From: Brian.Prusnek@sce.com
Sent: 9/15/2010 11:32:10 AM
To: Brown, Carol A. (carol.brown@cpuc.ca.gov); karl.meeusen@gov.ca.gov (karl.meeusen@gov.ca.gov); scott.murtishaw@gov.ca.gov (scott.murtishaw@gov.ca.gov)
Cc: Cherry, Brian K (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=BKC7); Lee Schavrien (lschavrien@semprautilities.com)
Bcc:
Subject: Wildfire Exec Summary

See below. Here is the exec summary that was handed out at the meeting.

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----- Original Message -----
From: Karyn Gansecki
Sent: 09/15/2010 11:29 AM PDT
To: Brian Prusnek
Subject: Re: Urgent
Just got your note! (Copied from PDF)

Executive Summary

The Joint Amended Application of Southern California Edison Company (SCE),
Pacific
Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E),
and
Southern California Gas Company (SoCalGas) (collectively, the Utilities or
individually,
the Utility), filed concurrently herewith (Amended Application), amends the
Joint
Application for Authority to Establish a Wildfire Expense Balancing Account
(WEBA)
to Record for Future Recovery Wildfire-Related Costs, A. 09-08-020 (2009
Application),
in order to address concerns raised in the Ruling of the Assigned
Commissioner and

Administrative Law Judge Directing Applicants to Amend Application, filed
on
December 21, 2009 (ACR).

The California Public Utilities Commission (CPUC or Commission) should
authorize the
Utilities (1) to establish a WEBA to record wildfire Claims and Defense
costs, and (2) to
recover WEBA balances in retail rates.

- Although the insurance market has improved since the Utilities
originally filed the
2009 Application, there is still a pressing need for a mechanism to recover
uninsured wildfire costs. PG&E and SDG&E/SoCalGas each have approximately
$1 billion in wildfire insurance, and SCE expects to purchase no more than
that
amount. Given the uncertainty and volatility in the insurance market, the
Utilities
may not be able to obtain even this amount of insurance in the future.
Because a
large wildfire could easily result in claims far in excess of available
insurance,
and multiple wildfires within one policy year may not be insured to the
extent
insurance coverage was exhausted by a prior fire, the Utilities are exposed
to the
risk of substantial uninsured claims.

The Commission should also authorize the Utilities (1) to establish a
Wildfire Insurance
Premium Balancing Account (WIPBA) to record all increases or decreases from
the
amounts adopted in the Utility's General Rate Case (GRC) in insurance
premiums
attributable to coverage for wildfire-related claims; and (2) consolidate
and recover
WIPBA balances annually.

Insurance costs have traditionally been recovered in rates, as have
extraordinary costs
resulting from natural disasters. Uninsured wildfire costs should likewise
be recoverable.

Commission-authorized funding only provides for wildfire liability coverage
up to a
finite level. Such coverage, while large in comparison to the coverage

obtained by most other utilities throughout the United States, has at most been $1.2 billion, which is less than the potential claims from very large wildfires. To the extent insurance coverage is insufficient to cover wildfire claims, the Commission needs to provide a different cost recovery mechanism, as proposed in this application.

Wildfires are inevitable. And like other natural disasters, the magnitude of damage depends on factors outside the Utilities' control, such as weather, demography, and local fire-fighting capabilities. Because these costs are volatile and unpredictable, a balancing account is a more appropriate way to address them than through forecasting in the GRC.

The risk of fire is inherent in the provision of utility service and, unlike other businesses, the Utilities cannot limit their risk by withdrawing from fire-prone areas. Thus, wildfire costs are properly recoverable.

Inverse condemnation and strict liability claims can increase wildfire-related claims costs regardless of utility actions. Even if a utility is in full compliance with the Commission's safety regulations and there is no proof of negligence, when utility equipment or facilities start a fire, the utility faces the prospect of claims for all the ensuing damages. For a major wildfire, those claims can easily total billions of dollars.

Large uninsured wildfire costs could threaten the Utilities' financial integrity, contrary to the public interest.

The Utilities propose a mechanism under which they would retain the risk of a portion of wildfire claims in excess of insurance: $5 million for claims below $1.2 billion, and 5% for claims in excess of $1.2 billion, up to specified caps. In exchange, the Utilities would receive a revenue requirement to compensate them for this retained risk, and also would

be entitled to keep a portion of third-party recoveries. This mechanism would not only
preserve current Utility safety incentives, but would also create additional incentives for
the Utilities to mitigate their fire risk and vigorously defend wildfire-related claims.

The Utilities propose an annual consultative process to advise the Commission and other
interested parties of their proposed insurance procurement plan and give such parties an
opportunity for input.

From: Brian Prusnek/SCE/EIX
To: "Karyn Gansecki" <Karyn.Gansecki@sce.com>
Date: 09/15/2010 11:15 AM
Subject: Urgent

Please send me the Exec Summary of the wildfire application.

Henry passed it out in SoCal and Peevey wants everyone to have it here.

Thanks!!!

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