specifically to the 2009 policy, thus, the 2010 data was unusually low. This information was supplied to DRA in response to data request DRA-SDG&E-089-DFB, Q22, however DRA did not adjust accordingly. Insurance & Risk appropriately based its forecast on the actual policy premiums. DRA's proposed methodology is inaccurate and therefore should not be considered by the Commission.

DRA also stated that their proposed reduction of $112,000 included their recommended changes to the multi-factor; however this cost center is allocated 100% to SDG&E and not subject to the multi-factor rates. This aspect of DRA's proposed reductions should also be denied.

Rebuttal to UCAN:

UCAN states that the escalation rate SDG&E used for SONGS liability insurance is overstated. Specifically, UCAN cites a letter in Edison's workpapers from Marsh that states

[27] Exhibit DRA-27, page 14.

1 nuclear liability policies will be flat for the years 2011 and 2012[28] The problem with the use of

2 this letter is that it is dated May 7, 2010 and it is outdated. Insurance & Risk based its TY 2012

3 forecast on current information, which demonstrates that the premiums have trended higher since

4 the Price Anderson Act[29] required facilities to purchase higher limits in 2010. The Price

5 Anderson Act was described in more detail in response to data request DRA-SDG&E-DFB-88

6 Q15 (attached). The actual premiums were as follows:

SONGS Nuclear Liability

Policy Year	Premium
2011-2012	$447,800
2010-2011	$431,132
2009-2010	$360,037
2008-2009	$361,141
2007-2008	$370,542
2006-2007	$374,494
Total Growth	$73,306
Percent Growth	3.91%

7

8 Insurance & Risk's forecast method accurately recognized the increasing cost trend. In

9 addition, UCAN at page 82, inappropriately includes the escalation for the non-nuclear liability

10 policy for SONGS Mesa, which is in a different cost center 1100-0426 and is budgeted at

11 $646,000. This adjustment is incorrect and should be rejected. The escalation in this cost center

12 has nothing to do with SONGS Nuclear liability; therefore it should not be included in any

13 proposed reductions. The Commission should reject UCAN's proposed methodology and adopt

14 Insurance & Risk's forecast of $462,000 as reasonable.

15 **G. Group Executive - Cost Center 1100-0433**

16 Rebuttal to DRA:

[28] Cite UCAN Testimony of William B. Marcus – Attachments page 37 (UCAN-2).

DRA recommends that the entire utility allocation of $78,000 ($39,000 each to SDG&E and SCG) be removed from the forecast based on an assertion that this type of insurance should not be paid by ratepayers because it only benefits highly compensated executives and does not serve ratepayer interest[30]. The group executive policy is designed to protect key employee executives and their families against claims resulting from personal injury, bodily injury or property damage lawsuits. It is one component of a competitive compensation and benefits package designed to help attract and retain leadership talent required to operate the company. This benefits ratepayers by helping ensure that SDG&E is able to attract and retain leadership to continue to provide safe, reliable, and high quality service. The Commission should deny DRA's recommendation to disallow these expenses.

Rebuttal to FEA:

FEA recommends that the entire $39,000 allocated to SDG&E in TY2012 be removed from the forecast on the basis that this type of insurance only benefits select executive employees and is in addition to the liability policies already provided by the company[31]. FEA confuses commercial liability insurance with personal liability insurance and therefore is incorrect in its conclusion. *Commercial* insurance liability coverage is designed to provide coverage for third party liability arising out of the Insureds (the company and its employees) scope of operations and work. *Personal* liability insurance, as provided under the executive umbrella liability policy as part of an executive compensation program, is designed to provide coverage for third party liability arising out of the Insureds (executive employees) own personal actions that are unrelated to work. The executive umbrella liability insurance policy is not in addition to, nor is it a duplication of, the insurance afforded by the commercial liability insurance. The Commission

[30] Exhibit DRA-27, page 14.
[31] FEA Testimony, page 76.

should deny FEA's proposal and also determine that Insurance & Risk's TY2012 forecast of $94,000 is appropriate.

H. Liability Insurance Allocation Adjustment

DRA requested that $730,000 be removed to reflect the changes they proposed to the multi-factor. Sempra Energy rebuts DRA's proposed adjustments to the multi-factor in Section II above and in the testimony of Bruce Folkmann in Exhibit 226.

VI. SURETY BONDS

Insurance & Risk forecasts an overall budget in TY2012 for Surety Bonds of $1.2 million, all of which will be directly charged in the amounts - $854,000 to SDG&E and $257,000 to SCG.

DRA seeks to reduce the SDG&E allocations to $821,000 and SCG allocations to $247,000[32]. They state that over the last three years, the cost center has trended higher and argue that the most recent year 2010 should be used. The last three years show no trend, with actual costs in 2008 of $139,000, 2009 of $1.047M and $1.067M. The Commission should reject DRA's proposed reductions and adopt Insurance & Risk's TY2012 forecast.

VII. REBUTTAL TO UCAN WITNESS ROBERT SULPIZIO REGARDING WILDFIRE INSURANCE

A. Summary

UCAN's witness Mr. Sulpizio states that SDG&E's forecasted "*Wildfire Property Damage Reinsurance" premium expense of $35.8 million cannot be justified*."[33] Mr. Sulpizio cites the following reasons to support his recommendation that SDG&E be permitted to collect only $6.5 million in additional insurance expense for the year 2012 rather than the forecasted increase of $42.3 million[34]:

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[32] Exhibit DRA-27, page 14.
[33] UCAN Testimony of Robert Sulpizio (UCAN-10), page 2.
[34] UCAN Testimony of Robert Sulpizio (UCAN-10), page 3.

- SDG&E did not explore fully alternative risk transfer (ART) mechanisms
- SDG&E relies too heavily on the commercial and reinsurance market

SDG&E's rebuttal shows why the premises supporting his testimony and "alternatives" lack validity, why his recommendation should be rejected, and why the Commission should adopt SDG&E's TY2012 forecast. In summary:

- SDG&E did explore fully alternative risk transfer mechanisms, selecting the most appropriate ART mechanism to address the most pressing risk exposure they faced – the lack of insurance capacity to address the biggest wildfire loss risk exposure, property damage and defense costs.

- SDG&E's reliance upon the commercial and reinsurance market is a sound and stable approach to risk transfer, and protects SDG&E and its ratepayers from the catastrophic wildfire risk exposure it faces.

- The reinsurance transaction was completed by licensed reinsurance brokerage and reinsurance company professionals, with oversight from captive managers, the South Carolina Department of Insurance, and ratings agencies.

Due to the relatively short timeframe available to respond to Mr. Sulpizio's testimony, SDG&E/SoCalGas do not address each and every issue raised in his prepared testimony. However, it should not be assumed that failure to address any individual issue implies any agreement by SDG&E/SoCalGas with his testimony and recommendation.

B. Overview

UCAN proposes that "*SDG&E failed to thoroughly explore the possibility that alternative program structures, incorporating alternative risk transfer (ART) techniques would have enabled the Company to build capacity more cost effectively*".[35] It appears that pertinent facts provided in my prepared direct testimony and in sections of the 2010 and 2011 Excess Liability Marketing Reports, provided in data responses to UCAN[36], were overlooked or dismissed. As clearly stated in my direct testimony, for both 2010 and 2011 insurance renewals, SDG&E explored several options during discussions with its insurance broker Marsh and

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[35] UCAN Testimony of Robert Sulpizio (UCAN-10), page 2.
[36] UCAN Data request UCAN-SDG&E-DR-26 question 1.

1 reinsurance broker Guy Carpenter. Our goal since the 2009-10 policy year, when wildfire
2 liability insurance limits dropped by two-thirds to $400 million, has been to get back to the 2008-
3 09 policy year limit of nearly $1.2 billion as risk transfer mechanisms (insurance and other
4 alternative risk transfer options) became commercially and reasonably available. We were able
5 to make great strides in reaching that goal with our 2010-11 renewal. The insurance program put
6 into place, providing SDG&E a combined $1 billion in wildfire protection, allows SDG&E to
7 build coverage and limits in the most cost effective manner for the future. That progress was
8 continued with our 2011-12 renewal.

9 In addition, given the inability in recent years to obtain traditional liability insurance at
10 historical levels, the coverage program may also include Alternative Risk Transfer ("ART")
11 mechanisms, which operate to supplement traditional liability insurance in order to achieve
12 higher coverage levels. ART includes such products as reinsurance, catastrophe bonds, and
13 "captive" insurance. In D.10-12-053, the Commission expressly endorsed consideration of ART
14 mechanisms as a means of supplementing the coverage offered through traditional liability
15 insurance. Specifically, it found that SDG&E's exploration of ART mechanisms in its 2009
16 renewal was reasonable; SDG&E followed the same Commission-approved approach in
17 considering ART mechanisms in the 2011-12 renewal.

18 In the 2010 renewal, SDG&E was able to secure coverage through a new ART product
19 offered by the reinsurance market. The reinsurance ART product is essentially identical to
20 traditional liability insurance in terms of the mechanics of the coverage – the difference is mainly
21 in the identity of the insurers (reinsurance coverage is written by the reinsurance market rather
22 than the commercial insurance market) and the terms of coverage (which are more limited, as
23 described herein). The reinsurance product had never been offered previously; it was not
24 available to SDG&E or any other California utility prior to the 2010 renewal. SDG&E
25 purchased wildfire property damage reinsurance coverage through the utilization of a sponsored

protected cell captive insurance company. This ART product offered the broadest coverage solution at the lowest cost. The primary purpose of a captive is to finance the risks of its owners or participants. Captives are typically licensed under special purpose insurer laws and operate under a different regulatory system than commercial insurers. The intention of such special purpose licensing laws and regulations is that the captive provides insurance to sophisticated insurance buyers that require less policyholder protection than the general public. This arrangement produced over $1,000,000 in tax savings for the past two insurance renewals.

Use of a separate ART mechanism – catastrophe bonds ("cat bonds") – was also explored in 2010 and again in 2011. Cat bonds are risk-linked capital market securities that transfer a specified set of risks or perils from a sponsor to investors. They were created and first used by insurance companies in the mid-1990's in the aftermath of Hurricane Andrew and the Northridge earthquake. As was the case in 2010, it was found that cat bond costs continued to exceed the cost of the program placed in 2011 and limits available from this alternative were significantly lower that limits available in the reinsurance market.

As described herein and in opening testimony, SDG&E thoroughly explored ART structures in its 2010 and 2011 liability insurance renewals. UCAN's continual attempts to assert that SDG&E's procurement approach in the 2010 and 2011 renewals were flawed are unreasonable and inaccurate. UCAN bases its assertions on impractical and erroneous information, and its own flawed analysis that ignores SDG&E's urgent need in the 2010 and 2011 renewals - to replace the significant loss in wildfire insurance capacity at the lowest cost possible that would provide risk transfer protection for SDG&E and its ratepayers, and to improve terms and pricing in the $400 million commercial insurance program. SDG&E's procurement approach – which the Commission deemed to be reasonable in D.10-12-053 – ultimately accomplished these goals in both insurance renewals.

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C. Analysis of UCAN's Assessment on SDG&E's Efforts to Negotiate the Best Possible Terms.

1. SDG&E's program is the most cost effective way to build coverage and limits for the future.

6 UCAN asserts that *"SDG&E's program is not the most cost effective way to build*
7 *coverage and limits for the future,"* and that the **"***California insurance market is currently*
8 *unstable and could be costly."* [37]. To illustrate this, Mr. Sulpizio points to the August 31, 2009
9 Joint Amended Application [38] and several statements made therein as evidence of insurance
10 market instability. However, the referenced Joint Amended Application preceded the
11 development of SDG&E's ART reinsurance solution[39]. UCAN has relied on outdated
12 information provided in the Joint Amended Application to make an inaccurate assessment about
13 the stability of the insurance market. Since the Joint Amended Application was filed, SDG&E
14 has gone through two insurance renewals maintaining and adding many new insurers and
15 reinsurers to the wildfire insurance programs. As a result of the success with SDG&E's ART
16 reinsurance solution, both Southern California Edison (SCE) and Pacific Gas & Electric (PG&E)
17 are now considering SDG&E's solution as a potential viable alternative for them to help create
18 additional stability in the marketplace. The reinsurance market is stable and capacity is readily
19 available for reasonably priced programs, where the reinsurer's cost of capital is slightly lower
20 than the prevailing market terms. The SDG&E solution has helped create additional capacity
21 and more competition in the marketplace.
22 UCAN further indicates that *"SDG&E's $600 million wildfire property damage program*
23 *is extremely fragmented and populated by opportunistic underwriters"*[40] This is simply not the

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[37] UCAN Testimony of Robert Sulpizio (UCAN-10), page 5.
[38] UCAN references A.09-08-020, the Joint Utility Application requesting Authority to Establish a Wildfire Expense Balancing Account to Record for Future Recovery Wildfire-Related Costs. UCAN Testimony of Robert Sulpizio (UCAN-10), page 5.
[39] Testimony of Maury De Bont, pages 8-9.
[40] UCAN Testimony of Robert Sulpizio (UCAN-10), page 6.

1 case at all. SDG&E and its reinsurance brokers designed a solution that would spread the risk
2 among many reinsurance markets under a common coverage form. The wildfire property
3 damage reinsurance program was designed to utilize a number of markets in order to obtain the
4 amount of capacity SDG&E sought, while limiting the amount of capacity with nearly all
5 individual markets to diversify and reduce exposure with any one market. The reinsurance
6 agreements bind coverage for SDG&E's captive insurer under common terms for all markets,
7 providing great stability to the layering and pricing of SDG&E's program. The wildfire
8 reinsurance solution represents the creation of a new form of capacity for the specific property
9 exposures identified following the 2007 wildfire losses. These exposures consist of strict
10 liability for property damage under the concept of inverse condemnation[41]. Property reinsurers
11 found the wildfire catastrophe peril coverage appealing because it was very similar to the type of
12 insurance that they would write for other traditional insurance companies (i.e. homeowners
13 insurers).

14 Next, Mr. Sulpizio states that *"reinsurers are exposing their surplus to a risk that*
15 *exceeds their charter.*"[42] In fact, reinsurers are not exposing their surplus to a risk that exceeds
16 their charter. Reinsurers are in the business of underwriting large catastrophic risk exposures.
17 They are intelligent enough to underwrite business knowing that they will be paying for losses
18 on an infrequent basis. Besides receiving underwriting information for this placement, SDG&E
19 made several presentations to reinsurance underwriters on its wildfire risk mitigation efforts and
20 tree trimming program, detailed risk management information which reinsurance underwriters do
21 not get from the usual insurance company clients they deal with. Reinsurers understood the

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[41] As described in my direct testimony (SDG&E-24, p.6), the notion that SDG&E could be held strictly liable under a theory of inverse condemnation for wildfire damages caused by a utility power line, even where the utility was not at fault, was "very unsettling" to all underwriters.
[42] UCAN Testimony of Robert Sulpizio (UCAN-10), page 6.

1 offering and the approach that SDG&E took, believing this was both a reasonable and creative
2 opportunity to hedge the wildfire peril they already underwrite for homeowner insurers.
3 Further, there is little validity or basis to equate SDG&E's reinsurers to *"bankers*
4 *embroiled in the 2008 mortgage backed securities scandal*,"[43] nor legitimacy to the speculation
5 that Solvency II and the European Debt Crisis will have a potentially "*negative impact"* on
6 SDG&E's reinsurers"[44]. Guy Carpenter is a prominent and well-respected licensed reinsurance
7 brokerage firm recognized as a global leader in obtaining reinsurance coverage. The placement
8 was done in a transparent, legal and ethical fashion with the captive insurer, insurers, reinsurers
9 and the South Carolina Department of Insurance. Insurance coverage was vetted and approved
10 by a licensed captive cell insurer who agreed to write the insurance policy contracts. The captive
11 insurer then reinsured all the risk exposure under the policies to insurers and reinsurers who all
12 carried an A- (Excellent) or better rating from A.M. Best. The vast majority of the insurer and
13 reinsurers also carried an "A" rating (or better) from S&P. The State of South Carolina's
14 Department of Insurance approved the transaction and the reinsurance security list. Professional
15 reinsurers in Bermuda, London, Continental Europe and the United States supported the
16 reinsurance contracts with full and appropriate disclosure to their underwriting committees. The
17 charters of the reinsurance companies were absolutely adhered to. A recent article in *Business*
18 *Insurance* on Solvency II surmised that many reinsurers are already operating under Solvency II
19 rules to an extent.[45] Solvency II is a European Union (EU) directive primarily concerning the
20 amount of capital that EU insurance companies must hold to reduce the risk of insolvency. A
21 major portion of SDG&E's reinsurance program comes from Bermuda, where regulators are
22 aiming for equivalence with the Solvency II regime, and the industry is well-prepared for the

[43] UCAN Testimony of Robert Sulpizio (UCAN-10), page 6.
[44] UCAN Testimony of Robert Sulpizio (UCAN-10), page 6.
[45] September 26th, 2011 by Sarah Veysey & Mark A. Hoffman, page 18.

changes ahead. SDG&E has great confidence in the combined knowledge of the South Carolina Department of Insurance, A.M. Best, S&P and other regulatory agencies, all who have and continue to review the financial health of the reinsurers who support SDG&E's wildfire property damage reinsurance program.

Further, UCAN describes the concept of "innocent capacity" (underwriters who participate in risks with which they are not familiar because of the attraction of significant premium income)[46]. Mr. Sulpizio's *"innocent capacity"* story is not the "apples-to-apples" comparison to the reinsurance market which he alludes to. The reinsurance placement was personally reviewed with senior underwriters, Chief Underwriting Officers and other C-Suite members of global reinsurers, all who are experienced and knowledgeable financial leaders. On nearly every occasion, the Reinsurers universally expressed their commitment to a long term solution, asking that SDG&E take a long-term view toward their reinsurance program and this new purchase. When the program renewed in 2011, all but one of the reinsurers renewed their expiring lines, with most offering additional capacity. Moreover, despite the large catastrophic property losses in Japan, New Zealand, Australia and the Midwestern United States, SDG&E was able to achieve a small price decrease on our program at a time when property catastrophe prices were rising 5-15% for the July 1, 2011 renewals. This small decrease was achieved because of the substantial risk mitigation and vegetation management efforts undertaken by SDG&E over the past several years. The reinsurance transaction is supported by a reinsurance market with over $40 billion of policyholder's Surplus, backed by superior rating, provides a long term proven risk transfer solution. The Commission concluded in D.10-12-053 that "[i]n an effort to establish sound public policy, we agree that SDG&E's decision to obtain all the liability

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[46] UCAN Testimony of Robert Sulpizio (UCAN-10), page 7.

insurance that was reasonably available in the world's insurance market was a prudent risk mitigation strategy."

Finally, UCAN indicates that the $600 million wildfire property damage reinsurance program is narrow in scope, and therefore is not as cost effective as SDG&E asserts it to be.[47] But in reality, the wildfire property damage reinsurance program is designed to be narrower in scope than the $400 million commercial insurance program. Of the various ART products available in the market, the reinsurance product is the closest in type to traditional commercial liability insurance, and is the most cost-effective.[48] In addition to covering loss adjustment expenses, the reinsurance program offers protection for property damage, which represents ~80% of the 2007 wildfire losses sustained by SDG&E. This is a significant amount of risk transfer protection for the most significant and most likely wildfire loss costs that SDG&E could potentially face in the future. Further, defense costs are indeed covered as a loss adjustment expense in association with any covered element of loss (property damage) found in the reinsurance contracts. If property is damaged or destroyed and defense costs are incurred, they are covered by the insurance and supporting reinsurance contracts. While bodily injury is not covered under this program, it is not a significant loss exposure when compared to property damage and defense costs. SDG&E obtained additional capacity in the commercial insurance program to provide protection for this element of risk exposure within the commercial insurance program as well. These facts clearly show that the reinsurance program provides significant financial protection for the largest wildfire risk exposures, and is indeed cost effective. In accordance with the approach endorsed by the Commission in D.10-12-053, and given its risk

[47] UCAN Testimony of Robert Sulpizio (UCAN-10), page 8.

[48] The $600 million in wildfire reinsurance limits SDG&E has obtained for the 2011-2012 policy period will have an average rate of 5¢ ($0.0510) per dollar of coverage, slightly less than the expiring policy year rate ($0.0534). By comparison, for the traditional wildfire insurance program providing $425 million in liability limits, the average rate was $0.0741 per dollar of coverage in the final $100mm layer ($325mm-$425mm). Reinsurance coverage is narrower than the commercial wildfire coverage in SDG&E's $425 million wildfire tower.

profile, SDG&E's liability insurance procurement strategy in the 2011-2012 renewal was to canvass the global insurance market to procure all the insurance coverage that was reasonably available. This approach is consistent with the Commission's stated policy in favor of utility procurement of sufficient liability insurance to protect against natural disasters and other occurrences, which are an ever-present risk in California. The Commission should reject all of UCAN's assertions because they are exaggerated and not accurate when compared to the facts that transpired.

2. UCAN Incorrectly Asserts That The Relationship with AEGIS and EIM has Dampened Competition.

Mr. Sulpizio asserts that *"…the relationship with AEGIS and EIM has dampened competition."*[49] Mr. Sulpizio confuses cause and effect. While insurance brokers and utilities have observed for quite some time the lack of robust competition against AEGIS and EIM on coverage terms, conditions and pricing, this disinclination pre-dates the existence of these mutual insurers. Indeed, AEGIS and EIM were formed in part due to the very lack of competition for better terms, conditions and pricing that Mr. Sulpizio ironically asserts AEGIS and EIM to now cause. AEGIS and EIM were created by the utility industry in *response* to a lack of long-term stable capacity for their liability exposures. AEGIS was formed in 1975, and EIM in 1986. Both of these "hard market" periods were characterized by commercial insurers retreating from the risks of the utility industry. These mutual insurance companies are not unlike the group captives that have been created by other industries to solve similar problems, an ART technique Mr. Sulpizio supports. In the years since these companies were created, they have survived other hard markets and offered the stable base upon which their members can build their insurance programs.

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[49] UCAN Testimony of Robert Sulpizio (UCAN-10), page 9.

1 The policies offered by AEGIS and EIM are designed for the specific risk profiles of
2 their members. There are no commercial markets offering equivalent coverage. During soft[50]
3 market periods, commercial markets have attempted to compete with AEGIS and EIM, and
4 while their premiums were comparable, and in some cases lower, their coverage was not. If the
5 past is a predictor of the future, these commercial insurers will abandon the utility sector again
6 when the next hard market takes hold, much like the "innocent capacity" flight Mr. Sulpizio
7 experienced in the late 1980's. The difference here is the long-term commitment of AEGIS and
8 EIM to the utility industry that causes these companies to remain as members, and not the
9 trappings and allure of an incestuous relationship. AEGIS has an A.M. Best rating of "A -
10 (Excellent)" with a stable outlook, and a Fitch rating of "A - (Strong)." EIM has an A.M. Best
11 rating of "A (Excellent)" with a stable outlook. The AEGIS membership count at the end of 2010
12 was 329, which reflects a retention ratio of nearly 100% in the traditional group of policyholders.
13 EIM provides excess liability coverages to more than 160 companies in the United States and
14 throughout the world. One would be hard pressed to doubt the wisdom of so many long term
15 member companies who have been and remain AEGIS and EIM members. There is a very good
16 and valid reason so many utilities belong to AEGIS and EIM – both mutual insurers provide an
17 excellent product at a competitive price that the competition is extremely hard pressed to surpass.
18 One unique benefit mutual insurers can offer their members are continuity credits.
19 AEGIS offers its members a continuity credit when its board of directors determines that such a
20 credit is appropriate. This credit is meant to be a rate-of-return on the members' undivided
21 ownership of the company's surplus, which allows members to reduce their cost of insurance.
22 Following the poor loss year in 2007 and the loss of surplus as a result of the economic crisis that

[50] As described in my direct testimony (SDG&E-24, p.4.), the insurance market operates in cycles. Soft markets are characterized by adequate types and amounts of insurance and hard markets are characterized by contraction of available capacity, restrictions on coverage and increasing premiums. Not all lines of insurance are impacted equally and/or at the same time.

began in 2008, the board suspended these credits for excess liability insurance. As Mr. Sulpizio notes, AEGIS had a very good year in 2010. He failed, however, to mention that the credits have been reinstated effective July 1, 2011. SDG&E will receive a credit with their renewal in 2012. Over just the last 10 years, AEGIS has returned $477 million to policyholders through the continuity credit program (as well as the property and London syndicate credit programs). Since 2004, SDG&E/SoCalGas has received nearly $4 million in continuity credits under the Excess Liability insurance policy, which have offset the annual premiums due and paid at renewal. AEGIS did resist any reduction in premium for the 2011 renewal. While there were no further wildfire losses, SDG&E did have adverse non-wildfire loss experience that made a reduction in premium unattainable in 2011. Competitive underwriters considering a bid for SDG&E's insurance program will likewise review this loss experience and price their product accordingly. An insurance buyer cannot escape the well known consequence insureds face when they have large catastrophic losses. For these many reasons, the Commission should rely on SDG&E's testimony and reject UCAN's assertions to the contrary. Both AEGIS and EIM have proved to be long-term stable insurers who did not abandon SDG&E after huge losses, and both provide an excellent product at a competitive price that the competition is extremely hard pressed to surpass.

1 **D. There Were No Offsetting Revenues as UCAN Alleges.**

2 UCAN incorrectly asserts that Cox settlement reduced the net loss sustained by
3 insurers.[51] The facts show that the Cox settlement did not reduce the net loss sustained by
4 insurers. SDG&E announced on December 15, 2010, that SDG&E and Cox Communications
5 signed an agreement settling SDG&E's claims against Cox in the 2007 Guejito wildfire[52]. The
6 settlement provides that SDG&E – and not insurers - would receive $444 million from Cox that
7 will be used only for wildfire-related expenditures. SDG&E's insurers, by virtue of claims
8 settlement agreements with SDG&E, did not obtain rights of subrogation. The standard
9 commercial insurance policy contains a condition on recoveries, whereby recoveries flow to the
10 insurers only after the insured has been made whole first for its losses in excess of available
11 insurance. The 2007 wildfire losses greatly exceeded insurance coverage limits, as reported in
12 Sempra Energy SEC filings. SDG&E will never be made whole from insurance and subrogation
13 proceeds for these losses. It is incorrect to assume that wildfire losses were only $1.1 billion
14 minus the Cox settlement.

15 All aspects of the 2007 loss, including the Cox settlement, were discussed with
16 underwriters during the renewal process. All underwriters knew they would not receive any
17 recovery for their payment of claims, because the losses far exceeded the insurance coverage and
18 Cox settlement. Insurer payback continues to play a role in their resistance to lowering prices.
19 The Commission should reject this argument as it is wholly false.

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[51] UCAN Testimony of Robert Sulpizio (UCAN-10), page 11.
[52] UCAN Testimony of Robert Sulpizio (UCAN-10), page 11.

E. SDG&E's Analysis of UCAN's Other Wildfire Catastrophe Risk Alternative Strategies and Options.

UCAN states that "*SDG&E Has Not Considered Alternative Program Structures.*"[53] SDG&E did not choose to ignore UCAN's repeated question of whether it may be possible to build capacity more cost effectively by restructuring the $400 million tower of wildfire liability insurance while also lending greater stability to the overall program. UCAN never posed such a question to SDG&E. It is also impossible to guarantee stability in a risk transfer program, be it in the insurance or the financial markets, if an insured has sustained a large catastrophic loss similar to the 2007 wildfires SDG&E sustained. Whether the risk transfer mechanism comes from the insurance or the financial world, when you have a large catastrophe loss, some insurers or investors are likely to walk away from your company. A market walking away from an insured is a common renewal issue, and insurance buyers and brokers work to find a solution to address the situation. It would be inappropriate to believe that until stability is 100% certain, any risk transfer solution should be deemed "unreasonable."

Next, Mr. Sulpizio offers his model loss stabilization plan ("Plan"), which is a self-funding plan reinsured 50%-90% in the reinsurance marketplace, as an alternative to the AEGIS and EIM layers (the primary layers of insurance coverage, up to $60 million).[54] Unfortunately, there are several shortcomings in this Plan. The Plan proposes to replace the leading two layers of wildfire liability coverage with his plan, layers in which reinsurers traditionally do not participate. During our negotiations with property reinsurers for the 2010-2011 placement, one prominent reinsurer offered SDG&E the full limit of capacity which we sought ($600 million) at a 10% rate on line – but at the attachment point of excess of $400 million in property damage loss. This pricing offer was nearly double the ultimate rate that was achieved by allowing

[53] UCAN Testimony of Robert Sulpizio (UCAN-10), page 11.
[54] UCAN Testimony of Robert Sulpizio (UCAN-10), page 12.

multiple reinsurers to offer a combined solution. It is inconceivable that reinsurers would drop below the $400 million level. Those that might consider doing so would charge a rate on line much higher than the 10% figure the Plan proposes. The reason SDG&E's rate-on-line pricing (average rate on line of 5.1%) is so much less inexpensive than the Plan estimates is due to the high attachment point and layers the reinsurers participate in. Most years, wildfire claims, if any at all, will not reach this layer. When compared to the first few layers of the program as the Plan suggests, these layers have greater exposure to loss, and thus the rate on line would be significantly greater. Additionally, the layer in which the Plan is suggested to reside in is the broader bodily injury and property damage coverage layer.

The Plan creates a self-insurance reserve within the first two layers of the insurance program that amounts to $10,000,000 to $30,000,000 of retained risk. This is a significant amount of risk to retain for a regulated utility company, and exposes ratepayers to much higher rates to fund such a program. Insurance not only provides a pool of funds to pay for unexpected loss, it also stabilizes the earnings stream of the insured. The Plan does not offer a method by which the self-insurance will protect ratepayers and earnings. SDG&E believes that within the next several years we will be able to eliminate the 50% quota-share loss provision in the AEGIS policy ($17.5 million). In the 2011 renewal, SDG&E was able to remove the 50% quota-share loss provision with EIM. This will significantly reduce the amount of retained risk SDG&E and ratepayers are exposed to in the primary layers of a wildfire loss, and bring stability to the insurance program. Indeed, the past several insurance renewals have shown that rates have not gone up but have remained relatively flat. The further away SDG&E, AEGIS and EIM move from the 2007 wildfire losses, and no new wildfire losses occur, rates with AEGIS and EIM shall go down. This is the nature and cycle of the commercial insurance market.

Mr. Sulpizio is correct that SDG&E dismissed his *"pooling with other California utilities"* model in 2009, primarily because SDG&E had already discussed this idea with the

other utilities.[55] The idea was not pursued due to SDG&E's significant wildfire risk exposure when compared to the other utilities own wildfire risk exposure. In addition, the pooling approach would be a complex and time-consuming undertaking. In preparing for the 2010 renewal, SDG&E's most urgent and pressing need was to identify an available mechanism to provide the significant capacity lost in 2009 to protect SDG&E and ratepayers from catastrophic wildfire loss. The pooling approach is one that SDG&E may consider pursuing in the future if given sufficient time to implement and changing circumstances make this endeavor feasible. Thus, given SDG&E's need to focus on the much more urgent and pressing needs of improving terms and pricing in the $400 million commercial insurance program and building back the lost catastrophe capacity lost in 2009, the untested loss stabilization plan proposed by Mr. Sulpizio was not a reasonable or feasible solution for the 2010 and 2011 renewals.

Forming a group captive was also suggested by UCAN as another means of employing one of a variety of alternative risk financing techniques.[56] SDG&E, in fact, utilizes such a mechanism. The group captive would include like-companies banding together for purposes as stated by Mr. Sulpizio – stability, tailored coverage terms and conditions, potential cost savings etc. The mutual insurer structure of AEGIS and EIM is not unlike a group captive in that AEGIS and EIM has provided its members many of the same benefits, as noted above. A group captive among the California utilities continues to be a consideration. One caution would be the uncertainty as to whether or not the captive insurance company would have approved this non-traditional coverage for the exposure, in the past, present or future.

As for Mr. Sulpizio's testimony concerning California Earthquake Authority ("CEA") cat bonds[57], wherein he claims that SDG&E severely restricted its options by refusing to seriously

[55] UCAN Testimony of Robert Sulpizio (UCAN-10), page 13.
[56] UCAN Testimony of Robert Sulpizio (UCAN-10), pages 13-14.
[57] UCAN Testimony of Robert Sulpizio (UCAN-10), pages 14-15.

explore alternatives like the CEA cat bond, Mr. Sulpizio's comments should be reviewed as subordinate to the first-hand experience of SDG&E's reinsurance broker, Guy Carpenter. Guy Carpenter is the co-broker on CEA's placement, is very well informed of the CEA's activities, and therefore is much more knowledgeable to the specifics of whether a cat bond is truly suitable as an alternative risk transfer mechanism in meeting the needs of SDG&E. CEA's cat bond of $150 million over three years issued by Embarcadero Re Ltd. had a rate-on-line of 7.78%, while a $200m layer of reinsurance for just one year had a rate-on-line of 8.15%. While the 37 basis points savings was beneficial, the $150M only represents 1.6% of the total $9.4 billion of the CEA's claims paying ability. While the Cat bond is one of many tools the CEA will use, it is still a small element of risk transfer when compared to the $3.3 billion worth of risk transfer they plan to have in place by April 2012. The Cat bond only makes economic sense because the CEA already buys $2.8 billion of reinsurance capacity, the size of the deal was only $150 million, and the fact that pure CA EQ risk is difficult to obtain by investors.

When Cat bonds were explored as a potential solution for SDG&E in early 2010, they were more expensive than traditional insurance/indemnity coverage (just as they were for the CEA in 2010). The same situation held true for SDG&E for the 2011 renewal. Reinsurance is a dynamic and competitive marketplace, and has proved to be the right move for SDG&E. SDG&E may consider Cat bonds for their future insurance program strategy, now that a sizable organization such as the CEA has demonstrated some marginal savings on its program in 2011. However, it is also important to note that Cat bonds are best employed for use in large risk pools. While SDG&E is a sizable entity, its operation and exposures are not as vast or sizable as the CEA, so the diversification benefits are not nearly as evident when the exposure is modeled. Mr. Sulpizio also suggested that SDG&E utilize a Cat bond *"…to replace a substantial portion of the commercial insurance supporting the $400 million wildfire liability placement"*; that *"…a Cat*

bond (at a 9.5% rate) may have proved to be less expensive."[58] These suggestions misjudge the capabilities of a Cat bond on several fronts: (1) the layer at which Cat bond capacity would operate, (2) that this capacity would remain at a stagnant rate, irrespective of layer of participation; and (3) the scope of the Cat bond coverage:

1) Cat bond capacity very likely would not operate within the $400 million commercial insurance layer. Cat bond investors prefer to put their capital at a level where the likelihood of risk of loss for the covered peril would generate a 1% chance of loss to their capital. This means that investors would be highly unlikely to drop below the $300 million commercial insurance level for wildfire risk. By example, CEA's C bond rests on top of $3.287 billion of capital, and would not respond until the loss exceeds the retention.

2) Even if investors were willing to drop below the $300 million, the 9.5% rate on line would not hold true. As investors get closer to the risk of loss i.e. increased chance of losing their capital, they will want a higher rate for their capacity. It would be a mistake to assume that the 9.5% rate on line given for capacity excess of $400 million would remain the same at lower levels.

3) CEA's Cat bond was for a single peril, covering actual loss sustained (property damage) and loss-related expenses. While the scope of coverage is dependent on terms and conditions agreed to by investors, the likelihood of SDG&E obtaining a Cat bond that would mimic the same coverage scope of the $400 million commercial insurance layer (bodily injury, loss of use, property damage) is far from the certainty that one might be lead to believe it is.

Finally, the Cat bond market is very volatile in terms of having adequate financial commitment to provide a sizable insurance limit. Capacity fluctuates regularly as supporting financial markets come and go.

As for Mr. Sulpizio's "contingent capital" commentary (costs of contingent capital are far lower than insurance) [59], contingent capital options were first discussed by SDG&E and Guy Carpenter in January 2010. We discussed the benefits and drawbacks of contingent covers, Industry Loss Warranties, parametric triggers and other non-traditional coverages. Contingent covers have several shortcomings, such as they would very likely not provide adequate

[58] UCAN Testimony of Robert Sulpizio (UCAN-10), page 14.
[59] UCAN Testimony of Robert Sulpizio (UCAN-10), pages 15-17.

protection in the same manner as traditional indemnity covers, and could prove more costly since they could restrict the company's operational capital. While it is suggested that these options cost less than traditional reinsurance, Guy Carpenter's research suggested that they cost equal to or more than traditional reinsurance. If these products were as cost effective as Mr. Sulpizio asserts they are, they would be more widely used in all aspects of reinsurance, rather than being a small subset of the overall market.

Additionally, SDG&E's reinsurance brokers discussed the Cat bond and contingent capital issue with sister company Guy Carpenter Securities ("GCS"). GCS provides investment banking services, leveraging investment banking expertise, deep insurance knowledge and extensive industry contacts, to the insurance industry. Their feedback provides some interesting insights that will give the Commission more clarity on this product. First, it is rare to see alternative risk transfer strategies become the dominant capacity source given the efficiency of the insurance and reinsurance markets. Guy Carpenter estimates that 25% of reinsurers use this mechanism for non-traditional risk financing, but for perils like earthquake, windstorm, and hurricane that can be robustly modeled. Less than 5% of non-reinsurers use contingent capital as a risk financing mechanism. Second, no cat bond has been placed for any sponsor that is solely exposed to wildfire risk. While it has been included in a couple of multi-peril cat bonds, it is typically not scrutinized by the investor base because such losses alone may not trigger a loss and, especially with the annual aggregate bonds, are driven by what are considered more robust modelable risks (eg U.S. hurricanes and earthquakes). While GCS could see appetite for wildfire risks from the investor base, the amount of appetite is likely to be under $200 million for the initial issuance. The mismatch of modeling results to actual losses is likely to be a source of concern for investors. Also, capital markets investors for a newer peril tend to take comfort in having more experienced third party capital, ie insurers/reinsurers, ahead of them. So, having

investors participate on the first $400 million of risk is likely less cost effective than the traditional insurance markets.

Mr. Sulpizio's references to *"use of contingent capital"* must be distinguished from insurance/reinsurance/cat bonds/etc, all which are risk transfer products[60]. These other risk transfer products price higher than recourse financings because there is no requirement to come back and continue the risk transfer arrangement after a loss. However, contingent capital is a risk financing technique that contractually obligates the company to repay such financing or issue equity in the company (where the expectation is that they won't default/go bankrupt). This is why capital risk financing is initially cheaper because the risk is retained with the sponsor and will need to be repaid either via SDG&E's surplus/capital or future earnings (which could ultimately be more costly). This can dampen SDG&E's ability to fund other current/future projects. In the reference to contingent capital/options and SCOR's use of equity contingent capital, no mention was made of additional costs - that a fee is still paid up front for such risk; the potential stock offering is immediately dilutive (if equity); and there may be a cost to unwind the structure depending on where their stock price is at such time. The amount of such type of contingent capital depends on the volume of trading of Sempra Energy stock; some companies have too limited stock trading activity and cannot use such approaches. Also, the use of such types of contingent capital eat into the financial flexibility that SDG&E would want to maintain for funding its other non-insurance business needs. Most corporations make limited use of alternative solutions because the costs of traditional insurance products are most efficient relative to entities that have already utilized worldwide capacity (CEA) or require multiple risk funding tools given thinness of capital solutions for reinsurers (SCOR). While Mr. Sulpizio focuses on the named peril aspect of the liability insurance, it would be no different for a Cat bond.

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[60] UCAN Testimony of Robert Sulpizio (UCAN-10), pages 14-17.

Indemnity losses that are broader than property damage get more challenging for Cat bonds to assume given the inability to robustly model those losses. GCS does not see Cat bonds as being able to provide indemnity broader than actual losses. If a non-indemnity trigger is used, SDG&E could get a lump sum payment that they could use for any type of loss but that subjects SDG&E to basis risk.

The Commission should not rely on UCAN's unsupported and misguided arguments to judge SDG&E's alternative program structure, as UCAN's alternatives are not applicable in the manner and scope Mr. Sulpizio proposes. The Commission should rely on the better informed and more relevant testimony submitted by SDG&E that provides perspective and logic as to SDG&E's efforts in designing the best alternative risk transfer program that provides the most insurance capacity and the lowest cost possible.

VIII. SUMMARY AND CONCLUSION

The DRA testimony recommends that $12.735 million of allocations for Corporate Insurance to SDG&E and $1.68 million in allocations to SCG be disallowed, for a total of $14.416 million. $8.9 million of reductions are based on incorrect claims that Insurance & Risk's fire insurance costs were double counted, which Insurance & Risk has refuted. Also, Insurance & Risk rebuts their adjustments to the multi-factor allocation calculation and revised escalation rates. Finally, DRA proposed cuts to Insurance & Risk's forecast by selectively referring to 2010 recorded data or historical averages, and this rebuttal showed that DRA ignored relevant facts in what can be construed as a goal-seeking exercise. DRA's recommendations are flawed and should be denied by the Commission.

The FEA recommends reductions of $14.567 million of allocations to SDG&E, the bulk of which as a result of their assertion that the 2010 recorded actuals should be used as a basis for the 2012 forecast. 2010 was not a representative year because the policy was not in effect until June 26th, 2010, therefore Applicants rejects the FEA recommendations. The remaining

reductions are the result of the FEA's misunderstanding of certain policies and the beneficiaries of such policies and should be denied by the Commission.

UCAN cites numerous reasons that SDG&E only be allowed to collect $6.5 million in additional expense (out of a forecasted increase of $42.3 million). However, SDG&E did explore fully alternative risk transfer mechanisms, selecting the most appropriate ART mechanism to address the most pressing risk exposure they faced – the lack of insurance capacity to address the biggest wildfire loss risk exposure, property damage and defense costs. SDG&E's reliance upon the commercial and reinsurance market is a sound and stable approach to risk transfer, and protects SDG&E and its ratepayers from the catastrophic wildfire risk exposure it faces. The reinsurance transaction was completed by licensed reinsurance brokerage and reinsurance company professionals, with oversight from captive managers, the South Carolina Department of Insurance, and ratings agencies.

In addition, UCAN recommends further reductions of $1.019 million related to the SONGS nuclear forecast. Insurance & Risk has shown that UCAN used outdated estimates on which to base their assumptions and therefore should be denied by the Commission.

This concludes my prepared rebuttal testimony.

ATTACHMENT A

DATA RESPONSES

DRA Data Request 88 Question 8……………………………………………………………. 1
DRA Data Request 88 Question 13…………………………………………………………… 2
NEIL Distribution Guidance Letter…………………………………………………………… 3
DRA Data Request 88 Question 11…………………………………………………………… 4
DRA Data Request 88 Question 12…………………………………………………………… 6
DRA Data Request 89 Question 22…………………………………………………………… 7
DRA Data Request 88 Question 15…………………………………………………………… 8

DRA DATA REQUEST
DRA-SDG&E-088-DFB
SDG&E 2012 GRC – A.10-12-005
SDG&E RESPONSE
DATE RECEIVED: JUNE 17, 2011
DATE RESPONDED: JUNE 30, 2011
PARTIAL RESPONSE Q.1_7-22

8. On pages MBD-10 through MBD-16, Corporate Center states for each of the Property Insurance types that a "3.5% escalation factor is utilized for 2011-2012 which accounts for increasing property values and market pressures." Please provide all supporting documentation and calculations on the escalation factor, property values and market pressures.

SDG&E Response 08:

The 3.5% escalation factor is used to account for pressures unique to the insurance market. As described in testimony on page MBD-4, insurance forecasts in this GRC are not subject to the standard escalation factors used by other utility areas. The escalation rate used by Corporate Center shared services non-labor, for example, averages 2.4% between 2009-2012 (see page BAF-9 of Bruce Folkmann's testimony, Exhibit SDG&E-23). Property Insurance, on the other hand, has increased by approximately 6% per year, on average, between 2005-2010.

$10.6 million in 2005 Actuals
<u>$13.8</u> million in 2010 Actuals
$ 3.2 million increase / $10.6 2005 = .302 / 5 years = 6%

While it is difficult to separate, some of the premium changes may be attributed to program and property additions. Thus, Sempra selected a more conservative 3.5% assumption, somewhat higher than standard non-labor, but lower than overall recent experience.

13. On pages MBD-18 through MBD-28, Corporate Center states for each of the Liability Insurance types that a "3.5% escalation factor is utilized for 2011-2012 which accounts for market pressures." Please provide all supporting documentation and calculations on the escalation factor and market pressures.

SDG&E Response 13:

The 3.5% escalation factor is used to account for pressures unique to the insurance market. As described in testimony on page MBD-4, insurance forecasts in this GRC are not subject to the standard escalation factors used by other utility areas. The escalation rate used by Corporate Center shared services non-labor, for example, averages 2.4% between 2009-2012 (see page BAF-9 of Bruce Folkmann's testimony, Exhibit SDG&E-23). Liability Insurance (excluding Fire coverage, B-2), on the other hand, has increased by nearly 8% per year, on average, between 2005-2010.

$20.9 million in 2005 Actuals
<u>$29.1</u> million in 2010 Actuals ($94.1 total minus $65 Fire)
$ 8.2 million increase / $20.9 2005 = .392 / 5 years = 7.8%

Because some of the premium increase may be attributed to Global program additions, Sempra selected a more conservative 3.5% assumption for the GRC, somewhat higher than standard non-labor, but lower than overall recent experience.

FEA 04-38
Re: NEIL Distributions and Premiums

-----Original Message-----
From: Cayabyab, Neil K/Marsh USA
Sent: Wednesday, August 03, 2011 9:30 AM
To: De Bont, Maury
Subject: RE: Crystal River Update/NEIL Distributions.

For your reference, we are recommending our clients to be conservative and budget for no distributions in 2012. The rationale behind our guidance is outlined below.

Guidance Rationale:
The combination of NEIL's last reported policy holder surplus of $3.6B effective 12/31/2010, NEIL Distribution methodology as detailed in the April 2010 IAC Meeting, and possible large claim development of Crystal River Delamination loss leads us to recommend that a likely outcome for 2011 is that no distribution would be declared.

Facts:

1. NEIL policy holder surplus as of 12/31/2010 as reported in the 2010 annual report was $3.6B.
2. NEIL is continuing to adjust the Crystal River containment delamination loss and has already spent over $265M on the property damage and accidental outage claims.
3. Progress Energy recently announced that Crystal River repairs are projected to cost between $900M and $1.3B and the plant is not expected to return to service until 2014.
4. NEIL has a distribution methodology where the board will only declare a distribution if certain surplus buffer targets are maintained. The required Surplus Buffer before distributions are considered is $3.3B.
5. The Distribution Sharing Percentage is set at 50% between $3.3 billion and $3.7 billion and 60% beyond $3.7 billion
6. Distribution is subject to a $50 million minimum amount and capped at budgeted earnings

Assumptions:

1. Presume that NEIL's 2011 earned premium is $210M, Losses including Crystal River are $1B, and investment returns are $500M

The result:
The result would be that the NEIL policy holder surplus as of the end of 2011 may be right around the $3.3B range [$3.6B +$210M+500M - $1B = $3.3B]

Obviously, if the investment return is better than expected and or the claims development is more favorable than assumed then there is a possibility that NEIL could declare a distribution.

Based on the Facts and the reasonable assumptions, we would recommend an assumption of no NEIL distribution for 2011 (that would be received in calendar year April 2012).

DRA DATA REQUEST
DRA-SDG&E-088-DFB
SDG&E 2012 GRC – A.10-12-005
SDG&E RESPONSE
DATE RECEIVED: JUNE 17, 2011
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PARTIAL RESPONSE Q.1_7-22

11. **Workers' Compensation & Employers' Liability (WC/EL) Insurance – All states other then California (B-5.2):** Corporate Center states on page MBD-20: "Provides coverage to Sempra Energy companies outside of California, for statutory benefits payable under the Workers' Compensation statues of the various states. Also covers Corporate Center employees permanently assigned outside of California and liability arising from employee injuries not covered by Workers' Compensation." Please provide all supporting documentation and calculations for allocating any of these costs to SDG&E.

SDG&E Response 11:

The utilities have a few employees able to telecommute and who live in states other than California, and the premium allocation reflects coverage for those employees. Following is a listing for SDG&E:

Title	Department Name	EE #
Database Admtr	Software Development	16132
Sply Chain Proc & Dev Mgr - EC	Supply Chain Process	72768
Sr Software Developer	Cisco Billing	75607
Sr Graphic Artist /WebDesigner	Employee & Org Development	02881
Sr Contrg Agent - EC	Professional Services	48328

Attached is the estimated premium distribution from Marsh which supports our allocation workpaper MBD-WP-83.

DRA SDGE - 88
Q11 .xlsx

SEMPRA ENERGY
WORKERS' COMPENSATION ALLOCATION - JUNE 26, 2009 TO 2010
Attachment to Data Request DRA-SDG&E-88 Question 11

Company	FEIN	WC Class Code	WC Class Code Description	State	Projected 2009 Adjusted Salary*	Total Estimated	Estimated Premium
01		8810	Office & Clerical	CO	123,976.51		
01		8810	Office & Clerical	ID	147,275.09		
01		8810	Office & Clerical	IL	104,922.49		
01		00010	Office & Clerical	WY	88,258.11		
SDG&E	**95-1184800**					$464,432	$739
10		8742	Colls, MRs, & Outside Sales	DC	397,905.19		
10		8810	Office & Clerical	DC	88,030.76		
10		8742	Colls, MRs, & Outside Sales	ME	4,693.24		
10		8742	Colls, MRs, & Outside Sales	NH	100,922.25		
10		8742	Colls, MRs, & Outside Sales	TX	634,495.74		
10		8810	Office & Clerical	TX	341,942.18		
SECC	**33-0732627**					$1,567,989	$3,667
12		8810	Office & Clerical	AZ	62,684.43		
SGEN	**33-0810160**					$62,684	$71
15		8810	Office & Clerical	MO	26,578.47		
15		8810	Office & Clerical	UT	92,744.91		
SCG	**95-1240705**					$119,323	$165
32		8810	Office & Clerical	TX	68,633.20		
GLOBAL	**33-0783483**					$68,633	$101
35		8810	Office & Clerical	LA	2,656,742.99		
35		881099	Office & Clerical USL&H	LA	177,368.20		
35		750299	Gas Company Operations USL&H	LA	1,940,120.79		
35		860199	Engineer USL&H	LA	117,033.70		
CAMERON	**57-1170970**					$4,891,266	$51,879
37		8742	Colls, MRs, & Outside Sales	LA	169,172.60		
37		8810	Office & Clerical	LA	1,374,663.33		
37		8810	Office & Clerical	TX	1,458,886.27		
SLNG	**16-1658876**					$3,002,722	$5,961
43		7500	Gas Workers	LA	198,437.34		
43		7502	Gas Company Operations	LA	467,679.08		
43		8810	Office & Clerical	LA	178,504.01		
43		7502	Gas Company Operations	MS	47,050.00		
43		8810	Office & Clerical	MS	47,050.00		
43		7502	Gas Company Operations	TX	60,929.16		
43		8810	Office & Clerical	TX	590,888.62		
43**	Mid-Stream	7502**	Gas Company Operations	TX	166,995.84		
43**	Mid-Stream	8809**	Office & Clerical	TX	439,564.55		
43**	Mid-Stream	8809**	Office & Clerical (officer capped)	TX	36,699.00		
43**	Mid-Stream	8810**	Office & Clerical	TX	687,425.93		
SPL&S	**72-1589038**					$2,921,224	$21,558
46K		7539	Elec Workers	AZ	1,807,504.78		
46K		8810	Office & Clerical	AZ	1,249,146.54		
MESQ	**33-0893236**					$3,056,651	$19,182
A22		7500	Gas Workers	NV	404,434.90		
A22		7539	Elec Workers	NV	411,690.82		
A22		8810	Office & Clerical	NV	1,379,857.21		
ELDORADO	**76-0529528**					$2,195,983	$17,225
SNX		7539	Elec Workers	CA	1,737,510.56		
SNX		8810	Office & Clerical	CA	721,010.79		
SNX		8810	Office & Clerical (1 Exec Capped)	CA	0.00		
ELK HILLS	**95-4729983**					$2,458,521	$49,185
ALL ENTITIES			**TOTALS**			$20,809,430	$169,733

12. Please provide all supporting documentation and calculations for allocating any of these costs to SCG.

SDG&E Response 12:

The utilities have a few employees able to telecommute and who live in states other than California, and the premium allocation reflects coverage for those employees. Following is a listing for SCG:

Title	Department Name	EE #
Proj Spec	P/Line Integrety - Trans	15097
Busn Analyst - I	Business Analysis	54020
Proj Spec	P/Line Integrety - Trans	40648

Please see the attachment in the response to Question 11, above, which supports the allocation workpaper MBD-WP-83.

DRA DATA REQUEST
DRA-SDG&E-089-DFB
SDG&E 2012 GRC – A.10-12-005
SDG&E RESPONSE
DATE RECEIVED: JUNE 17, 2011
DATE RESPONDED: July 1, 2011

22. **Cost Center 1100-0425-LIAB SONGS NUCLEAR:** In 2008 costs were $230,000 and in 2009 costs were $356,000. Please provide a detailed explanation for the 54.9% increase of $126,000.

SDG&E Response 22:

The 54.9% increase was due to timing of receipt of insurance premium invoices and offsetting return of premium credits from Southern California Edison (SCE). SCE, as the majority owner of San Onofre Nuclear Generating Station (SONGS), places all the required nuclear insurance policies on behalf of the SONGS joint owners. In April of 2009, SDG&E reimbursed SCE for the 2009 American Nuclear Insurers (ANI) nuclear liability insurance policy renewal premiums. It was not until March of 2010 did SDG&E receive the offsetting return of premium credits from SCE. The offsetting return of premium credits was ($97,032.61). Had the credit been returned by SCE in 2009, the net premiums for cost center 1100-0425 would have been $259,000.

15. On page MBD-23, Corporate Center states: "SFP, provided under the Price-Anderson Act, requires nuclear reactor owners to share in losses which exceed the primary insurance coverage." When was Price-Anderson Act implemented? What have been the "losses" for the record period 2005 through 2010?

SDG&E Response 15:

As noted above in Question 14, above, the U.S. Congress enacted the Price-Anderson Nuclear Industries Indemnity Act in 1957, as an amendment to the Atomic Energy Act of 1954. The Energy Policy Act of 2005 extended the Price-Anderson Act to December 31, 2025. There have been no nuclear liability losses at SONGS for the record period 2005-2010.