A.09-08-020
(SDG&E/SOCALGAS WEBA APPLICATION)

FEBRUARY 23, 2012
ALL-PARTY MEETING

SDG&E/SOCALGAS

1. PROPOSED NEW WEBA

a. Only wildfires with net costs of > $10 million

b. Covers wildfire claims, outside legal costs, and the cost of financing WEBA balances; (damage to utility system still under CEMA)

c. WEBAs credited for any reimbursements by insurance companies or recoveries from third parties

d. WEBAs credited for any costs recovered through FERC transmission rates or through Z-factor process (no double recoveries)

e. Sharing of net third party recoveries between customers and utility (10/90 and then 90/10)

f. Recording costs in a WEBA would not create a presumption of recoverability

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2. WEBA COST RECOVERY MECHANISM

a. No rate recovery without a Commission decision regarding appropriate categorization

i. Category A (inverse condemnation/strict liability)

100% rate recovery

ii. Category B (Not A or C):

Tier 1 -- ($1.2 B minus insurance)

100% rate recovery, less $5 million per wildfire event up to a limit of $10 million in any 12-month period

Tier 2 -- (> Tier 1)

95/5% sharing up to a cap of $20 million for all wildfires in any 12-month period

100% rate recovery after cap reached

iii. Category C (reckless or intentional conduct by utility officers)

0% rate recovery under WEBA mechanism

b. WEBA application to obtain categorization, verify recorded costs, and establish amortization schedule

3. SDG&E AND SOCALGAS SHOULD BE ALLOWED TO RECOVER WILDFIRE COSTS IN RATES

a. Wildfire risk comes with our obligation to serve all customers

   i. We proactively take measures to reduce fire risk, but we cannot eliminate it

   ii. There is a balance between providing service at relatively low rates and fire risk reduction -- the Commission does not authorize us to collect revenue in rates for every conceivable fire reduction effort (e.g., widespread undergrounding in San Diego's back country)

   iii. We are obligated to provide service to all customers throughout their service territories, including customers who live in fire-prone areas

   iv. Fire fighting resources in SD County are not adequate ($15 m/year vs. $500 m/year for LA County; no County fire dept.)

   v. When we are held liable for wildfire-related claims, the resulting payments are a cost of providing service to our customers

3. SDG&E AND SOCALGAS SHOULD BE ALLOWED TO RECOVER WILDFIRE COSTS IN RATES (cont'd)

b. Rate recovery is consistent with Commission treatment of other natural disaster costs

   i. For large natural disasters, the Commission authorizes utilities to recover costs to restore utility service through the Catastrophic Event Memorandum Account (CEMA)

   ii. The Commission authorized the establishment of CEMAs by all utilities in 1991; the Legislature codified disaster cost recovery through CEMA in Section 454.9 of the Public Utilities Code

   iii. The factors that influence the course of wildfires once ignited -- weather, geography, building standards, vegetation density, and available local firefighting resources -- are all beyond our control

   iv. The principles embodied in CEMA are applicable to wildfire claims: Neither earthquakes nor wildfires can be predicted; costs resulting from these events should be included in rates after-the-fact, rather than on a forecast basis

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3. SDG&E AND SOCALGAS SHOULD BE ALLOWED TO RECOVER WILDFIRE COSTS IN RATES (cont'd)

c. Rate recovery is consistent with the Commission's treatment of insurance and claims costs

   i. By providing for the recovery of insurance premiums and claims costs in rates, the Commission recognizes that liability for claims by third parties is an ordinary, unavoidable cost of serving our customers

d. Rate recovery is consistent with the risks and obligations imposed by inverse condemnation

   i. Inverse based on the judicial assumption that utilities can pass through to their customers any amounts they are required to pay to property owners

   ii. We face the potential for strict liability for any wildfires involving our facilities

4. WEBA SHOULD BE ADOPTED

a. The Commission has recognized the need for utilities to maintain financial strength

   i. "Reasonable financial health is necessary so that each utility may serve reliable, safe and adequate electricity at just and reasonable rates." (D.02-11-026, at 4.)

   "No party presents a convincing argument that financially ill utilities are able to fulfill these public utility responsibilities and obligations." (D.02-11-026, at 10.)

b. The key to financial health is creditworthiness; SDG&E and SoCalGas need to be able to procure and supply electricity and natural gas at a reasonable cost.

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4. WEBA SHOULD BE ADOPTED (cont'd)

c. The Commission should provide clear direction now

i. We can never be fully insured against all potential wildfire claims

ii. Our insurance coverage is already lower than in the past, and we are potentially one wildfire away from being uninsured

  i. Told by AEGIS in 2009 that if the Santa Barbara wildfire involved a utility, no coverage on renewal

iii. Uncertainty about wildfire cost recovery could undermine investor confidence, and lead to higher borrowing costs for years to come

iv. Insurance companies now view the risk of the *limited* coverage they provide in a very different light; financial markets could view the *unlimited* risk assumed by SDG&E and SoCalGas the same way

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4. WEBA SHOULD BE ADOPTED (cont'd)

d. WEBA combines relative certainty with appropriate incentives

   i. WEBA provides cost recovery certainty for Category A and B costs

   ii. WEBA sharing gives us an additional incentive to minimize fire risk

e. WEBA would not have a negative effect on safety

   i. Smaller wildfires would remain subject to normal GRC forecast risk

   ii. We will remain subject to comprehensive Commission oversight, and will potentially be subject to substantial penalties in connection with fires associated with our facilities

   iii. Major wildfires threaten our customers, employees, and facilities -- we do not take these threats lightly

   iv. SDG&E has already taken significant fire safety measures – 100 wind stations; wood-to-steel conversions; loaning our helicopter for fire fighting projects; etc.

5. THE WEBA MECHANISM SHOULD APPLY TO 2007 WILDFIRE COSTS

a. WEBA rationale applies with equal force to *all* wildfire costs

   i. Underlying concerns from all wildfires are likely to be similar – *e.g.*, How did the fire start? What are the costs? What is the level of utility involvement/fault? How much of the costs will be covered by insurance? Are there potentially responsible third parties?

   ii. The balance struck by the WEBA categorization process makes sense for *all* wildfire costs, not just costs from future wildfires

   iii. It would not make sense to adopt a new WEBA mechanism, and then only apply it to future costs

5. THE WEBA MECHANISM SHOULD APPLY TO 2007 WILDFIRE COSTS (continued)

c. WEBA treatment would be consistent with the Commission's approach to hazwaste cost recovery

   i. New mechanism applied to existing sites and previously-incurred costs

d. WEBA treatment would be consistent with SDG&E's recovery of 2007 wildfire costs through FERC transmission rates

   i. FERC has authorized recovery of 2007 wildfire costs in FERC transmission rates

   ii. CPUC intervened and stated that it is not opposed to SDG&E's recovery of these costs through FERC rates

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6. ALTERNATIVE MECHANISM

a. Based on the statewide hazwaste mechanism adopted by the Commission in 1994

b. Not our preference, but combines simplicity and certainty

c. As with preferred mechanism, only wildfires with net costs of > $10 million

d. All wildfire costs shared 90/10; no categorization

e. All litigation costs and recoveries also shared 90/10

f. As with existing hazwaste mechanism, no hindsight reasonableness review of costs or recoveries

7. TWO-WAY BALANCING FOR WILDFIRE INSURANCE COSTS

a. New Wildfire Insurance Premium Balancing Accounts (WIPBAs) for increases or decreases from GRC funding for wildfire insurance

b. Wildfire insurance premiums these days too unpredictable for the traditional GRC forecast process

d. Two-way balancing reinforces our incentives to maintain the highest level of insurance coverage that can be obtained at a reasonable cost

e. If costs go down, customers share in the decrease