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-___
Exhibit: SCG-24/SDG&E-28

PREPARED DIRECT TESTIMONY OF

DENNIS J. GAUGHAN

(CORPORATE CENTER – INSURANCE)

(PUBLIC VERSION)

BEFORE THE PUBLIC COMPANIES COMMISSION
OF THE STATE OF CALIFORNIA

May 2022

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SUMMARY

O&M (Shared)	2021 (000s)	2024 (000s)	Change (000s)	CAGR[1]
SDG&E Allocations	259,959	316,172	56,212	6.7%
SoCalGas Allocations	65,310	83,237	17,928	8.4%
Total Utilities	325,269	399,409	74,140	7.1%

Summary of Requests

- Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (Companies) request approval of their forecast of $399,409,000 for shared operations and maintenance costs (O&M) associated with Corporate Center Insurance for General Rate Case (GRC) Test Year (TY) 2024. This request represents forecasted increases of $74,140,000 from Base Year (BY) 2021 to TY 2024.
- Property and liability insurance are the primary drivers of the forecasted increases, which are based on multiple factors, including expected insurance market conditions, insurance broker estimates (primarily provided by Marsh USA, Inc. (Marsh)), and loss history.
    - Property Insurance
        - Primary Property increases are driven primarily by insurer losses, broker estimates and forecasted increases in insured values.
        - Excess Property increases are based on the premium forecast of Oil Insurance Limited (OIL).
    - Liability Insurance
        - Excess Liability increases are driven primarily by reduced insurer capacity, heightened underwriting scrutiny of California risks, insurer losses, and broker estimates.
        - Fire Liability increases are driven primarily by reduced insurer capacity, insurers' perceptions of higher California wildfire risk, increasing wildfire events in the U.S. and the rest of the world, the catastrophic nature of wildfires, insurers' losses, inverse condemnation, and broker estimates.

[1] CAGR refers to Compound Annual Growth Rate.

- SoCalGas and SDG&E request reauthorization of their two-way Liability Insurance Balancing Accounts (LIPBAs) for the TY 2024 GRC period to allow them to continue to address uncertainties associated with liability insurance premiums in a timely manner and to ensure adequate insurance coverage.

PREPARED DIRECT TESTIMONY OF
DENNIS J. GAUGHAN
(CORPORATE CENTER – INSURANCE)

I. INTRODUCTION

A. Summary of Insurance Costs and Activities

My testimony supports the TY 2024 forecasts for O&M costs associated with Corporate Center Insurance for SoCalGas and SDG&E. Table DG-1 below summarizes my sponsored costs. As discussed in greater detail below, our 2024 forecasts are based on our loss history, expected insurance market conditions, and input from our primary insurance broker, Marsh.

TABLE DG-1
Insurance
Test Year 2024 Summary of Total Costs

(2021 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A Property	19,973	7,521	27,494	19,447	7,280	26,727
B Liability	324,485	74,118	398,602	305,680	66,823	372,503
C Surety Bonds	149	36	185	142	37	179
Total	$344,607	$81,675	$426,281	$325,269	$74,140	$399,409
Allocations						Escalated 2024
SDG&E	259,959	56,212	316,172			316,172
SoCalGas	65,310	17,928	83,237			83,237
Total Utility	325,269	74,140	399,409			$399,409
Global / Retained	19,337	7,535	26,872			
Total	$344,607	$81,675	$426,281			

B. Cost Allocation Methods/Reference to Other Testimony

The Sempra Energy (Sempra) corporate insurance business unit procures insurance on behalf of SoCalGas, SDG&E, and Sempra Infrastructure Partners, LP.[1] Insurance premiums are billed pursuant to the following cost allocation hierarchy:

1. Direct Assignment
2. Causal / Beneficial (CB)
3. Multi-Factor Allocations
   a. Multi-Factor Basic
   b. Multi-Factor Split

Direct Assignment policies are generally procured for a specific operating company or when an insurance carrier provides a premium allocation for designated operating companies, with the premium costs directly allocated to the operating company that incurred the expenses. For example, we procure several railroad protective liability policies to provide coverage for projects performed by either SoCalGas or SDG&E within railroads' rights of way, with the premium for each policy allocated to the operating company responsible for the project.

The CB allocation method is used when insurance coverage is provided for multiple operating companies under a single insurance policy when the primary driver of premiums is a single risk factor, with the allocation reflecting the benefits received by the respective operating company. For example, allocations of fire insurance premiums are based on the overhead transmission and distribution (T&D) miles for SoCalGas, SDG&E, and SI Partners in proportion to the total overhead T&D miles amongst them.

Multi-factor allocations are used when insurance policies provide coverage for a broad spectrum of risks that cannot be allocated by a single factor. For example, our excess liability program provides general liability coverage for non-wildfire third-party bodily injury and property damage and has its premiums allocated using the multi-factor basic method.

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[1] Effective October 1, 2021, Sempra Infrastructure Partners, LP (Sempra Infrastructure Partners) became the successor-in-interest to Sempra Global (both referred to hereafter as "SI Partners") after a restructuring. It is the holding company for most of Sempra's operating companies that are not subject to regulation by the California Public Companies Commission (Commission or CPUC). Hereafter, "SI Partners" refers to Sempra Infrastructure Partners and is the entity that emerged from the restructuring of Sempra Global. For purposes of tables included in my testimony, "Global" is retained and is interchangeable with "SI Partners."

The Commission has previously approved the Companies' cost allocation methodology.[2]

C. Organization of Testimony

My testimony is organized as follows:

- Introduction
- Shared Costs
  - Property
    - Overview of coverages, exclusions, and cost allocations methods
    - Description of forecast methods
    - Discussion of cost drivers and mitigation efforts
  - Liability
    - Overview of coverages, exclusions, and cost allocations methods
    - Description of forecast methods
    - Discussion of cost drivers and mitigation efforts
    - Request for reauthorization of LIPBAs
  - Surety Bonds
- Conclusion

II. SHARED COSTS

SoCalGas's and SDG&E's insurance needs are generally grouped into three categories:

- Property – Provides coverage for losses or damage to the Companies' assets;
- Liability – Provides coverage for legal liability resulting from third-party claims; and
- Surety Bonds – Guarantees contractual performance obligations that the Companies owe to third parties.

A. Property

Table DG-2 below provides a summary of Sempra's property insurance and allocation of costs to SoCalGas and SDG&E for TY 2024.

[2] *See, e.g.*, Decision (D.) 19-09-051, Finding of Fact 203 at 749 ("Applicants' proposed allocation methodology is consistent with Commission decisions and Applicants' last two GRCs."). *See also* the testimony and work papers of Corporate Center – General Administration witness Derick Cooper, Exhibit (Ex.) SCG-23/SDG&E-27, for more detail on these allocation methods.

TABLE DG-2
Property Insurance

(2021 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A-1 Primary	9,094	6,167	15,261	8,908	6,060	14,967
A-2 Excess	9,572	979	10,550	9,400	920	10,321
A-3 Other Property	1,307	375	1,683	1,139	299	1,439
Total	$19,973	$7,521	$27,494	$19,447	$7,280	$26,727
						Escalated
Allocations						2024
SDG&E	11,874	5,001	16,875			16,875
SoCalGas	7,573	2,279	9,852			9,852
Total Utility	19,447	7,280	26,727			$26,727
Global / Retained	526	241	767			
Total	$19,973	$7,521	$27,494			

1. Description of Costs, Underlying Activities, and Allocations

a. Primary Property (A1)

Sempra's Primary Property program (also known as the "OIL Wrap") provides coverage for direct physical damage to property owned by SoCalGas, SDG&E, and SI Partners. Business Interruption coverage is not provided for SoCalGas and SDG&E and is therefore not included in the final costs allocated to them.[3] Covered perils include machinery breakdown, earthquake, flood, and terrorism. Significant exclusions include electric and gas distribution and transmission lines. Property is valued at full replacement cost.

Allocation of Costs: For Primary Property, we allocate costs based on risk-adjusted rates applied to the replacement value of property for each operating company. We use a loss-sensitivity factor for operating companies that have sustained a loss. The allocation percentages are shown in Table DG-3 below.

[3] Business interruption coverage is provided for a limited number of SI Partners' operating companies.

TABLE DG-3

		Allocation Rates 2021	2024
Primary Property	SDG&E	71.5%	71.6%
	SoCalGas	26.4%	26.4%
	Global / Retained	2.1%	1.9%
		100.0%	100.0%

b. Excess Property (A2)

Excess Property insurance is provided by industry mutual OIL and includes coverage for physical damage, earthquake, flood, excess pollution liability, and control of well. Major exclusions include business interruption, extra expense, and electric transmission and distribution systems. Losses from terrorism are not excluded.

Allocation of Costs: Excess Property insurance is allocated based on reported gross asset values for Sempra operating companies benefitting from the program, as is shown in Table DG-4 below.

TABLE DG-4

		Allocation Rates 2021	2024
Excess Property	SDG&E	52.8%	52.3%
	SoCalGas	45.4%	45.5%
	Global / Retained	1.8%	2.2%
		100.0%	100.0%

c. Other Property (A3)

i. Control of Well (A3.1)

Control of Well provides coverage for well-control incidents at gas storage wells. Coverage includes cost to control a well that is “out of control,” as that term is defined by the policy. It also includes coverage for the cost to re-drill wells and any pollution arising from an out-of-control incident.

Allocation of Costs: Costs for control of well coverage are allocated primarily to SoCalGas because of its well activities, with a portion charged directly to an operating company of SI Partners/Global[4] with storage facilities.

ii. Crime (A3.2)

Crime insurance provides coverage for employee theft of money or other property. The policy also insures theft of money or securities from within company premises or during transport by messengers and theft by the fraudulent inducement of a funds transfer.

Allocation of Costs: Crime coverage costs are allocated using the Multi-Factor Basic method, as is shown in Table DG-5 below.

TABLE DG-5

		Allocation Rates	
		2021	2024
Multi-Factor Basic	SDG&E	40.4%	39.2%
	SoCalGas	45.4%	46.7%
	Global / Retained	14.2%	14.0%
		100.0%	100.0%

iii. APS YUMA 500 kV Transmission System – Property (A3.3)

Arizona Public Service Corporation (APS) procures insurance coverage for direct physical damage to property owned jointly by SDG&E and APS, and charges SDG&E for its share.

Allocation of Costs: 100% SDG&E

iv. SONGS Property (A3.6) and SONGS Mesa (A3.7)

Since 2016, the majority of the San Onofre Nuclear Generating Station (SONGS) expenses have been excluded from the GRC and have been addressed in various nuclear decommissioning proceedings before the Commission. The existing SONGS switchyard, however, will be used after decommissioning and will be an ongoing operational expense.

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[4] *See supra* n.1, explaining that Sempra Infrastructure Partners, LP is the successor-in-interest to Sempra Global. SI Partners refers to Sempra Infrastructure Partners and is the entity that emerged from the restructuring of Sempra Global. "SI Partners/Global" is used to note that SI Partners and Global are interchangeable as used in this testimony.

Southern California Edison (SCE) procures the insurance for SONGS and then charges SDG&E for its portion. The insurance premium specific to the SONGS switchyard is listed in my workpapers at A3.6.

2. Forecast Method

We developed forecasts for each individual type of insurance policy. Property insurance premiums are influenced by several factors that are directly related to the operation of Sempra operating companies and the conditions that impact the worldwide insurance marketplace. Each of our individual insurance programs is subject to specific market conditions that have various impacts on insurance pricing. Our future premiums can be impacted negatively by insurers' perceptions of California risks, their financial performance, worldwide losses from perils such as wildfires, earthquakes, floods, and hurricanes, as well as Sempra operating company losses.

Future premiums are difficult to forecast with reasonable certainty because there are many factors that affect insurance premiums, and certain factors are outside of our control or are difficult to foresee, including global insurer losses resulting from wildfires, hurricanes, floods, and other types of catastrophic events. Because premiums are difficult to predict, we base our property insurance forecasts primarily on: (i) projections provided by our primary insurance broker, Marsh,[5] (ii) a forecast received from our Excess Property insurer, OIL,[6] (iii) our loss history, and (iv) projected increases in the values of our insured property. OIL's base premium is calculated using a post-loss funding mechanism that recovers incurred losses over five years. The base premium is then adjusted depending on deductible, limits, asset types and industry sector.

3. Cost Drivers and Mitigation Efforts

a. Specific Cost Drivers

The Primary and Excess portions of our property program are subject to different cost drivers.

- Primary Property—Commercial insurance provides coverage that "wraps" around the OIL coverage by responding within the deductible and then again in excess of

[5] *See* Marsh's Five-Year Forecasts for Sempra's Insurance Programs as of January 1, 2022, (Appendix B).

[6] *See* OIL Premium Indication Summary (forecasts are pre-tax) (Confidential Appendix C).

the OIL policy. The cost of our Primary Property insurance is impacted by worldwide insurer losses from catastrophes, the general financial performance of insurers, increases in the values of our insured property, and broker estimates.

- Excess Property—The OIL component of our property program is subject to different cost drivers than our Primary Property insurance. As a mutual insurance company, OIL insures the assets of its members with premiums determined, not by commercial markets, but by a post-loss funding model designed to collect 100% of the members' incurred losses over five years. The OIL funding model, as applied to members' losses, drives the cost of the program. Though this type of program is uncommon within the power and utility space, it results in lower costs and expanded coverages than what is available from commercial insurance markets.[7]

b. Efforts to Mitigate Cost Drivers

Primary Property coverage is provided by several insurers located in the United States (US), the United Kingdom (UK)/Europe, and Bermuda, with the geographic breakdown for the 2021-22 policy year being approximately 21.7% US, 73.9% UK/Europe, and 4.3% Bermuda.[8] We access global capacity to diversify credit risk, increase available capacity, and increase competition. We typically meet annually with incumbent and prospective insurance markets. During our in-person or video conference meetings, we generally review our assets, risk mitigation strategies, loss history, and risk controls for each operating company with coverage. This strategy has helped manage our property premiums for 2017-2021, as set forth in my workpapers at A-1.

Excess Property coverage is provided by OIL. OIL is a mutual insurance company that provides coverage to members engaged in energy operations. Premiums are formulaic, but are determined after member input that shapes OIL's product offerings, priorities, and business strategy. Although this type of program is uncommon within the power and utility space, it results in lower costs and expanded coverages, including excess pollution liability and control of

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[7] *See* January 14, 2022, Letter from Marsh estimating the minimum price to procure earthquake coverage from commercial insurance markets that is equivalent to what OIL provides (Confidential Appendix D).

[8] *See* 2021 Market Statistics for Sempra's Insurance Programs (Appendix E).

well coverages that are not generally included in property policies. OIL holds an annual general meeting to give members an opportunity to provide input and vote on OIL policy proposals. An officer responsible for risk management at Sempra is a member of the OIL board of directors.

B. Liability

Table DG-6 below provides a summary of Sempra's liability insurance and allocation of costs to SoCalGas and SDG&E for TY 2024.

TABLE DG-6
Liability Insurance

(2021 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
B-1 General Excess	107,679	30,661	138,340	91,817	25,524	117,341
B-2 Fire	202,888	35,191	238,079	202,746	35,167	237,913
B-3 D&O	3,727	3,161	6,888	1,896	1,548	3,444
B-4 Fiduciary	633	430	1,063	538	360	898
B-5 Workers Comp	7,092	2,882	9,974	6,639	2,714	9,353
B-6 Other Liability	2,465	1,793	4,258	2,045	1,510	3,555
Total	$324,485	$74,118	$398,602	$305,680	$66,823	$372,503
Allocations						Escalated 2024
SDG&E	248,001	51,190	299,191			299,191
SoCalGas	57,680	15,633	73,313			73,313
Total Utility	305,680	66,823	372,503			$372,503
Global / Retained	18,804	7,295	26,099			
Total	$324,485	$74,118	$398,602			

1. Description of Costs, Underlying Activities, and Allocations

a. General Excess Liability (B1)

General Excess Liability provides coverage for legal liability resulting from third-party property damage, bodily injury or personal injury claims made against SoCalGas, SDG&E, and other Sempra operating companies. Coverage includes and is in excess of separate policies covering operational pollution liability, auto liability, employer's liability, and aviation liability. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and pollution liability subsequent to disposal.

Allocation of Costs: We allocate costs using the Multi-Factor Basic method, as shown in Table DG-7 below.

TABLE DG-7

		Allocation Rates 2021	Allocation Rates 2024
Multi-Factor Basic	SDG&E	40.4%	39.2%
	SoCalGas	45.4%	46.7%
	Global / Retained	14.2%	14.0%
		100.0%	100.0%

b. Wildfire Liability (B2)

i. Wildfire Liability (B2.1)

Wildfire Liability provides coverage for third-party legal liability for bodily injury, property damage and personal injury claims arising from wildfires. Major exclusions include damage to property owned by the insured, injury to the insured's employees, and international losses.

Allocation of Costs: We allocate costs using the causal/beneficial method based on the operating company's miles of overhead electrical lines, as shown in Table DG-8 below.

TABLE DG-8

		Allocation Rates 2021	Allocation Rates 2024
Fire Insurance	SDG&E	99.8%	99.8%
	SoCalGas	0.2%	0.2%
	Global / Retained	0.1%	0.1%
		100.0%	100.0%

ii. Wildfire Property Damage Reinsurance (B2.2)

Wildfire Property Damage Reinsurance provides coverage for third-party legal liability for property damage arising from wildfires. Coverage is provided by the reinsurance market, which is different from the commercial insurance market providing the coverage described in section B2.1 above. Major exclusions include bodily injury and fire damage arising from an earthquake.

Allocation of Costs: We allocate costs using the causal/beneficial method based on the operating company's miles of overhead electrical lines, as shown in Table DG-9 below.

TABLE DG-9

		Allocation Rates	
		2021	2024
Fire Insurance	SDG&E	99.8%	99.8%
	SoCalGas	0.2%	0.2%
	Global / Retained	0.1%	0.1%
		100.0%	100.0%

iii. ILS Property Damage Insurance (B2.3)

ILS Property Damage Insurance refers to the wildfire liability insurance placed in conjunction with the issuance of insurance-linked securities (ILS), including catastrophe (CAT) bonds, whereby the proceeds of the offering are held in trust to collateralize reinsurance. The ILS market is different from the commercial insurance and reinsurance markets that provide the coverages described in sections B2.1 or B2.2. Major exclusions include bodily injury and fire damage arising from an earthquake.

Allocation of Costs: We allocate costs using the causal/beneficial method based on the operating company's miles of overhead electrical lines, as shown in Table DG-10 below.

TABLE DG-10

		Allocation Rates	
		2021	2024
Fire Insurance	SDG&E	99.8%	99.8%
	SoCalGas	0.2%	0.2%
	Global / Retained	0.1%	0.1%
		100.0%	100.0%

c. D&O Liability (B3)

Directors and officers (D&O) Liability provides coverage to corporate directors, officers, and the corporation for third-party claims alleging financial loss arising from breaches of fiduciary duties and mismanagement. Major exclusions include fraudulent or criminal acts, and claims covered under other liability policies.

Allocation of Costs: We allocate costs using the Multi-Factor Split method, as shown in Table DG-11 below.

TABLE DG-11

		Allocation Rates	
		2021	2024
Multi-Factor Split	SDG&E	23.5%	22.8%
	SoCalGas	26.5%	27.2%
	Global / Retained	50.0%	50.0%
		100.0%	100.0%

d. Fiduciary Liability (B4)

Fiduciary Liability provides coverage for third-party legal liability arising from wrongful acts committed by fiduciaries of employee benefit programs.

Allocation of Costs: Costs are allocated using the Multi-Factor Basic method, as shown in Table DG-12 below.

TABLE DG-12

		Allocation Rates	
		2021	2024
Multi-Factor Basic	SDG&E	40.4%	39.2%
	SoCalGas	45.4%	46.7%
	Global / Retained	14.2%	14.0%
		100.0%	100.0%

e. Workers' Compensation (B5)

Workers' Compensation provides coverage to Sempra and its operating companies for employee job-related injuries or diseases. Each state requires employers to pay benefits to injured employees pursuant to terms set by the state. These benefits can be paid through insurance or state-approved self-insurance. Both may be used as proof that the state-mandated benefits can and will be paid by the employer.

i. Excess Workers' Compensation (XS WC) Insurance (B5.1)

Sempra self-insures its Workers' Compensation exposure for employees of Corporate Center, SI Partners/Global,[9] SoCalGas, and SDG&E in the State of California and purchases an XS WC policy to cover large claims for California employees.

Allocation of Costs: We allocate costs based on the payroll of the covered operating companies, as shown in Table DG-13 below.

TABLE DG-13

		Allocation Rates	
California Excess		2021	2024
Workers Comp	SDG&E	37.9%	38.0%
	SoCalGas	57.0%	57.0%
	Global / Retained	5.1%	5.0%
		100.0%	100.0%

ii. Workers' Compensation & Employers' Liability (WC/EL) Insurance – All states other than California (B5.2)

WC/EL liability insurance provides coverage to Sempra operating companies outside of California for statutory benefits payable under the workers' compensation statutes of the various states. It also covers Corporate Center employees permanently assigned outside of California and third-party employer liability claims arising from employee injuries not covered by workers' compensation.

Allocation of Costs: We allocate costs based on the payroll of the covered operating companies, as shown in Table DG-14 below.

9 *See supra* n.1, n.4.

TABLE DG-14

		Allocation Rates 2021	2024
Non-California Workers Comp	SDG&E	3.3%	17.1%
	SoCalGas	2.7%	1.6%
	Global / Retained	93.9%	81.3%
		100.0%	100.0%

f. Other Liability (B6)

i. Cyber Insurance (B6.1)

Cyber Insurance provides coverage arising out of cyber incidents for third-party liability claims for privacy and security losses, payment card industry damages, and regulatory defense costs and fines; it also provides first-party damage coverage for breach response expenses, business interruption, data restoration, and cyber extortion.

Allocation of Costs: We allocate costs using the Multi-Factor Basic method, as shown in Table DG-15 below.

TABLE DG-15

		Allocation Rates 2021	2024
Multi-Factor Basic	SDG&E	40.4%	39.2%
	SoCalGas	45.4%	46.7%
	Global / Retained	14.2%	14.0%
		100.0%	100.0%

ii. Auto Liability (B6.2)

Auto Liability provides primary coverage for third-party bodily injury and property damage coverage, and comprehensive and collision coverage based on actual vehicle value. It covers all autos within the United States except those owned by SoCalGas or SDG&E in California, which are self-insured in the State of California.

Allocation of Costs: We allocate costs based on the number of covered vehicles owned by the operating company, with costs for Corporate Center vehicles then re-allocated using Multi-Factor Basic, resulting in a blended method identified as "Vehicle" in Table DG-16 below.

TABLE DG-16

		Allocation Rates 2021	Allocation Rates 2024
Vehicle	SDG&E	25.0%	21.8%
	SoCalGas	24.8%	20.4%
	Global / Retained	50.1%	57.8%
		100.0%	100.0%

iii. Aviation Liability (B6.11)

Sempra purchases non-owned aircraft and drone liability insurance to cover third-party liability arising out of the use of non-owned aircraft or drones. Sempra first purchased the policy in 2018 due to its expanded use of aircraft and unmanned aircraft systems for fire mitigation programs (firefighting, asset inspection, etc.). Since then, the use of unmanned aircraft has expanded to pipeline and gas infrastructure inspections. The policy provides coverage within the self-insured retention for non-owned aircraft and drone liability under Sempra's excess liability insurance program.

Allocation of Costs: The non-owned aviation liability insurance premium is allocated by the number of flight hours by SoCalGas or SDG&E. Unmanned aviation (drone) liability premium is allocated directly to SoCalGas or SDG&E based on the number of drones each own.

iv. Pollution Liability (B6.6)

In 2014, SDG&E purchased a right-of-way for an SDG&E transmission corridor. Because the previous owner would not verify the site's environmental exposure, SDG&E required that a five-year environmental policy be included as part of the sale. In 2019, SDG&E renewed the five-year policy and intends to renew it again in 2024. The policy covers third-party liability for bodily injury, property damage, and clean-up costs arising from new or existing pollution conditions.

Allocation of Costs: 100% SDG&E

v. Arizona Public Service (APS) Yuma 500 kV Transmission System – Liability (B6.3)

APS procures general liability insurance to cover third-party bodily injury and property damage arising from operations of the Yuma 500 kV transmission system that it jointly owns with SDG&E and charges SDG&E for its portion.

Allocation of Costs: 100% SDG&E

vi. Railroad Protective (B6.10)

Railroad Protective policies provide coverage for the work of Sempra operating companies within railways' rights of way.

Allocation of Cost: We allocate the costs directly to the Sempra operating company responsible for the work.

vii. Broker Service Fee (B6.4 and A3.8)

Broker Service Fee represents compensation for broker services.

Allocation of Costs: We allocate costs using the Multi-Factor Basic method, as shown in Table DG-17 below.

TABLE DG-17

		Allocation Rates	
		2021	2024
Multi-Factor Basic	SDG&E	40.4%	39.2%
	SoCalGas	45.4%	46.7%
	Global / Retained	14.2%	14.0%
		100.0%	100.0%

2. Forecast Method

We developed a forecast for each individual type of insurance policy. Liability insurance premiums are influenced by several factors that impact the global insurance marketplace. Each of our individual insurance programs is subject to specific market conditions that have various impacts on insurance pricing. Our future premiums can be impacted negatively by insurers' perceptions of California risks, their financial performance, worldwide insurer losses from perils such as wildfires, earthquakes, floods, hurricanes, and other types of catastrophic events, as well as Sempra operating company losses.

Future premiums are difficult to forecast with reasonable certainty because of the unpredictable nature of the perils covered and the fact that many of the factors that are used to calculate insurance premiums are outside of our control, including global insurer losses resulting from wildfires, hurricanes, and floods.[10] Because of the uncertainty of future liability insurance premiums, our forecasts are substantially based on forecasts provided by our primary insurance broker Marsh[11] and our loss history.

3. Cost Drivers and Mitigation Efforts

a. Specific Cost Drivers

The drivers of future liability insurance costs are generally the same factors that make forecasts difficult:

- Wildfire – AM Best, a credit rating agency specializing in the insurance industry, has observed recently: "As the largest US insurance market and one of the largest in the world, the state of California in particular has been ravaged by the severity and frequency of wildfire events for several years."[12] Moreover, as of February 23, 2021, "eight of the ten costliest US wildland fires were between 2017 and 2020" and all were in California.[13] These wildfire-related losses and underwriting concerns have resulted in fewer insurers providing insurance coverage to companies with wildfire exposure. Consequently, Sempra's wildfire insurance premiums have continued to rise even though no third-party property damage claim resulting from a wildfire has been paid by Sempra or the Companies since 2008.[14]
- Inverse condemnation – This California doctrine exposes SoCalGas and SDG&E to potential liability regardless of fault if their equipment is a contributing cause of a wildfire ignition. Because of the inverse condemnation doctrine, insurers require higher premiums to cover public utilities in California than in other states.

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[10] *See* Excerpts from Chubb Bermuda's 2022 Liability Limit Benchmarks & Large Loss Profile by Individual Sector report, at 4-5, 28 (Appendix F).

[11] *See supra* n.5 and Appendix B.

[12] *See* "Weather Conditions Portend Another Destructive Year of Wildfire Losses," AM Best (July 9, 2021) (Appendix G).

[13] *Id*.

[14] SoCalGas has a single first-party property claim open arising from the Saddleridge Fire (Northridge, CA) in October 2019 for fire damage to portions of its Aliso Canyon facility. The cause of the fire is undetermined, but SoCalGas understands that the fire may have started under electrical transmission lines not owned or operated by either SoCalGas or SDG&E.

- Lack of Competition in the Insurance Market – In response to diminishing insurance capacity, Sempra began accessing property reinsurance markets in 2010 to expand supply and to introduce competition. More recently, Sempra issued CAT Bonds in 2018, 2020, and 2021 to replace lost insurance capacity and to generate competition between different sources of risk capital.[15]

b. Efforts to Mitigate Costs Drivers

i. Wildfire Mitigation Plan

The ability of Sempra to mitigate insurance cost drivers is linked to the success of the Companies' risk management programs. SDG&E's wildfire mitigation plan (WMP) serves as the main regulatory vehicle for evaluation of its wildfire risk reduction efforts.[16] Insurers tend to focus on SDG&E's efforts to prevent and mitigate the effects of wildfires, as captured in its WMP, with the resulting underwriting assessments materially influencing the pricing and coverage available each year. For the last several years, the Sempra corporate insurance business unit has been able to confirm in its insurance applications that no third-party property damage liability claims resulting from a wildfire have been paid by Sempra or the Companies since 2008.[17] The insurance cost forecasts that are part of my testimony are made with the benefit of the Companies' differentiating loss history and assume that the Companies' maintain their track record of remaining free of wildfire claims throughout the period of the forecasts.[18]

ii. Risk Capital Diversification

In its TY 2019 GRC Decision, the Commission recognized the unpredictability of wildfires and the potential impact on costs, while simultaneously agreeing with an intervenor's recommendation that, in conjunction with rising insurance premiums, "Applicants should

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[15] Sempra's 2018 CAT bond matured in October 2021, after which Sempra issued its 2021 CAT bond. Sempra's 2020 and 2021 CAT bonds remain outstanding.

[16] *See* Testimony and workpapers of Wildfire Mitigation and Vegetation Management witness Jonathan Woldemariam (Ex. SDG&E-13) for detail on SDG&E's wildfire risk mitigation efforts. *See also* D.20-09-024 at 52 ("Purchase of incremental wildfire insurance is not a substitute for comprehensive grid hardening, improved situational awareness, expanded inspections and vegetation management programs, and enhanced public outreach and wildfire-mitigation operational practices that SCE has already been implementing. In other words, these activities need to occur in tandem with and not in lieu of each other.").

[17] *See supra* n.14.

[18] *See* Appendix B.

explore alternative options to conventional insurance and should include these in testimony during their next GRCs."[19] Accordingly, we have explored alternatives to conventional insurance as part of our programmatic approach to diversifying the sources of risk capital, introducing competition, and limiting the pricing power of any single source of insurance.

Our Excess Liability, Excess Fire, Wildfire Damage Reinsurance and CAT bond programs primarily comprise risk capital based in the United States, the United Kingdom/Europe, and Bermuda. To bind our 2021 excess liability and wildfire insurance programs, we approached 27 excess liability markets, 95 excess fire and wildfire damage reinsurance markets, and 85 potential purchasers of our 2021 CAT bond.[20] We have meetings with insurance markets annually to review our risk mitigation measures and address any concerns and/or questions underwriters may have. Because of the COVID-19 pandemic, we held our 2021 market meetings by video conference. Historically, we have also invited our underwriters to biennial tours of our wildfire mitigation assets, including an opportunity to discuss concerns with our experts. These strategies have mitigated our wildfire insurance premium increases.

We also use six different types of risk transfer agreements in our excess liability and wildfire insurance programs: (a) commercial insurance, (b) reinsurance, (c) long term insurance agreements, (d) structured risk transfer, (d) ILS-CAT bonds, and (e) difference-in-conditions insurance.[21] Each one of the six agreements draws from a different source of risk capital,[22] so that the combined use of the six agreements introduces competition between capital sources.

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[19] *See* D.19-09-51 at 532.

[20] *See* 2021 Market Statistics for Sempra's Insurance Programs (Appendix E).

[21] Difference-in-conditions (DIC) policies provide coverage if a claim is either not covered under another policy or the other policy's limits are exhausted. In the context of the Companies' wildfire liability program, DIC policies provide coverage in a multi-claim setting where a prior claim erodes policy limits such that a subsequent bodily injury or property damage claim would be denied coverage under the Companies' wildfire liability, wildfire property damage reinsurance, or ILS property damage insurance policies. In such a situation, the Companies' DIC policies would "drop down" to provide coverage, subject to the terms and conditions of the DIC policies.

[22] Multiyear agreements and DIC policies are not the norm for traditional commercial insurance and require separate negotiations on terms and conditions. Accordingly, although some of the counterparties that provide the Companies with long term insurance, structured risk transfer, or DIC insurance may also provide traditional commercial insurance to other insureds, the Companies view and treat as unique the limited group of insurers that will enter into these types of risk transfer agreements.

Nevertheless, because of capacity constraints and the magnitude of our risk exposures, none of the sources of capital and corresponding agreements alone is sufficient to manage premium volatility. Consequently, the six risk transfer agreements combine to represent an integrated and holistic approach to creating competition between different sources of capital, mitigating upward price pressures, and reducing annual premium volatility while ensuring coverage.

We reallocate the weightings of our liability programs' components each year based on pricing, capacity availability, coverage developments, and market differentials at the time of renewal. Since the TY 2019 GRC Decision, for example, we have expanded the total number of long-term agreements that are part of our General Excess Liability and Fire Liability programs from seven to 17, have gone from zero to four structured-risk financing arrangements, and have issued two additional ILS-CAT bonds, each with three-year terms.[23] To maximize access to alternative risk capital, Sempra also makes substantial use of a protected cell captive facility at Energy Insurance Services (EIS), which is a wholly owned subsidiary of Energy Insurance Mutual Limited (EIM). EIS is licensed to conduct insurance operations and write insurance, reinsurance or coinsurance for EIM members such as Sempra through the use of Mutual Business Programs (MBP). Each MBP is a protected cell, which provides that losses attributed to an MBP may only be paid from the assets attributed to that MBP. Sempra's MBP at EIS provides access to reinsurance and other markets that support alternative risk products, including our CAT bonds.

In sum, by incorporating multiple sources of capital and risk transfer agreements into our liability program, we have reduced the Companies' exposure to the annual volatility associated with conventional insurance markets and any single source of capital.

iii. Blind-Bid Pricing Strategy

Large liability insurance programs generally comprise several "layers" of coverage that build upon each other to create the entire program, as exemplified by Sempra's 2021-2022 wildfire liability program, which consists of 17 layers.[24] Theoretically, pricing should decrease

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[23] *See* description prepared by Marsh of the number of layers, long-term agreements, and structured agreements under the Companies' 2019-2020 and 2021-2022 General Excess and Fire Liability Programs (Appendix H). The 17 long-term agreements in the General Excess Liability and Fire Liability programs for the 2021-2022 policy year include the four structured deals.

[24] *See* Appendix H.

at each higher layer in conjunction with a decrease in expected loss. Many insurers require the insured to disclose the price of underlying layers so that their layer can be priced as a percentage of the underlying; many insurers also require that their price be no less than that of the layers above. In a complex and multi-layered program, this traditional pricing model inhibits the ability of the insured to minimize total program cost because of the ripple effect that price increases at lower layers have on upper layer pricing. Similarly, a price set by an upper layer insurer can trigger lower layer price increases because of the requirement that prices be no less than the overlying layers. In the past, market competition allowed Sempra to replace a mispriced layer with an alternative insurer and mitigate the impact that the traditional pricing model would have on our multi-layered program. For the last several years, however, pricing power has increased for the smaller number of insurers providing insurance for California risks, especially under the traditional pricing model.

To mitigate the impact that a price increase in one layer has on our overall program, the Sempra corporate insurance department has applied a blind-bid pricing strategy since 2015. This strategy requires each insurer to provide quotes based on their independent evaluation of our risk at their attachment points. Any policy condition that requires disclosure of the price of underlying or overlying layers is removed, thereby eliminating the potential for a single insurer to have a disproportionate impact on the pricing of the entire program.

4. Liability Insurance Premium Balancing Accounts (LIPBAs)

a. Authorization of LIPBA in 2019 GRC

The Commission's TY 2019 GRC Decision authorized SoCalGas and SDG&E to establish separate LIPBAs, two-way balancing accounts for liability insurance premiums.[25] In finding the two-way balancing account reasonable, the Commission observed that there are "many factors that affect insurance premiums, and certain factors are outside of Applicants' control or are difficult to foresee. This in turn makes it difficult to provide an accurate forecast. The LIPBA allows Applicants to address these uncertainties in a timely manner and at the same time ensure that there is adequate insurance coverage for known risks."[26]

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[25] *See* D.19-09-051 at 533-536.

[26] *Id*. at 534.

SoCalGas and SDG&E submitted advice letters subsequent to the TY 2019 GRC Decision to establish their LIPBAs to record the difference between authorized revenue requirements specific to liability insurance premiums and the actual expense incurred and charged to the Companies.[27] Since the approval of those advice letters, SDG&E has established two LIPBA subaccounts to track costs: (1) an under-limits sub-account; and (2) an over-limits sub-account, while SoCalGas has tracked costs as "within-limits" and "over-limits." The under (within-limits) entries record the difference between authorized revenue requirements and actual expenses for liability insurance requested in the TY 2019 GRC; the over-limits entries record actual expenses for liability insurance not requested in the TY 2019 GRC.

The Commission directed the Companies to file Tier 2 advice letters to seek recovery of additional liability insurance coverage costs that were not requested in their TY 2019 GRC applications,[28] namely, the costs recorded as over-limits. Accordingly, on November 9, 2020, the Companies filed separate Tier 2 requests that, when later granted,[29] approved recovery of costs in their LIPBA over-limits accounts for additional liability insurance coverage that was not part of the approved forecasts in the TY 2019 GRC Decision. For further discussion on the LIPBAs, please see the prepared direct testimony of Regulatory Accounts witnesses Rae Marie Yu (Ex. SCG-38) and Jason Kupfersmid (Ex. SDG&E-43).

b. Alternatives to LIPBA

The Commission found as part of its TY 2019 GRC Decision that "a showing of alternatives in any future reasonableness review of the LIPBA should be included."[30] We have construed the TY 2024 GRC as incorporating a reasonableness review of the LIPBAs. In this regard, we have previously discussed our comprehensive approach to managing price volatility by diversifying risk capital sources with six different risk transfer agreements.[31] The Companies

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[27] *See* SDG&E AL 3470-E/2821-G, approved January 10, 2020, with an effective date of December 23, 2019; *see also* SoCalGas AL 5539, approved December 4, 2019 with an effective date of January 1, 2020.

[28] *See* D.19-09-051 at 535-536.

[29] SDG&E AL 3638-E/2922-G, approved February 2, 2021, with an effective date of December 9, 2020, and SoCalGas AL 5725-G, approved December 15, 2020, with an effective date of December 9, 2020.

[30] *See* D.19-09-051 at 535.

[31] *See supra* at 19-21.

have also evaluated additional ways of managing price volatility, including self-insurance and a rebalancing of insurance burdens between them and their suppliers of goods and services.

Self-insurance for the Companies would involve either: (a) expanded use of the EIS protected cell previously described,[32] (b) launching a proprietary captive, or (c) establishing self-insurance accounts akin to what the Commission has already evaluated.[33] Under each of these scenarios, the price of self-insurance would be substantially greater than what the Companies currently pay to insurance markets, at least initially.[34] For a given insured, as the price that they pay for traditional insurance escalates, the price of self-insurance eventually becomes a reasonable alternative. The prices that SoCalGas and SDG&E currently and are forecasted to pay for liability insurance do not cross that threshold. Because the gap that exists between what the Companies pay for liability insurance and the cost of self-insurance is forecasted to continue, the Companies have chosen not to request a self-insurance option as part of this GRC.

Suppliers' insurance issues raise additional considerations. In response to the 2007 wildfires, the Companies increased insurance requirements in supplier contracts. This additional insurance coverage served the dual purpose of supporting the indemnity obligations of the suppliers and providing a substantial layer of primary coverage before the Companies' own insurance programs would be triggered. In recent years, however, insurance requirements have become a leading barrier to entry for suppliers, especially for smaller disadvantaged business enterprises (DBEs). In response, the Companies have had to soften their insurance requirements

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32 *See supra* at 20-21.

33 *See* D.20-12-005 at 404 (Conclusion of Law 85, approving a self-insurance proposal made by PG&E based on a settlement reached with intervenors); *See also* A.21-06-030, PG&E 2023 GRC Prepared Testimony, Ex. PG&E-09 (June 30, 2021) at 3-31 – 3-38, setting forth two alternative proposals for use of self-insurance for the 2023 GRC period; *See also* R.18-07-006, Assigned Commissioner's Fifth Amended Scoping Memo and Ruling (Jan. 18, 2022) at 4, which includes self-insurance on the list of strategies proposed by stakeholders to contain costs and mitigate rate increases; *See also* Commission's 2021 Report on Utility Costs and Affordability of the Grid of the Future (2021 Senate Bill (SB) 695 Report) at 118, 128.

34 One measurement of insurance cost is "rate online," which is the percentage derived by dividing insurance premium by the coverage limit. For example, assume the Companies wanted to self-insure $1,000 of wildfire liability coverage. The initial cost of obtaining $1,000 of coverage through self-insurance would be $1,000, excluding expenses, taxes, and placement fees. The self-insurance premium for the initial coverage period would therefore be $1,000, and the rate online would be 100% ($1,000 premium/$1,000 coverage). Over time, the rate online for self-insurance should decrease with a favorable loss history and the ability to support future coverage periods with prior years' premium dollars.

for suppliers and retain some previously transferred risk to keep suppliers eligible to provide goods and services. Although supplier insurance is, therefore, not currently a tool to help manage price volatility, the rebalancing of insurance burdens between the Companies and their suppliers has benefited communities and ratepayers by facilitating the Companies' continued commitment to a diverse portfolio of suppliers.[35]

In sum, although the Companies have considered ways to manage price volatility in addition to the LIPBAs, the LIPBAs themselves function as parts of an integrated toolset rather than as independent and mutually exclusive options. Our ability to manage price volatility[36] in a timely manner while ensuring adequate insurance coverage continues to depend on our access to every mechanism that we have used to date, which includes the six risk transfer agreements that we currently use, the LIPBAs, and our blind-bid pricing strategy.[37] All of these tools complement one another and are necessary, collectively, to mitigate insurance market uncertainty and price volatility.

c. Request for Reauthorization of LIPBAs

The volatile and uncertain pricing environment that existed when the Commission authorized the Companies' LIPBAs in the TY 2019 GRC Decision shows few signs of abating. Insurance market uncertainty continues because of wildfire risk, inverse condemnation, and global catastrophe losses. Because of this uncertainty and continued volatility in the cost of liability insurance, SoCalGas and SDG&E request that the Commission reauthorize their LIPBAs for liability insurance premiums.

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35 *See* 2020 SDG&E Supplier Diversity Report (Mar. 1, 2021) at 5; 2020 SoCalGas Supplier Diversity Annual Report and 2021 Annual Plan (Feb. 2021) at 2.

36 As part of our overall risk management efforts, we treat as confidential the pricing and limits of insurance that we purchase in our programs. Nevertheless, we note that the pricing and limits of our general excess and wildfire liability insurance programs compare favorably to the publicly disclosed levels of pricing and limits purchased by the other investor-owned utilities in California. *See* Edison International and Southern California Edison (2021) Form 10-Q for Q3 2021 at 79-80. *Available at* https://www.edison.com/home/investors.html. *See also* PG&E Corp. and Pacific Gas & Electric (2021) Form 10-Q for Q3 2021 at 56. *Available at* https://investor.pgecorp.com/financials/sec-filings/default.aspx.

37 *See supra* Section II.B.3.b.iii at 21.

The LIPBAs are subject to the advice letter process for regulatory review of insurance expenditures not yet reviewed and approved by the Commission.[38] The Companies followed the advice letter procedure required by the Commission when they submitted their 2020 Tier 2 letters. The process worked as it was intended and allowed the Energy Division to review and consider the reasonableness of additional insurance that the Companies purchased and recorded in their LIPBAs. The Companies request that the Commission reauthorize their LIPBAs, subject to the same terms set forth in the TY 2019 GRC Decision.

C. Surety Bonds

Surety bonds guarantee the contractual performance obligations that SoCalGas and SDG&E owe to other parties. Bonds are usually required by city, state or federal governmental agencies. The types of bonds typically required are franchise bonds, tax bonds, license and permit bonds, and appeals bonds. Bond premiums are paid either as a one-time premium for the life of the bond or as an annual premium and are procured on an as-required basis. Costs are directly assigned to the operating company requiring the bond.

III. CONCLUSION

Table DG-18 below summarizes all forecasted insurance allocations to SoCalGas and SDG&E. The non-Shared Services Administrative and General testimonies for SoCalGas and SDG&E respectively show these allocations as charges under appropriate FERC accounts.

[38] D.19-09-051 at 535-536. Advice letters are informal requests by a utility for Commission approval, authorization or other relief and are categorized based on the level of review necessary for approval as follows: Tier 1 (effective pending disposition), Tier 2 (effective after staff approval), and Tier 3 (effective after Commission approval). General Order 96-B, General Rule 3 (definition), Energy Industry Rules 5.1 (Tier 1), 5.2 (Tier 2), and 5.3 (Tier 3).

TABLE DG-18

SDG&E Allocations - Company Code 2100

			Recorded					Forecast		
			FY2017 - NSE	**FY2018 - NSE**	**FY2019 - NSE**	**FY2020 - NSE**	**FY2021 - NSE**	**FY2022 - NSE**	**FY2023 - NSE**	**FY2024 - NSE**
2100-8953	Property Insurance (non-nuclear)	**F924.0**	$ 6,910	$ 7,525	$ 10,716	$ 10,547	$ 11,874	$ 13,775	$ 15,796	$ 16,860
2100-8954	Property Insurance (nuclear)	**F924.1**	56	-	-	-	-	14	14	14
2100-8955	Excess Liability Insurance (PLPD)	**F925.0**	19,053	19,744	25,629	35,125	40,916	48,239	51,102	54,132
2100-8956	Excess Workers Compensation Insurance	**F925.1**	1,287	1,759	2,152	2,550	2,649	3,103	3,414	3,757
2100-8957	Other Liability Insurance (non-nuclear)	**F925.3**	1,098	698	1,888	2,051	2,038	2,994	3,307	3,806
2100-8958	Other Liability Insurance (nuclear)	**F925.4**	-	-	-	-	-	-	-	-
2100-8962	Wildfire Liability Insurance	**F925.5**	80,110	110,498	129,494	183,370	202,398	215,444	220,864	237,496
2100-8966	Surety Bonds	**F925.6**	45	45	38	50	85	100	103	107
	Total		**$ 108,559**	**$ 140,269**	**$ 169,918**	**$ 233,694**	**$ 259,959**	**$ 283,670**	**$ 294,601**	**$ 316,172**

SCG Allocations - Company Code 2200

			Recorded					Forecast		
			FY2017 - NSE	**FY2018 - NSE**	**FY2019 - NSE**	**FY2020 - NSE**	**FY2021 - NSE**	**FY2022 - NSE**	**FY2023 - NSE**	**FY2024 - NSE**
2200-8953	Property Insurance (non-nuclear)	**F924.0**	$ 4,096	$ 4,703	$ 7,062	$ 6,290	$ 7,573	$ 8,583	$ 9,632	$ 9,852
2200-8954	Property Insurance (nuclear)	**F924.1**	-	-	-	-	-	-	-	-
2200-8955	Excess Liability Insurance (PLPD)	**F925.0**	23,428	23,887	29,378	44,678	50,902	56,327	59,670	63,210
2200-8956	Excess Workers Compensation Insurance	**F925.1**	1,996	2,739	3,308	3,918	3,990	4,624	5,087	5,596
2200-8957	Other Liability Insurance (non-nuclear)	**F925.3**	1,424	1,207	1,845	2,495	2,441	3,406	3,762	4,091
2200-8958	Other Liability Insurance (nuclear)	**F925.4**	-	-	-	-	-	-	-	-
2200-8962	Wildfire Liability Insurance	**F925.5**	195	199	221	331	348	378	387	417
2200-8966	Surety Bonds	**F925.6**	77	59	61	58	57	69	71	73
	Total		**$ 31,215**	**$ 32,793**	**$ 41,875**	**$ 57,770**	**$ 65,310**	**$ 73,387**	**$ 78,609**	**$ 83,237**

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Dennis J. Gaughan. My business address is 488 8th Ave, San Diego, California 92101. I am currently employed by Sempra Energy as the Director – Risk Management, a position I was hired into in August 2020. Sempra Energy is the parent company of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E).

Prior to joining Sempra, I was employed at Aon Corporation for 14 years, where I held various roles, primarily with Aon's M&A and Transaction Solutions group to evaluate and provide risk transfer solutions in connection with transactions. My last role at Aon was as President and Head of Capital Markets at Aon's IP Solutions, where I focused on developing risk transfer solutions involving intellectual property. Prior to joining Aon, I was managing director and general counsel of Big Sky Capital, a hedge fund. And before that, I was a partner at the Cades Law Firm in Honolulu, Hawaii.

I received a Juris Doctorate degree from the University of Michigan Law School and a Bachelor of Science degree in Applied Mathematics from Yale University. I hold a Chartered Financial Analyst charter and am also an inactive member of both the California and Hawaii State Bar associations.

I have not previously testified before the California Public Utilities Commission.

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF JOY GAO
REGARDING CONFIDENTIALITY OF CERTAIN DATA/DOCUMENTS
PURSUANT TO D.19-01-028

I, Joy Gao, do declare as follows:

1. I am the Vice President, Risk Management for Sempra Energy, parent company of and Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E). I have reviewed the Confidential Appendix C and Confidential Appendix D to Exhibit (Ex.) SCG-24/SDG&E-28 Direct Testimony of Dennis J. Gaughan in support of SoCalGas's and SDG&E's 2024 General Rate Case applications, submitted concurrently herewith (Ex. SCG-24/SDG&E-28 Confidential Appendices). I am personally familiar with the facts in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or information and belief.

2. I hereby provide this Declaration in accordance with D.19-01-028 and General Order 66-D Revision 1[1] to demonstrate that the confidential information (Protected Information) provided in Ex. SCG-24/SDG&E-28 Confidential Appendices is within the scope of data protected as confidential under applicable law.

3. In accordance with the legal citations and narrative justification described in Attachment A, the Protected Information should be protected from public disclosure.

[1] GO 66-D was modified by D.19-01-028 to create GO 66-D Revision 1, which became effective February 1, 2019.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 16th day of May, 2022, at San Diego, California.

_*/s/ Joy Gao*_______________
Joy Gao
Vice President, Risk Management
Sempra Energy

ATTACHMENT A

SoCalGas/SDG&E'S Request for Confidentiality on the following information in Exhibit SCG-24/SDG&E-28 Confidential Appendices

Location of Protected Information	**Legal Citations**	**Narrative Justification**
Exhibit SCG-24/SDG&E-28 Confidential Appendix C and Appendix D	CPRA Exemption, Gov't Code § 6254(k) ("Records, the disclosure of which is exempted or prohibited pursuant to federal or state law"). CPRA Exemption, Gov't Code § 6254.7(d) ("Trade secrets"); Cal. Evid. Code § 1060; Cal. Civil Code §§ 3426 *et seq.* (relating to trade secrets). *Morton v. Rank America, Inc.*, 812 F. Supp. 1062, 1073 (1993) (denying motion to dismiss because "actual or probable income, expenses and capital needs of [a company], the financial, operational, marketing and other business strategies and methods" could constitute trade secrets). 5 U.S.C. § 552(b)(4) (Exemption 4 of FOIA protecting "trade secrets and commercial or financial information obtained from a person and privileged or confidential"). *O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 420 F. Supp. 2d 1070, 1089–1090 (N.D. Cal. 2006) ("It does not matter if a portion of the trade secret is generally known, or even that every individual portion of the trade secret is generally known, as long as the combination of all such information is not generally known.").	Confidential Appendix C contains forecasted insurance limits and premiums received from SoCalGas's and SDG&E's Excess Property insurer. Confidential Appendix D contains insurance broker (Marsh) limit and premium estimates to purchase equivalent earthquake coverage from commercial insurance markets. The information contained in these Confidential Appendices are non-public company financial information, disclosure of which may indicate to the public a change in the Companies' financial status potentially resulting in a competitive disadvantage.

APPENDIX A

Glossary of Terms

APPENDIX A
GLOSSARY OF TERMS

APS: Arizona Public Service Corporation

CAGR: Compound Annual Growth Rate

CAL FIRE: California Department of Forestry and Fire Protection

CB: Causal/Beneficial

CPUC: California Public Companies Commission

D&O: Directors and Officers

FERC: Federal Energy Regulatory Commission

GRC: General Rate Case

LIPBA: Liability Insurance Premium Balancing Account

Marsh: Marsh USA, Inc.

O&M: Operations and Maintenance

OIL: Oil Insurance Limited

PG&E: Pacific Gas and Electric Company

SCE: Southern California Edison

SDG&E: San Diego Gas & Electric Company

SoCalGas: Southern California Gas Company

SONGS: San Onofre Nuclear Generating Station

TY: Test Year

UK: United Kingdom

US: United States

USofA: Uniform System of Accounts

WC/EL: Workers' Compensation and Employers' Liability

XS WC: Excess Workers' Compensation

APPENDIX B

FIVE-YEAR FORECASTS FOR SEMPRA INSURANCE PROGRAMS

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Dennis Gaughan
Director, Risk Management
Sempra Energy
488 8th Ave
San Diego, CA 92101

April 9, 2022

Dear Dennis,

Enclosed are Marsh's five-year forecasts as of January 1, 2022 for Sempra's insurance programs, using 2021 recorded premiums as a base.

Future premiums are difficult to forecast with reasonable certainty due to many factors affecting insurance premiums and evolving market conditions. With that in mind, the attached forecast represent the best estimates of Marsh's subject matter experts familiar with Sempra's risk profile, loss histories and the relevant and anticipated market dynamics.

Please note the following, in particular:

1. Property premium forecast assume no change in value;
2. Wildfire Liability (WF) and Wildfire Physical Damage (PD) premium forecasts assume no wildfire claims in the 5 year period;
3. Non-Wildfire Liability (NWF) premium forecast assumes continued social inflation.

Sincerely,

Stephen Kempsey
Managing Director, Global Client Executive

Marsh Premium Forecasts for 2022 – 2026

Practice	Line of coverage	Renewal	2022	2023	2024	2025	2026	Notes
Property	Property, non nuclear	Feb 20th	12.5%	7.5%	5.0%	0.0%	0.0%	Premium forecasts are based on no change in value
Property	Terrorism	Feb 20th	7.5%	4.0%	2.5%	0.0%	0.0%	Premium forecasts are based on no change in value
Casualty	Excess Liability - NWF	Jun 26th	10.0%	5.0%	5.0%	5.0%	5.0%	Dependent upon loss experience and capacity desired
Casualty	Excess Liability - WF	Jun 26th	10.0%	10.0%	15.0%	5.0%	5.0%	Dependent upon loss experience and capacity desired. 2023 est higher unless LTAs are renewed.
Casualty	Wildfire PD	Jun 26th	10.0%	10.0%	5.0%	5.0%	5.0%	Based on current limits
Casualty	GL Fronting policy	Nov 1st	20.0%	0.0%	0.0%	0.0%	20.0%	Premium for past few years has been $5K.
Casualty	Auto, GC including APD	Jun 26th	5.0%	5.0%	5.0%	5.0%	5.0%	Expect inflationary loss trend + exposure growth.
Casualty	Work Comp	Jun 26th	5.0%	5.0%	5.0%	5.0%	5.0%	Expect inflationary loss trend + exposure growth.
Casualty	XS WC	Jun 26th	15.0%	10.0%	10.0%	10.0%	10.0%	Rate requires significant increases due to loss development and challenges in California workers compensation market place.
FINPRO	D&O	July 15th	15.0%	5.0%	5.0%	10.0%	10.0%	Subject to no changes in exposure and claims
FINPRO	Fiduciary	July 15th	12.5%	7.5%	0.0%	5.0%	5.0%	Subject to no changes in exposure and claims
FINPRO	Cyber	Oct 1st	25.0%	15.0%	10.0%	10.0%	10.0%	Subject to no changes in exposure and claims
Marine	Marine Cargo	Feb 20th	5.0%	5.0%	0.0%	0.0%	0.0%	Subject to change based on further market changes and exposure
Marine	Marine Charterers Liability	Feb 20th	5.0%	5.0%	2.5%	0.0%	0.0%	Subject to change based on further market changes and exposure
Marine	Marine Terminal Ops	Feb 20th	20.0%	10.0%	5.0%	2.5%	0.0%	Subject to change based on further market changes and exposure
Marine	Control of Well	Mar 1st	10.0%	5.0%	2.5%	0.0%	0.0%	Subject to change based on further market changes and exposure
International	Foreign Package	Jun 26th	2.0%	2.0%	2.0%	2.0%	2.0%	Subject to change based on further market changes and exposure, increased admin costs and inflation
Aviation	NOAL & Drones	Jun 26th	10.0%	7.5%	5.0%	0.0%	0.0%	Based on Sempra's non-owned hours increasing in the past years and vendors maintaining $25M limits. Based on recent communications, vendors are finding it difficult or price prohibitive to maintain $25M limit of liability.
Environmental	Pollution (Global)	July 24th	5.0%	3.0%	5.0%	3.0%	3.0%	Subject to change based on market conditions and exposure.
Environmental	Pollution (SDG&E)	Dec 17th			5.0%			5 year policy. Subject to change based on market conditions and exposure.

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APPENDIX C

OIL PREMIUM

INDICATION

OIL INSURANCE LIMITED
Leaders in Global Energy Insurance

PREMIUM INDICATION SUMMARY

Sempra

Sempra

Sempra - [redacted]

Experience Free Premium	Current	New	Difference
2022	[redacted]	[redacted]	[redacted]
2023	[redacted]	[redacted]	[redacted]
2024	[redacted]	[redacted]	[redacted]
2025	[redacted]	[redacted]	[redacted]
2026	[redacted]	[redacted]	[redacted]
2027	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]	[redacted]

Experience Modified Premium	Current	New	Difference
2022	[redacted]	[redacted]	[redacted]
2023	[redacted]	[redacted]	[redacted]
2024	[redacted]	[redacted]	[redacted]
2025	[redacted]	[redacted]	[redacted]
2026	[redacted]	[redacted]	[redacted]
2027	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]	[redacted]

Experience Premium Credit	Current	New	Difference
2022	[redacted]	[redacted]	[redacted]
2023	[redacted]	[redacted]	[redacted]
2024	[redacted]	[redacted]	[redacted]
2025	[redacted]	[redacted]	[redacted]
2026	[redacted]	[redacted]	[redacted]
2027	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]	[redacted]

Windstorm Offshore Excess	Current	New	Difference
2022			
2023			
2024			
2025			
2026			
2027			
TOTAL	0	0	0

Windstorm Onshore Excess	Current	New	Difference
2022			
2023			
2024			
2025			
2026			
2027			
TOTAL	0	0	0

Total Premium	Current	New	Difference
2022	[redacted]	[redacted]	[redacted]
2023	[redacted]	[redacted]	[redacted]
2024	[redacted]	[redacted]	[redacted]
2025	[redacted]	[redacted]	[redacted]
2026	[redacted]	[redacted]	[redacted]
2027	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]	[redacted]

Retrospective Premium	Current	New	Total
2022	0	0	0
2023	0	0	0
2024	0	0	0
2025	0	0	0
2026	0	0	0
2027	0	0	0
TOTAL	0	0	0

Pool Participations	Current %	New %	Difference %
Standard Pool	[redacted]	[redacted]	[redacted]
Flat Premium Pool	[redacted]	[redacted]	[redacted]
Windstorm Offshore Excess Pool			
Windstorm Onshore Excess Pool	[redacted]	[redacted]	[redacted]

LOSS ASSUMPTIONS	2021	2022	2023	2024	2025	2026	2027
Standard Pool ($MM)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Flat Premium Pool ($MM)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Offshore ($MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Onshore ($MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Offshore + Onshore ($MM)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Disclaimer: This premium indication is not binding and is subject to change.

THE OIL GROUP OF COMPANIES

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5 Year Projection #21210

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APPENDIX D

EARTHQUAKE COVERAGE

AVAILABLE FROM COMMERCIAL

MARKETS

Luke Slemeck
Managing Director

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Dennis Gaughan
Director, Risk Management
Sempra Energy
488 8th Ave
San Diego, CA 92101

January 14, 2022

Dear Dennis,

Presently the largest Earthquake limit procured by a Utility in California is [redacted], consisting of [redacted] We think the average limit excluding Sempra would be around [redacted].

To add an extra [redacted] of earthquake to the current primary [redacted] layer you buy would most likely cost at least an additional [redacted]. [redacted].

We do not think it would be possible to buy [redacted] per occurrence / annual aggregate at commercially reasonable terms, let alone the [redacted] on a per occurrence basis (except for the shared event aggregate of [redacted]).

[redacted]

Sincerely,

Luke Slemeck
Managing Director, Senior Property Advisor

APPENDIX E

2021 MARKET STATISTICS FOR

SEMPRA'S INSURANCE PROGRAMS

Marsh

Stephen Kempsey
Managing Director

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Dennis Gaughan
Director, Risk Management
Sempra Energy
488 8th Ave
San Diego, CA 92101

April 7, 2022

Dear Dennis,

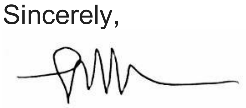
For the 2021 Primary Property, Wildfire Excess Liability, and Non-Wildfire Excess Liability programs, we provide the following marketing statistics:

- For Primary Property for US (including Terrorism but excluding OIL) for 2021-2022
  - Number of markets approached - 29
  - Number of markets quoted - 26
  - Number of markets bound - 23
    - % bound UK/Europe - 17
    - % bound US - 5
    - % Bermuda - 1

- For Wildfire XS Liability program for 2021-2022
  - Number of markets approached - 95
    - GL/PD - 28
    - PD Only (Reinsurance) - 67
  - Number of markets quoted - 47
    - GL/PD - 16
    - PD Only (Reinsurance) - 31
  - Number of markets bound - 45
    - GL/PD - 14
    - PD Only (Reinsurance) – 31 including 5 private layers

- For Non-Wildfire XS Liability program for 2021-2022
  - Number of markets approached - 27
  - Number of markets quoted - 18
  - Number of markets bound - 18

Sincerely,



Stephen Kempsey
Managing Director, Global Client Executive

GuyCarpenter

Ryan Clarke
Managing Director

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Dennis Gaughan
Director, Risk Management
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January 14, 2022

Dear Dennis,

85 institutional investors received the SD 2021 offering. 16 institutional investors ultimately subscribed. That number grows to 100 if you count certain institutions that actually receive the transaction through two different departments.

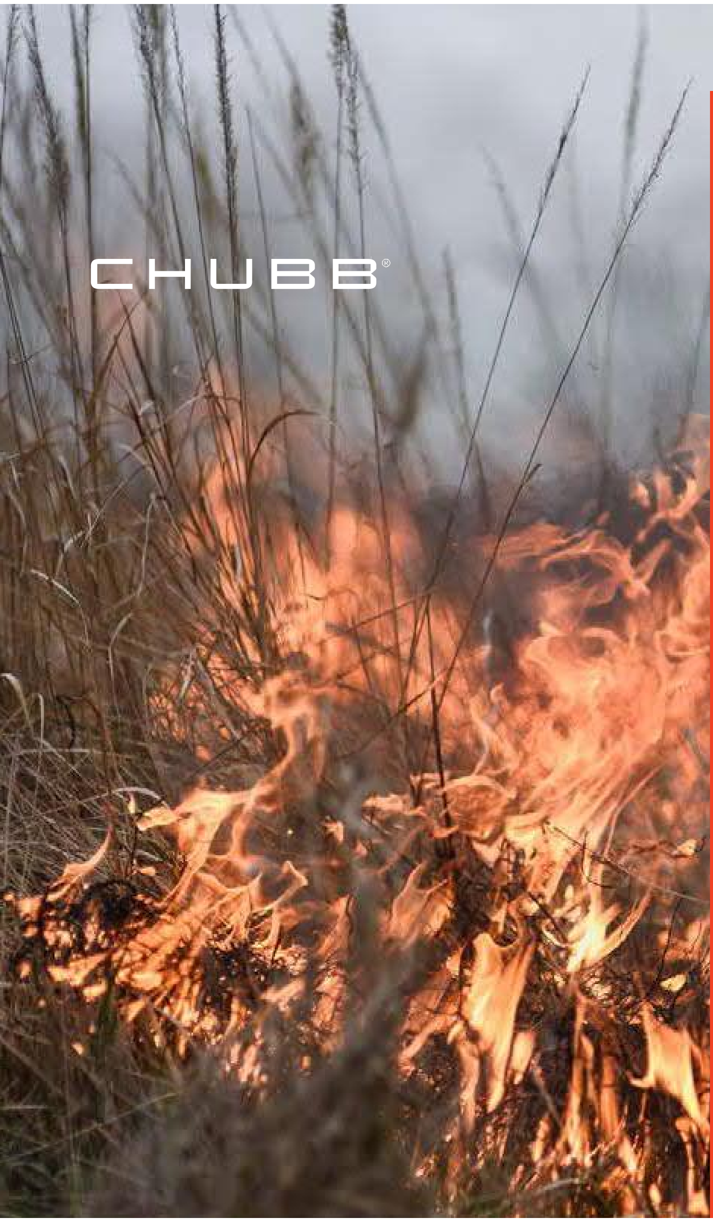
Sincerely,

Ryan Clarke

Ryan Clarke
Managing Director

APPENDIX F

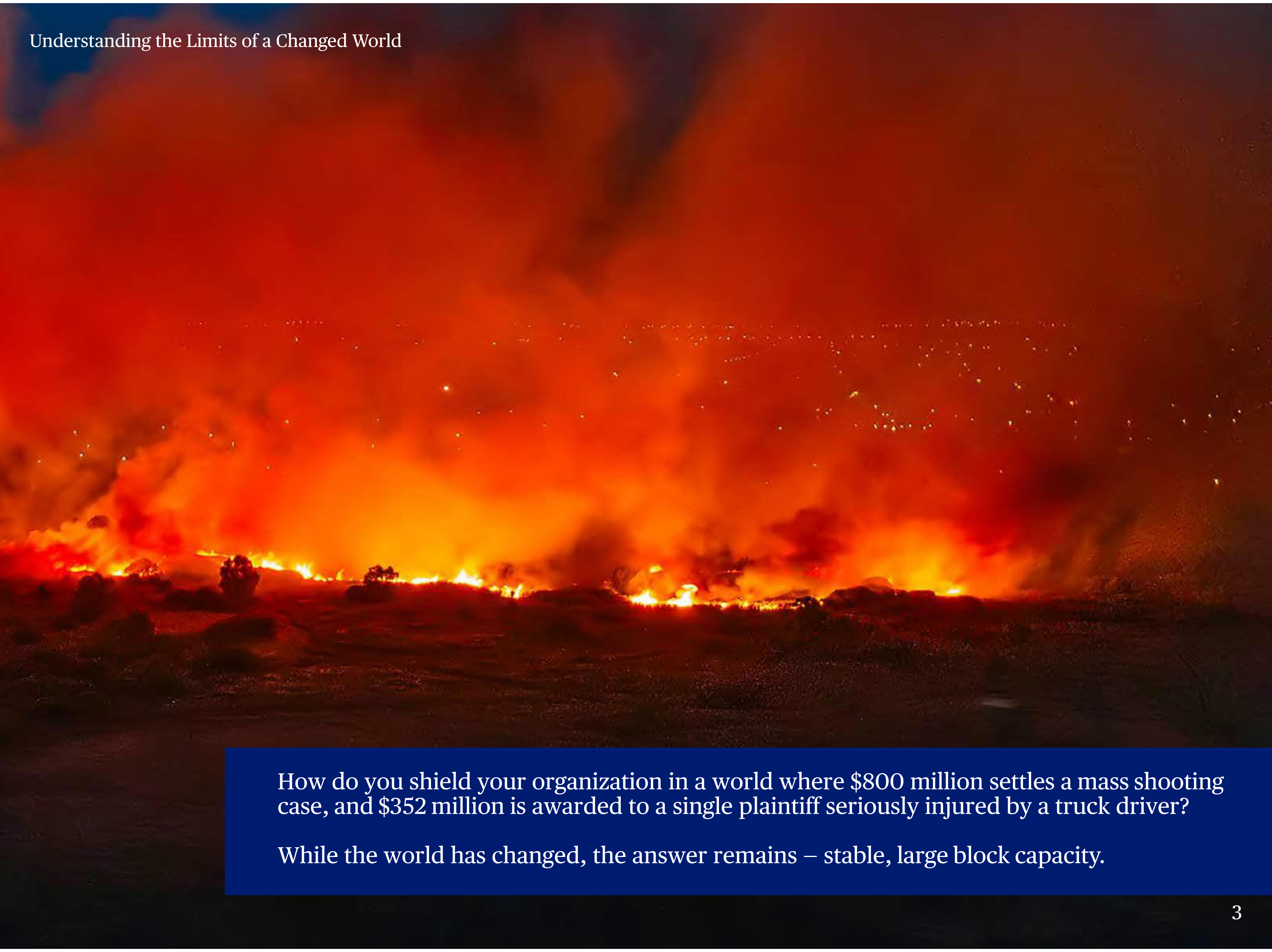
EXCERPTS FROM CHUBB BERMUDA'S 2022 LIABILITY LIMIT REPORT



Liability Limit Benchmark & Large Loss Profile by Industry Sector 2022

Understanding the Limits of a Changed World

Chubb Bermuda



How do you shield your organization in a world where $800 million settles a mass shooting case, and $352 million is awarded to a single plaintiff seriously injured by a truck driver?

While the world has changed, the answer remains – stable, large block capacity.

The calculus of catastrophe has always been complicated.

Now, the equation is being rewritten.

In 2021, the forces fueling liability and loss trends grew even more powerful. Social inflation – estimated to have increased commercial auto liability claims alone by more than $8 billion in the last decade – is exacerbated by surging social consciousness, ideological divides, and economic inflation, with the United States experiencing its highest inflation rate increase in over forty years.[1]

Litigation funding by third-party investors seeking portions from plaintiffs' recoveries reached $17 billion[2] in 2021, and the attractive returns from financing commercial lawsuits, mass torts, and other cases are drawing new categories of investors and facilitating more litigation.

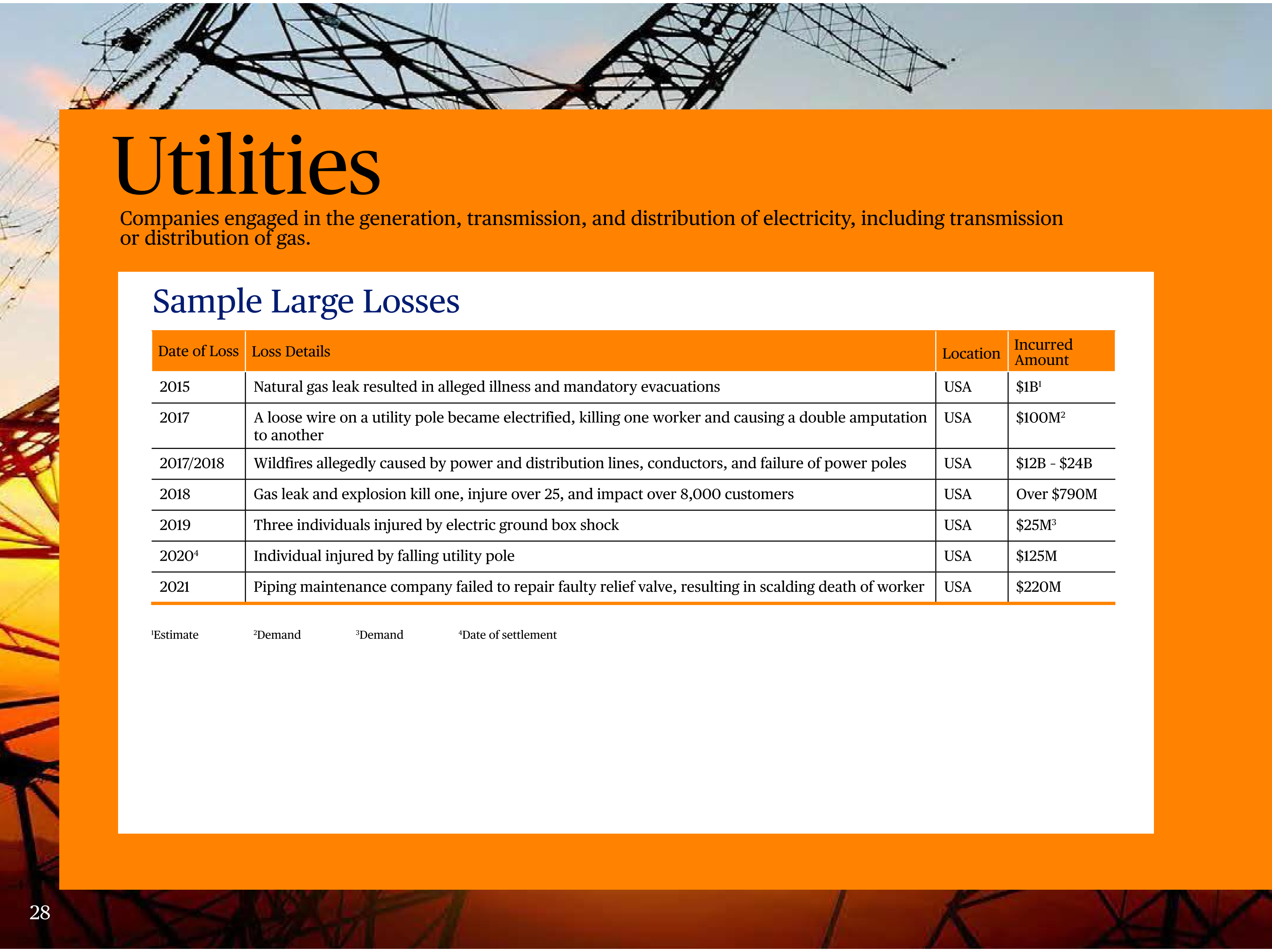
Meaningful tort reform does not appear to be coming to the rescue.

1. Estimated increase 2010-2019. Source: iii.org/press-release/evolving-catastrophe-losses-to-presure-2021-property-casualty-underwriting-profitability-triple-i-milliman-predict-081721
2. Dowling & Partners Securities, LLC www.dowling.com/home

The changing climate and extreme weather again pummeled the global (re)insurance industry. Insured natural catastrophe losses reached an estimated $122.4 billion[3] in 2021, marking the fifth consecutive year of above-average catastrophe losses. Models struggle to play catch-up and reflect the unprecedented frequency and secondary-peril-driven severity of these catastrophic events.

The global pandemic has amplified already-formidable exposures, straining logistics and supply chains, shifting workplaces and employment practices, and accelerating digitization. Businesses face growing risks that no longer seem cyclical. They are here to stay and are on the rise. Our industry's collective thinking about risk, rate, and capital deployment must adapt to this reality.

3. Jefferies https://www.artemis.bm/news/reinsurance-capital-took-larger-share-of-2021-catastrophe-losses-jefferies/



Utilities

Companies engaged in the generation, transmission, and distribution of electricity, including transmission or distribution of gas.

Sample Large Losses

Date of Loss	Loss Details	Location	Incurred Amount
2015	Natural gas leak resulted in alleged illness and mandatory evacuations	USA	$1B[1]
2017	A loose wire on a utility pole became electrified, killing one worker and causing a double amputation to another	USA	$100M[2]
2017/2018	Wildfires allegedly caused by power and distribution lines, conductors, and failure of power poles	USA	$12B - $24B
2018	Gas leak and explosion kill one, injure over 25, and impact over 8,000 customers	USA	Over $790M
2019	Three individuals injured by electric ground box shock	USA	$25M[3]
2020[4]	Individual injured by falling utility pole	USA	$125M
2021	Piping maintenance company failed to repair faulty relief valve, resulting in scalding death of worker	USA	$220M

[1]Estimate [2]Demand [3]Demand [4]Date of settlement

APPENDIX G

AM BEST REPORT ON

CALIFORNIA WILDFIRES

AM BEST SINCE 1899

BEST'S SPECIAL REPORT

Our Insight, Your Advantage™

Trend Review
July 9, 2021

Weather Conditions Portend Another Destructive Year of Wildfire Losses

Eight of the ten costliest US wildland fires have occurred between 2017 and 2020

The record-breaking heat in the western part of the US has set records in a number of states, with some areas experiencing temperatures above 100 degrees Fahrenheit for multiple days. From June 15 to June 20, temperatures skyrocketed, leading to all-time temperature highs in California, Arizona, New Mexico, Utah, Colorado, Wyoming, and Montana, a region that was already reeling from a devastating drought and memories of last year's horrific wildfire season still on their minds.

As the largest US insurance market and one of the largest in the world, the state of California in particular has been ravaged by the severity and frequency of wildfire events for several years. **Exhibit 1** shows eight of the ten costliest US wildland fires were between 2017 and 2020, including losses suffered by private insurers and government sponsored programs. All of the fires on the list occurred in California. Nine of the 20 largest California wildfires by acreage burned occurred from 2017 to 2020, including the top seven (**Exhibit 2**). In 2020, the largest wildfires were due to a series of lightning strikes, which started hundreds of fires across Northern California. Dubbed the August Complex Fire, these fires burned more than 1.03 million acres in seven counties and continued into November.

Insurers underwriting property coverage in California have felt the impact of changing weather patterns and growing frequency of severe fires in their results. **Exhibit 3** shows that direct incurred loss and defense and cost containment (DCC) expenses related to commercial fire claims surpassed $1 billion three of the last four years (2017, 2018, and 2020), including almost $1.2 billion in losses in 2020. Combined losses for fire, allied lines, and commercial multiperil (property) coverage exceeded $4.0 billion in each of those three years, compared to a high of $2.3 billion for any other year (**Exhibit 4**).

The wildfires are due to a number of causes, including heat waves leading to dry vegetation and drought conditions, extreme weather events (including lightning storms), and high winds. Northern California lightning strikes such as those that occurred in August 2020 are more likely in the summer, while the notorious Santa Ana winds in the south and the Diablos in central and northern California are more apt to occur in the fall. These winds stream down from the high elevation deserts and mountains towards the coast, frequently whipping smaller fires into larger catastrophes.

Based on current conditions, 2021 insured fire loss totals may exceed the losses of recent years. The highest annual loss and DCC total prior to 2017 was approximately $542 million. The two worst years since 2010 for direct loss and DCC and combined ratios for underwriters of both California commercial fire insurance and homeowners multi-peril coverage were 2017 and 2018 (**Exhibit 5**). Insurers of homeowners multiperil coverage in California recognized the increased frequency of severe wildfires in 2017 and 2018 and took action by increasing premiums in addition to refining their risk selection standards. This helped offset another extraordinary year of wildfire activity in 2020, producing better industry underwriting results than in those earlier years. Commercial property writers of fire coverage reacted similarly.

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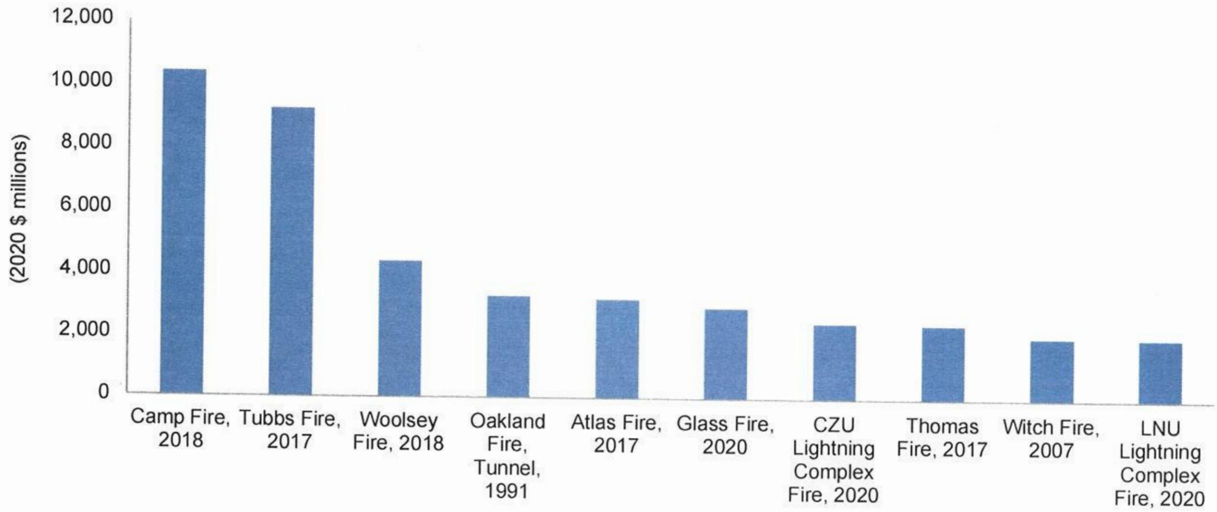
2021-128

Exhibit 1

10 Costliest US Wildland Fires, as of February 23, 2021



Notes: Includes losses sustained by private insurers and government sponsored programs for events that occurred through 2020. All fires on this list occurred in California. Values have been adjusted for inflation by AON using the US Consumer Price Index.

Source: AON

Exhibit 2

20 Largest California Wildfires by Acreage Burned

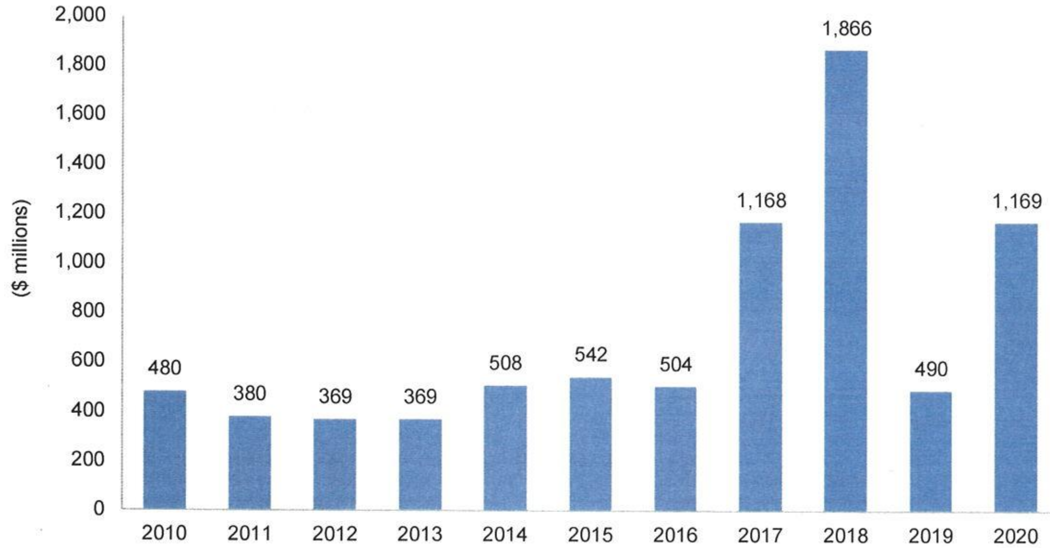
Rank	Fire Name	Date	Acres Burned
1	August Complex*	Aug-20	1,032,648
2	Mendocino Complex	Jul-18	459,123
3	SCU Lightning Complex*	Aug-20	396,624
4	Creek Fire*	Sep-20	379,895
5	LNU Lightning Complex	Aug-20	363,220
6	North Complex*	Aug-20	318,935
7	Thomas	Dec-17	281,893
8	Cedar	Oct-03	273,246
9	Rush	Aug-12	271,911
10	Rim	Aug-13	257,314
11	Zaca	Jul-07	240,207
12	Carr	Jul-18	229,651
13	Matilija	Sep-32	220,000
14	Witch	Oct-07	197,990
15	Klameth Theatre Complex	Jun-08	192,038
16	Marble Cone	Jul-77	177,866
17	Laguna	Sep-70	175,425
18	SQF Complex	Aug-20	170,384
19	Basin Complex	Jun-08	162,818
20	Day Fire	Sep-06	162,702

* Estimated.

Source: California Department of Forestry and Fire Protection

Exhibit 3

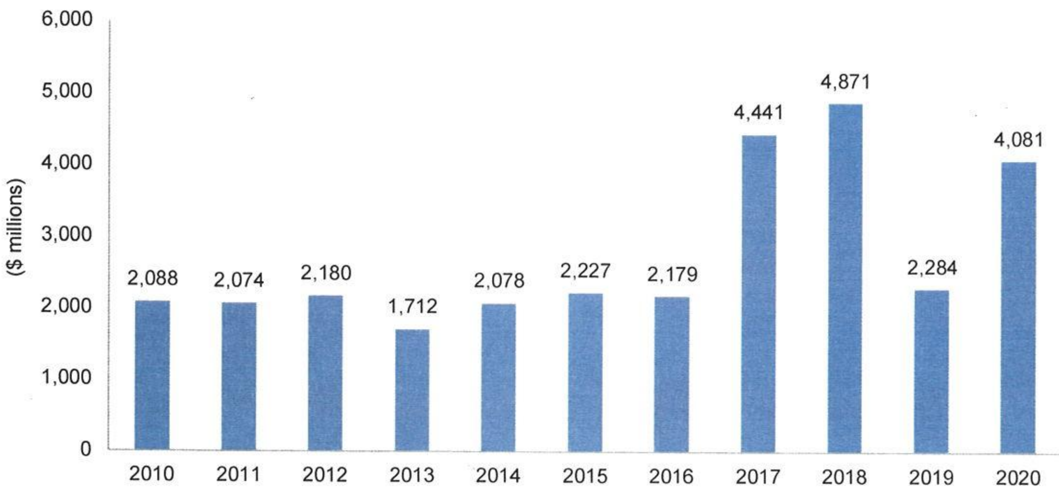
US P/C Industry – Fire Peril, California – Direct and DCC Loss Expense, 2010-2020



Source: AM Best data and research

Exhibit 4

US P/C Industry – Commercial Property, California – Direct and DCC Loss Expense, 2010-2020



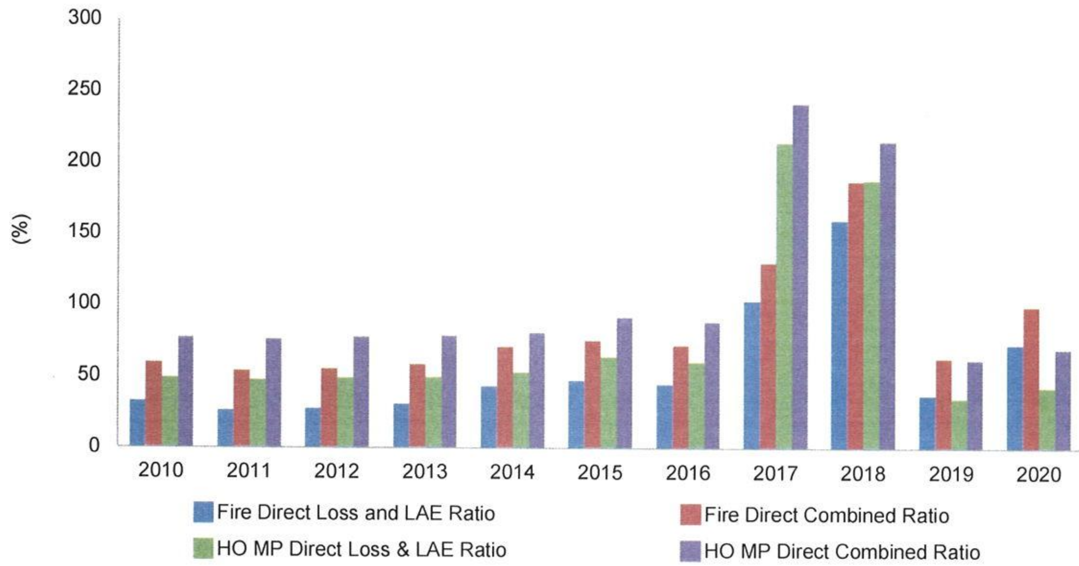
Commercial property data includes fire, allied lines, and commercial multi-peril property lines of coverage.
Source: AM Best data and research

This analysis is limited to results on a direct basis. Results on a net basis may be better or worse for individual insurers depending on their reinsurance strategies. We do note that reinsurance pricing has increased significantly for wildfire peril and the increased premiums are in part recognition of the increased costs.

Aside from insured losses, the 2020 wildfire season is considered the worst on record, featuring six of the 20 largest wildfires in the state's history, responsible for more than 30

Exhibit 5

US P/C Industry – California, Fire and Homeowners Multi-Peril Direct Underwriting Profitability, 2011-2020



Source: AM Best data and research

deaths, the destruction or damage of more than 10,000 buildings, and the burning of 4.3 million acres, according to the National Interagency Fire Center.

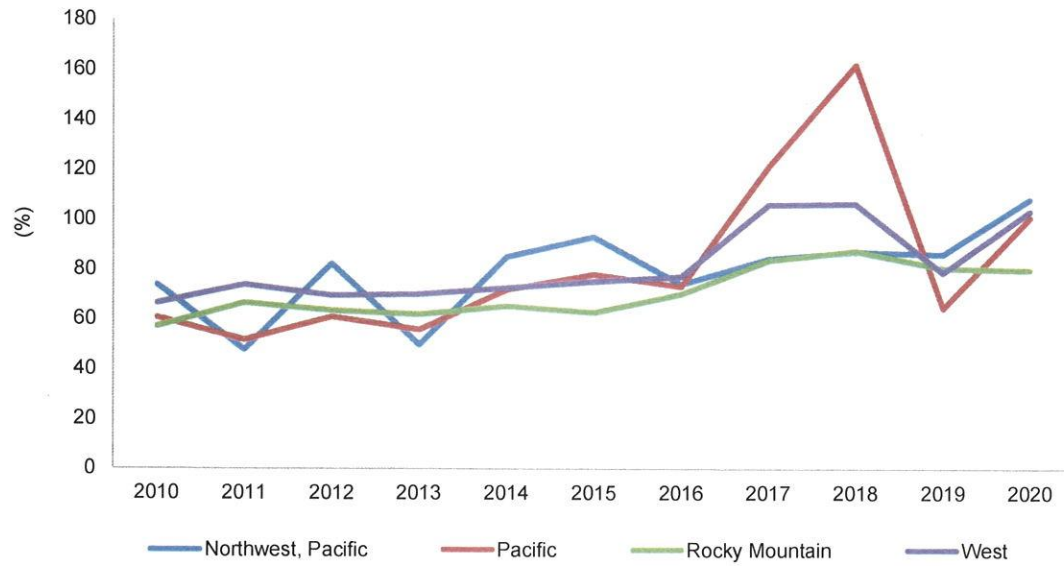
Other troubling indicators point at another above average wildfire year, and not just in California. According to the US Drought Monitor, 98% of the land in western states is experiencing drought conditions, and over a quarter is experiencing exceptional drought. In light of the June heatwave, the threat of wildfires is about a month ahead of schedule. **Exhibit 6** depicts how underwriters of fire coverage have fared over the last decade on a regional basis. For the affected regions, combined ratios have exceeded 100.0 in only the most recent years, which speaks to the change in climate conditions, temperatures, and hydrological conditions, which have all contributed to the increase in wildfire activity.

Active Insurance Industry Efforts to Address Wildfire Concerns

Over the past few years, the insurance industry has encouraged and enforced more mitigation efforts by insureds, such as using metal or fire-resistant fencing, shoring up roofs and gutters, and cutting back vegetation and trees from the perimeter of the home. Wildfire modelling has become more refined in recent years, enabling companies to make more informed underwriting decisions and reinsurance purchases.

Some of the events in 2020, notably the Glass fire, incurred fairly substantial commercial losses. Typically, much quicker access to rate approvals has enabled commercial insurers to react to wildfire losses more expediently than personal lines companies have. According to Bloomberg News, in October, California's insurance regulator reported that insurers had elected to not renew 235,000 home insurance policies in 2019—a 31% increase from the prior year. In ZIP Codes that had a moderate to very high fire risk, non-renewals jumped by 61%.

Exhibit 6
US P/C – Fire Coverage, Regional Direct Combined Ratio, 2010-2020



Northwest, Pacific: ID, MT, OR, WA, WY.
Pacific: AK, CA, HI, OR, WA.
Rocky Mountain: AZ, CO, ID, MT, NV, NM, UT, WY.
West: AK, AZ, AR, CA, CO, HI ID, IA, KS, LA, MN, MO, MT, NE, NV, NM, ND, OK, OR, SD, TX, UT, WA, WY.
Source: AM Best data and research

In November 2020, California Insurance Commissioner Ricardo Lara announced a mandatory one-year moratorium on insurance companies non-renewing or cancelling residential property insurance policies. The announcement also affects nearly 364,000 policyholders who were included in the prior year's moratorium, giving these particular policyholders an additional period of protection. Nearly 200 ZIP Codes have been designated. The two largest insurance trade associations, the American Property Casualty Insurance Association and the Personal Insurance Federation of California, both agreed that the insurance industry needs to work collaboratively with the state on a long-term solution to better account for wildfire risk and provide comprehensive coverage to the state. What may happen in November 2021 when the moratorium expires is highly uncertain and may be influenced by the degree of wildfire activity.

In recent years, surplus lines insurers have notably increased their homeowners multi-peril premium writings in California, although the base premium of homeowners coverage written by these insurers was relatively low compared to other, traditional lines of coverage written in the E&S market. In addition, the California FAIR Plan Association provides basic home insurance to high-risk homeowners that cannot get insurance through the voluntary market. Since the homeowners coverage is basic, insureds need to buy a Difference in Conditions policy from the traditional market to obtain total coverage near the equivalent of comprehensive homeowners insurance policy. The FAIR Plan is offered through a shared market in which licensed insurance companies agree to share the risk of California homeowners who do not qualify for voluntary coverage. The admitted market writes more than 95% of the homeowners' coverages in the state, despite the pressures of recent years.

Regulatory and Government Responses

The fiscal 2021-2022 budget California Governor Gavin Newsom submitted to lawmakers in June calls for $2 billion to reduce wildfire threats, much of it earmarked for cutting new firebreaks, thinning overgrown forests, and removing dead and dying trees that can become tinder for massive blazes. The plan also calls for far greater investments in emergency response preparedness and expansion of the state's fleet of firefighting planes and helicopters, already touted as the largest in the nation. This plan is in addition to a previous $80 million budget allocation for the hire of 1,400 seasonal firefighting crew, resulting in the largest force in the state's history. At about the same time, the US Forest Service outlined a plan that could quadruple the rate at which it thins and removes dead timber and undergrowth on federal lands. These properties, which account for nearly 60% of forested areas in California, have had fires spread to private lands.

In early 2021, Commissioner Ricardo Lara proposed new rules to give homeowners and businesses open access to their properties' wildfire risk scores. The new rules would require insurance companies to provide consumers with their properties' wildfire risk scores, which must recognize any mitigation actions on the part of consumers that could improve their rating (such as creating defensible space and fire-hardening) and give consumers time to lower their scores. The new regulations will incentivize mitigation and help consumers make better-informed decisions when they buy, sell, or build a home.

These changes will also provide insurance companies with more upfront certainty about the materials and information required in rate applications filed with the California Department of Insurance, eliminating delays caused by incomplete initial rate filings. Currently, there are more than 30 California regulatory/legislative bills/proposals related to wildfire that can be grouped into four main categories: mitigation incentives, penalties, funding, and cancellations. These proposals underscore the growing importance that lawmakers and creators of public policies are placing on wildfire risk and the damage it causes as events occur more frequently and become more severe in nature.

Appendix A

US P/C, California Homeowners Multi-Peril Direct

(Top 20 CA Groups/Companies by Market Share)

Group/Company	CA HO MP Market Share (%)	CA HO MP DPW as a % of Total HO MP DPW
State Farm Group	17.8	9.0
Farmers Insurance Group	15.0	20.8
Allstate Insurance Group	6.6	6.7
CSAA Insurance Group	6.3	64.0
Liberty Mutual Insurance Companies	6.3	8.9
USAA Group	5.9	7.9
Mercury General Group	5.8	85.4
Auto Club Enterprises Insurance Group	5.3	61.9
Nationwide Group	3.7	11.1
Travelers Group	3.7	7.5
Chubb INA Group	2.8	9.0
American Family Insurance Group	2.4	5.4
Pacific Specialty Insurance Group	2.0	94.5
American International Group	1.8	16.0
Hartford Insurance Group	1.1	12.2
Munich-American Holding Corp Companies	1.0	14.7
Berkshire Hathaway Insurance Group	0.8	21.4
Tokio Marine US PC Group	0.7	8.5
XL Reinsurance America Group	0.7	31.5
Assurant P&C Group	0.7	8.5

Source: AM Best data and research

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BEST'S SPECIAL REPORT

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Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

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APPENDIX H
PROGRAM STRUCTURE OF SEMPRA'S 2021 WILDFIRE PROGRAM

Marsh

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Dennis Gaughan
Director, Risk Management
Sempra Energy
488 8th Ave
San Diego, CA 92101

January 14, 2022

Dear Dennis,

Please see below for historical layer data points for Sempra's Wildfire Excess Liability and Physical Damage (PD) programs (includes insurance and reinsurance).

- 2019-2020
  - General excess (non-wildfire) liability
    - Total number of layers: 10
    - Number of long-term agreements: 0
    - Number of structured agreements: 0
  - Wildfire liability (including PD)
    - Total number of layers: 14
    - Number of long-term agreements: 7
    - Number of structured agreements: 0

- 2021-2022
  - General excess (non-wildfire) liability
    - Total number of layers: 14
    - Number of long-term agreements: 6
    - Number of structured agreements: 0
  - Wildfire liability (including PD)
    - Total number of layers: 17
    - Number of long-term agreements: 11 (inclusive of 4 long-term structured agreements)
    - Number of structured agreements: 4

Sincerely,

Stephen Kempsey
Managing Director, Global Client Executive