ORA ORAL DATA REQUEST
ORA-SDGE/SCG-ORAL-DR-002-LL
2019 GRC – A.17-10-007/008
SDG&E/SCG RESPONSE
DATE RECEIVED: DECEMBER 28, 2017
DATE RESPONDED: JANUARY 12, 2018

On December 28, 2017, a call was held between the ORA and SDG&E/SCG. During that call, the following questions were asked:

Please provide the following:

1. Provide 2017 insurance premiums paid as of December 28, 2017

Utility Response 01:

See Chart in attachment "ORA-SDGESCG_ORAL-DR-022-LL Insurance Question 1.xlsx"

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2. Provide 2018 renewal premiums. If they are not available, when will they be?

Utility Response 02:

2018 insurance program renewals occur at different times throughout the year. Each renewal is negotiated separately. Insurance premiums are available upon renewal date.

3. Page NKC-11 line 17-18 says "coverage to Sempra companies outside of California, for statutory benefits payable under the workers' compensation statutes of the various states." What other business units are included other than SDG&E and SCG?

Utility Response 03:

This policy also provides coverage for Sempra Energy's non-regulated business units (those that are not subject to regulation by the California Public Utilities Commission).

4. Page NKC-3, Table NKC-2 is a property insurance summary, provide a breakdown of the increases shown for each line of coverage.

Utility Response 04:

Please see the specific workpaper sections found in Exhibit No.:SCG-29/SDG&E-27-WP as described below:

- A-1 Primary Property Page 6
- A-2 Excess Property Page 10
- A-3.1 Control of Well Page 16
- A-3.2 Crime Page 18
- A-3.3 Yuma 500 KV Page 20
- A-3.4 Cargo Page 22
- A-3.5 Foreign Package Page 24
- A-3.6 SONGS Nuclear Page 26
- A-3.7 SONGS Mesa Page 28
- A-3.8 Broker Fees Page 30

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5. Page NKC-6 line 10/11 references forecasts provided by Marsh and OIL, provide Marsh and OIL forecasts.

Utility Response 05:

Please see Appendix B of the testimony (Ex. SCG-29/SDG&E-27) for the March 6, 2017 letter of Marsh USA titled Premium Estimates forecast, and Appendix C of the testimony for the September 12, 2017 premium indication email from OIL.

6. Page NKC-6 line 20-22 says “this arrangement results in lower costs…”. Provide support for lower cost

Utility Response 06:

Please see Appendix D of the testimony (Ex. SCG-29/SDG&E-27) for the June 6, 2017 email from Marsh outlining the costs to purchase equivalent earthquake coverage from commercial insurance markets.

7. Page NKC-8 table NKC-6, what was paid in 2017? Provide premiums paid for 2018 and if they are not available, state when they will be.

Utility Response 07:

Please see question 1 for premiums paid in 2017. Please see question 2 for 2018 premium availability.

8. Page NKC-8 Table NKC-6, why is line B-2 Fire go up $14.6 million? If numbers are in workpapers, please break them out.

Utility Response 08:

Please refer testimony (Ex. SCG-29/SDG&E-27) page NKC-14 lines 14 – 25 and workpaper (Ex. SCG-29/SDG&E-27-WP) sections B-2.1 (excess fire) and B-2.2 (Wildfire Damage Reinsurance) for wildfire insurance costs broken out by year.

Wildfire insurance forecast was based on anticipated insurance market conditions as of the October 6, 2017 GRC filing date.

While not known at the time of our filing, the wildfires in PG&E's service territory - which began on October 8, 2017 – will likely impact insurance pricing going forward. Marsh (Sempra's insurance broker) provided an update on the California wildfire insurance market on November 1, 2017.[1] In its November 1, 2017 update, Marsh suggests that wildfire insurance pricing could possibly increase 30% to 100% or more. Marsh also indicated that another significant wildfire involving a California Investor Owned Utility could further negatively impact pricing.

The December wildfires in SCE's service territory occurred after Marsh's November 1, 2017 update; as such, we anticipate additional wildfire insurance availability challenges, which could result in increased wildfire insurance costs above Marsh's November 1, 2017 guidance. The fact that the overall wildfire insurance market is seeing price increases is further reflected in a December 29, 2017 letter of notification SCE submitted to the Commission seeking to establishing a Z-Factor for costs associated with wildfire liability insurance costs. According to SCE, insurance prices have increased dramatically from what they had originally forecasted for 2018. Based on Marsh forecast and information outlined in the SCE letter, we are anticipating that wildfire insurance costs will be significantly higher than our forecasted amount outlined in our October 6, 2017 GRC filing.

[1] See the attached November 1, 2017 email from Marsh titled "Email - Update on Conditions in the CA Wildfire Insurance Marketplace for Utilities.pdf".

9. Page NKC-9 Table 8, why does SDG&E have such a high allocation percentage versus SCG?

Utility Response 09:

Allocation for page NKC-9 Table 8 is based on the number of miles of overhead electrical wires that are owned by each company.

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10. Workpaper page 52, break out the summary box into components. Define the "Payroll" piece and how much that contributes.

Utility Response 10:

Sempra follows California state rules in developing workers' compensation payroll. Part 3, Section V of the California Bureau Workers Compensation Underwriting Manual, discusses payroll development in detail. Insurance carriers use a confidential calculation based on payroll to come up with the premium. How much payroll contributes to final premium calculation is confidential to each insurance carrier. We use broker forecast to help forecast our go forward workers' compensation premiums.

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11. Provide proof the wildfire premiums are increasing.
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Utility Response 11:

Sempra's wildfire insurance premium are impacted by worldwide losses sustained by wildfire insurance carriers. As outlined in testimony (Ex. SCG-29-SDG&E-29) on page NKC – 14 lines 15 – 25 and page NKC – 15 lines 1- 2, Sempra's wildfire insurance premiums were negatively impacted in 2016 by the Butte wildfire as Sempra did not have a wildfire insurance loss during that insurance policy period. As outlined in question 8, we are anticipating a significant increase in wildfire insurance costs above the forecasted costs provided as of our October 6, 2017 filing. Premiums will be known by the June 26, 2018 renewal date.

The forecasts provided in testimony are built off of these assumptions. 2018 premiums will not be known until the June 26, 2018 renewal date. SCG and SDG&E believe the forecast in testimony represents the best projection for these costs at that time. My testimony supports the implementation of a balancing account to capture the actual costs of liability premiums for this reason.

12. Page NKC-16 asks for a new balancing account. How were you paying for liability premiums previously? Why a two-way balancing account versus a one-way?

Utility Response 12:

Forecasts for insurance premiums are included in General Rate Case filings. The approved forecasted expenses are incorporated into a revenue requirement that is ultimately adopted in the GRC proceeding. That revenue is collected from ratepayers (with attrition in the post-test years) over the GRC cycle. SDG&E and SCG then pay for and expense actual liability insurance premiums as incurred during the GRC cycle and book them into FERC account 925.

A two-way balancing account is proposed in this application "due to the uncertainty around the need for and the price of additional insurance and because of market fluctuations in the cost of liability insurance" (Ex. SCG-29/SDG&E-27, Page NKC-17 lines 1-3). As outlined in the testimony and further explained above in questions 8 & 11 of this data request, worldwide insurance losses directly impact Sempra's insurance costs. Because of this, forecasting our insurance costs on a 3-year forward-looking basis is challenging. Accurately forecasting insurance losses and the resulting impacts to Sempra's liability insurance costs is difficult. The cost volatility resulting from insurance market changes has the potential to be significant and have a major impact on the Utility's overall costs.

Since actual insurance premiums are influenced by insurance market cycles, a two-way balancing account is appropriate and fair to both ratepayers and the company. A one-way balancing account could impose an unreasonable cost responsibility on the company by impeding the recovery of costs that could be significantly greater than the forecast. Although the company has made every effort to forecast insurance premiums, based on information available at that time, it is reasonable to understand that insurance premiums cannot be accurately forecasted; particularly in California. A two-way balancing account would give the company the ability to continue to prudently procure insurance at levels commensurate to the underlying risk without being exposed to insurance market volatility that is beyond the company's control. In both the two-way and one-way balancing account mechanisms, savings are returned to ratepayers on an annual basis, but given the potential volatility and magnitude of liability insurance costs, a two-way balancing account is fairer to both the company and ratepayers as insurance costs are influenced by insurance markets cycles that are beyond Sempra's control. Ratepayers would pay for insurance premiums based on actual expenses and not on a forecast, which would be different (as explained above). To not allow a two-way balancing account mechanism would hold SDG&E and SCG financially accountable to insurance market volatility, which has the potential to be significant based on our latest insurance broker guidance (see question 8 response).

13. Provide list of policy renewal dates.

Utility Response 13:

Insurance Policy	Renewal Date
Primary Property	2/20/2018
Excess Property - OIL	1/1/2018
Control of Well	3/1/2018
Crime	10/1/2018
Property Insurance – Yuma 500 kv	Reimbursement to Arizona Public Service
Property Insurance – Cargo	2/20/2018
Property Insurance – Foreign Package	6/26/2018
Property Insurance – SONGS Nuclear	Reimbursement to Edison
Property Insurance – SONGS Mesa Non-Nuclear	Not included as part of 2019 GRC request
Excess Liability (Non-Wildfire Liability)	6/26/2018
Wildfire Liability	6/26/2018
Wildfire Property Damage Reinsurance	6/26/2018
Directors and Officers	10/11/2018
Fiduciary Liability	10/11/2018
Excess Workers Compensation	6/26/2018
Global Workers Compensation	6/26/2018
Cyber	10/1/2018
Automobile	6/26/2018
Yuma 500 Kv Liability	Reimbursement to Arizona Public Service
P&I Charter	2/20/2018
Pollution	7/24/2018
Terminal Operators	2/20/2018
SONGS Nuclear Liability	Not included as part of 2019 GRC request
SONGS Mesa Non-Nuclear Liability	Not included as part of 2019 GRC request
Railroad Protective Liability Policy	Various throughout the year
Surety Bonds	Various throughout the year

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14. Workpaper page 38, provide additional information regarding the summary box.

Utility Response 14:

Please see pages NKC – 14 and 15 for additional information regarding our liability insurance forecasting approach. Additionally, please refer to appendix B of the testimony (Ex. SCG-29/SDG&E-27) for the March 6, 2017 letter by Marsh USA titled Premium Estimates forecast. Workpaper (Ex. SCG-29/SDG&E-27-WP) page 37 shows the Escalated Forecast from the Base Year of 2016.