

Application No: A.18-11-XXX
Exhibit No.:
Witness: N. Cayabyab

Application of Southern California Gas
Company (U 904 G) and San Diego Gas &
Electric Company (U 902 G) for Review of
Costs Incurred in Executing Pipeline Safety
Enhancement Plan

Application A.18-11-XXX

CHAPTER VIII
DIRECT TESTIMONY OF NEIL CAYABYAB
(INSURANCE)
ON BEHALF OF
SOUTHERN CALIFORNIA GAS COMPANY
AND
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

November 13, 2018

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1 **I. PURPOSE AND OVERVIEW OF TESTIMONY**

2 The purpose of my direct testimony on behalf of Southern California Gas Company
3 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to explain the prudence of our
4 Owner Controlled Insurance Program (OCIP) procurement and the reasonableness of OCIP and
5 Professional Liability insurance costs over the course of the Pipeline Safety Enhancement Plan's
6 (PSEP) Phase 1A. In this Application, SoCalGas and SDG&E request recovery of \$8.1 million
7 for PSEP-specific insurance overheads costs. The cost of \$6.1 million is allocated between
8 SoCalGas for \$5.0 million and SDG&E for \$1.1 million for completed projects. Additionally,
9 \$2.0 million is allocated to SoCalGas for the projects submitted to the Commission for review in
10 A.14-12-016.¹ The allocation between SoCalGas and SDG&E ties directly to the percent of
11 construction costs related to each entity's pipeline enhancements. The insurance overhead cost
12 allocation to each project is presented in the Chapter VII (Moersen) workpapers.

13 **A. Reasons for OCIP**

14 OCIPs are generally used in large-scale infrastructure, construction and energy-related
15 projects because such programs offer a number of benefits. Typically, each contractor is
16 required to negotiate their own coverage amounts and insurance terms as required by the project,
17 which results in varied and inconsistent coverage terms. Conversely, in an OCIP, coverage is
18 purchased on behalf of all enrolled construction contractors, who thus receive dedicated limits,
19 providing consistent coverage terms.

20 The analysis for procuring the PSEP OCIP began in 2012. Factors favoring the use of
21 OCIP include the nature of the construction in Phase 1A (e.g., High Consequence Area (HCA)

¹ See CPUC Decision (D.)16-12-063 in Application (A.)14-12-016.

1 pipe combined with more populated areas) and the multiple overlapping projects at different sites
2 and with various construction contractors.

3 Three options for PSEP insurance were evaluated: (1) use of SoCalGas and SDG&E's
4 existing liability insurance program, (2) individual construction-contractor-procured coverage,
5 and (3) a utility-procured insurance program for PSEP Phase 1A (i.e., OCIP).

6 Given the size and complexity of projects, and Phase 1A's focus on more populated
7 areas, coverage under SoCalGas and SDG&E's insurance program was not viable, because
8 potential losses resulting from this program could negatively impact future insurance premiums.

9 The intent of SoCalGas and SDG&E's insurance program is to provide coverage for normal
10 operational risks. The amount of insurance limits is defined for each policy year and could be
11 eroded by an event causing an insurance loss. Providing coverage under SoCalGas and
12 SDG&E's insurance program increases the risk to that program which could translate to lower
13 available insurance limits for non-PSEP related incidents and could lead to future cost increases
14 as losses could negatively impact future premiums. Coverage for professional liability resulting
15 from engineering design errors and omission is also not included under this insurance program.

16 A separate professional liability insurance policy would need to be purchased to provide
17 coverage for this exposure. As PSEP is an incremental program, SoCalGas and SDG&E's
18 existing liability program was not designed to provide coverage for that additional scope.
19 Because of that, insurance underwriters may not have been willing to provide coverage.

20 Individual construction-contractor-procured coverage was determined to have particular
21 disadvantages if used for PSEP. Given the scope and focus of Phase 1A in more populated
22 areas, meaningful insurance limits were required to mitigate risk. While higher limits help to
23 lower the risk, the number of construction contractors able to secure such limits is reduced. This

1 effectively limits the number of construction contractors available to bid on such projects, which
2 could result in decreased competition leading to higher costs. Also, construction contractor
3 insurance terms and conditions can vary. In some cases, construction contractor insurance limits
4 could be eroded by other projects, which could reduce the limits available for PSEP-related
5 work. Additionally, another PSEP goal is to support smaller Diverse Business Enterprises
6 (DBE) contractors. Generally, DBE construction contractors do not have the ability to purchase
7 large insurance limits and therefore might not be able to bid on a project with such limits. Given
8 these concerns, individual construction-contractor-procured insurance was not viable for Phase 1
9 work.

10 Ultimately, it was determined that SoCalGas and SDG&E's OCIP could increase supplier
11 diversity and competition while providing meaningful coverage to reduce Phase 1A risks. The
12 program provides dedicated limits, consistent coverage terms, and coverage for all enrolled
13 construction contractors. Procurement of the OCIP was done through competitive sourcing
14 efforts. A Request for Proposal (RFP) was provided to several insurance brokers to cover PSEP
15 activities. This was done to lower the total cost of the insurance program by creating
16 competition among insurance brokers and maximizing access to global insurance markets. For
17 example, to drive competition, this program was presented to over 40 different global insurance
18 companies. We believe employing OCIP helped secure improved coverage terms compared to
19 the other two options.

20 After the initial OCIP placement, we further reduced the professional liability insurance
21 premium by \$1.75 million. This was done after we reduced the mileage by more than half
22 through records review. We used that information to argue that the insurance carrier's risk was
23 reduced. Additionally, we successfully secured a six-month extension to the general liability

1 portion of this program at no additional cost and secured a reduction of approximately \$150,000
2 in broker fees.

3 **B. OCIP Coverage**

4 *i. General Liability Coverage*

5 The PSEP OCIP includes \$300 million general liability coverage.² General liability
6 coverage insures third-party property damage, bodily injury, and personal injury resulting from
7 the conduct of OCIP-enrolled construction contractors. Coverage enhancement includes ten-year
8 tail coverage, which provides additional coverage should a claim arise after the OCIP expires.

9 *ii. Professional Liability Insurance*

10 Given the extensive design work done for PSEP, professional liability insurance was also
11 procured to provide \$50 million coverage for engineering design contractors' liability arising
12 from potential engineering design errors and omissions. This was purchased because general
13 liability insurance does not provide coverage for this type of risk. Coverage is limited to
14 engineering design firms initially identified to have this exposure.

15 **II. CONCLUSION**

16 In summary, SoCalGas and SDG&E's implementation and use of the OCIP was
17 appropriately procured as it provides consistent levels of insurance coverage for all enrolled
18 construction contractors participating in the PSEP. SoCalGas and SDG&E request the
19 Commission find that the OCIP was executed prudently, find the associated cost reasonable, and
20 approve rate recovery for it.

21 This concludes my prepared Direct Testimony.

² Coverage is subject to certain terms and conditions.

1 **III. WITNESS QUALIFICATIONS**

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

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

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

15 I have previously testified before the California Public Utilities Commission.