Application of Southern California Gas Company for authority to update its gas revenue requirement and base rates effective on January 1, 2012. (U904G)

Application 10-12-___
Exhibit No.: (SCG-18)

PREPARED DIRECT TESTIMONY OF

MAURY B. DE BONT

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECEMBER 2010

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PREPARED DIRECT TESTIMONY OF
MAURY B. DE BONT
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(CORPORATE CENTER – INSURANCE)

I. INTRODUCTION

The purpose of my testimony is to address overall insurance costs for the Sempra Energy ("Sempra") companies. The responsibility for designing and implementing Sempra's insurance program is centralized at the Corporate Center in the Risk Management department. With few exceptions, the Sempra Energy Risk Management Department ("Risk Management") procures insurance coverage on a corporate-wide basis for all Sempra Energy business units (regulated and unregulated). This structure provides maximum efficiencies in obtaining insurance, ensures regulatory and legal compliance, and eliminates potential insurance program deficiencies (*i.e.*, gaps and duplication). Risk Management's insurance objective is to purchase appropriate limits of insurance with broad coverage to protect against catastrophic loss at the most economic cost feasible. Its corporate-wide procurement approach brings economies of scale, and produces the maximum premium and labor savings to all participants in the program. Each business unit is allocated a share of premium expenses. In the case of San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas"), Risk Management performs this allocation in accordance with Commission-approved allocation methodologies, as discussed below.

Sempra's policy and methodologies for shared services, including the Risk Management group that provides insurance and risk management services, are fully addressed in the testimony and workpapers of Corporate Center witness Bruce A. Folkmann [Exhibit SDG&E-23/SCG-17]. The forecast presented in this testimony is solely for the cost of procured insurance, its purpose, and its allocation among Sempra's business units.

A. Summary of Insurance Cost Changes

The insurance needs of Sempra and its business units fall into two major categories:

1. Property – provides coverage for damage or losses to assets, and
2. Liability – provides coverage for claims from external parties.

Surety bonds are procured on behalf of business units as well, and that cost is also presented in this testimony.

(2009 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2009	2009 - 2012 Incr/(Decr)	Forecast 2012	Base Year 2009	2009 - 2012 Incr/(Decr)	Forecast 2012
A Property	15,122	764	15,886	7,302	1,426	8,729
B Liability	68,115	41,264	109,378	62,346	41,188	103,534
C Surety Bonds	1,047	115	1,162	1,019	93	1,111
Total	$ 84,284	$ 42,143	$ 126,427	$ 70,667	$ 42,707	$ 113,374
Allocations						Escalated 2012
SDG&E	$ 55,207	$ 42,302	$ 97,509			$ 97,509
So Cal Gas	15,460	405	15,865			15,865
Total Utility	70,667	42,707	113,374			$ 113,374
Global / Retained	13,617	(565)	13,053			
Total	$ 84,284	$ 42,143	$ 126,427			

The total amount of property and liability insurance premiums assigned to SDG&E will increase by $42 million from 2009 to 2012. The primary factors impacting this increase are:

$ - millions

35.8	Wildfire Property Damage Reinsurance to enhance coverage limits, including escalation
4.4	Standard escalation for most other policies, primarily commercial wildfire liability
1.4	SONGS mutual property insurer no longer issuing policyholder distributions
0.7	Shift in allocation rates, primarily Multi-Factor
$ 42.3	

The insurance premiums assigned to SoCalGas will increase by $ 0.4 million from 2009 to 2012. The primary factors impacting this increase are a modest escalation assumption offset by somewhat declining Multi-Factor allocation ratios to SoCalGas, relative to SDG&E and other business units.

See applicable workpapers for detail of changes by each policy type.

B. Cost Allocations

Risk Management's goal is to reasonably and equitably bill insurance costs to business units, associating the costs as closely as possible to the coverage being provided to each business unit. In the same manner as all Corporate Center shared services, Risk Management uses a hierarchy to allocate its costs to SDG&E, SoCalGas, and Global:

1. Direct Assignment
2. Causal/Beneficial
3. Multi-Factor

First, where a policy is procured for a specific business unit, or if the insurance carrier's invoice itemizes the premium by business unit coverage, the costs are directly assigned to the business units. Second, insurance policies covering multiple business units under a single premium are charged to the business units using a Causal/Beneficial factor if available. Third, policies for coverage such as general excess liability that support the Sempra Energy companies as a whole are allocated using the corporate Multi-Factor method.

The Multi-Factor allocation, also referred to as the "Four-Factor," weights four factors from among all business units:

1. Revenue,
2. Gross Plant & Investments,
3. Operating Expenses, and
4. Full-Time Employees or Equivalents (FTEs).

These are the four factors that the CPUC has utilized for many years in allocating SDG&E's costs between its electric and gas customers for the purposes of setting utility rates. In addition, this cost allocation methodology is consistent with previous CPUC decisions, such as the Merger Decision (D.98-03-073), the 2004 Cost of Service (D.04-12-015), and the 2008 General Rate Case (D.08-07-046). The four factors are compiled each year, to be used as the basis for the following year's actual allocations. To arrive at the forecasted rates for 2012, historical factors from 2005-2009 were projected using a statistical forecasting method known as a least-squares formula. See the testimony and workpapers of Corporate Center witness Bruce A. Folkmann (SDG&E-23/SCG-17) for more detail on the Multi-Factor Basic method.

C. Forecasting Approach

Risk Management's insurance forecast was developed by individual type of insurance policy. Insurance premiums are considered "non-standard," or not subject to standard inflation, and are presented in nominal escalated dollars. Each policy type is normally subject to different insurance market conditions and drivers of growth. Due to the fortuitous nature of perils covered by commercial insurance policies (natural events like earthquake and hurricanes; third party liability accidents), we are unable to predict future year premiums with certainty beyond 12 months of the current policy year (in this case, the current policy year being 2009-2010). Thus, in this testimony, premiums are escalated using a standard escalation factor to account for insurance market conditions, as well as individually for internal growth (increases in underwriting criteria like values, payroll, number of employees, vehicles), as discussed herein. SDG&E and SoCalGas incorporate their respective allocated costs as "non-standard" so they are not escalated a second time.

D. Significant Market Conditions, Industry Trends, Assumptions

The insurance market operates in cycles. Soft markets are characterized by adequate types and amounts of insurance and hard markets are characterized by contraction of available capacity, restrictions on coverage and increasing premiums. Not all lines of insurance are impacted equally and/or at the same time.

Mild hurricane seasons in 2006 and 2007 helped the insurance industry to recover some of the capital lost in the severe catastrophe years of 2004 and particularly 2005. However, Hurricane Ike in 2008 coupled with the financial crisis that began in late 2007 resulted in an industry wide loss of 16% of policyholder surplus by early 2009. Ordinarily, a hard market would have resulted, however the crisis also caused declines in the overall demand for insurance, therefore rates have not dramatically increased except for industries particularly hard hit by insurance losses. This includes the utility industry, where significant property losses in 2008 were followed by the development and maturation during the last half of 2008 of the 2007 San Diego area wildfire liability losses sustained by SDG&E.

During the 2009-2010 insurance renewal, Risk Management found there was far less wildfire liability and general liability insurance available and the cost of the insurance had dramatically increased. Circumstances at the time the liability insurance renewal season began in 2009 were not favorable:

- Over 100 lawsuits had been filed against SDG&E alleging liability for losses resulting from three of the October 2007 San Diego County wildfires.
- Aggregate homeowner insurer claims in these lawsuits exceeded $1.6 billion.
- All of the underwriters who insured SDG&E in 2007 had established full limit loss reserves1 for these losses.

The dramatic contraction in available liability insurance impacted the areas of wildfire liability insurance and general liability insurance most directly. Prior to SDG&E's 2009 renewal, wildfire liability was routinely covered within general liability insurance; however, claims filed against California utilities as a result of the 2007 California wildfires have split the market into wildfire liability and general liability.[2] While the general liability market experienced some premium increase pressure in the 2009-2010 renewal, the greatest pressure was felt in wildfire liability insurance premiums.

I believe there were five factors that caused insurers to increase their 2009-2010 wildfire and general liability premiums:

First, insurers were focused on what they saw as strict liability for wildfires imposed on utilities by the inverse condemnation doctrine in California.

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[1] Loss reserves are an estimate of what loss costs are expected to be. A "full limit" loss reserve means that for an insurer with a $1 million policy limit, the insurer has set a loss reserve equal to the full $1 million policy limit.

[2] Wildfire liability aggregate limits have been segregated from the general liability limits in order to have dedicated wildfire limits for wildfire-only losses. The goal of doing this is to ensure that claims for <u>non</u>-wildfire losses do not result in reduced available coverage for wildfire losses.

The realization that an investor owned utility could be held strictly liable for wildfire damages caused by a utility power line, even if the utility was not negligent, was very unsettling to all underwriters. Under inverse condemnation, even where the utility is in full compliance with the Commission's safety regulations, if a fire is caused by utility facilities operating as they were deliberately designed and constructed, the utility faces the prospect of claims for all ensuing third party damage. Underwriters believe that the possibility that SDG&E will not be allowed to defend itself against claims where it was not negligent increases their risk of loss. Because of the claims and inverse condemnation, some of the underwriters decided that California wildfire liability was an uninsurable risk and exited the wildfire liability insurance market. All underwriters who remained active in the market dramatically increased their premiums for the wildfire exposure.

The second factor was that SDG&E experienced liability claims related to three fires (the Witch, Guejito, and Rice fires) and other non-wildfire losses,[3] and an element of pay-back for the anticipated insurance claims was included in renewal premiums. "Pay-back" is a common insurance industry practice, where insurers raise premiums for the insured who give them losses. This was the case for those underwriters that participated in the 2007 liability insurance program and continued to underwrite SDG&E in 2009.

The third factor for premium increases was the underwriters' assessment of the risk for future wildfire losses. Given the recent few years of wildfire severity, insurers perceive an increased exposure and have also expressed their concern about the continuing impact of climate change on the fire season. The higher the risk of loss, the higher the premium insurers will require in order to provide insurance.

The fourth cause of premium increases, which also caused a reduction in the amount of insurance offered, was a loss of commercial reinsurance due to the wildfire exposure. In the liability insurance market, insurers purchase reinsurance to protect themselves from significant losses on the companies they underwrite. Due to the fire losses sustained in 2007, and an increasing awareness of inverse condemnation, commercial reinsurers in 2009 had either refused to provide wildfire liability reinsurance or had severely limited the amount offered. Without reinsurance, insurance companies that wanted to continue providing insurance for SDG&E had to reduce the amount of insurance offered to an amount that could be supported solely with their internal capital. Underwriters that did obtain some wildfire reinsurance saw an increase in their reinsurance premiums and this increase was passed on to SDG&E.

The fifth cause of premium increase pressure was due to general market pressures outside of the California wildfire situation. Overall market conditions can be impacted by global catastrophic losses and financial conditions of the world economy, while market conditions for utilities will also be impacted by utility-related events. This included a general sharing of utility industry-wide losses between all utility insureds. Increased losses in the utility industry last year caused an increase in premiums for utility companies. General market pressure also includes the effects of the 2008 financial crisis, which lead to a significant reduction in investment returns and impacted all insurers. As the income from investments decreased, a condition forecast to extend well into the next decade, insurers raised the premiums to maintain profitability. Many insurers rely on investment income to support unprofitable underwriting years and provide stability of earnings. With investment income now greatly reduced, underwriters must set premium levels to cover expected losses and earnings without the buffering effect of investment income.

With the non-wildfire losses and the losses related to the catastrophic 2007 San Diego County wildfires, inverse condemnation, a reduction in wildfire liability reinsurance, the underwriters' perception of increasing wildfire exposure, and general liability losses, there was a deep drop in available insurance capacity and severe premium increases. At the 2009-2010 renewal, SDG&E was able to

[3] SDGE had a nearly 100% loss ratio for the prior 10 years for *non-wildfire third party liability losses*. This means $1 in claims was paid out for every $1 paid in premiums.

obtain only a third of the wildfire liability coverage limit it had the year before (down from $1.2 billion to $399 million). For general liability, limits dropped by one fourth (down from $1.2 billion to $800 million). Moreover, the total (wildfire and general) liability insurance premium allocated to SDG&E and SoCalGas nearly quadrupled over the prior year ($13.6 million to $55.2 million). In addition, SDG&E was forced to accept a significant increase in its deductible and assume sharing 50% of all wildfire losses within the first $60 million of insurance coverage.

Our goal since the 2009-10 policy year, when wildfire liability insurance limits dropped by two-thirds to $400 million, has been to get back to the 2008-09 policy year limit of nearly $1.2 billion as risk transfer mechanisms (insurance and other alternative risk transfer options) became commercially and reasonably available. We were able to make great strides in reaching that goal with our 2010-11 renewal. The insurance program put into place, providing SDG&E a combined $1 billion in wildfire protection, allows SDG&E to build coverage and limits in the most cost effective manner for the future.

The wildfire liability risk exposure SDG&E faces, while low frequency, is a high severity risk exposure. Historically, commercial insurance has proved to be the most cost effective way to address this risk exposure. The high limits ($1.025 billion) which SDG&E had purchased in 2007 and that responded to the 2007 San Diego area wildfire claims eventually proved by 2009 that the risk exposure was (i) very significant, and (ii) that $1.025 billion was not enough to respond to all wildfire liability claims.

In 2008, SDG&E was able to increase our limits to just under $1.2 billion (for the 2008-09 policy year) as the 2007 wildfire liability claims were not yet fully developed. In 2009, as noted above, SDG&E was only able to obtain only a third of the wildfire liability coverage limit it had the year before (down from $1.2 billion to $399 million). Early in the 2010 insurance renewal process, SDG&E found that the property reinsurance market provided the best alternative to supplement the traditional liability insurance available to SDG&E.[4] Property reinsurers were willing and able to provide the requested limits (approximately[5] $600mm), and do so cost effectively. This is a brand new insurance product that has never before been offered to a utility company. The approximately $600 million in limits, provided by multiple property reinsurers, will have an average rate of $0.054 per million. By comparison, for the commercial insurance program providing $400 million wildfire liability limits, the average rate was $0.08 in the final $100mm layer ($300mm-$400mm) of the program. Other alternative risk transfer options (catastrophe bonds, commercial liability insurance markets, pooling with other California utilities) simply could not provide the limits needed. The 2009 base year expense would have included the cost of reinsurance but for the fact the property reinsurance product was not available until this year. SDG&E anticipates a continuing need for this coverage in the future. I believe our forecast for 2012 is reasonable and these expenses are necessary to provide adequate insurance coverage..

II. DETAIL OF CORPORATE INSURANCE POLICIES

Following is a more detailed description of each insurance type and the allocation methods used. All policies provide coverage on a 12-month annual basis, and renew at various times during the calendar year.

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[4] For a description of the 2010-2011 insurance renewal, please see my current testimony in the Joint Application of SDG&E, SoCalGas, Southern California Edison Company, and Pacific Gas and Electric Company for Authority to Establish a Wildfire Expense Balancing Account to Record for Future Recovery Wildfire-Related Costs (A.09-08-020).

[5] At the time of preparing this testimony, SDG&E had not completed the final placement of obtaining $600 million in limits.

A. Property Insurance

(2009 $ - 000's)	Corporate Center			Utility Allocations		
	Base Year	2009 - 2012	Forecast	Base Year	2009 - 2012	Forecast
Services Provided	2009	Incr/(Decr)	2012	2009	Incr/(Decr)	2012
A-1 Primary	8,296	(1,138)	7,158	2,898	(134)	2,765
A-2 Excess	6,524	488	7,012	4,279	195	4,474
A-3 SONGS Property	(360)	1,379	1,020	(360)	1,379	1,020
A-4 Crime	225	(48)	177	184	(37)	147
A-5 Other Property	198	72	270	104	12	116
A-6 Broker Fees	240	10	250	197	11	208
Total	$ 15,122	$ 764	$ 15,886	$ 7,302	$ 1,426	$ 8,729
Allocations						Escalated 2012
SDG&E	$ 4,029	$ 1,401	$ 5,430			$ 5,430
So Cal Gas	3,274	25	3,299			3,299
Total Utility	7,302	1,426	8,729			$ 8,729
Global / Retained	7,820	(662)	7,158			
Total	$ 15,122	$ 764	$ 15,886			

1. Primary Property All-Risk (A-1)

The Primary Property Insurance program provides coverage for direct physical damage to property owned by Sempra Energy, and Business Interruption coverage (which is not applicable to SDG&E and SoCalGas, and thus no coverage details are included). Coverage includes the perils of earthquake, terrorism, and flood. Property is valued at full replacement cost. Major exclusions include electrical and gas transmission and distribution lines.

- Renews: April 8th
- Limits of coverage: Physical damage: $10 million
- Amount of deductible: Physical damage: $1 million (SDG&E, SoCalGas, LNG Terminals, and Power Plants), $100,000 (all other Global)
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. A 3.5% escalation factor is utilized for 2011-2012, which accounts for increasing property values and market pressures.

- Allocation of Costs – The “Primary Property” method of allocation is based on risk-adjusted rates applied to replacement values of property for each business unit, plus loss sensitivity factoring for those business units that sustained property losses. The following rates reflect a change in insurer’s risk rates effective in 2010:

		Allocation Rates	
		2009	2012
Primary Property	SDG&E	32.4%	20.6%
	SoCalGas	21.1%	18.0%
	Global / Retained	46.5%	61.4%
		100.0%	100.0%

2. Excess Property All-Risk (A-2)

The Excess Property Insurance program responds to physical damage losses that exceed the Primary property program limits. Coverage includes the perils of earthquake and flood and the policy does not exclude losses resulting from terrorism. Property is valued at full replacement cost. Major exclusions include business interruption, extra expense and electrical transmission and distribution systems.

- Renews: January 1st
- Limits of coverage: $250 million.
- Amount of deductible: $10 million.

Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. There is a projected 5% growth in property values per year assumed for 2011-2012. An additional 3.5% escalation factor for market pressures is also utilized for 2011-2012.

Allocation of Costs - Excess property insurance is allocated separately, covering only those business units with property values exceeding the deductible of $10 million.

		Allocation Rates	
		2009	2012
Excess Property	SDG&E	40.4%	39.3%
	SoCalGas	25.2%	24.5%
	Global / Retained	34.4%	36.2%
		100.0%	100.0%

3. SONGS Property (A-3)

a. SONGS Nuclear Property (A-3.1)

- Nuclear property insurance for the San Onofre Nuclear Generating Station (SONGS) is provided by Nuclear Electric Insurance Limited (NEIL). This insurance covers loss to SONGS property, decontamination expense, and debris removal. NEIL also provides Accidental Outage coverage (business interruption/extra expense) within the property insurance. It helps pay for replacement power and other business interruption expenses ($3.5 million weekly) in the event that the nuclear unit is shutdown due to physical damage occurrences covered by the property insurance policy. The NEIL policies include coverage for losses resulting from acts of terrorism.
- Renews: April 1st
- Limits of coverage: $2.75 billion (physical damage), $490 million (accidental outage).
- Amount of deductible: $2.5 million (physical damage), 12-week wait period (accidental outage).

- Actual and Projected Premium Expense: Historically, premiums were offset by NEIL's Nuclear Property Policyholder Distribution. The Distribution is a return of member premium when surplus and investment income exceed thresholds set by the NEIL board of directors. Distributions are not guaranteed, and are dependent upon loss experience and investment returns. Starting in 2010, NEIL decided to not declare a Nuclear Property Distribution for NEIL members. This will very likely hold true for the next several years. A 3.5% escalation factor is utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% SDG&E

b SONGS Mesa Non-Nuclear Property (A-3.2)

Provides coverage for direct physical damage to non-nuclear property owned by SONGS.

- Renews: September 1st
- Limits of coverage: $250 million overall.
- Amount of deductible: $2 million.
- Actual and Projected Premium Expense: Southern California Edison, as plant manager, is responsible for placing all insurance coverages. Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor is utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% SDG&E

4. Crime (A-4)

Provides coverage for employee theft of money or other property. Also insures theft of money or securities from within company premises or during transport by messengers.

- Renews: October 1st
- Limits of coverage: $50 million.
- Amount of deductible: $1 million.
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009, with premiums expected to remain flat in 2010. A 3.5% escalation factor for market pressures is utilized for 2011-2012.
- Allocation of Costs - Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

5. Other Property (A-5)

a <u>APS Yuma 500kV Transmission System – Property (A-5.1)</u>

Provides coverage for direct physical damage to property owned by SDG&E & APS.

Limits of coverage: $500 million overall.

- Renews: October 15th
- Amount of deductible: $2.5 million.
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% SDG&E

b. Control of Well (A-5.2)

Provides coverage to bring under control a natural gas storage well that suffers a well blowout.

Limits of coverage: $10 million.

- Renews: February 26th
- Amount of deductible: $500,000
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. A 3.5% escalation factor is utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% SoCal Gas

c. Cargo Insurance (A-5.3)

Provides coverage for loss of LNG cargos from LNG vessels while the LNG is in transit.

- Renews: December 1st
- Limits of coverage: $50 million.
- Amount of deductible: Customary boil off
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% Global

d. Foreign Package (A-5.4)

Provides property, liability and workers' compensation insurance where required by local law in countries other than the United States. These are primary, locally admitted policies.

- Renews: May 1st
- Limits of coverage: Property - various; Liability - $1 million; Workers' Compensation – as required

- Amount of deductible: Property - various; Liability & Workers' Compensation -$0
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-2012.
- Allocation of Costs: 100% Sempra Global

6. Broker Fees - Property (A-6)

Broker services fees represent compensation for broker insurance services. Fees are paid quarterly, starting July 15th.

- Actual and Projected Expense: Actual expense has been used for 2009-2010. An increase was granted in 2010, the first increase in over 10 years. No further increases are projected for the 2011-2012 period.
- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

B. Liability Insurance

(2009 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2009	2009 - 2012 Incr/(Decr)	Forecast 2012	Base Year 2009	2009 - 2012 Incr/(Decr)	Forecast 2012
B-1 General Excess	18,540	1,221	19,761	15,183	1,231	16,413
B-2 Fire	39,775	38,892	78,667	39,707	38,887	78,594
B-3 D&O	4,158	73	4,231	3,404	110	3,515
B-4 Fiduciary	1,692	30	1,721	1,385	45	1,430
B-5 Workers Comp	2,024	439	2,464	1,702	363	2,066
B-6 SONGS Liability	397	430	827	397	430	827
B-7 Other Liability	951	55	1,007	93	15	108
B-8 Broker Fees	577	123	700	474	108	581
Total	$ 68,115	$ 41,264	$ 109,378	$ 62,346	$ 41,188	$ 103,534
Allocations						Escalated 2012
SDG&E	$ 50,390	$ 40,834	$ 91,225			$ 91,225
So Cal Gas	11,955	354	12,309			12,309
Total Utility	62,346	41,188	103,534			$ 103,534
Global / Retained	5,769	75	5,845			
Total	$ 68,115	$ 41,264	$ 109,378			

1. General Excess Liability (B-1)

Provides coverage for third-party legal liability for bodily injury, property damage or personal injury. Includes coverage for operational pollution liability, excess auto liability, excess employer's liability, and legal liability arising from terrorism (up to $290 million in limits). Employment practices liability cover ($100 million) was rolled into the Excess Liability program September 2003, and is no longer a separate program. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, intentional losses, and pollution liability arising subsequent to disposal.

- Renews: June 26th
- Limits of coverage: $800 million
- Amount of deductible: $4 million for SDG&E and SCG; $1 million for Sempra Global.
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009. For 2010, 2011,

and 2012, there is a projected premium increase of 3.5% in each year.

- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

2. Wildfire Liability (B-2)

a. Wildfire Liability (B-2.1)

Provides coverage for third-party liability for bodily injury, property damage or personal injury arising from wildfires. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and intentional losses.

- Renews: June 26th
- Limits of coverage: $400 million for wildfire liability.
- Amount of deductible: $4 million for SDG&E and SCG, plus $30 million loss sharing for the first $60 million in coverage limits; $1 million for Sempra Global.
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009. For 2010, 2011, and 2012, there is a projected premium increase of 3.5% in each year.
- Allocation of Costs - Based on a causal relationship, using the miles of overhead electrical line as the factor.

		Allocation Rates	
		2009	2012
Fire Insurance	SDG&E	99.5%	99.5%
	SoCalGas	0.4%	0.4%
	Global / Retained	0.2%	0.2%
		100.0%	100.0%

b. Wildfire Property Damage Reinsurance (B-2.2)

Provides coverage for third-party legal liability for property damage arising out of wildfires. Coverage is provided by reinsurance markets, a different market from the insurers providing coverage in section B-2.1 above. Major exclusions include bodily injury, fire following earthquake, and commercial agriculture loss.

- Renews: June 26th
- Limits of coverage: $600 million
- Amount of deductible: $400 million
- Actual and Projected Premium Expense: 2010 is first year of coverage in effect separately from General Liability.
- Allocation of Costs: 100% SDG&E

3. D&O Liability (B-3)

Provides coverage for corporate directors and officers against claims alleging financial loss arising from mismanagement. Major exclusions include fraudulent or criminal acts, and claims covered under other liability policies.

- Renews: June 26th
- Limits of coverage: $250 million.
- Amount of deductible: $10,000,000; $0 (when corporate indemnity is not permitted).

- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. For 2010, a 5% reduction in premium occurred. From there, a 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

4. Fiduciary Liability (B-4)

Provides coverage for liability arising from wrongful acts committed by employee benefit program fiduciaries.

- Renews: June 26th
- Limits of coverage: $125 million.
- Amount of deductible: $10 million securities-related; $1 million all other.
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

5. Workers' Compensation (B-5)

a. Excess Workers' Compensation (WC) Insurance - Calif only (B-5.1)

Provides excess workers compensation coverage above authorized self-insurance maintained by Corporate Center, Global, SDG&E and SCG in the State of California.

- Renews: December 1st
- Limits of coverage: $135 million.
- Amount of deductible: $350,000.
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor is utilized for growth in labor base as well as market pressures for 2011-12.
- Allocation of Costs: Based on payroll per business units covered.

		Allocation Rates	
		2009	2012
California Excess Workers Comp	SDG&E	43.3%	43.0%
	SoCalGas	51.2%	53.4%
	Global / Retained	5.5%	3.6%
		100.0%	100.0%

b. Workers' Compensation & Employers' Liability (WC/EL) Insurance - All states other than California (B-5.2)

Provides coverage to Sempra Energy companies outside of California, for statutory benefits payable under the Workers' Compensation statutes of the various states. Also covers Corporate Center employees permanently assigned outside of California and liability arising from employee injuries not covered by Workers' Compensation.

- Renews: June 26th
- Limits of coverage: Statutory (WC), $1 million (EL).
- Amount of deductible: None
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor is utilized for growth in labor base as well as market pressures for 2011-12.
- Allocation of Costs - Based on payroll per business units covered. Corporate Center employees may be reallocated using the Multi-Factor Basic, to arrive at a blended rate:

		Allocation Rates	
		2009	2012
Non-California Workers Comp	SDG&E	0.8%	0.4%
	SoCalGas	0.8%	0.1%
	Global / Retained	98.4%	99.5%
		100.0%	100.0%

6. SONGS Liability (B-6)

a. <u>Nuclear Liability (B-6.1)</u>

Facility Form. This insurance protects SDG&E and the co-owners of SONGS against claims from third parties for bodily injury or property damage arising from radiation hazards at SONGS. The policy includes coverage for losses resulting from acts of terrorism. The limits purchased are the maximum amount of commercial insurance available, and is required by the NRC.

- Renews: January 1st
- Limits of coverage: $375 million
- Amount of deductible: $0

Master Workers. Covers tort claims of plant workers and their heirs for bodily injury or wrongful death due to radiation exposure while working at SONGS, and not covered by Workers' Compensation. The limits purchased are the maximum amount of commercial insurance available, and is required by the NRC.

- Renews: January 1st
- Limits of coverage: $375 million
- Amount of deductible: $0

Suppliers & Transporters. Covers third party bodily injury and property damage arising from transportation of radioactive materials.

- Renews: January 1st
- Limits of coverage: $375 million
- Amount of deductible: $0

Secondary Financial Protection ("SFP"). SFP, provided under the Price-Anderson Act, requires nuclear reactor owners to share in losses which exceed the primary insurance coverage. This would be done by an assessment. The SONGS owners could be assessed up to $235 million in the event of a full assessment call. SDG&E's share would be $47 million.

- Renews: Not applicable
- Limits of coverage: $12.2 billion
- Amount of deductible: Primary insurance policies listed above.

- Actual and Projected Premium Expense (all Nuclear Liability): Actual premium expense has been used for 2009-2010. For 2010, American Nuclear Insurance ("ANI"), the sole provider of all nuclear liability insurance, increased required policy limits, from $300 million to $375 million. The increase in limits was a result of Congressional reauthorization of the Price Anderson Act. Prince Anderson requires nuclear reactor owners to show evidence of financial protection in two layers. The first layer must be in an amount equal to the maximum amount of liability insurance available from private sources at reasonable terms and conditions. The $300 million had been in place since 2003. The balance of liability coverage ($12.2 billion) is provided under SFP language of the Price Anderson Act. A 3.5% escalation factor has been utilized for market pressures for 2011-12. However, small premium offsets may occur in the form of a credit from American Nuclear Insurers. The credit is not guaranteed and is dependent upon industry loss experience.
- Allocation of Costs (*all Nuclear Liability*): 100% SDG&E

b. <u>Non-Nuclear Liability, SONGS Mesa (B-6.2)</u>

Third-party bodily injury and property damage arising out of non-nuclear operations at SONGS Mesa.

- Renews: September 1st
- Limits of coverage: $600 million
- Amount of deductible: $2 million
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation of Costs: 100% SDG&E

7. Other Liability (B-7)

a. APS Yuma 500kV Transmission System – Liability (B-7.1)

Covers third-party bodily injury and property damage arising out of the Yuma 500kV transmission system operations.

- Renews: December 31st
- Limits of coverage: $25 million
- Amount of deductible: $2 million
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation: 100% SDG&E

b. Group Executive Umbrella Liability (B-7.2)

Umbrella liability for named executives, excess of executives' own personal lines insurance policies.

- Renews: January 1st
- Limits of coverage: $10 million - $20 million
- Amount of deductible: $0
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for growth in labor base as well as market pressures for 2011-12.
- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

c. Auto Liability (B-7.3)

Primary auto liability for third-party bodily injury and property damage coverage. Includes comprehensive and collision coverage for actual vehicle value. Covers all autos within the United States except those owned by SDG&E or SCG.

- Renews: June 26th
- Limits of coverage: $1 million
- Amount of deductible: $0 liability, $1,000 comprehensive/collision.
- Actual and Projected Premium Expense: Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures due to growth in number of vehicles for 2011-12.
- Allocation of Costs: Based upon number of covered vehicles owned per business unit (other than SDG&E and SCG). Corporate Center vehicles are re-allocated based on Multi-Factor to result in a blended method referred to as "Vehicle." The inclusion of fleet vehicles from a new Global business unit reduced the percentage to Utilities significantly.

		Allocation Rates	
		2009	2012
Vehicle	SDG&E	14.0%	4.2%
	SoCalGas	16.0%	4.2%
	Global / Retained	70.0%	91.7%
		100.0%	100.0%

d. Other Global Liability (B-7.4 – B-7.9)

Various other liability policies purchased for specific Sempra Global business units -- Terminal Operators' Liability and Protection & Indemnity for Sempra LNG; General Liability coverage for Mobile Gas Company.

- Renews: Various
- Actual and Projected Premium Expense: Actual premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation: 100% Sempra Global

8. Broker Services Fee (B-8)

Broker services fees represent compensation for broker insurance services. Fees are paid quarterly, starting July 15th.

- Actual and Projected Expense: Actual expense has been used for 2009-2010. An increase was granted in 2010, the first increase in over 10 years. No further increases are projected for the 2011-2012 period.
- Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2009	2012
Muti-Factor Basic	SDG&E	38.4%	41.5%
	SoCalGas	43.5%	41.5%
	Global / Retained	18.1%	16.9%
		100.0%	100.0%

C. Surety Bonds

(2009 $ - 000's)	Corporate Center			Utility Allocations		
	Base Year	2009 - 2012	Forecast	Base Year	2009 - 2012	Forecast
Services Provided	2009	Incr/(Decr)	2012	2009	Incr/(Decr)	2012
1100-0440-INS - SURETY BONDS	1,047	115	1,162	1,019	93	1,111
Total	$ 1,047	$ 115	$ 1,162	$ 1,019	$ 93	$ 1,111
Allocations						Escalated 2012
SDG&E	$ 788	$ 67	$ 854			$ 854
So Cal Gas	231	26	257			257
Total Utility	1,019	93	1,111			$ 1,111
Global / Retained	28	22	50			
Total	$ 1,047	$ 115	$ 1,162			

Surety bonds guarantee the contractual performance obligations Sempra Energy has to other parties. Usually, bonds are 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.

- Renews: Various
- Actual and Projected Premium Expense: Bond premiums are paid either as a one-time premium for life of the bond, or as an annual premium. Actual and expected premium expense has been used for 2009-2010. A 3.5% escalation factor has been utilized for market pressures for 2011-12.
- Allocation: Direct to specific business unit requiring bond.

III. SUMMARY OF UTILITY ALLOCATIONS - INSURANCE

Following is a summary of all forecast insurance allocations to SDG&E and SoCalGas. The Non-Shared Services A&G testimonies for SDG&E and SoCalGas respectively show these allocations as non-standard charges under appropriate FERC accounts.

	(Escalated $ - 000's)	Test Year 2012 Utility Allocations		
	Services Provided	**SDG&E**	**So Cal Gas**	**Total Utilities**
H	Insurance - Corporate Center Total	$ 97,509	$ 15,865	$ 113,374
	Net Difference to Utility RO Model	(24)	(15)	(39)
	Total	**$ 97,485**	**$ 15,850**	**$ 113,335**
	Services by FERC Account	**SDG&E**	**So Cal Gas**	**Total Utilities**
F924.0	Property Insurance (non-nuclear)	$ 4,386	$ 3,284	7,670
F924.1	Property Insurance (nuclear)	1,020	-	1,020
F925.0	Excess Liability Insurance (PLPD)	8,209	8,355	16,563
F925.1	Excess Workers Compensation Insurance	922	1,144	2,066
F925.3	Other Liability Insurance (non-nuclear)	3,677	3,068	6,745
F925.4	Other Liability Insurance (nuclear)	827	-	827
F925.5	Wildfire Liability Insurance	78,444	-	78,444
	Total	**$ 97,485**	**$ 15,850**	**$ 113,335**

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Maury Brendon De Bont, and my business address is 101 Ash Street, San Diego, California 92101.

I am currently employed by Sempra Energy as the Director of Risk Management, a position I was promoted to in January 2010. Prior to this position, I was the Risk Manager for Sempra Energy since January 1999. Sempra Energy is the parent company of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas). My responsibilities on behalf of SDG&E and SoCalGas include the design and placement of Sempra's corporate-wide insurance programs; insurance broker and services management; management of the department staff; supporting GRC and the insurance budgetary cost forecasting process; and educating and advising employees on risk management and insurance issues. As the Risk Manager, I was responsible for construction project related insurance placements and managing insurance brokers services; contract review, analysis and negotiations of insurance terms and conditions; managing insurance claims; supporting GRC and the insurance budgetary cost forecasting process; and educating and advising employees on risk management and insurance issues.

I received a bachelor's degree in Business Finance from California State University Long Beach in June 1985, and obtained an Associate in Risk Management professional designation in 1991. I am currently working towards completing the Chartered Property & Casualty Underwriter and Enterprise Risk Management professional designations.

Prior to joining Sempra, I was employed at Southern California Edison as a Risk Analyst for four and a half years, where I was responsible for insurance placement and risk management for Edison Mission Energy projects (development, construction, bank financing negotiations) and utility matters. I have over 30 years experience in the insurance and risk management industry.