

Company: Southern California Gas Company (U 904 G) / San Diego Gas & Electric
Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SCG-224-[E-C](#) / SDG&E-228-[E-C](#): [Chapter 2](#)

PUBLIC REDLINED REDACTED VERSION

PREPARED REBUTTAL TESTIMONY

OF DENNIS J. GAUGHAN

(CORPORATE CENTER - INSURANCE)

CHAPTER 2

ERRATA

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA



~~May~~ June 2023

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CONFIDENTIAL
PREPARED REBUTTAL TESTIMONY OF
DENNIS J. GAUGHAN
(CORPORATE CENTER - INSURANCE)
CHAPTER 2 ERRATA

I. INTRODUCTION

This confidential prepared rebuttal testimony responds to the Confidential Prepared Testimony of The Utility Reform Network (TURN), as submitted by Mr. Robert Finkelstein and Mr. Mark Ellis (Exhibit (Ex.) TURN-11-C), dated March 27, 2023. It serves as companion testimony to the [rebuttal](#) testimony and material included in Ex. SCG-224-E/SDG&E-228-E: [Chapter 1](#) (Gaughan), consistent with the Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) (collectively, the Companies) treatment of insurance layer information, pricing, and coverage details as highly confidential.

II. CONFIDENTIAL REBUTTAL TO PARTIES' PROPOSALS

A. Costs Authorized for Wildfire Liability Insurance

The Companies' wildfire liability insurance program costs [REDACTED] in contrast to 46% rate on line for Southern California Edison Company (SCE) and nearly 80% rate on line for Pacific Gas and Electric Company (PG&E).² The price differentials explain the broad scope of SCE's and PG&E's self-insurance settlements, in each case addressing \$1 billion of coverage; TURN's self-insurance recommendation in this proceeding is limited to the first \$50 million of the Companies' wildfire liability insurance program.³

TURN's recommendation to reduce the Companies' authorized forecast for wildfire liability insurance to \$140 million is partially based on an estimated \$25 million savings

¹ Rate on line is one measurement of insurance cost and is the percentage derived by dividing insurance premium by coverage limit. See Ex. SCG-224-E/SDG&E-228-E: [Chapter 1](#) (Gaughan) at DJG-23 n.34 for an example. [REDACTED]

² Prepared Testimony of Robert Finkelstein and Mark Ellis Addressing Wildfire Liability Insurance-Related Issues and the Liability Insurance Premium Balancing Account, on behalf of The Utility Reform Network (TURN) (March 27, 2023) (Ex. TURN-11 (Finkelstein/Ellis)) at 5.

³ *Id.* At 2.

1 purportedly to be achieved by requiring the Companies to self-insure the first \$50 million of
2 coverage instead of buying its current \$50 million of coverage from the commercial insurance
3 market.⁴ [REDACTED]

6 TURN's \$25 million of estimated savings becomes illusory in the event of a third-party
7 wildfire claim, which exposes ratepayers to the full \$50 million risk of loss. TURN suggests that
8 claims could be recovered through the Companies' Third-Party Claims Memorandum Account.⁶
9 As noted in my Prepared Direct Testimony, the Companies considered and explored alternatives
10 to conventional insurance as part of their programmatic approach to diversifying the sources of
11 risk capital, introducing competition, and limiting the pricing power of any single source of
12 insurance, and in the end decided to pursue their pricing and coverage objectives with the six
13 different risk transfer agreements that they currently use in their program.⁷ The Companies
14 disagree that a memorandum account as opposed to a two-way balancing account would be the
15 appropriate vehicle to handle claims in a self-insured scenario, as explained in my public
16 testimony.⁸ [REDACTED]

17 [REDACTED]. Maintaining a two-way liability insurance premium
18 balancing account benefits ratepayers, allowing the savings achieved from their efforts to be
19 quickly realized.
20

⁴ *Id.*

⁵ *Id.* At 8. Terms and conditions, including potential return premiums if the Companies remain free of wildfire claims, complicate rate on line calculations. [REDACTED]

⁶ *Id.*

⁷ Direct Testimony of Dennis J. Gaughan (Corporate Center – Insurance) (May 16 2022) at DJG-24 (Ex. SCG-24/SDG&E-28 (Gaughan)).

⁸ Ex. SCG-224-E/SDG&E-228-E: [Chapter 1](#) (Gaughan) at DJG-16 – DJG-17.

1 **B. Coverage Authorized for Wildfire Liability Insurance**

2 TURN estimates that the Companies' recorded cost of wildfire liability insurance
3 coverage in excess of \$1 billion is \$35.5 million.⁹ The lion's share of recorded costs for
4 coverage in excess of \$1 billion is for insurance-linked securities (ILS)-catastrophe (CAT)
5 bonds. CAT bonds are issued for three-year terms. Sempra currently has 2020 and 2021 CAT
6 bonds outstanding. In 2021, recorded costs for these two bonds were \$29,182,000,¹⁰ providing
7 \$285 million of wildfire liability coverage in excess of \$1 billion¹¹ [REDACTED]
8 [REDACTED] The Energy Division approved including ILS-CAT bonds in the
9 Companies' wildfire liability insurance program when it approved the Sempra's 2018 CAT bond
10 as part of the Companies 2020 Tier 2 Advice Letters (AL).¹³

11 **C. Self-Insurance**

12 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

19 **III. CONCLUSION**

20 In summary, SoCalGas and SDG&E respectfully request that the Commission adopt their
21 proposed 2021 test year insurance forecast and reauthorize the Companies' Liability Insurance
22 Premium Balancing Accounts (LIPBA).

23 This concludes my confidential prepared rebuttal testimony.

⁹ Confidential Prepared Testimony of Robert Finkelstein and Mark Ellis Addressing Wildfire Liability Insurance-Related Issues and the Liability Insurance Premium Balancing Account, on behalf of TURN (March 27, 2023) (Ex. TURN-11-C (Finkelstein/Ellis)) at 2.

¹⁰ Ex. SCG-24/SDG&E-28-WP (Gaughan) at 45, B-2.3.

¹¹ See Appendix A.

¹² *Id.*

¹³ See SoCalGas AL 5725G, approved December 15, 2020 and effective December 9, 2020; see also SDG&E AL 3638-E/2922-G, approved February 2, 2021 and effective December 9, 2020.

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

**DECLARATION OF DENNIS J. GAUGHAN REGARDING CONFIDENTIALITY OF
CERTAIN DATA/DOCUMENTS PURSUANT TO D. 21-09-020, GENERAL ORDER
66-D REVISION 2 AND NON-DISCLOSURE CERTIFICATE IN ACCORDANCE
WITH THE PROTECTIVE ORDER**

I, Dennis J. Gaughan, do declare as follows:

1. I am the Director – Risk Management for Sempra Energy (Sempra), parent company of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas). I have been delegated authority to sign this declaration by Joy (Chi) Gao, Vice President of Risk Management for Sempra. I have reviewed the confidential rebuttal testimony and appendices being submitted as Confidential Ex. SCG-224/SDG&E-225-C (Gaughan). 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 Decision (D.) 21-09-020, General Order (GO) 66-D Revision 2, and/or the Non-Disclosure Certificate in accordance with the Protective Order,¹ to demonstrate that the confidential information (“Protected Information”) provided in the Confidential Ex. SCG-224/SDG&E-225-C (Gaughan) is within the scope of data protected as confidential under applicable law.

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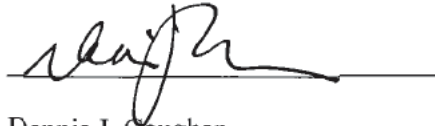
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¹ A.22-05-015/-016, August 9, 2022, Administrative Law Judge’s Ruling Approving the Utilities’ Protective Order, Attachment 1.

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

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 10th day of May 2023, at San Diego, California.

A handwritten signature in black ink, appearing to read "D. Gaughan", is written over a horizontal line.

Dennis J. Gaughan
Director- Risk Management
Semptra Energy

ATTACHMENT A

SDG&E Request for Confidentiality on Confidential Rebuttal Testimony (Ex. SCG-224/SDG&E-225-C) of Dennis J. Gaughan and Appendix A (SEU's supplemental data request response to TURN-SEU-007 Question 9b)

Location of Protected Information	Legal Citations	Narrative Justification
The information shaded in yellow for Confidential Ex. SCG-224/SDG&E-225-C (Gaughan) is confidential, including Attachment A	<p>CPRA Exemption, Gov't Code § 6254(k) ("Records, the disclosure of which is exempted or prohibited pursuant to federal or state law").</p> <p>CPRA Exemption, Gov't Code § 6254.7(d) (Trade Secrets)²; Cal. Evid. Code § 1060; Cal. Civil Code §§ 3426 <i>et seq.</i> (relating to trade secrets).</p> <p><i>Morton v. Rank America, Inc.</i>, 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 secret)</p> <p>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")</p> <p><i>O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.</i>, 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, so long as the combination of all such information is not generally known.").</p>	<p>The confidential prepared rebuttal testimony contains confidential information regarding the Companies costs, insurance limits, rates on line, and the terms of pending negotiations with insurance markets, disclosure of which may cause competitive harm.</p> <p>Appendix A to Confidential rebuttal testimony (Confidential Ex. SCG-224/SDG&E-225-C), SEU's Supplemental data request response to TURN-SEU-007 Question 9b, contains confidential information regarding the Companies' costs, insurance coverage limits, and rates on line, disclosure of which may cause competitive harm.</p>

² Trade secrets . . . may include, but are not limited to, any formula, plan, pattern, process, tool, mechanism, compound, procedure, production data, or compilation of information which is not patented, which is known only to certain individuals within a commercial concern who are using it to fabricate, produce, or compound an article of trade or a service having commercial value and which gives its user an opportunity to obtain a business advantage over competitors who do not know or use it.

APPENDIX A

CONFIDENTIAL

SEU SUPPLEMENTAL RESPONSE 9B

TO DATA REQUEST (DR)

TURN-SEU-007

Data Request Number: TURN-SEU-007

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Proceeding Number: A2205015_016 2024 GRC

Publish To: The Utility Reform Network

Date Received: 10/7/2022

Date Responded: 10/21/2022

Supplemental: 03/03/2022

9. In Ex. SCG-24/SDG&E-28, Appendix H provides information regarding the “historical layer data points” for insurance and reinsurance in Sempra’s Wildfire Excess Liability and Physical Damage programs.

b. For each of the policy years 2019-2020, 2020-2021, 2021-2022, and 2022-2023, for each of the layers please provide the following information.

- i. The attachment point for the layer;
- ii. Whether the coverage was insurance or reinsurance; and
- iii. The cost of the insurance or reinsurance coverage.

SEU Response 9b:

SoCalGas and SDG&E object to this request on the grounds that it is unduly burdensome as the request relates to each individual layer. Subject to and without waiving the objection, SoCalGas and SDG&E respond as follows:

- (i) as to the number of layers for each coverage, see Appendix H to DJG Direct Testimony and response to Question 9a above;
- (ii) as to limits and description of coverage, see the confidential table provided in response to Question 14 below;
- (iii) as to recorded costs for 2018-2021, see the Workpapers to Prepared Direct Testimony of Dennis J. Gaughan (Exhibit SCG-24/SDG&E-28-WP); and
- (iv) as to recorded costs for 2022, see response to Question 7d above.

SEU Supplemental Response 9b:

In response to TURN’s February 13, 2023, follow-up request, SoCalGas and SDG&E state as follows:

Applicants maintain their objection to this request as unduly burdensome. Specifically, “the burden, expense, or intrusiveness of that discovery clearly outweighs the likelihood that the information sought will lead to the discovery of admissible evidence.”¹

In the initial response to Question 9b, dated October 21, 2022, Applicants followed their past practice of providing insurance coverage and cost information, which seeks to preserve the competitive advantage that has accrued to ratepayers through the Blind-Bid pricing strategy described in Exhibit SCG-24/SDGE-28 at DJG-20 to DJG-21.

¹ See California Public Utilities Commission Rule 10.1.

Data Request Number: TURN-SEU-007

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SEU Supplemental Response 9b (Continued):

Sempra's ability to keep individual layer and pricing information strictly confidential, so that an insurer on one layer of the program does not know the pricing and coverage limits of any other layer, has been integral to its ability to procure wildfire insurance at a fraction of the cost paid by the other investor-owned utilities. Thus, this practice benefits ratepayers. In contrast, the details of the wildfire insurance programs of the other investor-owned utilities (IOUs) are provided in their quarterly reports filed with the Securities Exchange Commission or are provided in publicly available documents filed with the Commission.

Applicants have already disclosed the total costs and limits of the wildfire liability insurance program and have provided layer information in the form and content as it has in previous General Rate Cases (GRCs). Nevertheless, to facilitate TURN's understanding and confirmation that the pricing of Sempra's wildfire liability insurance program decreases with increasing layers, SoCalGas and SDG&E provide the attached supporting supplemental document containing **Confidential and Protected Materials which are provided pursuant to PUC Section 583, D.21-09-020 and GO 66-D (Revision (Rev.) 2) and/or an executed Non-Disclosure Agreement for this proceeding.** For recorded costs and coverage limits for Fire Liability Insurance, Wildfire Liability, Wildfire Property Damage Reinsurance, and ILS Wildfire Insurance from 2019 – 2021, please refer to attachment '**TURN-SEU-007_Attach_Q9b Supplemental_CONFIDENTIAL.pdf.**'

B-2 LIABILITY INSURANCE - FIRE

Description of Coverage: Coverage for third-party legal liability coverage for bodily injury, property damage, and personal injury

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Coverage Limit:			
Deductible:			
From Workpapers B-2	\$129,805,749	\$183,829,776	\$202,887,819
Rate Online			

B-2.1 & 2.4 LIABILITY INSURANCE - WILDFIRE LIABILITY

Description of Coverage: Coverage for third-party legal liability coverage for bodily injury, property damage, and personal injury

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Coverage Limit:			
Deductible:			
From Workpapers B2.1 & B2.4	\$81,411,858	\$118,961,835	\$120,718,274
Rate Online			

B-2.2 & 2.5 LIABILITY INSURANCE - WILDFIRE PROPERTY DAMAGE REINSURANCE

Description of coverage: Coverage for third-party property damage arising out of wildfire.

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Coverage Limit:			
Deductible:			
From Workpapers B2.2 & B2.5	\$42,903,335	\$48,636,031	\$52,987,339
Rate Online			

B-2.3 LIABILITY INSURANCE - ILS WILDFIRE

Description of coverage: Coverage for third-party property damage arising out of wildfire.

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Coverage Limit: ¹			
Deductible: ²			
From Workpapers B2.3	\$5,490,555	\$16,231,910	\$29,182,206
Rate Online			

¹ Response 8e to TURN 007 includes coverage for the ILS-Cat bond without the associated collateralized reinsurance

² Lowest attachment point where more than one CAT bond is outstanding