Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2016 General Rate Case
Application: A.14-11-___
Exhibit: SDG&E-21

SDG&E

DIRECT TESTIMONY OF KATHERINE CARBON

(CORPORATE CENTER – INSURANCE)

November 2014

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

SDGE
A Sempra Energy utility®

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SUMMARY

O&M (Shared)	2013 ($000)	2016 ($000)	Change
SDG&E Allocations	106,520	111,513	4,993
SoCalGas Allocations	15,301	18,752	3,451
Total Utilities	121,821	130,265	8,444

Summary of Requests for San Diego Gas & Electric Company ("SDG&E")

- The total amount of property and liability insurance premiums assigned to SDG&E will increase by $4,993,000 from the General Rate Case ("GRC") Base Year ("BY") 2013 to Test Year ("TY") 2016.
    - The primary factor impacting this increase is a modest escalation assumption to account for increases in property values associated with company growth, as well as the uncertainty, unpredictability of the insurance market and limited insurance capacity available for the utility industry – $352,000 for Property and $6,548,000 for Liability, of which $2,158,000 relates to fire insurance.
    - The escalation increases are partially offset by the exclusion of premiums for SONGS from this request – ($1,190,000) for Property and ($1,264,000) for Liability.
    - Sempra also added a new liability policy in 2014 specifically to address the issue of cyber security, an incremental allocation of $270,000.
    - An increase of $260,000 is attributed to the net allocation rate shift, including Multi-Factor allocations.

SDG&E DIRECT TESTIMONY OF KATHERINE CARBON

(CORPORATE CENTER – INSURANCE)

I. INTRODUCTION

A. Summary of Costs

I sponsor the Test Year 2016 forecasts for operations and maintenance ("O&M") costs associated with Corporate Center Insurance for SDG&E and SoCalGas. Table 1 summarizes my sponsored costs.

TABLE 1

Test Year 2016 Summary of Total Costs

(2013 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016
A Property	19,184	127	19,311	12,488	360	12,848
B Liability	117,579	8,511	126,090	109,300	8,117	117,417
C Surety Bonds	83	417	500	33	(33)	-
Total	$136,847	$9,054	$145,901	$121,821	$8,443	$130,265
						Escalated 2016
Allocations						
SDG&E	106,520	4,993	111,513			111,513
So Cal Gas	15,301	3,451	18,752			18,752
Total Utility	121,821	8,443	130,265			$130,265
Global / Retained	15,025	611	15,636			
Total	$136,847	$9,054	$145,901			

B. Summary of Activities

The responsibility for designing and implementing Sempra's insurance program is centralized in its Insurance and Risk Advisory Department ("Risk Management"). With few exceptions, Risk Management procures insurance coverage on a corporate-wide basis for all Sempra 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 entities in the program. Each business unit is allocated a share of premium expenses in accordance with Commission-approved allocation methodologies, as outlined below.[1]

C. Cost Allocations

Risk Management reasonably and equitably bills insurance costs to SDG&E, SoCalGas, and other Sempra business units, in accordance with the following cost allocation priorities:

1. Direct Assignment
2. Causal/Beneficial ("CB")
3. Multi-Factor Allocation

Where policies are procured for a specific business unit, or where an insurance carrier's invoice itemizes the premium by business unit coverage, the costs are directly assigned to the business units. Costs for insurance policies that cover multiple business units under a single premium are fairly apportioned to individual business units using causal and beneficial factors. And finally, SDG&E- and SoCalGas-apportioned costs for policies that support all of the Sempra business units (such as excess liability) are charged using the Commission-approved Multi-Factor allocation method. See the testimony and workpapers of Corporate Center witness Peter Wall (Exhibit SDG&E-20/Exhibit SCG-19) for more detail on the Multi-Factor Basic allocation method.

II. SHARED COSTS

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

- Property – provides first-party coverage for damage or losses to assets, and
- Liability – provides third-party coverage for claims from external parties.

Corporate Center also procures surety bonds on behalf of the business units as needed. The historical costs of these bonds for SDG&E and SoCalGas are presented in my workpapers, although none are included in this request.

I am sponsoring the forecasts on a total incurred basis, as well as the allocation percentages related to those costs. Those percentages are presented within this testimony and in my workpapers, along with a description explaining the policies being allocated.

[1] Disclaimer: This Testimony does not and is not intended to provide coverage interpretations or complete information about coverages. The terms and conditions of the insurance policies will govern how coverage is applied.

A. Property Insurance

TABLE 2A

(2013 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016
A-1 Primary	11,540	885	12,426	6,403	877	7,279
A-2 Excess	5,726	338	6,064	4,330	593	4,923
A-3 SONGS Property	1,190	(1,190)	-	1,190	(1,190)	-
A-4 Crime	156	25	181	118	22	141
A-5 Other Property	190	29	219	156	20	176
A-6 Broker Fees	383	39	422	290	38	328
Total	$19,184	$127	$19,311	$12,488	$360	$12,848
						Escalated
Allocations						2016
SDG&E	8,763	(660)	8,103			8,103
So Cal Gas	3,725	1,020	4,745			4,745
Total Utility	12,488	360	12,848			$12,848
Global / Retained	6,696	(233)	6,463			
Total	$19,184	$127	$19,311			

1. Description of Property Insurance Policies

An itemized description of each policy follows in Chapter III of this testimony. Also described are limits of coverage, deductible, renewal term, allocation methodology, and the escalation factor.

2. Forecasting Approach

Risk Management's insurance forecast was developed by individual type of insurance program. Insurance premiums are considered "non-standard," or not subject to standard inflation, and are presented in nominal escalated dollars. Each program is normally subject to different insurance market conditions and drivers of growth. Due to the unexpected nature of perils covered by commercial insurance policies (natural events like earthquakes and hurricanes; third party liability claims), 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 2013-2014). Thus, in this testimony, premiums are escalated using a standard escalation factor to account for insurance market pressures, 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.

3. Cost Drivers

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. Although many industries are currently experiencing a softening market (positive buying market), this is not entirely the case with the Power and Utility market or with Sempra-specific coverages for the various reasons and Property market pressures we outline below.

General Market Conditions:

The general property market continues to be adequately capitalized, resulting in more available capacity to buyers. First quarter renewals are generally seeing rate reductions (unless there are loss issues), largely due to a relatively benign catastrophe loss year in 2013. This trend is expected to continue through the rest of 2014 assuming a normal wind season, which typically runs from June through October.

Power & Utility Market Conditions:

The power and utility market is also trending downward in 2014, although not as severely as in the general property market. This trend exists largely because the sector experienced very high attritional loss activity from 2009-2012, even though 2013 was a profitable year for the sector. Therefore, most insurance carriers in the power and utility space are not quite as aggressive as their general property counterparts.

There is continued interest in power and utility business, which has translated to increased availability from current providers as well as a couple of relatively small new entrants. All of these factors create a relatively positive buying environment in the present, compared to past years.

Specific Factors Influencing Sempra within the Property Market:

- Property Insurance Program Structure – the current structure involves a mutual insurance company, Oil Insurance Limited (“OIL”), and a commercially purchased insurance program (wrap) that works alongside OIL’s coverage, a program structure that is somewhat unique in the power and utility space. This structure has historically limited the involvement of domestic insurers, which has had the undesired effect of limiting competition.

- Operations / Amount Subject – Insuring power and utility assets requires accessing an industry specific market that has the expertise and knowledge to effectively underwrite this class of business. A limited marketplace, again, has the effect of somewhat limiting competition.
- Catastrophe Exposure - Typically includes the perils of earthquake, flood, and windstorm. For Sempra specifically, the key exposures are California and Mexico earthquakes and windstorms. Each of these perils is sub-limited in various ways to provide what seem to be adequate levels of insurance coverage. These coverage limits are assessed each year to re-evaluate their adequacy.
- Loss History (operational or non-operational) – Historical loss activity for an energy company of Sempra's size, with utility ownership the size of the Utilities, is relatively high. This is partially a function of relatively low deductible levels when compared to a peer group of power and utility companies. With the exception of 2013, the loss activity has had a negative impact on Sempra's property pricing over the past several years.

B. Liability Insurance

TABLE 2B

(2013 $ - 000's)	Corporate Center			Utility Allocations		
Services Provided	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016	Base Year 2013	2013-2016 Incr/(Decr)	Forecast 2016
B-1 General Excess	23,500	3,769	27,269	17,844	3,394	21,237
B-2 Fire	85,518	4,822	90,340	85,463	4,818	90,281
B-3 D&O	2,139	310	2,449	1,069	155	1,225
B-4 Fiduciary	1,102	114	1,216	836	110	947
B-5 Workers Comp	2,935	66	3,001	2,309	301	2,610
B-6 SONGS Liability	1,264	(1,264)	-	1,264	(1,264)	-
B-7 Other Liability	471	626	1,097	22	537	559
B-8 Broker Fees	650	67	717	494	65	558
Total	$117,579	$8,511	$126,090	$109,300	$8,117	$117,417
						Escalated 2016
Allocations						
SDG&E	97,773	5,636	103,409			103,409
So Cal Gas	11,527	2,480	14,007			14,007
Total Utility	109,300	8,117	117,417			$117,417
Global / Retained	8,279	394	8,673			
Total	$117,579	$8,511	$126,090			

1. Description of Liability Insurance Policies

An itemized description of each policy follows in Chapter III of this testimony. Also described are limits of coverage, deductible, renewal term, allocation methodology, and the escalation factor.

2. Forecasting Approach

Risk Management's insurance forecast was developed by individual type of insurance program. Insurance premiums are considered "non-standard," or not subject to standard inflation, and are presented in nominal escalated dollars. Each program 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 earthquakes and hurricanes; third party liability claims), 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 2013-2014). Thus, in this testimony, premiums are escalated using a standard escalation factor to account for insurance market pressures, 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.

3. Cost Drivers

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. Although many industries are currently experiencing a softening market (positive buying market), this is not entirely the case with the Power and Utility market or with Sempra-specific coverages for the various reasons and Liability market pressures we outline below.

General Market Conditions:

New insurers in the umbrella/excess markets increased overall capacity in 2013. Competition helped stabilize rates, a trend that is expected to continue into 2014. Some exceptions may occur in potentially higher hazard risk areas, such as in the energy (including Power & Utility), chemical, life sciences, and construction industries, where insurers are likely to be even more cautious in underwriting.

Power & Utility Market Conditions:

Casualty insurance market conditions in 2013 varied widely based upon company-specific exposures and loss history. AEGIS, a mutual insurance company providing coverage for the utility industry, continued to seek across-the-board increases of nearly 10% on average in 2013, while EIM typically sought increases in the range of 3% to 8%. Clients with challenging loss records experienced significantly higher increases. Stockholder-owned insurers remain wary of such clients. Insurance capacity in this market was stable, following a period of market contraction over the past two years. We have seen some moderation from significant prior years' rate increases, which is now more typically in 5% to 15% range for excess liability programs.

Many new insurers to the energy/utility market were attracted to the market by the higher rates of the past few years. However, insurers became increasingly selective in terms of rate and attachment point for lead umbrella offerings in this market. Insurers reported energy industry loss activity to have increased in both frequency and severity, driving such underwriting results.

Specific Factors Influencing Sempra within the Casualty Market:

- Prior loss history – Following the 2007 wildfire losses a number of the insurers on the current program indemnified SDG&E for their full limits. These insurers seek a certain amount of premium each year to fund for future potential losses and to recuperate for prior losses. Insurers would not recover the full amount of loss they paid; however, they will require a certain increase to alleviate losses.
- Wildfire – With the severe drought in California, there is insurance industry concern that the higher probability factor could increase the chance of wildfires this year. We have also experienced an early start to wildfire season this year, a few Santa Ana wind events since the beginning of 2014, and recent wildfires in the San Diego area.
- Inverse Condemnation (California) – This California doctrine assigns strict liability to the utility through inverse condemnation, such that options for a utility's defense are extremely limited in certain circumstances. As FERC recently recognized, "…California utilities can be held strictly liable for damages caused by their facilities. California's inverse condemnation doctrine can require a utility to pay damages whenever its facilities, operating as deliberately designed and constructed for the public use, are

involved in an event that damages third-party property, regardless of fault."[2] Insurers take into account a heightened risk for California utilities, combined with the high risk of wildfires and other natural disasters in Southern California. These factors make it difficult for underwriters to assess risk. Because of California's inverse condemnation doctrine, insurers require a higher premium than in other States with similar exposures, or they may refuse to provide insurance coverage at all.

- Overall capacity and aggregate exposure review – Capacity is the maximum amount of insurance an insurer can provide, specific to each line of coverage. As market capacity increases, so does competition, which leads to a soft market and overall price decreases. Capacity for the utility industry overall is limited. This capacity limitation is exacerbated by the fact that insurers work to minimize their overall aggregate exposure for any one loss. For example, if an insurer provides capacity to a tree trimming company used by SDG&E, then they would be unlikely to deploy capacity for Sempra to avoid paying multiple limits on a single loss.
- Lack of Competition in the Insurance Market – SDG&E and SoCalGas face a limited number of insurance companies willing to write utility policies. Therefore, it is extremely challenging to drive competition and keep rates low when SDG&E and SoCalGas are looking to purchase adequate capacity to protect them against catastrophic events, such as the 2007 wildfires.
- Attachment Point – Each insurer will have a desired attachment point (the point at which they attach on an insurance program, e.g., $200M). For large utilities, insurers commonly attach low, to attract higher premiums, or attach at the top of an insurance program to be furthest away from a potential loss. Because most insurers try to attach either high or low on an insurance program, it is most challenging for Sempra to insure in the middle attachment range of its program. Coupled with limited competition, these common insurance practices drive up pricing the middle attachment range of Sempra's insurance program.

[2] 146 FERC ¶ 63,017 at P 23, P 61 ("presence or absence of fault by the public entity ordinarily is irrelevant") (quoting *Pacific Bell v. City of San Diego*, 81 Cal. App. 4th 596, 602 (2000); *Pacific Bell v. S. Cal. Edison Co.*, 208 Cal. App. 4th 1400, 1408 (2012) (finding that strict liability applies to inverse condemnation cases involving power lines)).

- Overall operational system integrity – Following the gas pipeline rupture in San Bruno in 2010 and an overall increase of losses due to pipeline ruptures, there is a certain amount of 'nervousness' in the insurance market , which has caused insurance capacity to become restricted.   Sempra has one of the largest pipeline infrastructures in the United States.
- Litigation uncertainty / substantial increase in overall injury awards – insurers take into account an increase in jury awards overall. The recent electrical line contact case in Pennsylvania showed the possibility of what could happen for similar future losses.

Summary:

Factors contributing to a challenging market for Sempra's Excess Liability program include limited capacity reducing potential competition in the market (which ultimately drives rates down), concerns over an unusually early start to wildfire season, the large number of wildfires expected overall in 2014 and the nervousness surrounding aging infrastructure for gas pipelines. Wildfire premiums are allocated based on overall line miles; as a result, most of the premiums are allocated to SDG&E. Non-wildfire premium allocations for SDG&E and SoCalGas are based on the Multi-Factor. As a result, SoCalGas does not bear a significant part of premium increases, even though a large concern over pipeline exposures is the major factor driving prices up on the non–wildfire side. As a result of these insurance market pressures, we expect insurance rates to continue rising for the foreseeable future for the power and utility industry generally, and SDG&E and SoCalGas specifically, until such time that we see a significant shift with a large injection of capacity into the market.

III. INSURANCE DETAIL

A. Property Insurance

1. Primary Property (A-1)

The Primary Property Insurance program provides coverage for direct physical damage to property owned by Sempra Energy and its subsidiaries, and includes Business Interruption ("BI") coverage for locations that report BI values. BI 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.

- **Premium Forecast**: Actual premium expense has been used for 2013-2014. An annual escalation factor of 5% is utilized to account for company growth and increasing property values.
- **Allocation of Costs:** The "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 2013:

		Allocation Rates	
		2013	2016
Property	SDG&E	45.1%	50.9%
	SoCalGas	13.9%	15.4%
	Global / Retained	41.0%	33.7%
		100.0%	100.0%

2. Excess Property (A-2)

The Excess Property Insurance program responds to physical damage losses that exceed the first $10 million of 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.

- **Premium Forecast**: Actual and expected premium expense has been used for 2013-2014. An annual escalation factor of 5% is utilized to account for company growth and increase in property values.
- **Allocation of Costs**: Excess property insurance is allocated based on reported asset values, covering only those domestic business units benefitting from the program.

		Allocation Rates	
		2013	2016
Property Excess	SDG&E	39.9%	42.8%
	SoCalGas	35.7%	38.4%
	Global / Retained	24.4%	18.8%
		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. The NEIL policies include coverage for losses resulting from acts of terrorism.

- **Premium Forecast:** 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. NEIL has declared a Nuclear Property Distribution in 2014. Actual and expected premium expense has been used for 2013-2014. For 2016, insurance costs for SONGS have been excluded from the GRC and will be tracked in the SONGS Closure Memorandum Account.
- **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.

- **Premium Forecast:** Southern California Edison, as plant manager, is responsible for placing all insurance coverages. Actual and expected premium expense has been used for 2013-2014. For 2016, insurance costs for SONGS have been excluded from the GRC and will be tracked in the SONGS Closure Memorandum Account.
- **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.

- **Premium Forecast**: Actual premium expense has been used for 2013, with premiums expected to remain flat in 2010. A 5% escalation factor for market pressures is utilized for 2013-2014.
- **Allocation of Costs:** Multi-Factor Basic:

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	38.5%	38.9%
	SoCalGas	37.4%	39.0%
	Global / Retained	24.1%	22.1%
		100.0%	100.0%

5. Other Property (A-5)

a. APS Yuma 500kV Transmission System – Property (A-5.1)

Provides coverage for direct physical damage to property owned by SDG&E & Arizona Public Service (APS).

- **Premium Forecast:** Actual and expected premium expense has been used for 2013-2014.
- **Allocation of Costs:** 100% SDG&E.

b. Control of Well (A-5.2)

Provides coverage for gas storage wells for well control incidents. Coverage includes cost to control a well out of control as defined by the policy, cost to re-drill such well, and any pollution arising from a well out of control incident.

- **Premium Forecast:** Actual premium expense has been used for 2013-2014. An annual escalation factor of 5% is utilized for increases in well activities and market pressures for 2015-2016.
- **Allocation of Costs**: Primarily covers the well activities for SoCalGas, with a partial amount directly charged to other Global business units with storage facilities.

6. Broker Fees - Property (A-6)

Broker services fees represent compensation for broker insurance services.

- Fees are paid quarterly, starting July 15.
- Actual expense has been used for 2013-2014. A 5% escalation factor has been utilized for expected changes in compensation structure.
- **Allocation of Costs:** Multi-Factor Basic:

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	38.5%	38.9%
	SoCalGas	37.4%	39.0%
	Global / Retained	24.1%	22.1%
		100.0%	100.0%

B. Liability Insurance

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 is also included with limits of $110 million. 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.

- **Premium Forecast**: Actual premium expense has been used for 2013. A modest annual escalation factor of 5% is utilized to account for market pressures.
- **Allocation of Costs**: Multi-Factor Basic:

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	38.5%	38.9%
	SoCalGas	37.4%	39.0%
	Global / Retained	24.1%	22.1%
		100.0%	100.0%

2. Wildfire Liability (B-2)

a. <u>Wildfire Liability (B-2.1)</u>

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.

- **Premium Forecast:** Actual premium expense has been used for 2013. A modest annual escalation factor of 3% has been utilized for market pressures.
- **Allocation of Costs:** Based on a causal relationship, using the miles of overhead electrical line as the factor.

		Allocation Rates	
		2013	2016
Fire	SDG&E	99.5%	99.5%
	SoCalGas	0.4%	0.4%
	Global / Retained	0.1%	0.1%
		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 similar to homeowners insurance). 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.

- **Premium Forecast:** Actual premium expense has been used for 2013 and projected premiums are expected to remain flat.
- **Allocation of Costs**: Based on a causal relationship, using the miles of overhead electrical line as the factor, for SDG&E and SoCalGas only.

		Allocation Rates	
		2013	2016
Fire Reinsurance	SDG&E	99.6%	99.6%
	SoCalGas	0.4%	0.4%
	Global / Retained	0.0%	0.0%
		100.0%	100.0%

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.

- **Premium Forecast:** Actual premium expense has been used for 2013. An annual escalation factor of 5% is utilized for company growth and market pressures.
- **Allocation of Costs:** Multi-Factor Split:

		Allocation Rates	
		2013	2016
Multi-Factor Split	SDG&E	25.3%	24.8%
	SoCalGas	24.7%	25.2%
	Global / Retained	50.0%	50.0%
		100.0%	100.0%

4. Fiduciary Liability (B-4)

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

- **Premium Forecast**: Actual and expected premium expense has been used for 2013. An annual escalation factor of 5% is utilized for company growth and market pressures.
- **Allocation of Costs:** Multi-Factor Basic:

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	38.5%	38.9%
	SoCalGas	37.4%	39.0%
	Global / Retained	24.1%	22.1%
		100.0%	100.0%

5. Workers' Compensation (B-5)

a. <u>Excess Workers' Compensation ("WC") Insurance - California only (B-5.1)</u>

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

- **Premium Forecast:** Actual and expected premium expense has been used for 2013. An annual escalation factor of 5% is utilized for growth in labor base as well as market pressures.
- **Allocation of Costs:** Based on payroll per business units covered.

		Allocation Rates	
		2013	2016
Workers Comp	SDG&E	44.0%	43.4%
	SoCalGas	51.2%	50.5%
	Global / Retained	4.8%	6.1%
		100.0%	100.0%

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

Policy 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.

- **Premium Forecast:** Actual and expected premium expense has been used for 2013. An annual 5% escalation factor is utilized for growth in labor base as well as market pressures.
- **Allocation of Costs:** Based on payroll per business units covered.

		Allocation Rates	
Workers Comp		2013	2016
Non-California	SDG&E	6.1%	30.7%
	SoCalGas	0.0%	1.4%
	Global / Retained	93.9%	67.9%
		100.0%	100.0%

6. SONGS Liability (B-6)

Actual premium expense has been used for 2013. For 2016, insurance costs for SONGS have been excluded from the GRC and will be tracked in the SONGS Closure Memorandum Account at SDG&E.

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.

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.

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

Secondary Financial Protection ("SFP"). SFP, as required 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.

b. Non-Nuclear Liability, SONGS Mesa (B-6.2)

This policy covers third-party bodily injury and property damage arising out of non-nuclear operations at SONGS Mesa.

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.

- **Premium Forecast:** Actual and expected premium expense has been used for 2013. A 15% escalation factor has been utilized for market pressures for 2014-2016 annually.
- **Allocation of Costs:** 100% SDG&E.

b. Cyber Insurance (B-7.2)

This is a new policy for cyber exposures, which covers:

- Privacy class actions from disclosure of confidential information
- Business customers' loss of business due to system interruption
- Income loss due to systems failures
- Technology vendor failures
- Network and Privacy Extortion threats
- Privacy regulatory actions, fines, penalties and defense costs
- Credit monitoring and notification costs following privacy breaches

- **Premium Forecast:** Actual premium expense has been used for 2014. An annual escalation factor of 5% is utilized for company growth and market pressures.

Allocation of Costs: Multi-Factor Basic

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	38.5%	38.9%
	SoCalGas	37.4%	39.0%
	Global / Retained	24.1%	22.1%
		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, and covers all autos within the United States except those owned by SDG&E or SoCalGas, which are self-insured.

- **Premium Forecast:** Actual and expected premium expense has been used for 2013-2014. A 5% escalation factor has been utilized for market pressures and increasing number of vehicles due to company growth.
- **Allocation of Costs:** Based upon number of covered vehicles owned per business unit (other than SDG&E and SoCalGas). Corporate Center vehicles are re-allocated by 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 re-allocated percentage to the Utilities.

		Allocation Rates	
		2013	2016
Vehicle	SDG&E	12.5%	3.4%
	SoCalGas	12.5%	2.5%
	Global / Retained	75.0%	94.1%
		100.0%	100.0%

8. Broker Services Fee (B-8)

Broker services fees represent compensation for broker insurance services.

- Fees are paid quarterly, starting July 15.
- Actual expense has been used for 2013. A 5% escalation factor has been utilized for expected changes in compensation structure.
- **Allocation of Costs:** Multi-Factor Basic:

		Allocation Rates	
		2013	2016
Multi-Factor Basic	SDG&E	37.8%	38.9%
	SoCalGas	38.3%	39.0%
	Global / Retained	23.9%	22.1%
		100.0%	100.0%

C. Surety Bonds

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. Bond premiums are paid either as a one-time premium for life of the bond or as an annual premium and are procured on an as-required basis. Costs are directly assigned to the business unit requiring the bond.

IV. CONCLUSION

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

	(Escalated $ - 000's)	Test Year 2016 Utility Allocations		
	Services Provided	**SDG&E**	**So Cal Gas**	**Total**
	Insurance	$ 111,513	$ 18,752	$ 130,265
	Total	**$ 111,513**	**$ 18,752**	**$ 130,265**
	Services by FERC Account			
F924.0	Property Insurance (non-nuclear)	8,103	4,745	12,848
F924.1	Property Insurance (nuclear)	-	-	-
F925.0	Excess Liability Insurance (PLPD)	10,602	10,635	21,237
F925.1	Excess Workers Compensation Insurance	1,222	1,388	2,610
F925.3	Other Liability Insurance (non-nuclear)	1,646	1,643	3,289
F925.4	Other Liability Insurance (nuclear)	-	-	-
F184.8	Wildfire Liability Insurance	89,939	342	90,281
	Total	**$ 111,513**	**$ 18,752**	**$ 130,265**

This concludes my prepared direct testimony.

V. WITNESS QUALIFICATIONS

My name is Katherine Carbon, and my business address is 101 Ash Street, San Diego, California 92101.

I am currently employed by Sempra Energy as the Director of Insurance & Risk Management, a position I was hired into in April 2012. Sempra Energy is the parent company of SDG&E and SoCalGas. As the Director of Insurance & Risk Management, I am responsible for the placement of all of Sempra's insurance programs (corporate, standalone placements, construction insurance, and etc.), management of Sempra's insurance brokers, 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 Finance and Management Information systems at Concordia University and obtained a Masters of Business Administration at Northern Illinois University.

Prior to joining Sempra, I was employed at The Boeing Company (10 years), headquartered in Chicago, Illinois, as Senior Manager of Insurance Procurement and Manager of Insurance Accounting and Risk Analysis, where I was responsible for insurance placement activity, management of The Boeing Company's two captive insurance companies and all insurance accounting activities. Prior to The Boeing Company, I was employed at the brokerage firm Marsh (1 year), as well as at a reinsurance brokerage firm (10 years). I have not testified previously before the Commission.

Glossary of Terms

A&G: administrative and general

APS: Arizona Public Service

BI: Business Interruption

CB: causal-beneficial (allocation method)

CPUC: California Public Utilities Commission

D&O: Director and Officer

DIC: difference in conditions

ECA: Energia Costa Azul

EIM: Energy Insurance Mutual

EL: Employers' Liability

FERC: Federal Energy Regulatory Commission

GRC: general rate case

kV: kilovolts

LNG: liquefied natural gas

NEIL: Nuclear Electric Insurance Limited

NRC: Nuclear Regulatory Commission

O&M: operations and maintenance

OIL: Oil Insurance Limited

SEC: Securities and Exchange Commission

Sempra: Sempra Energy

SFP: Secondary Financial Protection

SONGS: San Onofre Nuclear Generating Station

Utilities: SDG&E and SoCal Gas, collectively

WC: Workers' Compensation