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October 13, 2023

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Administrator

RE: Docket No. 23-035-40
Application of Rocky Mountain Power for a Deferred Accounting Order Regarding Insurance Costs

In accordance with the Scheduling Order and Notice of Hearing issued by the Public Service Commission of Utah on September 13, 2023, Rocky Mountain Power, a division of PacifiCorp (“Rocky Mountain Power” or the “Company”), submits its Direct Testimony in support of its Application filed on August 21, 2023, in the above reference matter.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

By E-mail (preferred): datarequest@pacificorp.com
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PacifiCorp
825 NE Multnomah, Suite 2000
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Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

A handwritten signature in black ink that reads "Joelle Steward".

Joelle Steward

Senior Vice President, Regulation and Customer/Community Solutions

CERTIFICATE OF SERVICE

Docket No. 23-035-40

I hereby certify that on October 13, 2023, a true and correct copy of the foregoing was served by electronic mail to the following:

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Division of Public Utilities

dpudatarequest@utah.gov

Utah Association of Energy Users

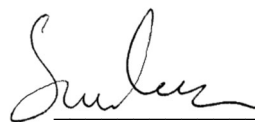
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Santiago Gutierrez
Coordinator, Regulatory Operations

Rocky Mountain Power
Docket No. 23-035-40
Witness: Shelley E. McCoy

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Shelley E. McCoy

October 2023

1 **Introduction and Witness Qualifications**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **d/b/a Rocky Mountain Power (“PacifiCorp” or the “Company”).**

4 A. My name is Shelley E. McCoy, and my business address is 825 NE Multnomah Street,
5 Suite 2000, Portland, OR 97232. My present position is Director of Revenue
6 Requirement.

7 **Q. Please describe your education and professional experience.**

8 A. I earned my Bachelor of Science degree in Accounting from Portland State University.
9 In addition to my formal education, I have attended several utility accounting,
10 ratemaking, and leadership seminars and courses. I have been employed by PacifiCorp
11 since November of 1996. My past responsibilities have included general and regulatory
12 accounting, budgeting, forecasting, and reporting.

13 **Q. What are your current responsibilities as Director of Revenue Requirement?**

14 A. My primary responsibilities include overseeing the calculation and reporting of the
15 company’s regulated earnings and revenue requirement, assuring that the
16 interjurisdictional cost allocation methodology is correctly applied, and explaining
17 those calculations to regulators in the jurisdictions in which the company operates.

18 **Q. Have you submitted testimony in any previous regulatory proceedings?**

19 A. Yes. I have provided testimony in multiple dockets before the California, Oregon,
20 Washington, Wyoming, and Utah public service commissions.

21 **Purpose and Summary of Testimony**

22 **Q. What is the purpose of your direct testimony in this case?**

23 A. My testimony explains and supports the Company’s historical ratemaking treatment
24 used to recover prudent insurance premium costs. Additionally, my direct testimony
25 quantifies the financial impact that would occur if the Utah Public Service Commission
26 (“Commission”) denies deferral of the higher excess liability insurance premiums
27 requested in this docket.

28 **Insurance Premium Ratemaking Treatment**

29 **Q. How does the Company recover insurance premium costs?**

30 A. When the Company calculates the revenue requirement for a general rate case, it begins
31 with 12-months of actual historical data known as the base period. This historical data
32 is analyzed to determine if pro-forma adjustments are needed to reflect conditions
33 expected to occur in the 12-month test period (i.e., the 12-month period in which rates
34 are in effect). In the Company’s most recent Utah general rate case in 2020 (“2020
35 GRC”) the Company included an adjustment to reflect estimated test period insurance
36 premium costs for both property and liability insurance. The Commission ultimately
37 approved these premium costs for recovery in that docket and they have been in Utah
38 rates since January 2021.¹ This same ratemaking methodology for insurance premiums
39 has also been used in many previous Utah general rate cases.

¹ *In the Matter of Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 20-035-04, Redacted Order at 7, 58 (Dec. 30, 2020) (approving recovery of items related to insurance expenses and insurance reserves).

40 **Q. Is the ratemaking treatment described above used in other PacifiCorp**
41 **jurisdictions?**

42 A. Yes. That same ratemaking treatment has been used in all of the Company's other
43 jurisdictions for insurance premium costs.

44 **Q. What amount did the Company include in the revenue requirement of the 2020**
45 **GRC for insurance premiums?**

46 A. The Company included \$14.4 million, total-Company, for insurance premiums in the
47 revenue requirement of the 2020 GRC. Of the \$14.4 million, \$10.5 million was for
48 excess liability insurance premiums and \$3.9 million was for property insurance
49 premiums. These were the actual insurance premiums paid on the most recent renewal
50 policy in August 2020 for coverage in effect during the 2021 test period.

51 **Q. Has the Company revised the insurance premium costs included in Utah rates**
52 **since the 2020 GRC?**

53 A. No. The cost for insurance premiums has historically been updated only in general rate
54 case proceedings as these costs have been fairly stable year-over-year. As such, Utah
55 customer rates continue to reflect \$14.4 million, total-Company, in insurance premium
56 costs.

57 **Q. If insurance premiums increase, how does the Company collect this prudent cost?**

58 A. Any differences between the insurance premium costs set in rates and increased actual
59 premium costs will go unrecovered without a separate recovery mechanism such as a
60 deferral until these costs are updated in a general rate case.

61 **Q. Why is the Company seeking a deferred accounting order for the excess liability**
62 **insurance premiums?**

63 A. As discussed in the direct testimony of Mariya V. Coleman, insurance premiums,
64 specifically for excess liability, have been increasing exponentially. The Company's
65 most recent policy renewal for excess liability insurance for the policy period beginning
66 August 15, 2023, increased from \$32 million to \$125 million, total-Company in just
67 one year. This material and unforeseeable cost increase has driven the Company's
68 request for deferred accounting treatment.

69 **Q. Is the Company seeking a deferred accounting order for property insurance**
70 **premiums also?**

71 A. No. Property insurance premiums continue to be fairly stable, so the amount reflected
72 in customer rates remains sufficient. If a material change to property insurance
73 premiums were to occur, the Company would evaluate ratemaking options at that time.

74 **Q. Why didn't the Company file a general rate case to seek recovery of its materially**
75 **higher excess liability insurance premium costs?**

76 A. While the Company does have control over the timing of a general rate case filing, it
77 does not have control of the 8-month statutory period required for review prior to rates
78 becoming effective. Furthermore, the preparation of a general rate case takes months
79 which extends the time required even further. For costs such as the liability insurance
80 premiums which have risen exponentially in a very short period, the time frame
81 required to prepare, file, and obtain approval of these costs in a general rate case would
82 leave a significant portion of these costs unrecovered.

83 **Q. What is the financial impact to the Company if the Commission were to deny**
84 **deferral of the liability insurance premiums?**

85 A. Insurance premiums have increased by approximately \$115 million, total-Company,
86 over the amount the Company included in the revenue requirement of the 2020 GRC.
87 Using the System Overhead allocation factors of 44.4 percent from the Company's
88 most recent December 2022 Utah Results of Operations report, this amounts to over
89 \$50 million on a Utah-allocated basis. Non-recovery of this amount would severely
90 impact the Company's ability to fairly earn its authorized return on equity. To further
91 quantify, non-recovery of the \$50 million excess liability insurance cost increase would
92 lower the Company's earned return on equity in Utah by almost 100 basis points. By
93 any measure, this impact is materially adverse. For example, the return on equity of
94 7.0 percent using the same December 2022 Utah Results of Operations, would drop to
95 6.0 percent due solely to the increase in insurance premium costs. This is almost 365
96 basis points lower than the Company's authorized return on equity of 9.65 percent.

97 **Q. Has the Company sought recovery of its increased excess liability insurance costs**
98 **in other jurisdictions?**

99 A. Yes. The Company is seeking to update its excess liability insurance costs in its
100 pending rate case in Wyoming. The Company has filed for deferred accounting for
101 these costs in Utah, Oregon, Idaho, California, and Washington.

102 **Q. Does this conclude your direct testimony?**

103 A. Yes.

Rocky Mountain Power
Docket No. 23-035-40
Witness: Mariya V. Coleman

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Mariya V. Coleman

October 2023

1 **Introduction and Witness Qualifications**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **d/b/a Rocky Mountain Power (“PacifiCorp” or the “Company”).**

4 A. My name is Mariya V. Coleman. My business address is 2755 E Cottonwood Parkway,
5 Salt Lake City, Utah 84121. I am currently the Vice President of Corporate Insurance
6 and Claims for Berkshire Hathaway Energy Company (“BHE”), PacifiCorp’s parent
7 company.

8 **Q. Please describe your education and professional experience.**

9 A. I joined NV Energy as a Risk Analyst in 2010 and worked in roles of increasing
10 responsibility in corporate insurance through 2017. Since 2015, I have managed
11 PacifiCorp’s insurance costs and insurance personnel. In 2017, I was named the
12 Director of Corporate Insurance for BHE and its subsidiaries including PacifiCorp. I
13 assumed my current role as Vice President of Corporate Insurance and Claims in May
14 2023. I have a Bachelor of Science in Finance from the University of Nevada, Las
15 Vegas and a Master of Business Administration from the University of Nevada, Las
16 Vegas.

17 **Q. What are your primary responsibilities as Vice President of Corporate Insurance**
18 **and Claims for the Company?**

19 A. As Vice President of Corporate Insurance and Claims, I am responsible for the
20 corporate insurance function for BHE and the Company, including the acquisition and
21 management of all corporate insurance programs covering \$132 billion in assets.

22 **Q. Have you testified in previous regulatory proceedings?**

23 A. Yes. I have testified in regulatory proceedings in Nevada and Wyoming. This is my
24 first time testifying before the Utah Public Service Commission (“Commission”).

25 **Purpose and Summary of Testimony**

26 **Q. What is the purpose of your direct testimony in this case?**

27 A. The purpose of my testimony is to support and explain the Company’s request for a
28 deferred accounting order for the incremental costs associated with extraordinary and
29 unforeseeable increases in the Company’s excess liability insurance premiums.

30 **Q. Please summarize your direct testimony.**

31 A. My testimony provides an overview of the Company’s insurance program, the role
32 excess liability policies play in providing critical insurance coverage, and the manner
33 in which insurance costs are treated in Utah rates. My testimony details the dramatic
34 increases in the Company’s excess liability insurance premiums in 2023 and how
35 wildfire liability risk has impacted the commercial insurance markets and the premiums
36 for available excess liability insurance coverage.

37 **Q. Are any other witnesses providing testimony in support of the Company’s
38 application for deferred accounting order?**

39 A. Yes. Ms. Shelley E. McCoy provides additional background on recovery of insurance
40 costs in the Company’s rates and the material financial impact on the Company
41 associated with the increase in excess liability insurance premiums.

42 **Overview of Insurance Programs**

43 **Q. How does PacifiCorp obtain its commercial insurance?**

44 A. PacifiCorp obtains its commercial insurance, including its excess liability insurance, as
45 part of BHE's aggregated insurance program. This allows PacifiCorp to reduce its
46 insurance costs by sharing a single placement, when possible, instead of purchasing its
47 own. BHE allocates the cost of insurance to PacifiCorp and other BHE companies
48 using corporate cost allocation methodologies and principles.

49 **Q. What types of commercial insurance does PacifiCorp maintain?**

50 A. PacifiCorp maintains several types of insurances, including, but not limited to the
51 following categories:

52 Excess Liability

53 A claims-made policy form that provides coverage for legal liability to third parties
54 arising out of bodily injury and property damage losses suffered by those third
55 parties. This includes excess wildfire liability insurance.

56 Punitive Damages

57 Provides indemnity-only excess liability coverage for punitive damages imposed or
58 awarded against the insured under certain circumstances specified in the policy.

59 Onshore Property

60 Covers all risks of physical loss or damage to operating locations (i.e., fire,
61 earthquake, flood, theft, boiler and machinery breakdown, turbine generator
62 breakdown). This coverage includes peripheral coverages such as business
63 interruption at select sites, increased cost of construction, incidental transit, service
64 interruption, debris removal, accounts receivable, and firefighting equipment.

65 Terrorism

66 Provides sabotage and terrorism coverage with respect to property insured under
67 onshore property policies. Terrorism coverage applies to certified and
68 non-certified acts.

69 Inland Transit and Storage

70 Coverage for transits of turbine rotors, generators, combustion components, exciters,
71 and similar machinery and equipment.

72 Wind and Solar Equipment Storage
73 Provides property coverage for wind and solar equipment in storage.

74 Large-Deductible Worker's Compensation
75 Provides statutory coverage once the deductible is met for employees injured
76 directly as a result of their employment with the Company.

77 Excess Workers Compensation
78 Provides statutory coverage in excess of self-insured retention for employees injured
79 directly as a result of their employment with the Company.

80 Automobile Liability
81 Coverage for third-party bodily injury and property damage liability arising out of
82 automobile accidents where the Company is at fault. This covers liability arising out
83 of the use of owned, non-owned, and hired automobiles. Coverage does not include
84 physical damage.

85 Aviation and Unmanned Aircraft Systems
86 Provides liability for bodily injury and property damage to third parties arising out
87 of the use of owned and non-owned aircraft. The policy also includes physical
88 damage loss to aircraft as well as war and terrorism and sabotage buyback purchases
89 for both liability and physical damage. Each aircraft is individually rated, and
90 charges are sent to the business which owns the aircraft.

91 Occurrence Liability Fronting Policy
92 Allows for insurance certificates issued for contracts that require an occurrence-
93 based commercial general liability policy form.

94 Surety Bonds
95 Used for contractual obligations where the Company is required to have a surety
96 company financially guarantee that it will act in accordance with the terms established
97 in the bond.

98 **Q. How are the excess liability premiums allocated to PacifiCorp?**

99 A. PacifiCorp's premiums are allocated through BHE's corporate allocation, which is
100 calculated based on an average percentage of property, plant and equipment; employee
101 count; loss history; overhead electric transmission and distribution lines; and
102 transmission and distribution pipeline miles.

103 **Q. Please describe PacifiCorp’s excess liability insurance coverage.**

104 A. Excess liability insurance includes the following major areas of coverage: general
105 liability, wildfire liability, auto liability and employer’s liability. Claims for damages
106 to third parties are included within excess liability coverage.

107 **Q. Please explain how PacifiCorp structures its excess liability insurance.**

108 A. PacifiCorp’s commercial insurance covers third-party liability for claims in excess of
109 \$10 million. The Company self-insures for claims under \$10 million.

110 **Q. What insurance premium cost increases are addressed in the Company’s**
111 **application for a deferred accounting order?**

112 A. The Company’s excess liability insurance policies expire every August. The
113 Company’s application is based on the unprecedentedly large increase in premium costs
114 when these policies were renewed in August 2023.

115 **Q. How has the Commission treated insurance costs in the Company’s rates?**

116 A. As discussed in the direct testimony of Shelley E. McCoy, the Commission has
117 approved the inclusion of insurance premium costs in the Company’s revenue
118 requirement as a prudent business expense that protects the Company and customers
119 against financial losses from third-party claims.

120 **Excess Liability Insurance Premium Increase**

121 **Q. What changes in excess liability insurance premiums has the Company**
122 **experienced in 2023?**

123 A. The premiums for excess liability insurance available to the Company in 2023 are
124 currently \$125 million (total-Company), and potentially more as the Company
125 considers additional policies, a dramatic increase from the \$10.5 million in premiums

126 that was included in the rates authorized in the 2020 GRC. The scale and speed of the
127 increase is extraordinary: the increase in excess liability insurance premium costs from
128 the 2022 policy year to the 2023 policy year is 234 percent; the increase over the years
129 2019 to 2023 is 1,764 percent.

130 **Q. Please provide context for the increase in excess liability premiums.**

131 A. Against the backdrop of prolonged drought conditions and increased development in
132 wildland areas, wildfires across the western United States (“U.S.”) have proliferated in
133 the last several years, and these fires have become larger and more destructive.¹ This
134 has resulted in significantly increasing wildfire costs for utilities and an inability to
135 acquire insurance at rates and coverage levels consistent with past premiums. Insurers
136 have increased the price at which they will consider selling insurance covering claims
137 from wildfire liability. Additionally, insurers who historically would consider selling
138 wildfire liability will no longer do so. For these reasons, the increase the Company
139 experienced is not a one-time anomaly but is indicative of the high cost of obtaining
140 excess liability coverage due to ongoing challenges with wildfire issues.

141 **Q. Has Utah recognized its exposure to the risks and costs associated with wildfires?**

142 A. Yes. As noted by the Utah Department of Public Safety, “Utah is one of the most
143 wildfire prone states in the U.S.”² Utah has been proactive in addressing this risk,
144 including by enacting the Wildland Fire Planning and Cost Recovery Act effective
145 2020.³

¹ For example, see Rocky Mountain Power’s Utah Wildland Fire Protection Plan, Docket No. 20-035-28, Introduction and Cost Summary at 5 (June 1, 2020). *See also*, Rocky Mountain Power’s Utah Wildland Fire Protection Plan, Docket No. 23-035-44 (Sept. 25, 2023).

² Utah Dept. of Public Safety, Wildfire Hazard Mitigation, <https://hazards.utah.gov/wildfire/>.

³ Utah Code Ann. § 54-24-101 et seq.

146 **Q. How are liabilities associated with wildfires covered under the prior and current**
147 **policies?**

148 A. The total amount of insurance per occurrence is \$448.25 million with varying
149 sub-limits for occurrences between states. Claims in any state use up the total amount
150 of the limit available for all states. This means that if there is a claim in one state, then
151 there is less insurance available for the next claim in any other state. Liabilities prior to
152 this renewal were covered similarly to how they are after the August 15, 2023, renewal
153 with an increase in the amount of cumulative, shared insurance limit as reflected below:

August 15, 2022 – August 14, 2023		August 15, 2023 – August 14, 2024	
State	Shared Total Limit	State	Shared Total Limit
CA	\$110m	CA	\$334.75m
ID, UT, WY	\$232.5m	ID, UT, WY	\$448.25m
OR, WA	\$188m	WA	\$353.25m
		OR	\$338.25m

154 Most policies are issued with a single cost for all states, with just a few outliers insuring
155 only California. Without purchasing additional insurance products for each individual
156 state, at an additional cost, insurers will not differentiate how much risk is allocated by
157 state any further than reflected in the statement above.

158 **Q. How do insurers handle coverage for PacifiCorp's multiple states?**

159 A. Insurers impose sub-limits within a policy to differentiate risks between various states.
160 These sub-limits allow PacifiCorp to insure the entire system at lower cost for our
161 customers.

162 **Q. How did the Company determine the level of reasonable liability insurance**
163 **coverage?**

164 A. The Company evaluated wildfire claims results from the western U.S. and purchased
165 available insurance limits that were offered by the market. As the Commission has

166 recognized in prior Company rate cases, maintaining insurance is a necessary
167 component of operating a utility and managing the risks associated with the business.
168 The Company endeavors to maintain insurance at sufficient levels to avoid negative
169 and volatile impact of claims on customer rates. Unfortunately, in the event of a
170 catastrophic wildfire, liabilities can exceed the insurance coverage limits now
171 available.

172 **Q. How would you characterize the size of the excess liability premium increases the**
173 **Company experienced in 2023?**

174 A. I have worked in utility industry insurance and risk management since 2010. In that
175 time, I have never seen a year-on-year increase in excess liability premiums like the
176 one facing the Company today. Insurance premiums can be volatile, but the amount of
177 increase PacifiCorp is experiencing due to wildfire risk in its service territory is
178 extraordinary. In addition, the continuing risk of wildfire is prompting ongoing review
179 by excess liability carriers that could result in further increases in future years or lead
180 to a continued reduction in the number of carriers offering coverage to the Company.
181 Accounting for this new reality in PacifiCorp's costs is urgent both because the expense
182 increases are extraordinary, but also because they are part of the new reality the
183 Company faces in the excess liability insurance market.

184 **Q. Could PacifiCorp have foreseen these premium increases when its authorized**
185 **recovery for insurance costs was set in the 2020 GRC?**

186 A. No. PacifiCorp provided the Commission with the best information available in 2020
187 regarding its expected excess liability insurance premiums. While premium increases
188 are always a possibility, nothing in the insurance market of 2020 indicated that the

189 market for excess liability insurance would drive PacifiCorp's coverage costs to the
190 extraordinary levels we are seeing in 2023. In large measure, the changes are driven by
191 the increasing challenges posed by wildfire liability.

192 **Q. How are wildfire challenges changing the insurance market for PacifiCorp?**

193 A. Wildfire risk increases with the higher incidence of extreme wind, heat, and drought
194 conditions experienced in recent years in Utah and other western states. While it is
195 increasingly foreseeable that wildfire could occur in these conditions, the extent and
196 duration of wildfires remains unpredictable – and subject to forces beyond a utility's
197 control – as other types of weather-driven disasters. The Company has taken significant
198 steps to mitigate the incidence and impact of wildfires in Utah, but those positive
199 actions cannot make anyone capable of forecasting the specific impacts of future fires.
200 This lack of foreseeability is reflected in the dramatic increase in the Company's
201 liability insurance premiums. Insurance underwriters are making decisions based not
202 only on Company-specific risks, but the overall impact of extreme weather and the way
203 it is seen to drive wildfire risk. The extreme weather events leading to increased
204 wildfire risk have been a major driver of the reduced availability and increased cost of
205 commercial liability insurance.

206 **Q. Are there other factors that have impacted how wildfire risks impact the**
207 **Company's excess liability premium costs?**

208 A. Yes. The extraordinary change in the Company's 2023 insurance premiums is driven
209 by the increasing incidence of wildfires, but also by litigation outcomes related to those
210 fires. PacifiCorp understands that litigants might sue the Company alleging wildfire

211 damages, and we must size our overall insurance package accordingly. However, the
212 scale of the impacts of recent wildfire litigation was not foreseeable.

213 **Q. In summary, why is it reasonable for the Commission to allow deferred accounting**
214 **for increased excess liability insurance premium costs?**

215 A. Maintaining insurance is a necessary part of operating a utility and the risks associated
216 with that business. Wildfire liability insurance protects the Company and customers
217 against financial losses from third-party claims associated with this risk in Utah and
218 other states in which the Company provides utility service. Wildfire risk for utilities in
219 the western U.S. has radically changed in the past few years, and the premiums for
220 available commercial liability insurance have significantly increased.

221 **Conclusion**

222 **Q. What is your recommendation?**

223 A. I recommend the Commission approve the Company's application for a deferred
224 accounting order as related to excess liability insurance premiums. PacifiCorp
225 estimates that its excess liability insurance costs are approximately \$125 million
226 (total-Company) for the policy period beginning August 15, 2023, or later. Current
227 rates reflect approximately \$10.5 million (total-Company) in excess liability insurance
228 costs, which would result in a deferral for Utah's allocated share of approximately
229 \$114.5 million (total-Company) for the difference between current costs and the
230 amount in rates.

231 **Q. Does this conclude your direct testimony?**

232 A. Yes.