

CFC-SEU DATA REQUEST-004
SOCALGAS- SDG&E 2019 GRC – A.17-11-007/8
SEU RESPONSE
DATE RECEIVED: FEBRUARY 13, 2018
DATE RESPONDED: MARCH 9, 2018

1. In SCG-29, Footnote #7 of page NKC-14 refers to the Chubb Bermuda "2017 Liability Limit Benchmarks & Large Loss Profile by Individual Sector" report. The following is an excerpt from the table presented on page 32 of the Chubb report, listing "Sample Large Losses for Industry - 10 year." The list of large losses includes "Natural gas leak resulted in alleged illnesses and mandatory evacuation of a few thousand families"; the associated incurred loss amount is estimated at \$717 million.

Utilities Sector - Energy			
Companies engaged in the generation, transmission and distribution of electricity including the transmission or distribution of gas.			
Sample Large Losses for Industry - 10 year			
Date of Loss	Loss Details	Location	Incurred Amount
2007	Water from hydroelectric power plant damaged nearby property	USA	\$173 million
2007	Wildfire	USA	\$2.2 billion
2007	Utility company vessel crashed into anchored oil tanker causing oil spill	China	\$142 million
2007	Wildfire	USA	\$370 million
2008	Impoundment failure	USA	\$1.1 billion ¹
2015	Wildfire	USA	\$750 million ⁴
2015	Gas leak caused explosion at residence resulting in third party property damage and several injuries	USA	Pending
2015	Natural gas leak resulted in alleged illnesses and mandatory evacuation of a few thousand families	USA	\$717 million ⁴
2016	Gas build up in apartment basement lead to explosion and fatalities	USA	Pending
2016	Dam/Reservoir spillway release alleged to contribute to the flooding damage of hundreds of homes	USA	Pending

¹Inclusive of 1st Party Property Damage ²Civil Claims Pending ³Inclusive of 1st Party Property Damage and or Economic Loss
⁴Estimate

a. Does Sempra consider that described loss as a reference to the Aliso Canyon incident? Please comment, including whether the \$717 million figure represents the current estimated loss for Aliso Canyon (if applicable).

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Utilities Response 1:

The companies do not have access to the detailed Chubb loss data, but the date and description seem to be in line with the Aliso Canyon incident. Please refer to our latest SEC filing for current loss estimates for Aliso Canyon (<http://investor.sempra.com/sec.cfm>)

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2. In SCG-29, The Summary table on page NKC-ii shows figures for allocations to SDG&E, SoCalGas, and an associated total:

<u>SUMMARY</u>			
O&M (Shared)	2016 (\$000's)	2019 (\$000's)	Change (\$000's)
SDG&E Allocations	107,362	126,270	18,908
SoCalGas Allocations	36,183	38,560	2,377
Total Utilities	143,545	164,830	21,285

a. Please confirm that the figures are for total insurance expenditures--i.e., for all forms of insurance procured by SCG and SDG&E.

Utilities Response 2:

See the companies' response to Question 14 of CFC-003.

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3. In SCG-29, page NKC-14 describes factors influencing Sempra's costs, within the liability insurance marketplace:

"...from 2013 to 2015, Sempra was able to reduce its wildfire premiums by approximately 18%. However, the September 2015 Butte wildfire in Pacific Gas and Electric Company (PG&E)'s service territory negatively impacted wildfire insurance markets. This resulted in an increase of Sempra's fire insurance costs from approximately \$69.7M in 2015 to \$74.6M in 2016, and caused several of our existing insurers to reduce their renewed capacity."

The associated footnote #10 cites the exhibit's associated Workpapers--at B-2. The exhibit figures indicate an annualized increase in coverage at roughly 7%, since 2016--based on the line for total (SCG and SDG&E) Non-Labor Costs.

a. Please explain how the Butte fire affected the approximately \$5.0M increase in expected fire insurance costs. In particular, please explain whether and how Sempra believes the Butte fire impacted each of i) the expected fire loss frequency and ii) the fire loss severity, assumed for California utilities.

Utilities Response 3:

As outlined in page NKC 14, the number of insurance companies willing to provide wildfire insurance particularly in California is limited. Generally, insurers willing to provide wildfire insurance to Sempra also provide coverage to other California insureds including other California (CA) investor owned utilities. Any significant wildfire caused by an insured may have negative impacts to other insureds (including Sempra) as insurers generally increase premiums to offset significant losses and/or reduce the amount of capacity offered.

The CAL Fire summary of the top 20 Most Destructive CA wildfires¹ (as of 1/12/2018) seems to indicate that the severity of wildfires in CA are increasing as more than half of the fires listed occurred after 2007. The increasing severity of wildfires in California may result in a further reduction in available wildfire insurance capacity. This could impact our costs of purchasing wildfire insurance, especially in light of current CA statewide insurance loss estimates for the October and December 2017 wildfires approaching approximately \$12 billion.²

¹ Top 20 Most Destructive Wildfire – CA Fire as of 1.12.18 (see attachment to this Data Request)

² <https://www.insurance.ca.gov/0400-news/0100-press-releases/2018/release013-18.cfm>

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4. In SCG-28, Table MLD-1C, on page MLD-4, shows historical adjustments to remove Aliso incident costs:

TABLE MLD-1C
Corporate General Administration Historical Adjustments to Remove Aliso Incident Costs

	2015 Adjusted- Recorded (000s)	2016 Adjusted- Recorded (000s)	Total (000s)
Aliso Canyon Leak Legal Costs	(1,403)	(44,605)	(46,006)
Aliso Canyon Emergency Services	(26)	(170)	(196)
Aliso Canyon Gas Leak Support	0	(5)	(5)
Aliso Canyon Relocation Review	0	(1,276)	(1,276)
Total O&M	(1,429)	(46,056)	(47,485)

The table rows show amounts for Legal Costs, Emergency Services, Leak Support, and Relocation Review.

In SCG-29, page NKC-14 gives the following description of the forecast approach for liability insurance premiums:

"In general, liability insurance premiums are influenced by several factors that are directly related to Sempra business unit operations and conditions that impact the global insurance market place. Each of our insurance programs are subject to specific market conditions that have various impacts on insurance pricing. Significant worldwide losses and Sempra business unit losses can negatively impact future premiums."

- a. What impact, if any, has the Aliso Canyon incident had on any of the insurance premiums paid by SoCalGas (or the Sempra Companies, in general)? Please explain.

Utilities Response 4:

Worldwide insurance losses are a factor insurance companies generally use when calculating insurance premiums. Specific premium rating structures and any actuary models are generally proprietary and confidential to each insurance carrier. As such, the companies do not have the exact premium impacts, if any, of the Aliso Canyon incident.

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5. SCG-29, page NKC-11, describes Excess Workers Compensation Insurance: "Sempra self-insures its workers' compensation exposure for Corporate Center, Global, SDG&E, and SoCalGas employees in the State of California. However, Sempra purchases an XS WC policy to provide coverage for large claims for California employees." Table NKC-17 shows insurance allocations to SCG and SDG&E, and indicates significant increases in Excess Workers Compensation, for both operating companies, per the following excerpt:

TABLE NKC-17

			Forecast			
			FY2016- NSE	FY2017- NSE	FY2018- NSE	FY2019- NSE
2100-8953	Property Insurance (non-nuclear)	F924.0	\$ 6,185	\$ 6,912	\$ 8,076	\$ 9,895
2100-8954	Property Insurance (nuclear)	F924.1	14	14	14	14
2100-8955	Excess Liability Insurance (PLPD)	F925.0	24,708	19,383	22,699	24,446
2100-8956	Excess Workers Compensation Insuranc	F925.1	909	1,266	1,392	1,529
2100-8957	Other Liability Insurance (non-nuclear)	F925.3	1,272	1,323	1,362	1,401
2100-8958	Other Liability Insurance (nuclear)	F925.4	-	-	-	-
2100-8962	Wildfire Liability Insurance	F925.5	74,274	79,930	85,595	88,985
	Total		\$ 107,362	\$ 108,829	\$ 119,138	\$ 126,270

			Forecast			
			FY2016- NSE	FY2017- NSE	FY2018- NSE	FY2019- NSE
2200-8953	Property Insurance (non-nuclear)	F924.0	\$ 3,918	\$ 4,058	\$ 4,929	\$ 6,166
2200-8954	Property Insurance (nuclear)	F924.1	-	-	-	-
2200-8955	Excess Liability Insurance (PLPD)	F925.0	29,185	23,688	26,610	28,337
2200-8956	Excess Workers Compensation Insuranc	F925.1	1,449	1,947	2,143	2,358
2200-8957	Other Liability Insurance (non-nuclear)	F925.3	1,360	1,355	1,426	1,494
2200-8958	Other Liability Insurance (nuclear)	F925.4	-	-	-	-
2200-8962	Wildfire Liability Insurance	F925.5	272	184	197	205
	Total		\$ 36,183	\$ 31,231	\$ 35,305	\$ 38,560

a. Please explain why Sempra anticipates Excess Workers Compensation expense to increase significantly between 2016 and 2019.

Utilities Response 5:

The 2017 excess WC policy was renewed on June 26, 2017. The actual renewal premium for that policy was used for the 2017 GRC forecast because we had this amount in advance of our October 6th GRC filing date. The 2018 and 2019 forecasts use as their starting point the 2017 actual renewal premium escalated by the broker recommendation set forth in Appendix B of the testimony.

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6. SCG-29, Appendix C, shows communications between the company and Marsh, with respect to expected, future premiums, and includes the following table of projected premiums:

2018	\$7,800,000
2019	\$10,700,000
2020	\$11,000,000
2021	\$12,800,000
2022	\$13,800,000

- a. Please confirm whether the figures listed refer to Primary Property insurance.
- b. What is the equivalent actual figure for 2016?
 The series exhibits a somewhat bumpy pattern of future premiums, in that the inter-year growth rates are inconsistent:

Year	Expected Prem.	Yr-on-Yr Δ
2018	\$7,800,000	
2019	\$10,700,000	37.2%
2020	\$11,000,000	2.8%
2021	\$12,800,000	16.4%
2022	\$13,800,000	7.8%

- c. Why is so much variation anticipated for the year-on-year premium increases? Please explain, and in particular, why are the 2018-2019 and 2020-2021 increases notably larger than the other year-on-year increases?

Utilities Response 6:

- a. The premium figures outlined in Appendix C are for excess property insurance, not primary property insurance.
- b. The expected premium figure for 2016 was \$5.4 million.
- c. Our excess property insurer, Oil Insurance Limited (OIL), uses a formula to calculate insurance premiums. This formula utilizes Sempra and Non-Sempra specific factors such total membership losses, business sector class, and gross assets.