Company:	San Diego Gas & Electric Company (U 902 M)
Proceeding:	2020 Cost of Capital
Application:	A.19-04-017
Exhibit:	SDG&E-01-S

SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED SUPPLEMENTAL TESTIMONY OF
BRUCE FOLKMANN
POLICY
(AB 1054)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE
A Sempra Energy utility®

AUGUST 1, 2019

TABLE OF CONTENTS

SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED SUPPLEMENTAL TESTIMONY OF BRUCE FOLKMANN
POLICY
(AB 1054)

I. INTRODUCTION

Pursuant to Administrative Law Judge ("ALJ") Stevens' July 18, 2019 email ruling modifying the procedural schedule,[1] my supplemental testimony addresses the following:

- The mechanics of Assembly Bill ("AB") 1054;[2]
- The reaction of credit rating agencies to AB 1054;
- The ongoing need to adopt the capital structure originally proposed by San Diego Gas & Electric Company ("SDG&E" or "Company"); and
- SDG&E's adjusted proposed Return on Equity ("ROE"); and authorized Rate of Return ("ROR").

As SDG&E has opted in to AB 1054's "wildfire fund," my testimony will focus on that aspect of the legislation. As the credit rating agencies note, AB 1054 – particularly the wildfire fund – takes some positive steps to moderate SDG&E's risks. But it does not eliminate those risks. Instead, the Company still faces uncertainty and long-term threats. This is reflected in the fact that the three credit rating agencies did not alter their credit ratings for SDG&E – despite all three agencies downgrading SDG&E at least two notches each in the last year without *any* incurred wildfire liabilities. As such, the Company now proposes that its ROE be set at 12.38%, which results in a revised ROR request of 8.95%.

[1] July 18 email from ALJ Stevens to the Application 19-04-014, *et al*. Service List.

[2] AB 1054, Stats. 2019, Ch. 79.

II. AB 1054 AND THE WILDFIRE FUND

Assembly Bill 1054 was passed by the California State Legislature as an urgency bill on July 11 and signed into law by Governor Newsome on July 12, making the legislation effective immediately. AB 1054 provides two alternative wildfire recovery funds for investor-owned utilities ("utility") – a "liquidity fund" and a "wildfire fund."[3] To establish the wildfire fund, both SDG&E and Southern California Edison Company ("Edison") must opt-in within 15 days of AB 1054's effective date and make the required contributions.[4] A utility subject to insolvency proceedings or on criminal probation must meet additional requirements to participate in the fund.[5]

On July 18, 2019, SDG&E notified the Commission of its commitment to opt-in to the wildfire fund and provide its shareholder contribution.[6] On July 25, Edison and Pacific Gas and Electric Company ("PG&E") also opted-in to the wildfire fund, putting the fund into effect. On July 25, and July 26, Edison and SDG&E respectively received their safety certifications.

The wildfire fund is expected to be capitalized with up to $21 million in funds – $10.5 billion from a loan from California's Surplus Money Investment Fund, and $10.5 billion from shareholder contributions from SDG&E, Edison, and PG&E.[7] SDG&E's portion of the

---

3 California Public Utilities Code ("Cal. Pub. Util. Code") §§ 3291, 3292.

4 *Id.* at § 3292(a).

5 *Id.* at § 3292(b).

6 *See* Sempra Energy and SDG&E SEC Form 8-K (filed July 19, 2019) ("July 19 Form 8-K") (noting that there are "material benefits available to participating IOUs in the larger Wildfire Fund that are not available in the smaller Liquidity Fund"), available at: http://investor.sempra.com/static-files/c182aeaf-00b8-48cb-9d48-675852d50c33, Appendix D.

7 *See* Cal. Pub. Util. Code § 3288(b); 3292(b).

shareholder contribution is expected to be 4.3% of that $10.5 billion;[8] or approximately $450 million.[9] SDG&E's initial contribution would be $322.5 million, with subsequent annual contributions of $12.9 million for ten years.[10] The utilities must also make $5 billion in non-capitalized safety investments with funds that can be securitized, but which a utility cannot earn a return upon. SDG&E's share of that total is expected to be $215 million.[11]

A participating utility may seek payments from the wildfire fund for settlements and court judgments resulting from a catastrophic wildfire event. But it must reimburse the fund for amounts determined to be imprudently incurred in a utility-related ignition by the Commission under Section 451.1 of the California Public Utilities Code. That section contains revised standards for prudency review. Among other changes, Section 451.1 provides that the conduct of a utility with a valid safety certification will be deemed reasonable, unless a serious doubt is raised, in which case the utility must dispel that doubt.[12] The legislation also specifies factors outside of the utility's control to be considered to allow partial to full cost recovery of wildfire liabilities, including temperature, humidity, and wind.[13]

The utility's reimbursements to the wildfire fund for imprudently incurred costs are subject to a liability cap. This cap applies only if the utility meets certain requirements,

---

8 *See id.* at § 3280(n).

9 *See id.* at § 3280(i)(1).

10 *See* July 19 Form 8-K.

11 Cal. Pub. Util. Code § 8386.3(e).

12 *Id.* at § 451.1(c).

13 *Id.* at § 451.1(b).

including that it maintains a valid safety certificate.[14] If applicable, the liability cap limits the amount of shareholder exposure for wildfire losses found to be imprudently incurred to 20% of the utility's transmission and distribution equity rate base for that year on a rolling three-year basis.[15] For SDG&E, this liability cap is estimated to be $825 million based on 2018 rate base.[16]

The fund also incentivizes the settlement of insurance subrogation claims at less than or equal to 40% of the total asserted claim value, specifying that such claims "shall be paid [by the fund administrator] unless the administrator finds that the exceptional facts and circumstances surrounding the underlying claim do not justify the electrical corporation's exercise of such business judgment."[17] The administrator also has the authority, however, to pay settlement claims that exceed 40% if the administrator determines that the utility exercised its reasonable business judgment in settling for a higher percentage or on different terms.[18] A fully litigated subrogation claim shall be paid the full judgment amount.[19]

III. CREDIT RATING AGENCIES RESPONDED TO AB 1054 WITH CAUTIOUS OPTIMISM BUT HAVE NOT ALTERED SDG&E'S CREDIT RATINGS

SDG&E opted into the wildfire fund because it believes that the fund provides "material benefits" over the smaller liquidity fund – namely the liability cap and revised prudency standard – that can help moderate the most extreme downside risks, at least in the medium term.[20] Credit

---

14 *Id*. at § 3292(h)

15 *See id.*

16 *See S*empra Energy and SDG&E SEC Form 8-K (filed July 12, 2019) ("July 12 Form 8-K"), available at http://investor.sempra.com/static-files/50cfab94-4107-4fc2-ba72-425238a8656c, Appendix A.

17 Cal. Pub. Util. Code § 3292(f)(1).

18 *Id.* at § 3292(f)(2).

19 *Id.*

20 July 19 Form 8-K.

rating agencies Moody's, Standard & Poor's ("S&P") and Fitch (collectively, the "rating agencies"), likewise indicated that they view AB 1054's wildfire fund as credit positive. Yet although the rating agencies removed their negative outlook,[21] they did not upgrade their credit ratings for SDG&E following AB 1054's passage – despite having downgraded SDG&E multiple times in the past year due to wildfire liability and risk-related issues.[22] Table 1 below illustrates developments by each credit rating agency following the enactment of AB 1054.

TABLE 1: SDG&E Credit Rating Status Post-AB 1054

Agency	**Rating**	**Outlook**	**Revision to Credit Rating**
Moody's	Baa1	Positive	None
S&P	BBB+	Stable	None
Fitch	BBB+	Stable	None

A. Credit Rating Agencies Believe that the Wildfire Fund Moderates Certain Risks

Much of the credit rating agencies' focus in their post-AB 1054 analysis was on the legislation's wildfire fund. Consistent with the affirmation of SDG&E's current credit ratings,

---

21 *See* S&P Global Ratings, *San Diego Gas & Electric Co. Ratings Affirmed, Outlook Revised to Stable from Negative*, dated July 30, 2019 at 1 ("S&P July 30 Report") (changing SDG&E's outlook from negative to stable); Moody's, *Rating Action: Moody's affirms San Diego Gas & Electric's ratings; changes outlook to positive from negative*, dated July 29, 2019 at 1 ("Moody's July 29 Report"), Appendix E (changing SDG&E's outlook from negative to positive); Fitch Ratings, *Fitch Affirms San Diego Gas & Electric's IDR at 'BBB+'; Outlook Revised to Stable*, dated July 17, 2019 at 1 ("Fitch July 17 Report"), Appendix C (changing SDG&E's outlook from negative to stable).

22 *Id.*

the agencies viewed SDG&E's participation in the wildfire fund as credit supportive – while noting that uncertainties and challenges remain.[23]

- **Fitch**: the "enactment of A.B. 1054 mitigates the regulatory risks associated with the recovery of catastrophic wildfire liabilities for SDG&E,";[24]

- **Moody's**: "we believe the [wildfire] fund will be large enough to cover all but the most extreme downside scenarios over the next decade," and "[p]ositive momentum on SDG&E's rating is possible, barring any wildfire in its service territory" if there is a credit supportive completion of SDG&E's "pending 2019 general rate case and the cost of capital proceeding[];"[25]

- **S&P:** "In our view, over the medium term, AB 1054 could significantly reduce Sempra and its subsidiaries credit risks related to California's wildfires and California courts' interpretation of the legal doctrine of inverse condemnation."[26]

The rating agencies see four primary medium-term benefits from the wildfire fund:

- The reduction in liquidity risk by having immediate access to funding to cover wildfire liability settlements and/or court judgments;

- The cap on potential shareholder liability at 20% of a utility's transmission and distribution rate base;

- Specified standards for a utility's reasonable conduct in the legislation's revised prudency standard; and

- The incentivized expedient settlement of subrogation claims.

---

23 By contrast, Moody's and S&P would have found participation in the liquidity fund as not credit supportive.

24 Fitch July 17 Report at 3; *see also* S&P Global Ratings, *Sempra Energy and Subsidiaries Ratings Affirmed; Outlooks Remain Negative*, dated July 15, 2019, at 1 ("S&P July 15 Report"), at 1 ("In our view, over the medium term, AB 1054 could significantly reduce Sempra and its subsidiaries credit risks related to California's wildfires and California court's interpretation of the legal doctrine of inverse condemnation.").

25 Moody's July 29 Report at 1-2.

26 S&P July 15 Report at 1.

The liability cap and revised prudency standard are of primary importance. As S&P states, the "critical credit risks" that SDG&E has faced from California's catastrophic wildfire liability regime "have included the lack of regulatory predictability or certainty regarding the timing and amount of allowable wildfire cost that SDG&E could ultimately recover from ratepayers and the potential effects on the customer bill."[27] S&P believes that SDG&E will thus "benefit from the use of the [wildfire] fund as a source of liquidity, a predetermined cap that limits SDG&E's liability, and revised standards of a utility's reasonable conduct that we believe will increase the likelihood that SDG&E will recover future wildfire costs from ratepayers."[28] Moody's similarly added that the "liability cap on cost disallowances is the most credit supportive feature of the [wildfire] fund because it allows us to quantify and limit a utility's maximum exposure to a catastrophic wildfire event if the utility is not found to be prudent according to the new prudency standard."[29]

The rating agencies view the 40% subrogation incentive as contributing to the wildfire fund's durability. As Moody's stated, even "though the fund is capitalized with $21 billion of capital . . . it should be able to address over $40 billion of gross claims."[30] The agency added that the "actual net usage of the [wildfire] fund should be considerably lower than the gross

---

[27] S&P July 15 Report at 2.

[28] S&P July 30 Report at 1; *see* also S&P July 15 Report at 1-2 (the wildfire fund can "reduce [SDG&E's] liquidity risk, allow for a predetermined cap that limits SDG&E's liability, and specify the standards of a utility's reasonable conduct, increasing the likelihood that SDG&E could recover future wildfire costs.").

[29] Moody's July 29 Report at 1; *see also* Moody's, *Rating Action: Moody's affirms San Diego Gas & Electric Company's ratings; outlook remains negative*, dated July 12 at 1 ("Moody's July 12 Report"), Appendix B (the wildfire fund "caps the amount of cost disallowance associated with catastrophic wildfires and applies a more credit supportive prudency standard.").

[30] Moody's July 29 Report at 1.

claims amounts because utilities are expected to maintain $1 billion of wildfire insurance each and the fund is designed to only pay subrogation claims that are settled at 40 cents on the dollar or less."[31] Fitch similarly adds that the subrogation claims provision "is expected to reduce regulatory lag and preserve the utility's financial health."[32]

B. Credit Rating Agencies Note that Uncertainty and Long-Term Challenges for SDG&E Remain

Yet S&P, Moody's, and Fitch indicate that they continue to believe that SDG&E faces ongoing, heightened risks – reflected in the fact that none of the credit rating agencies changed or increased the Company's credit rating despite repeatedly lowering the Company's credit ratings in the last year.[33] According to the credit rating agencies' statements, the agencies' hesitancy to increase SDG&E's credit ratings is due, in part, to two issues: uncertainty regarding AB 1054's implementation; and the legislation's failure to address SDG&E's ongoing heightened long-term risks.

As Moody's stated, a "failure to successfully implement the provisions of AB 1054 associated with the [wildfire] fund in a consistent and credit supportive manner" would likely trigger negative credit momentum on SDG&E's credit rating.[34] The credit rating agencies noted the existence of risks related to the implementation of the wildfire fund's two most beneficial features – how the new prudence standard in Section 451.1 will be applied by the Commission,

---

[31] *Id.*

[32] Fitch July 17 Report at 2.

[33] *See* Prepared Direct Testimony of Don Widjaja (April 2019) (Ex. SDG&E-03 (Widjaja)) at 12 (charting SDG&E credit rating downgrades in 2018 and 2019).

[34] Moody's July 12 Report at 2; *accord* Moody's July 29 Report at 2.

and the durability of the wildfire fund.[35] With regard to the prudence standard, Fitch stated that "the lack of a track record of implementing the new legislation" – "especially the new prudence standard which is subject to interpretation" – is a "credit constraint[]."[36] S&P adds that if "the [C]ommission does not implement AB 1054 in a credit-supportive manner then much of the new law's credit-supportive elements related to the revised standards of a utility's reasonable conduct could potentially be negligible."[37]

With regard to the fund's durability, S&P notes that if the wildfire fund is exhausted, SDG&E "loses the credit benefit of using the [wildfire] fund as a source of liquidity and more importantly loses the credit protection of the liability cap," leaving only the revised prudence standard.[38] The wildfire fund's potential depletion thus ties to the "longer-term risks" for SDG&E that AB 1054 does not address – principally, inverse condemnation.[39] As Fitch states, the "continuation of inverse condemnation remains a long-term credit issue for SDG&E as an electric utility in California."[40]

---

[35] *See* S&P July 30 Report at 2 ("Another long-term risk deals with the uncertainty as to how the CPUC, which is responsible for implementing much of the new law, will interpret AB 1054.").

[36] Fitch July 17 Report at 1; *see also* Moody's July 29 Report at 1 ("Pending application of this revised [prudency] standard by the [CPUC], its implementation will likely strengthen our view of the credit supportiveness of the regulatory environment in California.").

[37] S&P July 30 Report at 2.

[38] *Id.* at 1-2.; *accord* Moody's July 12 Report at 1 ("[i]f and when the [wildfire] fund's claims paying capability is exhausted, the majority of the credit friendly structures, including the disallowance cap, will terminate.").

[39] S&P July 30 Report at 1.

[40] Fitch July 17 Report at 1; *see also id.* at 4 (stating that "indications that a repeal of inverse condemnation doctrine is forthcoming" would be a development that may lead to a positive ratings action).

In other words, if the wildfire fund is exhausted, SDG&E's investors are once again potentially exposed to unmitigated downside risks from inverse condemnation.[41] S&P thus sees "the lack of an automatic replenishing mechanism and the depleting nature" of the wildfire fund as additional long-term threats.[42] Fitch adds that, if the "[f]requency and magnitude of catastrophic wildfires in the next few years deplete the fund much sooner than expected," it could lead to a negative ratings action.[43] S&P agrees, noting that this risk is particularly problematic because it is largely outside of SDG&E's control, as AB 1054 "directly associates SDG&E's credit quality to the operations of its California electric utility peers."[44] This means that "even if SDG&E continues to maintain operational excellence, its longer-term benefit of the credit-supportive liquidity cap is ultimately dependent on the operations of California's other investor-owned electric utilities that are also contributing to the [wildfire] fund."[45]

The three credit rating agencies also see additional, continued outstanding risks to SDG&E beyond AB 1054 – namely regulatory risks related to the outcomes of this cost of capital proceeding and the Company's pending 2019 General Rate Case. Moody's stated that its positive outlook "assumes" credit "supportive outcomes of the utility's ongoing regulatory

---

[41] S&P July 30 Report at 1-2.

[42] *Id.* at 1.

[43] Fitch July 17 Report at 4.

[44] S&P July 30 Report at 2.

[45] *Id.* at 2; *see* also Fitch July 17 Report at 3 (the durability of the wildfire fund) depends on the "frequency and severity of wildfires in other [investor-owned utilities'] service territories as well as their safety conduct," leaving SDG&E vulnerable to "contagion risks.").

proceedings . . . includ[ing] its 2019 general rate case and the *cost of capital*,"[46] adding that its understanding of a credit supportive outcome in this cost of capital proceeding includes a favorable outcome regarding SDG&E's request to "increase [] it's equity layer to 56%."[47] By contrast, the rating agency stated that "[d]ownward pressure is [] likely if SDG&E records credit metrics that are weaker than currently anticipated for example due to outcomes of pending regulatory proceedings that are not credit supportive."[48]

In short, the three credit rating agencies merely affirmed their current credit ratings for SDG&E – despite having downgraded the Company at least two notches each in the last year. As SDG&E witness Todd Shipman discusses (Exhibit SDG&E-05-S, Chapter 2), the credit rating agencies evidently did not view AB 1054, standing alone, as enough to justify increasing SDG&E's credit ratings.

For example, S&P states that, while it believes that "the credit-supportive liability cap and the revised standards of a utility's reasonable conduct will offset the rising risks of [SDG&E's] increased susceptibility to catastrophic wildfires due to climate change and California courts' interpretation of inverse condemnation over the medium term," it continues to "view SDG&E's business risk profile as being at the higher end of the range for its business risk profile category.[49] S&P added that an upgrade to SDG&E's credit rating in the next 18 months would largely be dependent upon "if California's investor-owned electric utilities participating in

---

[46] Moody's July 29 Report at 1 (emphasis added); *see also* Fitch July 17 Report at 4 (similarly noting that a "favorable GRC order and/or meaningful improvement in rate regulation" could lead to a positive ratings action for SDG&E.).

[47] Moody's July 12 Report at 2.

[48] Moody's July 29 Report at 2.

[49] S&P July 30 Report at 2.

the [wildfire] fund consistently improve their operations such that they are not found to be the cause of a catastrophic wildfire."[50] This indicates that it will be a long process for any ratings improvement – likely dependent on experience with the application of the revised prudency standard, the wildfire fund's durability, and credit-supportive outcomes in this cost of capital proceeding.

IV. SDG&E'S PROPOSED CAPITAL STRUCTURE REQUEST AND OTHER PROPOSALS REMAIN NECESSARY

Other than the modified ROE proposal, discussed below, SDG&E maintains the recommendations included in the Company's application and direct testimony, submitted on April 22, 2019. This includes its capital structure proposal. Consistent with the indications above that SDG&E's current credit rating is at least partly dependent on the Company's capital structure request being approved, SDG&E continues to propose a capital structure of 56% common equity, 44% debt, and 0% preferred stock. As noted in the Company's direct testimony, this proposed capital structure reflects SDG&E's actual capital structure for the past five years, a measure that the Commission has previously used to set the recorded structure.[51]

SDG&E's proposed capital structure also helps to manage the Company's continued, ongoing risks.[52] As noted, while AB 1054 has marginally decreased SDG&E's exposure to unmitigated catastrophic wildfire liability, heightened risks from wildfire liability remain – as do the other ongoing threats that SDG&E faces. This, again, is reflected in the fact that the credit rating agencies did not alter SDG&E's credit profile; indicating that the Company still faces

---

[50] *Id.* at 3.

[51] Prepared Direct Testimony of Maritza Mekitarian (April 2019) (Ex. SDG&E-02 (Mekitarian)) at 5 (citing D.18-03-035).

[52] Ex. SDG&E-02 (Mekitarian) at 7.

increased business risks that SDG&E's capital structure proposal is designed to help counterbalance by reducing financial risks.[53] In fact, as noted, Moody's suggested that SDG&E could face downward pressure on its credit rating if its equity ratio is set at less than 56% in this cost of capital proceeding.[54] An increased equity ratio thus remains critical to lessen SDG&E's financial risks, counterbalance the Company's increased business and regulatory risks, and address SDG&E's lowered credit ratings.[55]

V. SDG&E REVISED ROE AND ROR REQUEST

Based on the discussion of risks set forth above and in SDG&E's additional supplemental testimony, SDG&E now proposes a 12.38% ROE. This ROE request is based upon the recommendations of Dr. Roger Morin (Exhibit SDG&E-04) and Concentric Energy Advisors ("Concentric") (Exhibit SDG&E-04-S). As Dr. Morin used a traditional proxy-based approach that compared SDG&E to a proxy group of non-California utilities that do not face risks from California's catastrophic wildfire liability regime, his 10.9% "barebones" ROE recommendation remains unchanged.[56] Indeed, Dr. Morin indicated that his recommendation reflected the fact that equity investors were discounting SDG&E's risks on the expectation of some form of legislative relief – expectations that turned out to be accurate.[57]

---

[53] *See* S&P July 30 Report at 2 ("Accordingly, we view SDG&E's business risk profile as being at the higher end of the range").

[54] *See* Moody's July 29 Report at 2; Moody's July 12 Report at 2.

[55] Prepared Direct Testimony of Dr. Roger Morin (April 2019) (Exhibit SDG&E-04) at 62.

[56] *See id.* at 5; *see also id.* at 55 (noting that the proxy group was comprised of a "less risky group of companies").

[57] *See id.* at 60.

Concentric similarly determined that AB 1054 mitigates, but does not eliminate, SDG&E's risks from catastrophic wildfire liability. Concentric focuses on two risks that remain post-AB 1054: a wildfire with an imprudence finding; and the potential insolvency of the wildfire fund. Concentric applied the same three approaches they used in direct testimony – the "Estimated Loss Approach," the "Insurance Approach," and the "CAT Bond" Approach – to quantify the remaining catastrophic wildfire liability risks faced by investors following AB 1054's passage that are unique to California utilities and not shared with Dr. Morin's proxy group.[58]

- The Estimated Loss Approach quantifies the post-AB 1054 annual loss risk to investors from a utility-related catastrophic wildfire;[59]

- The Insurance and CAT Bond Approaches apply market data from SDG&E's insurance coverage costs to determine the equivalent value that investors require to self-insure the remaining potential catastrophic wildfire liability loss.[60]

Based on the analyses performed by Dr. Morin and Concentric, SDG&E presents an aggregate ROE proposal of 12.38%, as shown in Table 2 below.

TABLE 2: Proposed ROE

Source	ROE Proposal
Dr. Morin Traditional ROE Proposal	10.9%
Concentric Wildfire Premium	1.48%
Overall ROE Proposal	12.38%

[58] *See* Prepared Supplemental Testimony of Concentric, Chapter 1 (Aug. 2019) (Ex. SDG&E-05-S (Concentric) Ch. 2) at 2-3.

[59] *Id.* at 12-13.

[60] *Id.* at 17, 18-19.

SDG&E's ROE proposal continues to reflect its belief that a proxy group of non-California peers does not fully capture SDG&E's risks from California's catastrophic wildfire liability regime. And, as noted in my direct testimony, investors view California's utilities as riskier than average – even if wildfire liability risk is removed.[61] Quantifying that risk based upon the Company's own internal modeling of wildfire loss and how the insurance industry and bond markets price that risk, in combination with Dr. Morin's traditional peer group review approach, more accurately captures the Company's cost of equity.

SDG&E's revised ROE request (from 14.3% put forth in my direct testimony to 12.38% as presented here) is a decrease of 192 basis points (1.92%), from the Company's proposal included in its application and direct testimony. With the proposed revisions to SDG&E's ROE, SDG&E also updates its requested ROR from 10.03% to 8.95%. This represents a decrease in ROR of 108 basis points (1.08%), compared to the Company's original proposal. SDG&E's updated proposals requested herein, if approved, will result in an estimated $110 million ($95 million electric and $15 million gas) revenue requirement increase for ratepayers over currently authorized levels.

VI. CONCLUSION

Credit rating agencies believe that AB 1054's wildfire fund somewhat moderates SDG&E's risks in the medium-term, primarily by creating a wildfire fund that caps the potential amount of investor liability and revises the standard for reasonableness review. But the credit rating agencies have expressed uncertainty as to how the revised prudence standard will be implemented. And those agencies remain concerned that the wildfire fund could eventually be

[61] Prepared Direct Testimony of Bruce Folkman (April 2019) (Ex. SDG&E-01 (Folkmann)) at 19 (citing Prepared Direct Testimony of Concentric, Chapter 1 (April 2019) (Ex. SDG&E-05 (Concentric) Ch. 1) at 48).

exhausted, leaving utility investors again exposed to unmitigated potential liability from inverse condemnation. As a result, the credit rating agencies did not increase SDG&E's credit ratings. To reflect these slightly reduced, but still heightened, risks, SDG&E now proposes an ROE of 12.38% and an ROR of 8.95%. All other proposals remain unchanged.

This concludes my prepared supplemental testimony.

APPENDIX A

July 12, 2019 Sempra Energy 8-K Report

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):	July 11, 2019

Commission File Number	Exact Name of Registrants as Specified in their Charters, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification Number
1-14201	SEMPRA ENERGY (A California Corporation) 488 8th Avenue San Diego, California 92101 (619) 696-2000	33-0732627
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY (A California Corporation) 8326 Century Park Court San Diego, California 92123 (619) 696-2000	95-1184800

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrants under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Sempra Energy:		
Sempra Energy Common Stock, without par value	SRE	NYSE
Sempra Energy 6% Mandatory Convertible Preferred Stock, Series A, $100 liquidation preference	SREPRA	NYSE
Sempra Energy 6.75% Mandatory Convertible Preferred Stock, Series B, $100 liquidation preference	SREPRB	NYSE
Sempra Energy 5.75% Junior Subordinated Notes Due 2079, $25 par value	SREA	NYSE
San Diego Gas & Electric Company:		
None		

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

	Emerging growth company
Sempra Energy	[ ]
San Diego Gas & Electric Company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Sempra Energy	[ ]
San Diego Gas & Electric Company	[ ]

Item 8.01 Other Events.

Assembly Bill ("AB") 1054 and the companion bill AB 111 (collectively, the "Wildfire Legislation") were approved by the California Legislature on July 11, 2019. The Wildfire Legislation will be sent to Governor Newsom and he is expected to sign the Wildfire Legislation into law in the near future. The Wildfire Legislation will take effect immediately following the Governor's signature. The Wildfire Legislation addresses certain important issues related to catastrophic wildfires in the State of California and their impact on investor-owned electric utilities ("IOUs"). Investor-owned gas distribution utilities such as Southern California Gas Company, a subsidiary of Sempra Energy, are not covered by this legislation. The issues addressed include cost recovery standards and requirements, wildfire mitigation, a wildfire recovery fund, a cap on liability, and the establishment of a wildfire safety board. There are two alternative wildfire recovery funds that may be selected by the IOUs and the availability of certain features of this legislation depends on which fund is selected. The summary of the Wildfire Legislation below is not complete and is subject to, and qualified in its entirety by, the Wildfire Legislation.

REQUIRED FEATURES OF THE WILDFIRE LEGISLATION

The Wildfire Legislation has a number of significant reforms relative to IOUs, including San Diego Gas and Electric Company ("SDG&E"), a subsidiary of Sempra Energy. Those material features include the following:

- Creation of a Wildfire Safety Division and its advisory board, initially within the California Public Utilities Commission ("CPUC"), to review and approve or deny the Wildfire Mitigation Plans ("WMPs") of the IOUs.
- Creation of a Liquidity Fund administered by the state - The fund would provide liquidity to pay IOU wildfire-related claims, subject to review by the fund administrator, within 45 days of the fund administrator's approval.
- $5 billion of capital investment by IOUs to support wildfire mitigation - The IOUs will (i) make these capital investments, which will be included in their WMPs, and (ii) recover their securitized financing costs without return on equity, with SDG&E's share expected to be $215 million, or 4.3% of the $5 billion capital investment.
- Annual Safety Certification ("ASC") - The IOUs, subject to meeting various requirements, will receive an ASC from the CPUC.
- Retained Insured Exposures - The IOUs will continue to procure reasonable amounts of insurance or amounts determined by the fund administrator. Only claims in excess of the greater of $1 billion or the amount of insurance coverage required by the fund administrator are eligible for coverage by the Wildfire Fund.

The Liquidity Fund will be initially capitalized by a loan of up to $10.5 billion from California's Surplus Money Investment Fund ("SMIF"). The SMIF loan will be repaid with proceeds anticipated to be received from the issuance of new California Department of Water Resources' ("DWR") bonds. Reimbursement of the Liquidity Fund would be by ratepayers or IOU shareholders, depending on the outcome of a CPUC prudency review, which would be conducted under pre-existing standards pursuant to Section 451 of the California Public Utilities Code.

OPTIONAL FEATURES OF THE WILDFIRE LEGISLATION

The Wildfire Legislation also includes features that are available at the IOUs' option. IOUs not subject to an insolvency proceeding, which are SDG&E and Southern California Edison Company ("Edison"), may collectively notify the CPUC of their commitment to provide shareholder contributions as described below. This option will not be available unless both SDG&E and Edison commit to participate. Subject to making this commitment and the initial shareholder contributions, the Liquidity Fund described above will be used to help fund the Wildfire Fund described below, the other required features described above will still apply, and the following additional material features become operative:

- Creation of a Wildfire Fund - The fund would be initially established using the SMIF loan described above, with a similar repayment arrangement using proceeds anticipated from the issuance of new DWR bonds. The Wildfire Fund would provide liquidity to the participating IOUs to pay wildfire-related claims, subject to review by the fund administrator.
- IOU Shareholder Liability Cap and Obligation to Reimburse - The Wildfire Fund provides clarified standards for the CPUC to apply in its prudency review, described below, in the event of wildfire losses. To the extent the IOU losses are found to be prudently incurred, the Wildfire Fund would absorb those losses. To the extent the IOU losses are found to be imprudently incurred, IOU shareholders would reimburse such losses to the Wildfire Fund, subject to a Liability Cap described below.

- Liability Cap - Subject to the IOU holding a valid ASC, a shareholder liability cap would limit the amount shareholders must pay for losses found to be imprudently incurred to 20% of the IOU's Transmission and Distribution Equity Rate Base on a rolling three-year basis. These payments would be used to reimburse the Wildfire Fund.
- Prudency Standard of Review - The prudency standard of review would be modified to require that, when reviewing wildfire liability losses paid, the CPUC apply clear standards, similar to the Federal Energy Regulatory Commission standard, when determining the reasonableness of a utility's conduct related to an ignition. Under this standard, an IOU's conduct will also be deemed reasonable if a valid ASC is in place, unless a serious doubt is raised, in which case the utility must dispel it.
- Insurance Subrogation Claim Limit - The fund administrator will generally limit payments of subrogation claims to 40% of the claim value.

If Pacific Gas & Electric Company ("PG&E"), Edison and SDG&E participate in the fund, shareholder contributions would initially be $7.5 billion with additional annual contributions of $300 million a year over ten years for a total shareholder contribution of $10.5 billion. These shareholder contributions would be combined with the Liquidity Fund proceeds, for a total of $21 billion. PG&E's participation in the fund is subject to specific conditions. If PG&E does not participate in the fund, the total amount in the fund would be materially less. SDG&E's portion of the shareholder contribution, whether or not PG&E participates, is expected to be approximately $450 million, with approximately $325 million paid within 60 days after the Wildfire Legislation is signed into law.

The Liability Cap for SDG&E would be approximately $825 million based on its 2018 rate base and would adjust on a rolling three-year basis. The Liability Cap would apply so long as the fund has not been terminated, which could occur if funds are exhausted.

SDG&E is evaluating the alternative features available under the Wildfire Legislation, and anticipates a decision on whether to participate in the Wildfire Fund within 15 days following the effective date of the Wildfire Legislation, as required by such legislation.

Information Regarding Forward-Looking Statements

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," "contemplates," "assumes," "depends," "should," "could," "would," "will," "confident," "may," "can," "potential," "possible," "proposed," "target," "pursue," "outlook," "maintain," or similar expressions, or when we discuss our guidance, strategy, plans, goals, vision, mission, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in any forward-looking statements include risks and uncertainties relating to: the greater degree and prevalence of wildfires in California in recent years and the risk that we may be found liable for damages regardless of fault, such as where inverse condemnation applies, and risk that we may not be able to recover any such costs in rates from customers in California; actions and the timing of actions, including decisions, new regulations and issuances of authorizations by the California Public Utilities Commission, U.S. Department of Energy, California Department of Conservation's Division of Oil, Gas, and Geothermal Resources, U.S. Environmental Protection Agency, Federal Energy Regulatory Commission, Pipeline and Hazardous Materials Safety Administration, states, cities and counties, and other regulatory and governmental bodies in the U.S.; the success of business development efforts and construction projects, including risks in (i) obtaining or maintaining authorizations; (ii) completing construction projects on schedule and budget; (iii) counterparties' ability to fulfill contractual commitments; (iv) winning competitively bid infrastructure projects; and (v) the ability to realize anticipated benefits from any of these efforts once completed; the resolution of civil and criminal litigation and regulatory investigations and proceedings; actions by credit rating agencies to downgrade our credit ratings or to place those ratings on negative outlook and our ability to borrow at favorable interest rates; deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers; denial of approvals of proposed settlements; delays in, or denial of, regulatory agency authorizations to recover costs in rates from customers or regulatory agency approval for projects required to enhance safety and reliability; moves to reduce or eliminate reliance on natural gas; the availability of electric power and natural gas and natural gas storage capacity, including disruptions caused by failures in the transmission grid, limitations on the withdrawal or injection of natural gas from or into storage facilities, and equipment failures; weather conditions, natural *disasters, accidents, equipment failures, computer system outages, explosions, terrorist attacks and other events that disrupt our operations, damage our facilities and systems, cause the release of harmful materials, cause fires and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits), may be disputed by insurers or may otherwise not be recoverable through regulatory mechanisms or may impact our ability to obtain satisfactory levels of affordable insurance; cybersecurity threats to the energy grid, storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees; changes in capital markets, energy markets and economic conditions, including the availability of credit; and volatility in interest and inflation rates and commodity prices and our ability to effectively hedge the risk of such volatility; the impact of federal or state tax reform and our ability to mitigate adverse impacts; the impact on competitive customer rates and reliability of electric transmission and distribution systems due to the growth in distributed and local power generation and from possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation or other forms of distributed and local power generation and the potential risk of nonrecovery for stranded assets and contractual obligations; and other uncertainties, some of which may be difficult to predict and are beyond our control.*

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our most recent Annual Report on Form 10-K and other reports that we file with the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

SEMPRA ENERGY,
(Registrant)

Date: July 11, 2019

By: /s/ Peter R. Wall

Peter R. Wall
Vice President, Controller and Chief Accounting Officer

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

Date: July 11, 2019

By: /s/ Bruce A. Folkmann

Bruce A. Folkmann
Vice President, Controller, Chief Financial Officer and
Chief Accounting Officer

APPENDIX B

MOODY'S JULY 12 REPORT

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms San Diego Gas & Electric Company's ratings; outlook remains negative

12 Jul 2019

Approximately $5 billion of debt securities affected

New York, July 12, 2019 -- Moody's Investors Service ("Moody's") today affirmed San Diego Gas & Electric Company's (SDG&E) ratings, including its Baa1 Issuer rating, A2 senior secured rating as well as its P-2 short-term rating. The outlook remains negative. See rating list below for the complete list of ratings for SDG&E.

RATINGS RATIONALE

The ratings affirmation follows the passage of legislation in California (AB 1054 and other bills) establishing a wildfire fund to enhance liquidity and including other measures to mitigate wildfire risk for the state's utilities. The legislation is credit positive because it helps address the more contentious political and regulatory environment that emerged in California over the past twenty four months. The bill provides the investor-owned utilities with two options to participate in the catastrophic wildfire fund -- the liquidity fund option or the insurance fund option - to reduce financial exposure to wildfires.

"The insurance fund option is more credit supportive of SDG&E's credit profile than the liquidity fund by a wide margin" said Natividad Martel VP -- Senior Analyst, "However, the negative outlook reflects the existing uncertainty as to which option is chosen."

For the insurance fund to be created, both SDG&E, and its neighboring utility, Southern California Edison (SCE), have to elect this option in about two weeks. Moody's notes that SDG&E has a smaller contribution requirement to the insurance fund than SCE but the two utilities are somewhat tied together with respect to their decision making. Upon receipt of all necessary certifications, the insurance option is likely to stabilize the credit profile for both utilities, all else being equal.

Under both wildfire fund options, SDG&E and SCE would have access to immediate liquidity in the event of a wildfire. However, the insurance fund provides a much higher level of near-term risk reduction for SDG&E because it caps the amount of cost disallowance associated with catastrophic wildfires and applies a more credit supportive prudency standard. This option would also foster a more expedient subrogation claims settlement process when claims are settled at or below 40% of the gross claim.

If and when the insurance fund's claims paying capability is exhausted, the majority of the credit friendly structures, including the disallowance cap, will terminate. However, the more favorable prudency standard, which is similar to the standard applied by the Federal Energy Regulatory Commission (FERC), will remain in place. This change in the prudency standard is important because, in the case of SDG&E's 2007 wildfires, while the California Public Utility Commission (CPUC) denied recovery, the FERC ruled that SDG&E acted prudently and allowed the recovery of the wildfires costs. Pending application of this revised standard by the CPUC, its implementation would likely strengthen our view of the credit supportiveness of the regulatory environment in California.

In contrast, the liquidity fund, which has a smaller balance initially compared to the insurance fund, does not include a cap on disallowances or a revised prudency standard, making it much less credit supportive. Its key advantage is that, unlike the insurance fund, it is always replenished. As either the utility or ratepayer will reimburse the fund, depending on if the utility was found to have acted prudently.

We believe the size of the insurance fund should will account for all but the most extreme downside scenarios. Assuming that Pacific Gas & Electric Company participates, the fund will be capitalized with $21 billion of capital but has a gross claims paying capability of more than $40 billion. According to Filsinger Energy Partners, a consultant to California Governor Newsome's office, this funding level has only a 0.9% chance of being exhausted by 2030. The calculation assumes the wildfire experience of the past five years continues, utilities maintain $1 billion of wildfire liability insurance, and 75% of wildfire costs are disallowed in 2020 but falling steadily to 25% by 2030.

SDG&E's Baa1 rating acknowledges the utility's smaller service territory compared to its peers along with its more effective wildfire mitigation and prevention programs. This factor contributes to the legislature's expectation of a smaller wildfire allocation metric under AB 1054. SDG&E estimates that its portion of shareholder contribution to the insurance-like fund will only be around $450 million, including an initial payment of approximately $325 million with the remaining balance payable over a 10-year period. Importantly, the Baa1 rating assumes a credit supportive outcome of SDG&E's ongoing 2019 general rate case and cost of capital proceeding where the utility requested an increase in its equity layer to 56% (effective January 2020) from currently 52%. The outcome of these regulatory proceedings will be important for SDG&E's ability to further generate a ratio of CFO pre-W/C to debt that comfortably exceeds 20% on a sustained basis.

Outlook

The maintenance of the negative outlook reflects the uncertainty around SDG&E's and SCE's collective choice of an insurance fund or a liquidity fund.

Factors that could lead to an upgrade

We could consider a stable outlook, or potentially a positive outlook, if the insurance fund is chosen. Under this scenario, in the absence of a catastrophic wildfire, an eventual upgrade of SDG&E's ratings is possible if the provisions under AB 1054 are successfully implemented on a timely basis and if the outcomes of its pending regulatory proceedings are credit supportive.

Factors that could lead to an downgrade

A downgrade could be considered if the liquidity fund is chosen. Failure to successfully implement the provisions of AB 1054 associated with the insurance fund in a consistent and credit supportive manner would also likely trigger negative momentum on the rating. Downward pressure is also likely if SDG&E records a ratio CFO pre-W/C to debt below 18% on a sustained basis.

Outlook Actions:

..Issuer: San Diego Gas & Electric Company

....Outlook, Remains Negative

Affirmations:

..Issuer: Chula Vista (City of) CA

....Senior Secured Revenue Bonds, Affirmed A2

....Underlying Senior Secured Revenue Bonds, Affirmed A2

..Issuer: San Diego Gas & Electric Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Preferred Shelf, Affirmed (P)Baa3

....Pref. Shelf Non-Cumulative, Affirmed (P)Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Commercial Paper, Affirmed P-2

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

SDG&E is a regulated electric utility that operates in San Diego County and part of Orange County (nearly 1.5 million electric customers) while it also renders natural gas distribution services in San Diego County (nearly 0.9 million customers). Its service territory covers 4,100 square miles. SDG&E is predominantly a transmission and distribution company subject to the oversight of the CPCU and the Federal Energy Regulatory Commission. Following the retirement of the San Onofre Nuclear Generating Station (SONGS), in which SDG&E held a 20% interest stake, the utility's owned electric generation assets approximates 2,000 MW. These consist of two natural gas Combined Cycle units (CCGTs; 1,045 MW), two peaking units (around 140 MW) and two small solar facilities. SDG&E is a wholly-owned subsidiary of Sempra Energy (Baa1 negative) a holding company that owns regulated electric and gas utilities as well as subsidiaries that operate long-term contracted assets.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Natividad Martel
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Michael G. Haggarty
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

APPENDIX C

FITCH JULY 17 REPORT

FitchRatings

Fitch Affirms San Diego Gas & Electric's IDR at 'BBB+'; Outlook Revised to Stable

Fitch Ratings - New York - 17 July 2019:

Fitch Ratings has affirmed San Diego Gas & Electric Co.'s (SDG&E) Long-Term Issuer Default Rating (IDR) at 'BBB+' and revised the Rating Outlook to Stable from Negative. About $5 billion debt is affected by today's rating action.

The enactment of A.B. 1054 is credit supportive for SDG&E, providing protection against future catastrophic wildfires at a reasonable cost, in Fitch's view. The legislation provides the option to establish either a $10.5 billion liquidity fund or a large, $21 billion insurance fund. In addition, A.B. 1054 shifts the burden of proof to a more reasonable standard, limits utility liability for imprudence and provides a wildfire safety certificate process.

Fitch believes SDG&E and Southern California Edison Company (SoCalEd) will choose to participate in the wildfire insurance fund, given the incentives to do so that include funding to defray wildfire-related third party liabilities, limitations of liability for imprudent conduct and improved burden of proof standards.

The continuation of inverse condemnation remains a long-term credit issue for SDG&E as an electric utility in California. Other credit constraints include contagion risks associated with comingling of funds in the wildfire fund, given its materially different service territory and safety culture, and the lack of a track record of implementing the new legislation especially the new prudence standard which is subject to interpretation.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
San Diego Gas & Electric Co.	LT IDR BBB+ Affirmed		BBB+
	ST IDR F2 Affirmed		F2
senior secured	LT A Affirmed		A
senior unsecured	ST F2 Affirmed		F2
senior secured	ULT A Affirmed		A

Key Rating Drivers

Insurance Fund Cushion:

The enactment of A.B 1054 and anticipated creation of a $21 billion wildfire insurance fund under the law is a major credit positive. The magnitude of the fund is further enhanced by a 40% limitation of subrogation claims under the law. Fitch understands that the fund is subject to a deductible of the greater of $1 billion or a utility's insurance coverage. The insurance fund will provide a bridge to fund potential liabilities, without increasing customer rates, as the state pursues a comprehensive effort to battle catastrophic wildfires on several fronts including enhanced forestry management, building standards and changes in state and utility investment, operation, cooperation, preparedness and response.

Strong Incentive to Opt-in:

A.B. 1054 codifies establishment of either a wildfire liquidity ($10.5 billion) or wildfire insurance fund ($21 billion). It includes strong incentives for the three large investor-owned utilities (IOUs) in the state to opt for the larger wildfire insurance fund. Fitch's base rating case assumes SDG&E and the other two large IOUs will opt-in to the larger wildfire fund given significant incentives and political goodwill. Fitch estimates SDG&E's initial and annual contributions over the next 10 years to be approximately $323 million and $13 million, respectively. The contribution is excluded from the SDG&E's regulatory capital structure. Bankruptcy proceedings will present incremental hurdles and uncertainty regarding participation by PG&E Corporation (PCG, Not Rated) and its subsidiary Pacific Gas and Electric Company (PG&E, Not Rated) in the wildfire insurance fund. PCG and PG&E filed for bankruptcy earlier this year.

Reasonable Prudence Standard:

The legislation shifts the burden of proof to a more reasonable standard. Under A.B. 1054, if a utility holds a valid safety certification, it is deemed to be prudent unless a party to the proceedings creates a serious doubt as to the reasonableness of the utility's conduct. We understand that this is consistent with standards applied by the Federal Energy Regulatory Commission (FERC). FERC approved SDG&E's net 2007 wildfire-related jurisdictional liabilities while the California Public Utilities Commission (CPUC) rejected SDG&E's petition for recovery of net jurisdictional costs. The legislation also mandates a certification process that includes annual filings of wildfire mitigation plans and requires greater focus on utility safety culture from the board of directors to rank-and-file employees and links executive compensation to safety.

Imprudence Risk Capped:

In the event that a utility is found to be imprudent, A.B. 1054 limits the cumulative amount of liability to 20% of the utility's transmission and distribution equity rate base including the FERC rate base over a rolling three-calendar-year period, or approximately $800 million for SDG&E based on its rate base as of Dec. 31, 2018, if it opts to participate in the wildfire insurance fund.

Minimal Lag:

Settlements of subrogation claims that are up to 40% of the total asserted claim value will be approved by the fund administrator unless the administrator finds that exceptional facts or circumstances do not justify the settlements. Administrator's approval is not subject to review by the CPUC, which is expected to reduce regulatory lag and preserve the utility's financial health. The administrator could also approve subrogation claims that are above 40% of the asserted claims value as long as it finds that the utility exercised reasonable business judgement based on facts and circumstances that justify the higher percentage.

Modest Reduction in Earnings:

In exchange for participating in the fund, SDG&E and other IOUs will agree to forgo the equity returns on their share of the first $5 billion fire mitigation capex. For SDG&E, Fitch estimates that earnings will reduce by approximately $11 million annually.

Credit Metrics:

SDG&E's credit metrics are strong for its ratings. It has sufficient headroom to absorb the financial impact of the initial and annual contributions as well as the loss of earnings for its share of the first $5 billion of combined fire mitigation capex. Fitch estimates that SDG&E's FFO adjusted leverage could average approximately 4x. The calculation is based on Fitch's conservative assumption that SDG&E could potentially finance the entire contribution by debt, as the contribution will be excluded from the regulatory capital structure.

Contagion Risk:

Funds available to SDG&E will be affected by the frequency and severity of wildfires in other IOUs' service territories as well as their safety conduct which is less favorable, in Fitch's view. If the fund is depleted, the limit of each utility's liability does not apply. SDG&E's much smaller and less-wooded service territory, 60% of underground distribution system, a track record of robust fire prevention and mitigation programs have contributed to the lack of large wildfires in its service territory in the last decade.

Derivation Summary

The enactment of A.B.1054 mitigates the regulatory risks associated with the recovery of catastrophic wildfire liabilities for SDG&E and other IOUs in California SoCalEd and PG&E. SDG&E's exposure to wildfire risks is less severe than its peers, due to its 60% underground distribution system, much smaller service territory and robust fire prevention and mitigation programs. SDG&E does not have material financial exposure from major fires in recent years whereas PG&E and SoCalEd are likely to face significant financial pressure related to the third-party liabilities from several large wildfires in 2017 and 2018. SDG&E's historical credit metrics are on a par with its peers. In the past three years, SDG&E produced an average FFO-adjusted leverage of 3.1x, compared with PG&E's 3.2x and SoCalEd's 3.1x. Fitch estimates that SDG&E's FFO adjusted leverage will range from high 3x to 4x in the next few years depending on how it will fund its contribution to the insurance fund. In contrast, SoCalEd's credit metrics could be considerably weaker than those of SDG&E going forward as the financial impact of the 2017 and 2018 wildfires unfold.

Key Assumptions

- SDG&E elects to opt for the insurance fund;

- Initial contribution of $323 million to the insurance fund and $13 million annual contribution for 10 years;

- No equity earnings on SDG&E's share of total of $5 billion fire mitigation capex or approximately $215 million;

- Capex at SDG&E in the next five years totals $6.75 billion (midpoint guidance);

- Existing ROE 10.2% and 3.5% attrition rate continue through 2022.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Effective implementation of A.B 1054 and continued success in minimizing wildfire activities;

- A favorable GRC order and/or meaningful improvement in rate regulation;

- There are indications that a repeal of inverse condemnation doctrine is forthcoming.

Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Frequency and magnitude of catastrophic wildfires in the next few years deplete the fund much sooner than expected;

- FFO-adjusted leverage above 5x on a sustained basis.

Liquidity and Debt Structure

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Julie Jiang
Director
+1 212 908 0708
Fitch Ratings, Inc.
33 Whitehall Street
New York 10004

Secondary Rating Analyst
Barbara Chapman
Senior Director
+1 646 582 4886

Committee Chairperson
Shalini Mahajan
Managing Director
+1 212 908 0351

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Applicable Criteria

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018)
Corporate Hybrids Treatment and Notching Criteria (pub. 09 Nov 2018)
Corporate Rating Criteria (pub. 19 Feb 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

COPYRIGHT

information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.

APPENDIX D

SEMPRA ENERGY JULY 19 FORM 8-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report
(Date of earliest event reported): July 18, 2019

Commission File Number	Exact Name of Registrants as Specified in their Charters, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification Number
1-14201	SEMPRA ENERGY (A California Corporation) 488 8th Avenue San Diego, California 92101 (619) 696-2000	33-0732627
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY (A California Corporation) 8326 Century Park Court San Diego, California 92123 (619) 696-2000	95-1184800

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrants under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
SEMPRA ENERGY:		
Sempra Energy Common Stock, without par value	SRE	NYSE
Sempra Energy 6% Mandatory Convertible Preferred Stock, Series A, $100 liquidation preference	SREPRA	NYSE
Sempra Energy 6.75% Mandatory Convertible Preferred Stock, Series B, $100 liquidation preference	SREPRB	NYSE
Sempra Energy 5.75% Junior Subordinated Notes Due 2079, $25 par value	SREA	NYSE
SAN DIEGO GAS & ELECTRIC COMPANY:		
None		

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

	Emerging growth company
Sempra Energy	[ ]
San Diego Gas & Electric Company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Sempra Energy	[ ]
San Diego Gas & Electric Company	[ ]

Item 8.01 Other Events.

As previously reported by Sempra Energy and San Diego Gas & Electric Company ("SDG&E"), a subsidiary of Sempra Energy, in a Form 8-K filed with the U.S. Securities and Exchange Commission on July 12, 2019 (the "Prior Form 8-K") and incorporated herein by reference, California Assembly Bills 1054 and 111 (collectively, the "Wildfire Legislation") were approved by the California legislature. On July 12, 2019, Governor Newsom signed the Wildfire Legislation into law. The Wildfire Legislation provides for an option whereby investor-owned electric utilities ("IOUs") not subject to an insolvency proceeding, which are SDG&E and Southern California Edison Company ("Edison"), may each notify the California Public Utilities Commission ("CPUC") of its commitment to provide shareholder contributions to a Wildfire Fund. As described in the Prior Form 8-K, there are material benefits available to participating IOUs in the larger Wildfire Fund that are not available in the smaller Liquidity Fund. In accordance with the Wildfire Legislation, on July 18, 2019, SDG&E notified the CPUC of its commitment to provide its shareholder contributions to the Wildfire Fund. However, the Wildfire Fund will only be created if Edison also commits to provide its shareholder contributions. The deadline for Edison to indicate whether they will commit to contributing to the Wildfire Fund is July 27, 2019.

Subject to Edison committing to contribute to the Wildfire Fund, both Edison and SDG&E would be required to make their initial contributions by September 10, 2019, as well as 10 annual contributions by January 1 of each subsequent year. SDG&E's initial contribution would be $322.5 million, and its annual contribution would be $12.9 million each year for 10 years, all of which would be funded by SDG&E's shareholders.

While SDG&E is currently evaluating the accounting and tax treatment of the initial contribution and annual contributions, our conclusion regarding the ultimate accounting treatment may result in, among other possibilities, a charge against the earnings of Sempra Energy and SDG&E in the third quarter of 2019, which in any event would not be greater than SDG&E's total initial and annual contributions to the fund.

Information Regarding Forward-Looking Statements

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," "contemplates," "assumes," "depends," "should," "could," "would," "will," "confident," "may," "can," "potential," "possible," "proposed," "target," "pursue," "outlook," "maintain," or similar expressions, or when we discuss our guidance, strategy, plans, goals, vision, mission, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in any forward-looking statements include risks and uncertainties relating to: the greater degree and prevalence of wildfires in California in recent years and the risk that we may be found liable for damages regardless of fault, such as where inverse condemnation applies, and risk that we may not be able to recover any such costs in rates from customers in California; actions and the timing of actions, including decisions, new regulations and issuances of authorizations by the California Public Utilities Commission, U.S. Department of Energy, California Department of Conservation's Division of Oil, Gas, and Geothermal Resources, U.S. Environmental Protection Agency, Federal Energy Regulatory Commission, Pipeline and Hazardous Materials Safety Administration, states, cities and counties, and other regulatory and governmental bodies in the U.S.; the success of business development efforts and construction projects, including risks in (i) obtaining or maintaining authorizations; (ii) completing construction projects on schedule and budget; (iii) counterparties' ability to fulfill contractual commitments; (iv) winning competitively bid infrastructure projects; and (v) the ability to realize anticipated benefits from any of these efforts once completed; the resolution of civil and criminal litigation and regulatory investigations and proceedings; actions by credit rating agencies to downgrade our credit ratings or to place those ratings on negative outlook and our ability to borrow at favorable interest rates; deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers; denial of approvals of proposed settlements; delays in, or denial of, regulatory agency authorizations to recover costs in rates from customers or regulatory agency approval for projects required to enhance *safety and reliability; moves to reduce or eliminate reliance on natural gas; the availability of electric power and natural gas and natural gas storage capacity, including disruptions caused by failures in the transmission grid, limitations on the withdrawal or injection of natural gas from or into storage facilities, and equipment failures; weather conditions, natural disasters, accidents, equipment failures, computer system outages, explosions, terrorist attacks and other events that disrupt our operations, damage our facilities and systems, cause the release of harmful materials, cause fires and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits), may be disputed by insurers or may otherwise not be recoverable through regulatory mechanisms or may impact our ability to obtain satisfactory levels of affordable insurance; cybersecurity threats to the energy grid, storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees; changes in capital markets, energy markets and economic conditions, including the availability of credit; and volatility in interest and inflation rates and commodity prices and our ability to effectively hedge the risk of such volatility; the impact of federal or state tax reform and our ability to mitigate adverse impacts; the impact on competitive customer rates and reliability of electric transmission and distribution systems due to the growth in distributed and local power generation and from possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation or other forms of distributed and local power generation and the potential risk of nonrecovery for stranded assets and contractual obligations; and other uncertainties, some of which may be difficult to predict and are beyond our control.*

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our most recent Annual Report on Form 10-K and other reports that we file with the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

SEMPRA ENERGY,
(Registrant)

Date: July 18, 2019

By: /s/ Peter R. Wall

Peter R. Wall
Vice President, Controller and Chief Accounting Officer

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

Date: July 18, 2019

By: /s/ Bruce A. Folkmann

Bruce A. Folkmann
Vice President, Controller, Chief Financial Officer and
Chief Accounting Officer

APPENDIX E

MOODY’S JULY 29 REPORT

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms San Diego Gas & Electric's ratings; changes outlook to positive from negative

29 Jul 2019

Approximately $5 billion of debt securities affected

New York, July 29, 2019 -- Moody's Investors Service ("Moody's") today affirmed San Diego Gas & Electric Company's (SDG&E) ratings, including its Baa1 Issuer rating, A2 senior secured rating as well as its P-2 short-term rating for commercial paper. The outlook was changed to positive from negative. See rating list below for the complete list of ratings for SDG&E.

RATINGS RATIONALE

"With the establishment of the insurance-like fund and after receiving the legislatively required wildfire safety certification, two key conditions of the recently enacted wildfire mitigation legislation Assembly Bill 1054, we expect that SDG&E's future wildfires liabilities will be capped" said Natividad Martel VP-Senior Analyst. "We view this liability cap, along with the favorable prudency standard put in place, as supportive of SDG&E's credit quality" added Martel. "SDG&E's positive outlook acknowledges the utility's effective wildfire mitigation initiatives and assumes that in the absence of any catastrophic wildfires in its service territory it will be able to record rund-rate ratio of CFO pre-W/C to debt of at least 22%, on a sustained basis".

The liability cap on cost disallowances is the most credit supportive feature of the insurance fund because it allows us to quantify and limit a utility's maximum exposure to a catastrophic wildfire event if the utility is not found to be prudent according to the new prudency standard. Pursuant to the provisions under AB 1054, we estimate that the maximum cap would be around $800 million for SDG&E which equals to 20% of the utility's current transmission and distribution equity rate base over any three consecutive years.The cap will not, however, cover gross negligence.

If the insurance fund's claims-paying capability is exhausted, the majority of the credit supportive provisions, including the disallowance cap, will terminate. However, the more favorable prudency standard, which is similar to the standard applied by the Federal Energy Regulatory Commission (FERC), will still remain in place. Pending application of this revised standard by the California Public Utilities Commission, its implementation would likely strengthen our view of the credit supportiveness of the regulatory environment in California.

The size of the fund is an important consideration for SDG&E's credit quality. Even though the fund is capitalized with $21 billion of capital, assuming Pacific Gas & Electric Company (ratings withdrawn) also participates, it should be able to address over $40 billion of gross claims. The actual net usage of the insurance fund should be considerably lower than the gross claim amounts because utilities are expected to maintain $1 billion of wildfire insurance each and the fund is designed to only pay subrogation claims that are settled at 40 cents on the dollar or less.

It is notoriously difficult to model wildfire risk because it is hard to quantify the effects of weather, climate change and the utilities' risk mitigation measures. Nonetheless, we believe the insurance fund will be large enough to cover all but the most extreme downside scenarios over the next decade. According to Filsinger Energy Partners, a consultant to California Governor Newsome's office, this funding level has only a 0.9% chance of being exhausted by 2030. The calculation assumes that the wildfire experience of the past five years continues, utilities maintain $1 billion of wildfire liability insurance, and 75% of wildfire costs are disallowed in 2020 but this falls steadily to 25% by 2030.

Outlook

The positive outlook assumes that, barring any wildfires in its service territory, the utility will continue to record credit metrics that are robust for its current rating, specifically, a run-rate ratio of CFO pre-W/C to debt of at least 22%. This expectation assumes that SDG&E's parent company, Sempra Energy (Baa1 negative), will fund the utility's contributions to the insurance-like fund and credit supportive outcomes of the utility's ongoing regulatory proceedings. These proceedings include its 2019 general rate case and the cost of capital, which a decision anticipated before year-end 2019.

Factors that could lead to an upgrade

Positive momentum on SDG&E's rating is possible, barring any wildfire in its service territory, following the completion of its pending 2019 general rate case and the cost of capital proceedings as well as after making the initial contribution to the wildfire fund, if it is able to report run-rate CFO pre-W/C to debt in excess of 22%, excluding one-time effects on its operational cash flows from the implementation of the fund, on a sustained basis.

Factors that could lead to a downgrade

Failure to successfully implement the provisions of AB 1054 associated with the insurance fund in a consistent and credit supportive manner would likely trigger negative momentum on the rating. Downward pressure is also likely if SDG&E records credit metrics that are weaker than currently anticipated for example due to outcomes of pending regulatory proceedings that are not credit supportive, or if it funds any future catastrophic wildfire claims with incremental debt; specifically, if its run-rate ratio of CFO pre-W/C to debt falls below 18% on a sustained basis.

Outlook Actions:

..Issuer: San Diego Gas & Electric Company

....Outlook, Changed To Positive From Negative

Affirmations:

..Issuer: Chula Vista (City of) CA

....Senior Secured Revenue Bonds, Affirmed A2

....Underlying Senior Secured Revenue Bonds, Affirmed A2

..Issuer: San Diego Gas & Electric Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Preferred Shelf, Affirmed (P)Baa3

....Pref. Shelf Non-Cumulative, Affirmed (P)Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Commercial Paper, Affirmed P-2

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

SDG&E is a regulated electric utility that operates in San Diego County and part of Orange County (nearly 1.5 million electric customers) while it also renders natural gas distribution services in San Diego County (nearly 0.9 million customers). Its service territory covers 4,100 square miles. SDG&E is predominantly a transmission and distribution company subject to the oversight of the CPCU and the Federal Energy Regulatory Commission. Following the retirement of the San Onofre Nuclear Generating Station (SONGS), in which SDG&E held a 20% interest stake, the utility's owned electric generation assets approximates 2,000 MW. These consist of two natural gas Combined Cycle units (CCGTs; 1,045 MW), two peaking units (around 140 MW) and two small solar facilities. SDG&E is a wholly-owned subsidiary of Sempra Energy (Baa1 negative) a holding company that owns regulated electric and gas utilities as well as subsidiaries that operate long-term contracted assets.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Natividad Martel
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Michael G. Haggarty
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653