

Application No: A.16-09-~~XXX~~005
Exhibit No.: _____
Witness: ~~K. Carbon~~N. Cayabyab

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts

Application 16-09-~~XXX~~005

CHAPTER X

DIRECT TESTIMONY OF

~~KATHERINE CARBON~~

NEIL CAYABYAB

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

AND

SAN DIEGO GAS & ELECTRIC COMPANY

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

September 2, 2016

Amended: December 20, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
I. PURPOSE AND OVERVIEW OF TESTIMONY	1
A. Insurance Background	1
B. OCIP Costs are Are Favorable for Customers.....	2
C. OCIP Costs Enhance Competition, Streamline Services, and Enhance Supplier Diversity	3
D. Professional Liability Insurance *	4
H. CONCLUSION	5
II. CONCLUSION	5
III. WITNESS QUALIFICATIONS	6

~~H.~~ *Inclusion of this section was primary basis for amending testimony.

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

2 The purpose of my direct testimony on behalf of Southern California Gas Company
3 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively, the “Utilities”) is
4 to explain the prudence of our Owner Controlled Insurance Program (OCIP) procurement and
5 reasonableness of OCIP costs which over the course of PSEP’s Phase 1A will cost between
6 approximately \$11.5 million and \$12.5 million. **In addition to OCIP coverage (the costs of**
7 **which include administrative fees), the Utilities have acquired Professional Liability insurance**
8 **coverage for PSEP Phase 1A at a cost of approximately \$5.2 million.** In this application,
9 however, SoCalGas and SDG&E are requesting recovery of PSEP-specific insurance overheads
10 of \$1.9 million and \$0.24 million respectively through the PSEP insurance overhead (*see*
11 Chapter IX (**HuleisGonzales**)).¹ In Chapter IX, the portion of insurance overheads allocated to
12 the projects presented for review and recovery in this application is included.

13 **A. Insurance Background**

14 OCIPs are commonly used in large-scale infrastructure, construction and energy-related
15 projects domestically and abroad because an OCIP provides significant benefits to involved
16 stakeholders. In 2012, SoCalGas and SDG&E evaluated whether to procure an OCIP for PSEP.
17 In 2012 and 2013, premiums for operational casualty insurance increased and available capacity
18 for energy casualty insurance shrank; largely due to the San Bruno event and increasing loss
19 frequency and severity in energy industry claims. In fact, due to the limited capacity, the
20 Utilities saw its operational insurance coverage limits decline from the previous year and pricing
21 increased. The primary carrier for SDG&E and SoCalGas’ operational coverage, AEGIS, a
22 member-owned mutual requested a 10% increase in excess liability premiums in 2012 (see

¹ In addition to the OCIP discussed here, the insurance overhead request also includes costs associated with the placement of Professional Liability insurance. This smaller placement is addressed in greater detail **below and** in Chapter II (Phillips).

1 attached 2013 Annual Report at 4-5 (emphasis added)). These facts led us to the insurance
2 market for construction projects, where OCIPs are purchased; which was more favorable both in
3 terms of availability of limits and pricing.

4 The PSEP OCIP specifically is an owner purchased and owner controlled master
5 insurance, safety and claims management program that provides specific coverages for SoCalGas
6 and SDG&E and their enrolled contractors, while they are performing work at the project site
7 within the scope of PSEP. Traditionally, operational casualty insurance coverages are procured
8 by each individual contractor working within the scope of PSEP and expensed to SoCalGas and
9 SDG&E through its contract price. Contractors enrolled in the OCIP, however, do not include
10 these insurance coverages in its contract price. Instead, the OCIP structure provides all
11 stakeholders with insurance coverage, safety, and cost benefits.

12 **B. OCIP Costs Are Favorable for Customers**

13 SoCalGas and SDG&E opted to implement an OCIP in 2013 for a variety of reasons, but
14 primarily to optimize competition for PSEP related construction efforts, enhance supplier
15 diversity, and promote the competitiveness of costs for PSEP. Additionally, it was important to
16 mitigate the negative impact of the insurance markets at the time on the suppliers and customers.
17 The OCIP provided several important elements to enhance customer benefit from the PSEP
18 program:

- 19 • Consistent and dedicated limits for the entire project of \$300MM in Commercial General
20 Liability coverage, with a \$165MM sublimit for wildfire losses.
- 21 • Comprehensive enrollment and insurance validation process of covered work.
- 22 • Ten (10) year tail coverage per project, providing additional protections after each project
23 within the PSEP program is complete.

- Reduced administrative burden to track compliance items of concern.

It's also important to note that the Utilities' operational casualty program accounted for PSEP OCIP underlying limits when evaluating our operational non-PSEP program, and, as a result, our operational non-PSEP program costs have seen slight reductions since the underlying PSEP OCIP limits were in place.

Finally, OCIP was procured so as to promote value for customers through competitive sourcing efforts. Specifically, Request for Proposals (RFP) were requested from several insurance brokers to cover PSEP activities, and the broker providing best value for customers was selected, that both lowered total cost of ownership, and maximized our access to global insurance markets. The broker marketed the program to global markets, and selected a panel of carriers that maximized coverage protections and minimized total cost. Additionally, this broker committed to (and has followed through on) commitments for subcontracting and supplier diversity.

C. OCIP Costs Enhance Competition, Streamline Services, and Enhance Supplier Diversity

Optimizing competition and costs were a critical goal for PSEP. Very few contractors had the scale and breadth to compete for both the volume and size of the projects, if they each individually had to bring in their own elevated insurance limits (i.e. the higher level risk work). As such, placing an OCIP was favorable to attract a higher number of suppliers to compete on PSEP projects, which increased competition beyond the top handful of larger construction and services-based contractors.

Additionally, supplier diversity was maximized as a result of an OCIP. Smaller, diverse suppliers may not have been able to compete for this work absent an OCIP structure, or would've had to procure additional limits to be on the program, which if accessible, would likely

1 have been cost prohibitive. The following table is indicative of the success that the OCIP
 2 structure brought to our supplier diversity results. In each 2013, 2014 and 2015; supplier
 3 diversity on the PSEP program was at least on par, and in most cases maximized – compared to
 4 overall enterprise-wide spend. This is true for each utility respectively, and combined. The
 5 OCIP promoted the ability of our supplier base to compete for PSEP work on a level playing
 6 field.

Year	SoCalGas DBE Results (Includes PSEP)	SDGE DBE Results (Overall results, includes PSEP)	Combined PSEP-Only Spend Results	SoCalGas PSEP-Only Spend Results	SDGE PSEP-Only Spend Results
2013	45.38%	44.88%	47.64%	46.46%	85.15%
2014	48.42%	44.40%	66.70%	67.94%	60.69%
2015	44.66%	42.74%	46.81%	47.66%	42.79%

7 The OCIP insurance consultant and broker also provided critical ancillary services to the
 8 program, including claims administration and support, payroll reporting, policy and certificate
 9 issuance, program evaluation, and contract review and support. This level of support reduces
 10 downtime and project management distractions for items like certificate validation and other
 11 administrative tasks.

12 **D. Professional Liability Insurance**

13 The Utilities procured the professional liability insurance on behalf of its contractors for
 14 PSEP. The professional liability insurance is a specialized coverage to address contractors’
 15 liability for engineering design errors or omissions and construction management team
 16 exposures. Coverage only applies in connection with the PSEP project. The professional liability
 17 insurance covers claims arising from professional services and typically does not cover property
 18 damage or bodily injury only economic damages. These coverages are usually tailored to the

1 specific company and services that are being covered. Due to the nature of the services being
2 provided by the contractor and the subcontractors we cannot rely on the general liability program
3 to cover all exposures.

4 **II. CONCLUSION**

5 SoCalGas and SDG&E's implementation of the OCIP was reasonable and prudent and
6 provides value to customers and other stakeholders by streamlining services and promoting
7 competition, diversity, and reasonable costs.

8 This concludes my prepared direct testimony.
9

1 **III. WITNESS QUALIFICATIONS**

2 ~~My name is Katherine Carbon, and I am the Director of Insurance & Risk Advisory for~~
3 ~~Sempra Energy. My business address is 488 8th Avenue HQ06N1, San Diego, CA 92101.~~

4 ~~I have~~ My name is Neil Cayabyab. I have been employed at Sempra Energy since 2016
5 and I am currently the Manager of Insurance and Risk. Prior to joining Sempra, I was an
6 insurance broker at Marsh for nine years. During that time, my industry focus was primarily
7 utilities and I was responsible for placing a wide range of insurance programs designed to
8 provide coverage for operational and construction risks. Before Marsh, I spent 5 years in the
9 U.S. Navy as a nuclear engineer serving as a submarine officer. I have a B.S. in Marine Systems
10 Engineering from the United States Merchant Marine Academy, a Masters in Engineering
11 Management from Old Dominion University, and an MBA from Pepperdine University. My
12 business address is 488 8th Avenue HQ06, San Diego, CA 92101.

13 I have not previously testified before the Commission.