From: Martin, Hudson T

Sent: 10/15/2010 3:57:37 PM

To: 'gkk@cpuc.ca.gov' (gkk@cpuc.ca.gov)

Cc: Yura, Jane (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=JKY1);
Redacted;
Singh, Amrit P (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=APS5);
Redacted
Redacted)

Bcc:

Subject: RE: Information on Insurance

Ms. Kahlon,

I hope the information we discussed was helpful. I have attached a chart of our current liability program (I would appreciate you keeping it confidential) which will help put the "reinstatement" into context. This chart shows the various layers and different insurers on the program and the premiums. The lead insurer is Aegis which provides $35 million in limits in excess of a $10 million deductible, followed by EIM, XL and the other insurers on up what we refer to as the tower.

PG&E's insurance, like the insurance that most large companies have, is (with the exception of the lead layer Aegis) written such that if you use the limit of insurance for a loss in a policy year, that insurance is gone for any second loss during the policy year. The exception is Aegis - theoretically, we could have 10 $100 million pipeline explosions in policy year and Aegis would pay their $35 million limit 10 times. However, the next layer after Aegis is EIM who would pay their $25 million limit for the first pipeline explosion, but their limit would not be available for any subsequent loss in the policy year unless we "reinstate" or buy another policy limit from them.

For that reason, and while PG&E does not yet know how large the San Bruno incident may be or if the liability will fall all to PG&E, PG&E decided to "reinstate" the layers 2-8 on the program (up to $490 million excess of a $10 million deductible.) The cost of that reinstatement is approximately $14 million. That way, if San Bruno ends up being paid by PG&E's insurers up to $490 million, we will the entire $992 million for another loss (e.g., a dam failure) between now and August 1 2011. If we did not reinstate the limit a gap would exist for any second loss. For example if PG&E's insurers end up paying $300 million for San Bruno and a $1 billion fire were to occur next month, PG&E would have the first $35 million excess of the $10 million deductible of insurance available from Aegis for the fire, but then would have a gap up to $270 million before the remainder of its insurance that wasn't used for San Bruno would kick in.

As I mentioned we expect our premium to go up substantially next year, and some amount of reduction in limits. At the August 1 renewal this year, due to the concerns insurers had about California wildfires, we say our premiums go up from $9 million to $17 million and our limits reduced from $1.095 billion to $992 million. We expect an even large increase in premiums at next years renewal.

Hudson T. Martin
Director PG&E Insurance
415 267-7238
415 250-3158