PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298

Southern California Gas Company
GAS (Corp ID 904)
Status of Advice Letter 5725G
As of December 15, 2020

Subject: Request for Recovery of Additional Costs for the Liability Insurance Premium Balancing Account (LIPBA) Pursuant to Decision (D.) 19-09-051.

Division Assigned: Energy

Date Filed: 11-09-2020

Date to Calendar: 11-11-2020

Authorizing Documents: D1909051

Disposition:	**Accepted**
Effective Date:	**12-09-2020**

Resolution Required: No

Resolution Number: None

Commission Meeting Date: None

CPUC Contact Information:

edtariffunit@cpuc.ca.gov

AL Certificate Contact Information:

Ray Ortiz
213-244-3837
ROrtiz@socalgas.com

STATE OF CALIFORNIA **GAVIN NEWSOM,** *Governor*

PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298

To: Energy Company Filing Advice Letter

From: Energy Division PAL Coordinator

Subject: Your Advice Letter Filing

The Energy Division of the California Public Utilities Commission has processed your recent Advice Letter (AL) filing and is returning an AL status certificate for your records.

The AL status certificate indicates:

Advice Letter Number
Name of Filer
CPUC Corporate ID number of Filer
Subject of Filing
Date Filed
Disposition of Filing (Accepted, Rejected, Withdrawn, etc.)
Effective Date of Filing
Other Miscellaneous Information (e.g., Resolution, if applicable, etc.)

The Energy Division has made no changes to your copy of the Advice Letter Filing; please review your Advice Letter Filing with the information contained in the AL status certificate, and update your Advice Letter and tariff records accordingly.

All inquiries to the California Public Utilities Commission on the status of your Advice Letter Filing will be answered by Energy Division staff based on the information contained in the Energy Division's PAL database from which the AL status certificate is generated. If you have any questions on this matter please contact the:

Energy Division's Tariff Unit by e-mail to
edtariffunit@cpuc.ca.gov

Ronald van der Leeden
Director
Regulatory Affairs

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November 9, 2020

Advice No. 5725
(U 904 G)

Public Utilities Commission of the State of California

Subject: Request for Recovery of Additional Costs for the Liability Insurance Premium Balancing Account (LIPBA) Pursuant to D.19-09-051

Southern California Gas Company (SoCalGas) hereby submits for approval with the California Public Utilities Commission (Commission or CPUC) a request to recover costs for additional liability insurance coverage in SoCalGas' LIPBA, as authorized in Decision (D.) 19-09-051.

Purpose

This submittal requests Commission approval of the recovery of costs in SoCalGas' approved LIPBA for additional liability insurance coverage that was not requested in the approved forecasts in SoCalGas' Test Year (TY) 2019 General Rate Case (GRC) proceeding, Application (A.) 17-10-007/008 (cons.). As discussed below, SoCalGas is seeking recovery of these additional costs through the approved mechanism set forth in D.19-09-051. Accordingly, SoCalGas is also seeking approval to reset the approved above-limits for liability insurance premiums to provide ample coverage for SoCalGas' liability insurance needs. Furthermore, SoCalGas respectfully requests that the Commission's Energy Division approve this Advice Letter (AL) so the new costs can be included in a timely manner with its end-of-year rate adjustments. Doing so will promote rate stability and mitigate potential customer confusion for SoCalGas' customers.[1]

Background

D.19-09-051 authorized the establishment of the LIPBA, a two-way balancing account for liability insurance premiums (LIP). The Commission recognized that there are "many factors that affect insurance premiums, and certain factors are

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[1] As mentioned below, D.19-09-051 specifically calls for the necessity of "*timely*" addressing the need for additional insurance.

outside of Applicants' control or are difficult to foresee. This in turn makes it difficult to provide an accurate forecast. The LIPBA allows Applicants to address these uncertainties in a timely manner and at the same time ensure that there is adequate insurance coverage for known risks."[2]

In approving the LIPBA, the Commission agreed with Intervenor comments "that there should be some mechanism within which to review additional insurance expenditure that was not requested in these GRCs."[3] D.19-09-051 therefore directed SoCalGas to submit a Tier 2 AL when it seeks recovery of additional liability insurance coverage costs that were not requested in SoCalGas' TY 2019 GRC proceeding.

On October 31, 2019, pursuant to Ordering Paragraph (OP) 7 of D.19-09-051, SoCalGas submitted AL 5539 to establish the LIPBA to record the difference between the authorized revenue requirement adopted in SoCalGas' TY 2019 GRC specific to LIPs charged to SoCalGas from Sempra Energy's (Sempra) Corporate Center and the actual expenses incurred and charged to SoCalGas.[4]

OP 7.e in D.19-09-051 required a Tier 2 AL to be submitted for recovery of costs for *additional* liability insurance coverage that were not requested in SoCalGas' TY 2019 GRC proceeding. To ensure costs are properly tracked for recovery purposes, SoCalGas separately tracks insurance premium costs associated with liability insurance coverage requested in SoCalGas' TY 2019 GRC, which is compared to the authorized revenue requirement, and the insurance premium costs associated with additional liability coverage that were not requested in that GRC proceeding. Internal tracking of these insurance premium costs is categorized as "within limits" and "over limits" areas.

SoCalGas seeks recovery of $0.7 million, the portion of the December 31, 2019 LIPBA balance (i.e., "over limits") for the incremental insurance premiums associated with additional liability insurance coverage that were not requested in SoCalGas' TY 2019 GRC, reduced by the claim benefits embedded in SoCalGas' GRC. To account for the corresponding incremental increases in insurance premiums, SoCalGas is also seeking approval to reset the above-limits for those premiums to provide ample coverage for SoCalGas' liability insurance needs. SoCalGas seeks to implement rates as part of its year-end Consolidated AL process for rate changes effective January 1, 2021.

<u>Insurance Coverage</u>

The direct testimony of N. Cayabyab[5] explains that Sempra's Corporate Center purchases insurance on behalf of SoCal Gas, San Diego Gas and Electric Company

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[2] D.19-09-051 at 534.
[3] Id. at 535.
[4] SoCalGas AL 5539 was approved on December 4, 2019 with an effective date of January 1, 2020, https://www2.socalgas.com/regulatory/tariffs/tm2/pdf/5539.pdf.
[5] October 6, 2017, Direct Testimony of Neil K. Cayabyab (Corporate Center – Insurance) Ex A.17-10-007/008(cons) SCG-229/SDG&E-227 at P1:14-16.

(SDG&E), and the other Sempra business units. As explained in greater detail in each section below, Sempra explored various options for its liability insurance policy renewals and determined the procured costs for the insurance were reasonable.

Liability Insurance – Aviation

Sempra's excess liability insurance program includes a $50 million self-insured retention for aviation services. Due to expanded use of aircrafts and unmanned aircraft systems for fire mitigation programs (e.g., firefighting, asset inspection, etc.), Sempra purchased a standalone policy to supplement the excess liability policy SoCalGas acquired in 2018. Sempra renewed this latter policy in 2019 and is planning to maintain it going forward.

Liability Insurance – Cyber Security Additional Coverage

Sempra evaluates its cyber insurance as part of Sempra's annual renewal process. Historically, cyber limits were generally consistent with other power and utility companies of similar revenue size. However, based on the increased exposure resulting from the passing of the California Consumer Privacy Act (CCPA),[6] as well as increasingly hostile environment (evolving adversarial capabilities, attack methods and an increasingly uncertain geopolitical environment continue to increase risk). Sempra purchased an additional $35 million of cyber liability insurance limits in 2019. Sempra constantly reevaluates these insurance levels based on industry trends. Depending on how those trends develop, Sempra is planning, at a minimum, to maintain these insurance levels and may look to purchase additional amounts in the future.

Additional Wildfire Insurance – Wildfire Damage Reinsurance (WF Re) & Catastrophe Bond (CAT Bond)

Given the statewide forecasted losses ($11.79 billion)[7] related to the 2017 wildfires and the elevated risk of wildfires in Southern California for the 2018 wildfire season,[8] in 2018, Sempra purchased $210 million of additional wildfire insurance. This additional insurance comprises two sources of capacity: $75 million WF Re and $135 million from a CAT bond. These additional insurance amounts were not part of SoCalGas' TY 2019 GRC forecast and are maintained as part of Sempra's current wildfire insurance program that includes coverage for SoCalGas' overhead electric lines. Additionally, the CAT bond requires annual premium payments during the term

[6] California Legislative Information Civil Code-CIV Divisions Title 1.81.5 California Consumer Privacy Act of 2018 [1798.100-1798.199], https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=CIV&division=3.&title=1.81.5.&part=4.&chapter=&article=.

[7] California Department of Insurance, California statewide insurance claims nearly $12 billion, January 31, 2018, http://www.insurance.ca.gov/0400-news/0100-press-releases/2018/release013-18.cfm.

[8] A.17-10-007/-008 (cons.), Ex. 240, June 18, 2018 Rebuttal Testimony of Neil K. Cayabyab (Corporate Center – Insurance) at Appendix D (Renaissance Re, California Wildfire Outlook, May 2018).

of the bond (last payment due before October 2021) and also requires additional payments to preserve recovery rights should an open wildfire claim be resolved after October 2021.

Given the potential exposure, additional reinsurance limits were originally contemplated. After an exhaustive search for the appropriate coverage, Sempra learned that obtaining incremental reinsurance above $75 million could not be achieved without a significant increase in insurance premium costs. Accordingly, in September 2018, the decision was made to secure the additional $75 million and look to pending CAT bond issuance for additional wildfire limits.

As outlined in the 2018 rebuttal testimony of N. Cayabyab,[9] Sempra explored a CAT bond issuance to increase its wildfire insurance limits and diversify its pool of capacity, while also potentially increasing insurance market competition in the long run by establishing a relationship with CAT bond investors. These new relationships resulted in improved results for subsequent wildfire insurance renewals. Additionally, the Utility Consumers' Action Network's (UCAN) testimony recommends that companies consider the use of Insurance Linked Securities or CAT bonds as alternative forms of wildfire insurance.[10] Consistent with SoCalGas' TY 2019 GRC rebuttal testimony guidance and UCAN's suggestion, Sempra issued a new $135 million CAT bond that provides wildfire insurance coverage from October 2018 through 2021. Because this was Sempra's first wildfire CAT bond issuance and the marketplace for this type of bond was not fully mature, Sempra decided to limit the size of its initial offering to a relatively small amount. Now, given the market's significant development, Sempra's current plan is to continue to evaluate the CAT bond market as part of its annual wildfire insurance renewal process. Sempra may consider subsequent and possibly larger CAT bond offerings in the future.

Liability Insurance – Director & Officer (D&O) Additional Coverage

Sempra evaluates D&O insurance limit levels as part of its annual insurance renewal process. Based on that information, Sempra purchased an additional $50 million of limits that were not included as part of SoCalGas' forecast presented in the TY 2019 GRC proceeding.

One of the primary drivers of the potential severity relating to securities claims is the market capitalization of the insured. Sempra's market capitalization has significantly increased over the past two years, so the risk of large D&O claims has increased as well. The decision to purchase additional D&O limits was primarily based on the growth of Sempra's market capitalization and changing D&O settlement environment (i.e., increase litigation frequency and loss severity), but was also influenced by the expansion of D&O exposures recently around cyber and wildfire risks.

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[9] A.17-10-007/-008 (cons.), Ex. 240, June 18, 2018, Rebuttal Testimony of Neil K. Cayabyab (Corporate Center -Insurance) at P6:3-5.
[10] A.17-10-007/-008 (cons.), Ex. 509, May 14, 2018, Direct Testimony of Robert Sulpizio Addressing on SDG&E's 2019 GRC Phase 1 Application, on behalf of the Utility Consumers' Action Network (UCAN) at 7-12.

The allocation for the D&O additional cost follows the allocation method as described in Findings of Fact 223 of D.19-09-051.

Restoring Self-Insured Retention to Historic levels

From 1998 to 2009, Sempra maintained a self-insured retention (SIR)[11] of $1 million for the excess liability insurance program. During that time period, this program provided coverage for wildfire and non-wildfire liability for both SDG&E and SoCalGas, and was renewed on an annual basis. In 2009, Sempra's lead insurance carrier no longer offered this option and required Sempra to increase the SIR to $5 million. For the 2010 renewal, Sempra successfully negotiated lowering the SIR to $4 million. Thereafter, Sempra looked to restore the SIR to historic pre-2009 levels, but was unsuccessful. In 2019, the $1 million SIR option became available. Based on analysis, and because the increased SIR requirement was mandated by the insurer, Sempra elected to restore the SIR to $1 million to be consistent with historic levels. The costs outlined here represent the additional insurance premium charged, as the lower SIR was not available at the time of the submittal and therefore was not contemplated in the TY 2019 GRC forecast.

Insurance Costs Recorded in the LIPBA

As described above, SoCalGas is seeking recovery of the under-collected balance for 2019 recorded activity related to additional liability insurance coverage beyond what was presented in SoCalGas' TY 2019 GRC. The 2019 over limits portion of the LIPBA recorded an undercollection of $0.7 million. This includes SoCalGas' procurement of additional insurance coverage from a $4 million self-insured retention (SIR) to a $1 million SIR effective for the period beginning October 4, 2019 through June 26, 2020 and applicable for claims incurred during that period. The undercollected balance primarily consists of incremental operation and maintenance (O&M) costs, adjusted for capitalization and inter-utility allocation of costs. Attachment A details the actual costs including interest recorded in 2019.

Each LIP covers a specific period. Per SoCalGas' prepaid expense policy, costs that provide a consistent benefit throughout the year or over multiple years and exceed $250 thousand are recorded as a Prepaid Asset and are amortized on a monthly basis over the applicable term covered by the premium. Accordingly, for those premiums that meet the criteria above, the monthly amortization is recorded in the LIPBA, subject to certain adjustments as described below. Premiums that do not meet the criteria of a Prepaid Asset are expensed when paid and recorded in the LIPBA, subject to the same adjustments below.

The LIP expenses (i.e., monthly amortization) recorded in the LIPBA are adjusted for LIP costs capitalized in ratebase and inter-company LIP costs (i.e., shared services) billed to and charged from SoCalGas' affiliate companies. In addition, the LIPBA

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[11] A dollar amount specified in a liability insurance policy that must be paid by the insured before the insurance policy will respond to a loss.

records an adjustment for the difference in LIP costs embedded in authorized and actual depreciation along with the related return and taxes.

Due to the many factors described above, the total premium costs for the additional liability coverage will differ from the actual expenses recorded in the LIPBA. Attachment A provides a reconciliation between the annual insurance premiums and the costs recorded in the LIPBA. Please note there were no adjustments for costs capitalized in ratebase or inter-company costs for these particular liability insurance coverages.

Claims Liability Costs Embedded in GRC

In SoCalGas' 2019 GRC, claims costs embedded in GRC rates reflected a $4 million SIR. However, actual insurance coverage was changed to a $1 million SIR. As a result, the embedded claims costs in SoCalGas' GRC were higher by approximately $2.174 million annually (i.e., a 5-year average of historical claim costs under a $4 million SIR of approximately $7.4 million compared to a revised 5-year average of historical claim costs under a $1 million SIR of approximately $5.2 million). Since the insurance coverage is from October 4, 2019 through June 26, 2020, SoCalGas proposes to offset the prorated claims costs benefits of approximately $0.4 million (i.e., $2.174 million claims cost benefit for approximately 3 months, adjusted for capitalization and inter-utility allocations) against the $1.1 million incremental 2019 insurance premium costs recorded in the LIPBA for a request of $0.7 million.

Recovery Mechanism and Customer Rate Impact

Upon approval of this AL, SoCalGas will incorporate in rates the over limits portion of the 2019 undercollected LIPBA balance, reduced for the prorated claims costs benefits associated with liability coverage with a lower SIR (relative to liability coverage with a higher SIR that is embedded in SoCalGas' GRC). The rates will be effective as soon as practicable to align with other rate changes the Commission may authorize for implementation in rates. Subsequent years' adjustment for these net incremental costs will be incorporated in rates in connection with SoCalGas' annual regulatory account balance update submittal, assuming that there are no other additional changes in insurance coverage made relative to insurance coverage in SoCalGas' TY 2019 GRC. If there are additional insurance coverage changes, SoCalGas will seek recovery of incremental insurance premiums through a separate Tier 2 AL as provided herein.

Protests

Anyone may protest this AL to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date of this AL, which is November 29, 2020. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attn: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

A copy of the protest should also be sent via e-mail to the attention of the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). Due to the COVID-19 pandemic and the shelter at home orders, SoCalGas is currently unable to receive protests or comments to this AL via U.S. mail or fax. Please submit protests or comments to this AL via e-mail to the address shown below on the same date it is mailed or e-mailed to the Commission.

Attn: Ray B. Ortiz
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No.: (213) 244-4957
E-mail: ROrtiz@socalgas.com

Effective Date

SoCalGas believes this AL is subject to Energy Division disposition, and should be classified as Tier 2 (effective after staff approval) pursuant to General Order (GO) 96-B. Therefore, SoCalGas respectfully requests that this submittal be approved on December 9, 2020, which is 30 calendar days after the date submitted.

Notice

A copy of this AL is being sent to SoCalGas' GO 96-B service list and the Commission's service lists in A.17-10-007. Address change requests to the GO 96-B service list should be directed via e-mail to tariffs@socalgas.com or call 213-244-2837. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or via e-mail at process_office@cpuc.ca.gov.

/s/ Ronald van der Leeden
Ronald van der Leeden
Director – Regulatory Affairs

Attachments

ADVICE LETTER SUMMARY

ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.:

Utility type:
- ELC
- GAS
- WATER
- PLC
- HEAT

Contact Person:
Phone #:
E-mail:
E-mail Disposition Notice to:

EXPLANATION OF UTILITY TYPE

ELC = Electric	GAS = Gas	WATER = Water
PLC = Pipeline	HEAT = Heat	

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #:

Tier Designation:

Subject of AL:

Keywords (choose from CPUC listing):

AL Type: Monthly Quarterly Annual One-Time Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? Yes No

If yes, specification of confidential information:
Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? Yes No

Requested effective date:

No. of tariff sheets:

Estimated system annual revenue effect (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed[1]:

Pending advice letters that revise the same tariff sheets:

[1] Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

<table>
<tr>
<td rowspan="2">CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102
Email: EDTariffUnit@cpuc.ca.gov</td>
<td>Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:</td>
</tr>
<tr>
<td>Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:</td>
</tr>
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ATTACHMENT A

Advice No. 5725

Summary of Over Limits LIPBA Costs

ATTACHMENT A
Advice No. 5725

Summary of Over Limits LIPBA Costs (in dollars)
December 31, 2019

	Description of Liability Insurance	Insurance Premium (Eligible to be balanced)	Coverage Period (Eligible to be balanced)	2019 Expense [1/]	Less: Capital and Shared Allocation	Total costs recorded in the over limits sub-account
1	Aviation Liability	$ 3,920	6/26/2019 - 6/26/2020	$ 3,920	$ -	$ 3,920
2	Cyber Security Liability	$ 97,859	10/1/2019 - 10/1/2020	$ 97,859	$ -	$ 97,859
3	Wildfire Damage Reinsurance Liability	$ 7,368	6/26/2019 - 6/26/2020	$ 7,368	$ -	$ 7,368
4	ILS Wildfire	$ 9,334	10/18/2019 - 10/18/2020	$ 9,334	$ -	$ 9,334
5	Directors and Officers Liability Insurance	$ 54,374	10/11/2019 - 10/11/2020	$ 54,374	$ -	$ 54,374
6	General Excess Liability - Self Insurance Retention (SIR)	$ 3,049,397	10/4/2019 - 6/26/2020	$ 1,270,582	$ (330,859)	$ 939,723
7	GRC Savings related to the General Excess Liability SIR [2/]	$ (543,500)	9/26/2019 - 9/26/2020	$ (543,500)	$ 141,527	$ (401,973)
		$ 2,678,752		**$ 899,937**	**$ (189,332)**	**$ 710,605**
					Add: Capital-Related Costs	$ 4,825
					Add: Net Allocated Costs from SDG&E	$ 15,520
					Add: Interest	$ 1,337
					Total 2019 over limits activity	**$ 732,287**

[1/] Eligible insurance premiums are expensed over the coverage period. The amounts expensed are included in the calculation of costs balanced in the LIPBA, before adjustments for capitalization and interutility allocations.

[2/] This amount reflects the reduction for the claims benefit embedded in SoCalGas 2019 GRC (i.e., recovery of claims costs were higher in the 2019 GRC versus the lower claims costs that would have been experienced under the new $1 million SIR coverage). The annual claims benefit was prorated for 2019 to correlate to the 2019 General Excess Liability SIR coverage period which was approximately $0.54 million (i.e., annual claims benefit of $2.174 million divided by 12 months times 3 months).