

Company: Southern California Gas Company (U 904 G) / San Diego Gas & Electric
Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SCG-224 / SDG&E-228-C

PUBLIC VERSION

**PREPARED REBUTTAL TESTIMONY
OF DENNIS J. GAUGHAN
(CORPORATE CENTER - INSURANCE)**

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



May 2023

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**PREPARED REBUTTAL TESTIMONY OF
DENNIS J. GAUGHAN
(CORPORATE CENTER - INSURANCE)**

I. INTRODUCTION

This confidential prepared rebuttal testimony responds to the Confidential Prepared Testimony of The Utility Reform Network (TURN), as submitted by Mr. Robert Finkelstein and Mr. Mark Ellis (Exhibit (Ex.) TURN-11-C), dated March 27, 2023. It serves as companion testimony to the testimony and material included in Ex. SCG-224/SDG&E-228/Gaughan, consistent with the Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) (collectively, the Companies) treatment of insurance layer information, pricing, and coverage details as highly confidential.

II. CONFIDENTIAL REBUTTAL TO PARTIES' PROPOSALS

A. Costs Authorized for Wildfire Liability Insurance

The Companies' wildfire liability insurance program costs [REDACTED] in contrast to 46% rate on line for Southern California Edison Company (SCE) and nearly 80% rate on line for Pacific Gas and Electric Company (PG&E).² The price differentials explain the broad scope of SCE's and PG&E's self-insurance settlements, in each case addressing \$1 billion of coverage; TURN's self-insurance recommendation in this proceeding is limited to the first \$50 million of the Companies' wildfire liability insurance program.³

TURN's recommendation to reduce the Companies' authorized forecast for wildfire liability insurance to \$140 million is partially based on an estimated \$25 million savings purportedly to be achieved by requiring the Companies to self-insure the first \$50 million of coverage instead of buying its current \$50 million of coverage from the commercial insurance

¹ Rate on line is one measurement of insurance cost and is the percentage derived by dividing insurance premium by coverage limit. See Ex. SCG-224/SDG&E-228/Gaughan at DJG-23 n.34 for an example.
[REDACTED]

² Prepared Testimony of Robert Finkelstein and Mark Ellis Addressing Wildfire Liability Insurance-Related Issues and the Liability Insurance Premium Balancing Account, on behalf of The Utility Reform Network (TURN) (March 27, 2023) (Ex. TURN-11 (Finkelstein/ELLIS)) at 5.

³ *Id.* at 2.

1 market.⁴ [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 TURN's \$25 million of estimated savings becomes illusory in the event of a third-party
5 wildfire claim, which exposes ratepayers to the full \$50 million risk of loss. TURN suggests that
6 claims could be recovered through the Companies' Third-Party Claims Memorandum Account.⁶
7 As noted in my Prepared Direct Testimony, the Companies considered and explored alternatives
8 to conventional insurance as part of their programmatic approach to diversifying the sources of
9 risk capital, introducing competition, and limiting the pricing power of any single source of
10 insurance, and in the end decided to pursue their pricing and coverage objectives with the six
11 different risk transfer agreements that they currently use in their program.⁷ The Companies
12 disagree that a memorandum account as opposed to a two-way balancing account would be the
13 appropriate vehicle to handle claims in a self-insured scenario, as explained in my public
14 testimony.⁸ [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 **B. Coverage Authorized for Wildfire Liability Insurance**

20 TURN estimates that the Companies' recorded cost of wildfire liability insurance
21 coverage in excess of \$1 billion is \$35.5 million.⁹ The lion's share of recorded costs for
22 coverage in excess of \$1 billion is for insurance-linked securities (ILS)-catastrophe (CAT)

⁴ *Id.*

⁵ *Id.* at 8. Terms and conditions, including potential return premiums if the Companies remain free of wildfire claims, complicate rate on line calculations. [REDACTED]

⁶ *Id.*

⁷ Direct Testimony of Dennis J. Gaughan (Corporate Center – Insurance) (May 16 2022) at DJG-24 (Ex. SCG-24/SDG&E-28 (Gaughan)).

⁸ Ex. SCG-224/SDG&E-228 (Gaughan) at DJG-16 – DJG-17.

⁹ Confidential Prepared Testimony of Robert Finkelstein and Mark Ellis Addressing Wildfire Liability Insurance-Related Issues and the Liability Insurance Premium Balancing Account, on behalf of TURN) (March 27, 2023) (Ex. TURN-11-C (Finkelstein/Ellis)) at 2.

1 bonds. CAT bonds are issued for three-year terms. Sempra currently has 2020 and 2021 CAT
2 bonds outstanding. In 2021, recorded costs for these two bonds were \$29,182,000,¹⁰ providing
3 \$285 million of wildfire liability coverage in excess of \$1 billion¹¹ [REDACTED]

4 [REDACTED] [REDACTED] The Energy Division approved including ILS-CAT bonds in the
5 Companies' wildfire liability insurance program when it approved the Sempra's 2018 CAT bond
6 as part of the Companies 2020 Tier 2 Advice Letters (AL).¹³

7 **C. Self-Insurance**

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

15 **III. CONCLUSION**

16 In summary, SoCalGas and SDG&E respectfully request that the Commission adopt their
17 proposed 2021 test year insurance forecast and reauthorize the Companies' Liability Insurance
18 Premium Balancing Accounts (LIPBA).

19 This concludes my confidential prepared rebuttal testimony.

¹⁰ Ex. SCG-24/SDG&E-28-WP (Gaughan) at 45, B-2.3.

¹¹ See Appendix A.

¹² *Id.*

¹³ See SoCalGas AL 5725G, approved December 15, 2020 and effective December 9, 2020; see also SDG&E AL 3638-E/2922-G, approved February 2, 2021 and effective December 9, 2020.

APPENDIX A
PUBLIC VERSION
SEU SUPPLEMENTAL RESPONSE 9B
TO DATA REQUEST (DR)
TURN-SEU-007

Data Request Number: TURN-SEU-007

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Proceeding Number: A2205015_016 2024 GRC

Publish To: The Utility Reform Network

Date Received: 10/7/2022

Date Responded:10/21/2022

Supplemental: 03/03/2022

9. In Ex. SCG-24/SDG&E-28, Appendix H provides information regarding the “historical layer data points” for insurance and reinsurance in Sempra’s Wildfire Excess Liability and Physical Damage programs.

b. For each of the policy years 2019-2020, 2020-2021, 2021-2022, and 2022-2023, for each of the layers please provide the following information.

- i. The attachment point for the layer;
- ii. Whether the coverage was insurance or reinsurance; and
- iii. The cost of the insurance or reinsurance coverage.

SEU Response 9b:

SoCalGas and SDG&E object to this request on the grounds that it is unduly burdensome as the request relates to each individual layer. Subject to and without waiving the objection, SoCalGas and SDG&E respond as follows:

- (i) as to the number of layers for each coverage, see Appendix H to DJG Direct Testimony and response to Question 9a above;
- (ii) as to limits and description of coverage, see the confidential table provided in response to Question 14 below;
- (iii) as to recorded costs for 2018-2021, see the Workpapers to Prepared Direct Testimony of Dennis J. Gaughan (Exhibit SCG-24/SDG&E-28-WP); and
- (iv) as to recorded costs for 2022, see response to Question 7d above.

SEU Supplemental Response 9b:

In response to TURN’s February 13, 2023, follow-up request, SoCalGas and SDG&E state as follows:

Applicants maintain their objection to this request as unduly burdensome. Specifically, “the burden, expense, or intrusiveness of that discovery clearly outweighs the likelihood that the information sought will lead to the discovery of admissible evidence.”¹

In the initial response to Question 9b, dated October 21, 2022, Applicants followed their past practice of providing insurance coverage and cost information, which seeks to preserve the competitive advantage that has accrued to ratepayers through the Blind-Bid pricing strategy described in Exhibit SCG-24/SDGE-28 at DJG-20 to DJG-21.

¹ See California Public Utilities Commission Rule 10.1.

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SEU Supplemental Response 9b (Continued):

Sempra's ability to keep individual layer and pricing information strictly confidential, so that an insurer on one layer of the program does not know the pricing and coverage limits of any other layer, has been integral to its ability to procure wildfire insurance at a fraction of the cost paid by the other investor-owned utilities. Thus, this practice benefits ratepayers. In contrast, the details of the wildfire insurance programs of the other investor-owned utilities (IOUs) are provided in their quarterly reports filed with the Securities Exchange Commission or are provided in publicly available documents filed with the Commission.

Applicants have already disclosed the total costs and limits of the wildfire liability insurance program and have provided layer information in the form and content as it has in previous General Rate Cases (GRCs). Nevertheless, to facilitate TURN's understanding and confirmation that the pricing of Sempra's wildfire liability insurance program decreases with increasing layers, SoCalGas and SDG&E provide the attached supporting supplemental document containing **Confidential and Protected Materials which are provided pursuant to PUC Section 583, D.21-09-020 and GO 66-D (Revision (Rev.) 2) and/or an executed Non-Disclosure Agreement for this proceeding.** For recorded costs and coverage limits for Fire Liability Insurance, Wildfire Liability, Wildfire Property Damage Reinsurance, and ILS Wildfire Insurance from 2019 – 2021, please refer to attachment '**TURN-SEU-007_Attach_Q9b Supplemental_CONFIDENTIAL.pdf.**'

B-2 LIABILITY INSURANCE - FIRE

Description of Coverage: Coverage for third-party legal liability coverage for bodily injury, property damage, and personal injury

	2019	2020	2021
Coverage Limit:			
Deductible:			
From Workpapers B-2	\$129,805,749	\$183,829,776	\$202,887,819
Rate Online			

B-2.1 & 2.4 LIABILITY INSURANCE - WILDFIRE LIABILITY

Description of Coverage: Coverage for third-party legal liability coverage for bodily injury, property damage, and personal injury

	2019	2020	2021
Coverage Limit:			
Deductible:			
From Workpapers B2.1 & B2.4	\$81,411,858	\$118,961,835	\$120,718,274
Rate Online			

B-2.2 & 2.5 LIABILITY INSURANCE - WILDFIRE PROPERTY DAMAGE REINSURANCE

Description of coverage: Coverage for third-party property damage arising out of wildfire.

	2019	2020	2021
Coverage Limit:			
Deductible:			
From Workpapers B2.2 & B2.5	\$42,903,335	\$48,636,031	\$52,987,339
Rate Online			

B-2.3 LIABILITY INSURANCE - ILS WILDFIRE

Description of coverage: Coverage for third-party property damage arising out of wildfire.

	2019	2020	2021
Coverage Limit: ¹			
Deductible: ²			
From Workpapers B2.3	\$5,490,555	\$16,231,910	\$29,182,206
Rate Online			

¹Response 8e to TURN 007 includes coverage for the ILS-Cat bond without the associated collateralized reinsurance

²Lowest attachment point where more than one CAT bond is outstanding