

Company: Southern California Gas Company (U 904 G)
Proceeding: 2020 Cost of Capital
Application: A.19-04-018
Exhibit: SCG-06

SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
PREPARED SUPPLEMENTAL TESTIMONY OF JESSE S. ARAGON
(WILDFIRE LEGISLATION)

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

August 2019

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1 **SOUTHERN CALIFORNIA GAS COMPANY**

2 **PREPARED SUPPLEMENTAL TESTIMONY OF JESSE S. ARAGON**

3 **(WILDFIRE LEGISLATION)**

4 **I. INTRODUCTION**

5 Southern California Gas Company (SoCalGas) submits supplemental testimony
6 to address the impacts (if any) of the wildfire legislation recently enacted by California to
7 SoCalGas' Cost of Capital proposal. The Commission specifically instructed applicant
8 utilities in this consolidated proceeding to serve supplemental testimony addressing
9 Assembly Bill (AB) 1054, which was signed into law on July 12, 2019.

10 **II. NO ADJUSTMENT TO PROPOSED RETURN ON EQUITY AND CAPITAL**
11 **STRUCTURE**

12 There would be no impact to SoCalGas' proposals concerning authorized Return
13 on Equity (ROE) or authorized capital structure resulting from the wildfire legislation.
14 The proposals for ROE and capital structure were developed based on financial
15 modeling and financial data that were not directly dependent on any quantification of
16 wildfire risk specifically; and, SoCalGas did not develop any incremental ROE premium
17 based on wildfire risk. Therefore, SoCalGas would not adjust its proposals in response
18 to the recent enactment of new wildfire legislation.

19 **III. NO MATERIAL IMPACT TO COMPANY'S RISK ANALYSIS**

20 My direct testimony (Exhibit SCG-03) presents a discussion of the various risks
21 that SoCalGas faces as a California regulated utility and gas-only service provider.
22 Among the various business, financial, and regulatory risks that SoCalGas faces, I
23 discuss the litigation risks perceived by the credit rating agencies with respect to

1 California's application of inverse condemnation. In my direct testimony, I discuss
2 wildfire-related risk in the context of inverse condemnation.¹ This supplemental
3 testimony addresses whether the enactment of AB 1054 impacts the risk analysis
4 provided in my direct testimony.

5 **A. Credit Rating Agencies' Reaction to Wildfire Legislation**

6 The three credit rating agencies (Moody's, Fitch, and S&P) all produced credit
7 rating reports shortly after the wildfire legislation became law. Their analyses appear to
8 focus on electric utilities, such that there was not much by way of discussing any direct
9 impact to SoCalGas' credit rating or outlook as a result of the enactment of wildfire
10 legislation. Generally, the credit rating agencies view the passage of AB 1054 as a
11 potential positive for the electric utilities, including San Diego Gas & Electric Company
12 (SDG&E).

13 According to Moody's, the passage of AB 1054 was described as credit positive
14 because it helps address the more contentious political and regulatory environment that
15 emerged in California over the past twenty four months.² According to Fitch, the
16 enactment of AB 1054 is credit-supportive for SDG&E, providing protection against
17 future catastrophic wildfires at a reasonable cost.³ However, Fitch also states, "the
18 continuation of inverse condemnation remains a long-term credit issue for SDG&E as
19 an electric utility in California."⁴

¹ See Exhibit SCG-03 (Aragon), pp. 5-6.

² Source: Moody's, Moody's affirms San Diego Gas & Electric Company's ratings; outlook remains negative (July 12, 2019).

³ Source: Fitch, "Fitch Affirms San Diego Gas & Electric's IDR and 'BBB+'; Outlook revised to Stable (July 17, 2019).

⁴ Id.

1 **B. Contagion Risk and Inverse Condemnation**

2 As I discussed in my direct testimony, certain rating agencies have identified
3 contagion risk associated with inverse condemnation/wildfires, such that SoCalGas is
4 not immune from risks impacting its affiliated utility, SDG&E. I stated:

5 Recent events in California illustrate the major risk for utilities due to inverse
6 condemnation associated with wildfires. . . . While SoCalGas is not an
7 electric utility and has therefore not been directly involved with wildfires that
8 have been related to electric infrastructure, SoCalGas is not free from this
9 risk.⁵

10 Based on these more recent credit rating agency reports, I observe two things.
11 First, the credit rating agencies do not discuss any direct benefits to SoCalGas resulting
12 from the enactment of wildfire legislation. Second, the wildfire legislation did not
13 address California’s application of the inverse condemnation doctrine itself. Thus,
14 SoCalGas along with the other California utilities are still subject to an unfavorable
15 application of inverse condemnation relative to other jurisdictions. Inverse
16 condemnation claims are not restricted to electric utilities or wildfire related incidents.
17 Natural gas utilities are also susceptible to inverse condemnation claims. For example,
18 inverse condemnation is among the claims being asserted in Aliso Canyon-related
19 litigation involving SoCalGas.⁶

20 Therefore, while the passage of AB 1054 may have some indirect impact on
21 SoCalGas in terms of the contagion risk discussed earlier, this legislation does not

⁵ Exhibit SCG-03 (Aragon) at 5.

⁶ Source: 2018 10-K Report, pp. F-145 to F-146.

1 mitigate the continued risk of inverse condemnation claims. Further, wildfire-related
2 contagion risk is but one of several risks that SoCalGas discusses to support its Cost of
3 Capital proposal.

4 **IV. CONCLUSION**

5 This concludes my prepared supplemental testimony.