

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN) CASE NO. PAC-E-23-18
POWER’S APPLICATION FOR A)
DEFERRED ACCOUNTING ORDER)
RELATED TO INSURANCE COSTS) ORDER NO. 36045
)

On August 21, 2023, Rocky Mountain Power, a division of PacifiCorp (“Company”), applied for authority to defer incremental costs associated with the Company’s commercial insurance coverage (“Application”). According to the Company, recent increases in insurance premiums due to wildfires not only exceed anticipated costs embedded in rates, but also could exceed reasonable business risk of third-party wildfire claims.

On September 7, 2023, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 35913. Commission Staff (“Staff”) submitted comments to which the Company replied. The Idaho Conservation League intervened but did not file comments. One untimely public comment was received, urging the Commission to deny the Company’s Application and impose a public safety shutoff requirement on the Company.

Having reviewed the record, the Commission issues this Order approving the Company’s Application as follows.

BACKGROUND

The Company asserts that liability insurance, including liability coverage for third-party claims arising from wildfires, is a prudent business expense. However, according to the Company, costs of such wildfire coverage have increased significantly due to increasing wildfire risk throughout the western United States, making it impossible to obtain coverage at previous premiums.

THE APPLICATION

The Company represents that, under current rates, it recovers \$32.7 million from customers for commercial insurance premiums for a policy covering liability claims by third parties over \$10 million. However, the Company estimated the premiums for a commercial insurance policy beginning August 15, 2023, or later, to be approximately \$125 million, resulting in incremental insurance costs of \$92.3 million. The Company seeks authority to defer Idaho’s share of such incremental costs. The Company proposes recording Idaho’s share of such

incremental costs as a regulatory asset in Federal Energy Regulatory Commission (“FERC”) Account 182.3 – Other Regulatory Assets.

STAFF COMMENTS

After reviewing the Company’s Application, responses to Production Requests, and other similar concluded cases, Staff recommended partial approval of the Application. Specifically, Staff recommended the Commission allow the Company to defer, without a carrying charge, only Idaho’s jurisdictional share of incremental insurance premiums above those already booked to FERC Account 925—Injuries and Damages and included in base rates. Staff further recommended this deferral continue until the earlier of the following: 1) the effective date of the Company’s next general rate case; or 2) December 31, 2026. Additionally, Staff recommended that the Commission order the Company to submit, as a separate filing, a completed version of its Idaho Wildfire Mitigation Plan (“WMP”) within 30 days of its completion.

Staff noted that the Commission generally allows deferral of certain mandatory expenses that are extraordinary, unusual, and carry significant financial impact for the Company. Staff believed that carrying liability insurance is a best practice for utilities, but increasing wildfire risk has driven up insurance premiums. Additionally, Staff indicated that denial of the Application could undermine the Company’s ability to obtain financing necessary to provide safe, reliable service. Furthermore, Staff indicated that it would review prudence of any incremental insurance costs incurred in a subsequent rate proceeding and expects the Company to provide evidence that it has mitigated these costs as much as possible.

However, Staff recommended against allowing deferral of insurance costs for third-party claims under federal or state emergency declarations. Rather, Staff believed that such third-party claims should have separate filings with the Commission to address accounting treatments individually.

Despite generally supporting the Company’s requests presented in the Application, Staff’s recommendations differed in a few ways. After reviewing the documents the Company submitted to support the estimated \$125 million in incremental insurance costs, Staff determined that invoices for insurance premiums totaled \$113,414,663. Staff opined that it is not currently appropriate to book insurance costs other than premiums actually incurred as a regulatory asset.

Staff then used the \$113 million figure and Idaho’s 5.6057% system allocation factor to calculate Idaho’s jurisdictional share of the incremental insurance costs the Company seeks to

defer. According to the Company's calculations, Idaho's jurisdictional share of the \$113,414,663 total insurance costs is \$6,367,253, which exceeds the \$1,833,063 currently embedded in rates by \$4,534,190. Staff notes that the Company currently records liability insurance expenses in FERC Account 925. Staff does not object to the Company continuing this practice and agrees with the Company that the proper accounting procedure for the deferred insurance costs is to debit FERC Account 182.3 and credit FERC Account 925. However, as the amounts deferred may vary substantially year to year, Staff believes the deferral period should be limited to avoid rate pancaking. Accordingly, Staff recommended allowing the Company to defer the incremental insurance costs until the Company's next general rate case or December 31, 2026, whichever occurs first.

COMPANY REPLY

The Company urged approval of Staff's recommendations with three modifications. First, the Company opposed Staff's recommendation to deny a carrying charge on the deferred amounts, arguing they reflect costs of doing business. Accordingly, the Company recommended a two percent carrying charge, which is equal to the 2023 interest rate for customer deposits.

Second, the Company opposed Staff's recommendation to deny the Company's request to include insurance costs for third-party claims under state and federal emergency declarations, asserting that such a determination is unnecessary. According to the Company, it did not request recovery for any third-party claims in this case. Rather, the Company sought deferral only of incremental costs for insurance covering third-party claims under federal and state emergencies—not the actual costs of such claims.

Third, the Company disagreed with Staff's recalculation of the estimated insurance costs. The Company represented that it is not seeking to defer anything other than incremental insurance costs and that it has received additional invoices for insurance since September 2023 when it provided those resulting in the \$113,414,663 figure Staff calculated. Accordingly, the Company recommended the Commission authorize deferral of the incremental insurance costs without capping the amount of the deferral as all deferred amounts would be subject to a prudence review in a future case.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company's Application and the issues in this case under Title 61 of the Idaho Code including, Idaho Code §§ 61-501, 502, and -503. Based on our review of the record, we find it reasonable to grant the Company's Application in part.

The Commission believes that liability insurance is a prudent expense that protects both utilities and their customers. Indeed, the Company currently recovers approximately \$32.7 million from customers for commercial insurance coverage. However, the Company has shown that its liability insurance premiums have increased significantly beyond that currently embedded in base rates, which is likely due at least in part to extraordinary liability risks wildfires pose within the insurance industry. See Joel Rosenblatt, *Utility Investors Wary of Exposures After Buffet's PacifiCorp Held Liable for Wildfires*, INSURANCE JOURNAL (July 19, 2023), <http://www.insurancejournal.com/news/national/2023/07/19/731224.htm> (last accessed Dec. 18, 2023) (noting the increasing threat of wildfires in the United States).

Additionally, although allowing the Company to defer incremental insurance costs above those already included in rates would not guarantee their future recovery, outright denial of the Application at this point could undermine the Company's ability to obtain financing in the future necessary to provide safe, reliable service. Accordingly, we find it just, fair, and reasonable to grant the Company authority to defer, without a carrying charge, Idaho's jurisdictional share of incremental liability insurance premiums *actually* incurred that exceed the amount already included in base rates. However, prior to authorizing their recovery in base rates, the prudence of these incremental costs will be reviewed in a future case. Additionally, as the amounts deferred may vary annually, the authority to defer these incremental insurance costs shall extend only until the earlier of the Company's next general rate case or December 31, 2026.

Additionally, the Commission expects the Company to take steps mitigating its wildfire exposure and insurance expenses. One such step is development of the Company's wildfire mitigation plan for Idaho. Although development of the plan is ongoing, timely completion and execution of such a plan could benefit both the Company and its customers. Accordingly, we find it fair, just, and reasonable to order the Company to submit, as a separate filing, a final copy of its Wildfire Mitigation Plan for Idaho within 30 days of completing the plan's development, but no later than April 15, 2024.

ORDER

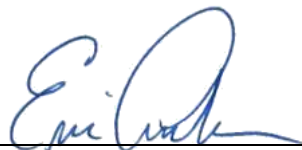
IT IS HEREBY ORDERED that the Company is authorized to defer without a carrying charge Idaho’s jurisdictional share of incremental liability insurance premiums incurred that exceed the amount already included in base rates until the earlier of the Company’s next general rate case or December 31, 2026.

IT IS FURTHER ORDERED that the Company shall defer these expenses into FERC Account 182.3—Other Regulatory Assets.

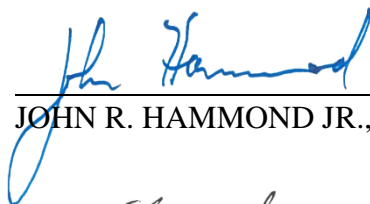
IT IS FURTHER ORDERED that the Company shall submit as a separate filing a final copy of its wildfire mitigation plan for Idaho within 30 days of completing the plan’s development, but no later than April 15, 2024.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of December 2023.



ERIC ANDERSON, PRESIDENT



JOHN R. HAMMOND JR., COMMISSIONER



EDWARD LODGE, COMMISSIONER

ATTEST:



Monica Berrios-Sanchez
Interim Commission Secretary