BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES IN IDAHO AND APPROVAL OF PROPOSED ELECTRIC SERVICE SCHEDULES AND REGULATIONS	)))))))	CASE NO. PAC-E-24-04 DIRECT TESTIMONY OF JOELLE R. STEWARD

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-24-04

May 2024

I. INTRODUCTION OF WITNESS AND QUALIFICATIONS

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Rocky Mountain Power (the "Company").

A. My name is Joelle R. Steward, and my business address is 1407 West North Temple, Salt Lake City, Utah 84116. I am currently employed as Senior Vice President, Regulation.

Q. Please summarize your education and business experience.

A. I have a Bachelor of Arts degree in Political Science from the University of Oregon and an M.A. in Public Affairs from the Hubert Humphrey Institute of Public Policy at the University of Minnesota. Between 1999 and March 2007, I was employed as a Regulatory Analyst with the Washington Utilities and Transportation Commission. I joined the Company in March 2007 as a Regulatory Manager, responsible for all regulatory filings and proceedings in Oregon. On February 14, 2012, I assumed responsibilities overseeing cost of service and pricing for PacifiCorp. In May 2015, I assumed broader oversight over regulatory affairs in addition to the cost of service and pricing responsibilities. In 2017, I assumed the role as Vice President, Regulation for Rocky Mountain Power; in November 2021, I assumed my current role as Senior Vice President, Regulation and Customer/Community Solutions for Rocky Mountain Power.

Q. Have you appeared as a witness in previous regulatory proceedings?

A. Yes. I have testified on various matters in the states of Idaho, Oregon, Utah, Washington, and Wyoming.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. I provide an overview of Rocky Mountain Power's general rate case filing and support the Company's policy positions in the filing. Specifically, I discuss the drivers leading to the requested overall increase in rates of approximately $92.4 million or 26.8 percent. This change in rates is comprised of a base revenue requirement increase of $81.3 million and $11.1 million to fund the Company's proposed Catastrophic Fire Fund. Included in the base increase of $81.3 million, the Company proposes to recover $12.4 million for excess liability insurance in a new Electric Service Schedule No. 92 - Insurance Cost Adjustment. In order to mitigate the first-year rate impact of the increase, I discuss the Company's proposal to phase in the base net power cost increase over two years such that the increase on January 1, 2025 would be 19.4 percent and the increase on January 1, 2026 would be 7.4 percent. Finally, I address the Company's proposals to better position the Company to respond to the increasing costs and risks associated with wildfire liability, which are necessary to support the long-term stability of the Company.

Q. How is your direct testimony structured?

A. Section III of my testimony provides an overview of Rocky Mountain Power's last rate case filing. Section IV provides an overview of this rate case filing, including a discussion of key drivers. Section V provides an overview of the Company's update to the ECAM. Finally, Section VI discusses the Company's proposals regarding the increasing wildfire insurance costs and how these new regulatory tools respond to the costs and risks associated with wildfire liability.

Q. Please summarize the recommendations you make in your direct testimony.

A. I recommend that the Idaho Public Utilities Commission ("Commission"):

- Authorize an increase of $92.4 million or approximately 26.8 percent, for recovery of the base revenue requirement, including the excess liability insurance to be recovered through Electric Service Schedule No. 92 and the funding of the Catastrophic Fire Fund through a dedicated surcharge, Electric Service Schedule No. 193. The support for the increase is set forth in my testimony and the testimony of the other Company witnesses;

- Approve the rate mitigation proposal to phase in the base net power cost portion of the increase in two steps, one rate change to be effective January 1, 2025 and the second rate change to be effective January 1, 2026 as supported by myself and Company witness Ramon J. Mitchell;

- Approve as prudent the Company's request to include the incremental additions to the Company's rate base, including the Gateway South transmission line, Gateway West Segment D1 transmission line, Rock Creek I wind facility, and the Foote Creek II, III, and IV and Rock River I acquisition and repowering projects, for a total Idaho rate base of approximately $1.1 billion, as discussed in the testimony of various witnesses in this rate case;

- Approve an overall cost of capital of 7.69 percent, which is comprised of a capital structure of 50.00 percent equity, 49.99 percent long-term debt, and 0.01 percent preferred stock as supported by Company witness Nikki L. Kobliha; and a return on equity ("ROE") of 10.30 percent as supported by Company witness Ann E. Bulkley;

- Approve the forecasted total-Company net power costs ("NPC") for 2025 of $2.382 billion and $136.7 million on a Idaho-allocated basis as supported by Company witness Mitchell;

- Approve the Company's proposal to recover third-party liability insurance costs through a dedicated surcharge, Electric Service Schedule No. 92 – Insurance Cost Adjustment as supported in my testimony;

- Approve Idaho's participation in and funding of the Catastrophic Fire Fund through a dedicated surcharge, Electric Service Schedule No. 193, to be effective January 1, 2025 as supported in my testimony;

- Approve the Company's proposed modification to the Energy Cost Adjustment Mechanism ("ECAM") as supported by Company witnesses Mitchell and John Tsoukalis;

- Approve the Company's new voluntary renewable energy credit option tariff as supported by Company witness Craig M. Eller; and

- Approve the cost of service and rate design proposals set forth in the testimony of Company witness Robert M. Meredith.

III. PREVIOUS RATE CASE HISTORY

Q. Please discuss PacifiCorp's most recent general rate case and its outcome.

A. On May 27, 2021, the Company filed its last general rate case ("2021 GRC") requesting an increase in revenues from Idaho operations of $19.0 million or a 7.0 percent increase to its revenue requirement.[1] The Company and intervenors in the proceeding entered into a stipulation and settlement, whereby the Company was allowed to increase rates by $8.0 million or 2.9 percent.[2] The Commission entered an order approving the stipulation as filed, effective January 1, 2022.[3]

IV. OVERVIEW OF RATE CASE

Q. What is the purpose of this section of your direct testimony?

A. In this section of my testimony, I discuss the individual components of the Company's filing, including the cost drivers leading to the filing.

Q. What test period is the Company proposing in this rate proceeding?

A. The Company is proposing a test period based on calendar year 2023 with known and measurable changes through the

---

[1] *In the Matter of Rocky Mountain Power's Application for Authority to Increase its Rates and Charges in Idaho and Approval of Proposed Electric Service Schedules and Regulations,* Case No. PAC-E-21-07, Order No. 35277 at 1 (Dec. 30, 2021).
[2] *Id.,* at 3.
[3] *Id.,* at 11.

12 months ending December 31, 2024, except for net power costs, which is based on a forecast for 2025. The testimony of Company witness Shelley E. McCoy discusses the development of the test period.

Q. What rate of return ("ROR") is PacifiCorp requesting in this case?

A. The Company is requesting approval of an overall ROR of 7.69 percent. The overall ROR includes a 10.3 percent ROE as supported by Company witness Bulkley. As explained by Company witness Kobliha, PacifiCorp is requesting a capital structure that is comprised of 50.00 percent equity, 49.99 percent long-term debt, and 0.01 percent of preferred stock. Together, this results in a weighted ROE of 5.15 percent. Notably, the Company is requesting an authorized ROE at the lower end of the range recommended by Company witness Bulkley. The Company's proposed ROE balances the impact on customers with the prevailing market conditions that support a higher ROE, as described by Company witness Bulkley, and the Company's increased need to access capital at a reasonable cost in light of the escalating utility risks as discussed by Company witnesses Richard J. Garlish and Kobliha. Company witness McCoy applies the overall ROR to the Company's cost of service.

Q. What allocation methodology is the Company using to allocate costs in this rate case proceeding?

A. To develop the revenue requirement in this proceeding, the Company used the 2020 Protocol which the Commission approved on April 15, 2020.[4] The Commission approved the extension to use the 2020 Protocol through December 31, 2025, on June 30, 2023.[5]

Q. Please describe the major drivers of PacifiCorp's rate request.

A. As I noted above, the Company is requesting an overall increase in rates of approximately $92.4 million. The major drivers of the Company's requested increase in base rates are: (1) NPC; (2) capital investments; and (3) insurance costs relating to rising wildfire liability. Table 1 quantifies the drivers of the increase.

---

[4] *In the Matter of Rocky Mountain Power's Application for Approval of the 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol*, Case No. PAC-E-19-20, Order No. 34640 (Apr. 22, 2020).
[5] *In the Matter of Rocky Mountain Power's Petition for Approval of an Extension of the 2020 Inter-Jurisdictional Allocation Protocol,* Case No. PAC-E-23-13, Order No. 35984 (Nov. 2, 2023).

Table 1

GRC Drivers from 2021 GRC	
Net Power Cost	$ 50.1
Capital Investments	$ 13.5
Cat Fund	$ 11.1
Insurance Cost Adjustment	$ 9.8
Insurance Premium Deferral (3 Yrs.)	$ 2.6
Other	$ 5.3
	$ 92.4

I discuss the first two drivers in more detail below. In Section VI of my testimony, I discuss the third and fourth drivers, the costs related to escalating wildfire liability.

Q. Please describe the NPC driver.

A. As explained by Company witness Mitchell, NPC have greatly increased since the Company's 2021 GRC. The Company is proposing a forecast base NPC for 2025 to be $2.382 billion on a total-company basis and $136.7 million on an Idaho-allocated basis. This is a significant increase of $1.015 billion or 74 percent from 2021 GRC forecasted base total-company NPC of $1.368 billion that is currently included in rates. NPC has been trending upward for several reasons, but the largest drivers are the significant increases in regional power and fuel prices. However, the Company has and continues to make long-term investments that respond to changes in the industry to ensure continued operation of a safe and reliable portfolio of resources that are least-cost and least-risk for our customers. For example, the NPC increase is mitigated by the Company's investment in wind facilities and in the Gateway South transmission line because it allows for the deployment of additional capacity from Wyoming wind and coal resources. Further, because of its participation in the Western Energy Imbalance Market ("WEIM"), the Company's customers have received savings of and reduction to NPC of $819.49 million since WEIM's inception.[6] Further, based on preliminary analysis, participation in the Extended Day-Ahead Market ("EDAM"), which the Company will join in 2026, may realize savings of up to $181 million per year. Company witness Mitchell explains in detail the drivers causing the increase in NPC and actions taken by the Company to offset increasing NPC. He also supports the forecasted 2025 base NPC to be included in Idaho rates in his testimony.

Q. Please describe the capital investments driver.

A. The Company continues to make capital investments to bring safe, reliable and low-cost service to its customers. In this rate case proceeding, the Company is including in capital additions certain significant projects, including the Gateway South and Gateway West

[6] https://www.westerneim.com/Pages/About/QuarterlyBenefits.aspx (website last visited May 20, 2024).

Segment D.1 transmission lines and the Rock Creek I wind project.

Q. Please describe the Gateway South and Gateway West Segment D.1 transmission line projects.

A. These transmission projects are key components of the Company's Energy Gateway Transmission Expansion and have been an integral component of the long-term transmission plan for the region for a decade. Gateway South is a 416-mile, high voltage 500-kilovolt ("kV") transmission line that will connect southeastern Wyoming to central Utah. Gateway West Segment D.1 includes the construction of a new 59-mile, high voltage 230-kV transmission line from the Shirley Basin substation in southeastern Wyoming to the Windstar substation near Glenrock, Wyoming, and a rebuild of approximately 57 miles of the existing Dave Johnston–Shirley Basin 230-kV transmission line. Company witness Richard A. Vail's testimony provides details regarding these transmission projects.

Q. What is the status of construction of the Gateway South and Gateway West Segment D.1 transmission line projects?

A. Construction began on the Gateway South and Gateway West Segment D.1 transmission line projects in June 2022 and September 2022, respectively. Both transmission projects are expected to be in-service in the fourth quarter of

2024. Company witness Vail provides details regarding the construction of these projects.

Q. Do the Gateway South and Gateway West Segment D.1 transmission projects provide benefits to customers?

A. Yes. As explained by Company witnesses Rick T. Link and Vail, the Gateway South and Gateway West Segment D.1 transmission projects will provide a number of benefits including relieving congestion on the transmission system, enabling additional renewable resource interconnections, and improving overall reliability. Additionally, these resources will help enable the future interconnection of up to 2,500 megawatts ("MW") of interconnection and transmission requests, including 13 executed interconnection service and transmission service agreements for over 1,600 MW of new wind resources.

Q. Please describe the Rock Creek I wind project.

A. The Rock Creek I wind project will have a nameplate capacity of 190 MW and is located in Carbon and Albany counties in southeast Wyoming. The project is being developed by Invenergy and was a bid submitted and selected to the final shortlist in the Company's 2020 All-Source Request for Proposal process in the form of a build-transfer agreement. The project is currently under construction. Company witness Jeffrey M. Wagner provides further details regarding the Rock Creek I wind project.

Q. Does the Rock Creek I wind project provide benefits to customers?

A. Yes. As explained by Company witness Thomas R. Burns, the wind projects are cost-effective ways to meet a substantial near-term need for resources at a time when the region is expected to be resource deficient.

Q. What is the Company proposing for rate design and tariffs?

A. The Company is proposing changes to modernize the rate design for its non-residential time of use option (Schedule 35) and make a handful of changes to its tariffs that relate to large new load requests. For residential customers, the Company continues to implement the five-year transition for rate design approved in Case No. PAC-E-22-15; as such the Company is not proposing residential rate design changes in this case. Proposed cost of service, rate spread, rate design, and tariff changes are discussed by Company witness Meredith.

Q. Is the Company proposing a ratemaking measure that mitigates the requested rate increase for January 1, 2025?

A. Yes. The Company is proposing to phase-in the requested

$92.4 million increase through two rate changes. Specifically, $66.7 million or 19.4 percent of the overall increase would become effective on January 1, 2025, and $25.7 million or 7.4 percent of the overall increase would become effective on January 1, 2026.

Q. Please explain how the Company proposes to phase in the requested overall rate increase and why it is reasonable.

A. The largest driver of the Company's overall rate increase is updating base NPC, which are approximately $50.1 million, or over 50 percent of the requested increase. Differences between actual NPC and base NPC are tracked and recovered annually through the ECAM, subject to a sharing band. Customers have experienced the increases in NPC since the last rate case through the ECAM, most recently in Case No. PAC-E-24-05, with a request to recover $62.4 million in NPC deferred in 2023, which is a 10.5 percent increase on June 1, 2024. Resetting the base NPC in this case will hopefully lessen the annual rate changes in the ECAM in the future, however the Company recognizes the compounding effect on rates now of resetting the base NPC in this case while also recovering the prior year deferrals through the ECAM.

Therefore, the Company is proposing to phase in the increase in the new base NPC over two years. The current base NPC in rates set in the 2021 GRC is $24.54 per megawatt hour ("MWh") and the new base NPC proposed in this case is $39.34/MWh. To phase in the increase, the Company proposes to increase the base NPC to the mid-point from the current level in rates to the new base, or an increase from $24.54 to $31.94/MWh on January 1, 2025, followed by an increase from $31.94/MWh to $39.34/MWh on January 1, 2026. The result is a $25.7 million reduction in the rate request effective January 1, 2025, which reduces the first-year rate impact by 7.4 percent.

However, the Company should not be harmed as a result of application of a sharing band in the ECAM as a result of this rate mitigation approach. Thus, the Company proposes that the application of the sharing band in the ECAM for costs deferred in 2025 should only apply to actual costs in excess of $39.34/MWh, not the $31.94/MWh in rates that year. Further details on how this phase-in approach would be treated with the ECAM is provided in Company witness Mitchell's testimony and Company witnesses McCoy and Meredith apply the two-step rate proposal to the overall increase for revenue requirement and rates.

V. PROPOSED MODIFICATION TO THE ECAM

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I discuss the Company's proposed modification to the ECAM.

Q. What is the ECAM?

A. As previously noted, the ECAM is a ratemaking mechanism that is filed annually through which the Company returns to or recovers from customers the difference between Idaho-allocated actual NPC that occur during the prior calendar year and the base NPC, which are forecasted and included in base rates by the Commission in a general rate case. The ECAM also includes the return or recovery of certain other non-NPC items as authorized by the Commission.[7] The ECAM includes a sharing band whereby Company returns to or recovers from customers 90 percent of the difference between actual and forecast ECAM costs, and the remaining 10 percent of the difference is retained or absorbed by the Company.

Q. What change is the Company proposing to the ECAM?

A. The Company proposes to modify the ECAM sharing band for 95 percent of NPC variances to be passed through the

[7] For a list of currently approved elements included in the ECAM, see the Application *In the Matter of the Application of Rocky Mountain Power Requesting Approval of $62.4 Million ECAM Deferral,* Case No. PAC-E-24-05 (April 1, 2024).

mechanism. The remaining five percent of NPC variances will remain outside the mechanism (95/5 sharing band).

Q. Why is the Company proposing changes to the ECAM at this time?

A. Since the ECAM with a 90/10 sharing band was first approved in 2009, the energy policies and the associated impacts on NPC have significantly changed. However, the sharing band first approved approximately 15 years ago has remained unchanged and is now outdated. It is outdated for a number of reasons, including how the Company dispatches resources has changed, an unprecedented level of uncertainty in being able to accurately forecast NPC due to market and fuel prices and to meet state and federal environmental compliance requirements, and the Company's plan to join the California Independent System Operator's EDAM. Therefore, the Company is seeking this change in the ECAM to better reflect how the industry and the Company's operations have changed since the ECAM was initially adopted in 2009. Company witnesses Mitchell and Tsoukalis support the Company's ECAM proposal in their testimony.

VI. WILDFIRE LIABILITY COVERAGE

Q. What is the purpose of this section of your direct testimony?

A. I describe two proposals the Company seeks to have approved in this proceeding that will help position the Company to respond to financial risk posed by the increasing frequency and severity of wildfires impacting PacifiCorp's service territories. The proposals complement the Company's ongoing investments in wildfire mitigation throughout its service territory. The new regulatory tools the Company proposes are necessitated by the rapid changes in the insurance market and the wildfire liability outlook for utilities throughout the West. The Company requests Commission approval of:

- An Insurance Cost Adjustment ("ICA") that will recover the costs for excess liability insurance through a separate surcharge. Separating recovery for this expense will enable the Company to annually procure insurance for third-party liability using the most economical combination of commercial insurance and self-insurance through a new Insurance Mechanism that the Company is developing. The Company will seek approval for the Insurance Mechanism through a separate filing but presents the need for and framework of it in this filing to support the approval of the ICA.

- A Catastrophic Fire Fund framework that will facilitate creation of a multi-state risk pool for potential catastrophic events where third-party liabilities are in excess of the Company's insurance coverage.

Additional testimony supporting the need for the Company’s proposals is provided by Company witnesses Mariya V. Coleman and Frank Graves.

The Company has presented the Insurance Mechanism and Catastrophic Fire Fund concepts to stakeholders in multi-state workshops that began in September 2023. The Company continues to work with stakeholders to gather feedback on the design and implementation of the Insurance Mechanism and the Catastrophic Fire Fund.

Q. Why is the Company seeking approval of these proposals in this proceeding?

A. The Company presents its proposals in its GRC for two reasons. First, liability insurance is a category of expense that the Commission has considered a necessary part of the Company’s cost of service recovered in retail rates. The Insurance Mechanism will be an innovative vehicle for managing liability insurance expenses as circumstances change with the commercial insurance market, which evidence suggests is becoming strained by coverage demands for wildfires and other extreme weather events around the world. Second, the ICA and Catastrophic Fire Fund involve targeted surcharges that would be incorporated into Idaho rates in this proceeding.

Subsequent to this filing the Company intends to file for approval of the Insurance Mechanism, including liability coverage level, that the ICA will support. The Company's insurance coverage comes up for renewal on August 15 of each year. As discussed in my testimony and further explained in the testimony of Company witness Coleman, there is no doubt that commercial insurance covering wildfire liability will be extremely expensive for the coverage that is available when the Company must make its annual coverage decisions. Obtaining reasonable insurance coverage for known wildfire risks will be more feasible if the Company has the Commission's authorization to implement its Insurance Mechanism that enables the ability to incorporate self-insurance to complement or replace commercial insurance. To facilitate a path to resolution and to support the need for the ICA, my testimony outlines the Insurance Mechanism structure that the Company is continuing to develop with stakeholders and will file for approval subsequent to this case.

A. PacifiCorp Initiatives to Mitigate Costs to its Customers Associated with Increasing Wildfire Risk

Q. What steps is PacifiCorp taking to mitigate the risks associated with wildfire?

A. The increasing incidence and severity of wildfires has had a tremendous impact on PacifiCorp and its customers.

Working together with regulators, public safety officials, local communities, other utilities, and our customers, PacifiCorp devotes substantial financial and human capital to addressing the risk of wildfires. Our approach to wildfire mitigation involves daily operational activities and major investments to minimize the risk of ignition. PacifiCorp is also taking steps to manage the proliferation of wildfire-related liabilities in order to stem the impact of rising Company costs on customer rates.

Q. Please summarize the Company's actions to mitigate the incidence and severity of wildfires.

A. PacifiCorp's Idaho 2024-2026 Wildfire Mitigation Plan ("WMP") details the Company's initiatives to date and plans for future mitigation of wildfire risk.[8] The WMP describes investments to construct, maintain and operate electrical lines and equipment in a manner that will minimize the risk of wildfire. In evaluating which engineering, construction, and operational strategies to deploy, the Company's actions are guided by the following core principles:

- Systems that facilitate situational awareness and operational readiness are central to mitigating fire risk and its impacts.

[8] *See*, *In re Application of Rocky Mountain Power Requesting Approval of the 2024 Idaho Wildfire Mitigation Plan,* Case No. PAC-E-24-09, Rocky Mountain Power's 2024-2026 Idaho Wildfire Mitigation Plan (Apr. 15, 2024).

- When a fault event does occur, the impact of the event can be minimized using equipment and personnel to shorten the duration to isolate the fault event.

- Frequency of ignition events related to electric facilities can be reduced by engineering more resilient systems that experience fewer fault events.

In 2023, guided by these principles, PacifiCorp:

- Completed additional vegetation management practices on 67 circuit segments.

- Expanded situational awareness through installation of ten weather stations and procurement of new risk modeling tools, datasets, and software.

- Implemented modified operational setting and re-energization practices.

- Launched the Public Safety Partner portal.

PacifiCorp's Idaho 2024-2026 WMP incorporates the Company's 2023 experience as well as feedback and recommendations from stakeholders and communities. As a result, in 2024 the Company is forecasting an additional investment in Idaho of $31.4 million through 2026.

In addition to the WMP for Idaho, PacifiCorp prepares, and files wildfire mitigation plans in California, Oregon, Utah, and Washington.[9] The Company

[9] *See*, California Office of Energy Infrastructure Safety, Docket No. 2023-2025 WMPs, PacifiCorp California 2023 Wildfire Mitigation Plan, filed May 8, 2023 (available at https://efiling.energysafety.ca.gov/Lists/DocketLog.aspx?docketnumber=2023-2025-WMPs) (last visited May 19, 2024); *In the Matter of PacifiCorp*

is also preparing to file a wildfire mitigation plan to document the modeled risks and mitigation efforts for its service area in Wyoming.

Q. Does PacifiCorp expect its mitigation efforts will eliminate wildfire risks in its service territories?

A. No. While utility wildfire mitigation efforts are important and represent good utility practice, they are not sufficient to fully eliminate wildfire risks in a fire-prone regions like that served by the Company. Even if mitigation efforts effectively reduce the risk of ignition, the extreme weather conditions that increasingly accompany fire outbreaks amplify the risk that a wildfire will cause substantial damage once it has started. In addition, responsibility to mitigate wildfires is distributed across numerous agencies and individuals whose action or inaction may result in damages regardless of a utility's performance. Not all wildfire risks can be resolved by PacifiCorp or by any

---

d/b/a Pacific Power, 2023 Oregon Wildfire Mitigation Plan, Docket No. UM 2207 (filed Dec. 29, 2023) (available at https://apps.puc.state.or.us/edockets/DocketNoLayout.asp?DocketID=23110) (last visited May 19, 2024); *In the Matter of Rocky Mountain Power's 2023 Utah Wildland Fire Protection Plan*, Docket No. 23-035-44, Utah Wildfire Mitigation Plan for 2023-2025 (filed Sept. 25, 2023) (available at https://pscdocs.utah.gov/electric/23docs/2303544/329969UTWldfrMtgtnPln202320259-25-2023.pdf) (last visited May 19, 2024); *In the Matter of Utility Wildfire Preparedness,* Docket No. U-210253, PacifiCorp Washington Wildfire Mitigation Plan, filed April 14, 2022 (available at https://www.utc.wa.gov/casedocket/2021/210254/docsets) (last visited May 19, 2024).

utility or regulator. In fact, additional societal or policy changes beyond the utility industry or the Commission's control are needed to thoughtfully address expected future wildfire impacts. But until those broader societal changes can be accomplished, PacifiCorp needs regulatory solutions now to address this risk to support our ability to obtain reasonable access to financing required to ensure adequate, reliable service.

Q. In those occasions where wildfire damages occur, what steps is PacifiCorp taking to manage risk of liabilities and attendant impacts on customer rates?

A. Exposure to various types of liability has always been inherent in a utility's broad obligation to serve and its operation of facilities distributed throughout large geographic service areas. The Company manages the unpredictable financial impacts of such claims in several ways: situational awareness and system hardening to prevent occurrence of damages and the use of insurance to cover liabilities.

These risk mitigation methods protect customers from exposure to rate impacts resulting from a utility's need to incorporate extraordinary damages expense in its revenue requirement. As detailed in the Company's 2024-2026 WMP, PacifiCorp continues to expand the situational awareness and system hardening tools available to mitigate wildfire risk. Insurance procurement costs have historically been authorized by the Commission. Most recently, the Commission reiterated that it "believes that liability insurance is a prudent expense that protects both utilities and their customers."[10] The Company is taking steps to update insurance procurement with the goal of providing financial and rate stability during this time of unprecedented volatility stemming from growing wildfire liability risk.

Q. How is the Company seeking to address the impacts of wildfire issues on its procurement of liability insurance?

A. The Insurance Mechanism and Catastrophic Fire Fund both offer tools for adjusting traditional protections against claims volatility to the new realities of the Company's wildfire risks. The remainder of my testimony will focus on the development and proposed implementation of these tools.

B. Development of the Company's Insurance Mechanism and Catastrophic Fire Fund Proposals

Q. What prompted the Company to develop an Insurance Mechanism and Catastrophic Fire Fund proposal?

A. Over the last few years the landscape for obtaining

[10] *See, In the Matter of Rocky Mountain Power's Application for a Deferred Accounting Order Related to Insurance Costs,* Case No. PAC-E-23-18, Order No. 36045 at 4 (December 29, 2023).

commercial insurance to cover wildfire risk has radically changed and seems likely to continue to become more challenging. Regional claims for third-party liability for past wildfires, combined with increasing uncertainty about the financial impacts expected from future fire events, drove PacifiCorp's commercial insurance costs to unprecedented levels. When it renewed commercial liability insurance policies in August 2023, the Company experienced an increase from the $32.7 million currently in rates to $122.6 million (a $89.9 million increase) for the policy period starting August 15, 2023.

Q. How does the Company's 2023 renewal compare to historical experience with commercial liability insurance coverage and costs?

A. Like many utilities, the Company purchases insurance with Associated Electric & Gas Insurance Services Limited ("AEGIS") as the primary insurer and builds a follow-form tower above to build up insurance limits. "Follow-form" means the insurers higher in the tower follow AEGIS policy provisions with some minimal modifications at each layer. AEGIS coverage indemnifies insureds for claims arising from sudden and accidental third-party bodily injury and property damage, meaning general liability, inclusive of wildfire liability.[11] The coverage is specifically tailored for all activities in which an electric or gas utility may engage. Prior to 2020, many of the Company's insurers included all wildfire coverage within the utility excess liability tower.

In 2022-23, PacifiCorp's policy year expenditure for excess liability insurance was $34 million. General utility risk limits within the coverage were for claims up to $530 million. The 2022-23 policy had a primary $10 million self-insured retention and various layers of self-insurance including $35 million in California wildfire limits and $55 million in utility risk limits.

The increased costs for commercial excess liability insurance for the 2023-24 policy year were far beyond anything the Company has experienced before. Excess liability insurance costs were up 269 percent in one year, and the 2023-24 policy year represents a 1,888 percent increase over the last five years.[12] At the same

[11] AEGIS coverage is available only to electric, gas and water utilities and adds some areas of coverage that are in addition to general liability. The expanded coverages include auto liability, employer's liability, products liability, completed operations liability, failure to supply, sudden and accidental pollution, medical malpractice, and aircraft liability, amongst others.

[12] PacifiCorp additionally purchased $123.75 million in third-party insurance for property damage-only caused by wildfire. This indemnifies PacifiCorp for claims from homeowners and business insurers who are seeking to recover costs they paid to their insureds and claimants who had property damage that was uninsured or underinsured.

time, coverage limits have not kept pace, with similar limits to 2019 now costing the Company an incremental $116 million annually. The changes in costs and coverage since 2018 are detailed in Table 2.

Table 2: Historical PacifiCorp excess liability insurance costs and limits, with breakouts for wildfire coverage (2018-23)

PacifiCorp	2023	2022	2021	2020	2019	2018
Total Costs for Excess Liability	$122.6m	$33.1m	$27.5m	$9.5m	$6.2m	$3.5m
Total Excess Liability Limit	$542.5m	$530m	$515m	$517.5m	$517.5 m	$485m
Wildfire Sub limits:						
CA	$344.8m	$145m	$145m	$95m	$98m	$147.5m
OR/WA	OR $348.3m WA $363.3m	$188m	$170.5m	$415m	$415m	
ID/UT/WY	$458.3m	$232.5m	$215m	$427.5m	$427.5m	
Year over Year Increase in Costs	270%	20%	189%	54%	78%	
Increase in Costs from 2019	1,888%	438%	346%	54%		

Based on the 2023 experience, it was clear to the Company that it must seek workable alternatives for future renewals.

Q. In addition to the increasing insurance costs, were there other developments in 2023 that drove the Company to develop the Insurance Mechanism and Catastrophic Fire Fund?

A. Yes. Recent developments in the utility and insurance industries regarding wildfire events are making it increasingly clear that, barring legal or regulatory interventions: (a) commercial rates for wildfire liability coverage will continue their dramatic rise and (b) utilities should expect that wildfire liability coverage will become less available from commercial insurers, if it is offered at all. As reported in the trade publication *Insurance Journal* in July 2023, insurers have taken note of the fact that "[l]liability on the scale imposed by the Oregon jury [in the *James* litigation] presents an existential threat to an industry that faces increasing wildfire risk from more extreme weather fueled by climate change."[13] Company witness Coleman provides support for the expected increase in premiums.

Q. Have the increased wildfire liability risks had additional impacts on PacifiCorp?

A. Yes, credit ratings agencies cited wildfire risk, in particular potential losses associated with the fires in September 2020 and the 2022 McKinney fire, as the direct cause of a ratings downgrade for PacifiCorp in the second half of 2023. In its June 20, 2023, notice that it was

[13] Joel Rosenblatt, *Utility Investors Wary of Exposures After Buffet's PacifiCorp Held Liable for Wildfires*, INSURANCE JOURNAL (July 19, 2023), available at: https://www.insurancejournal.com/news/national/2023/07/19/731224.htm. *See also*, S&P Global Ratings Direct, *A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities' Credit Quality*, Nov. 19, 2023), available at: https://www.spglobal.com/ratings/en/research/articles/231109-a-storm-is-brewing-extreme-weather-events-pressure-north-american-utilities-credit-quality-12892106(online registration required).

downgrading PacifiCorp, Standard & Poor's ("S&P") stated:[14]

- "…we believe the operating risks for PacifiCorp have significantly increased."

- "To incorporate the increasing event risk that may depress credit metrics over our forecasts associated with the potential litigations, we revised our financial policy modifier to negative from neutral. Overall, we assess PacifiCorp's stand-alone credit profile (SACP) at 'bb+', reflecting our revised view of PacifiCorp's business risk profile and financial policy modifier."

Similarly, a Moody's analysis issued on June 23, 2023, included the following:[15]

- "Wildfires are a significant risk for PacifiCorp's service territory in Oregon, Utah, and California. While such wildfire risk has not been on the scale of its California investor-owned utility peers, it could still substantially impact its credit profile."

- "Moody's could stabilize PacifiCorp's rating if there is more clarity on the potential claims emanating from the outstanding class action lawsuit regarding the 2020 Labor Day fires, the claims are settled or largely resolved and that any litigation liability is financed in such a way that does not result in significantly higher debt leverage and maintains PacifiCorp's credit metrics at current levels."

[14] S&P Global Ratings, Research Update: PacifiCorp Downgraded to BBB+, Outlook Revised to Negative: Berkshire Hathaway Energy Co. Outlook Also Negative, June 20, 2023, p. 2.
[15] Moody's Rating Action: Moody's revises PacifiCorp's outlook to negative, affirms ratings, June 23, 2023.

In November 2023, Moody's downgraded PacifiCorp's senior unsecured issuer rating to Baa1 from A3.[16] In December 2023, Moody's noted that wildfire risk was a significant risk for the Company and has a substantial impact on its credit profile.[17] Company witness Kobliha discusses the Company's credit metrics further in her testimony.

In December 2023, the Commission approved PacifiCorp's application for deferred accounting for 2023-24 insurance expenses.[18] In approving the application for deferred accounting, the Commission stated that "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."[19]

Q. How will the Insurance Mechanism and the Catastrophic Fire Fund address the challenges facing the Company?

A. The growing risk of wildfire liability is driving negative financial outcomes that have impacted the

[16] Moody's Rating Action: Moody's downgrades PacifiCorp to Baa1, outlook stable, at 1.

[17] Moody's Investors Services, Credit Opinion, PacifiCorp, Update following a downgrade to Baa1, December 4, 2023, at 1.

[18] *In the Matter of Rocky Mountain Power's Application for a Deferred Accounting Order Related to Insurance Costs,* Case No. PAC-E-23-18, Order No. 36045 (Dec. 29, 2023).

[19] *Id,* at 4.

Company’s financial stability and will influence PacifiCorp’s future ability to provide service at reasonable rates. PacifiCorp’s proposals in this proceeding are focused on an issue that is central to maintaining financial stability: how to supplement, or perhaps replace, the current combination of self-insurance and commercial liability insurance that no longer provides sufficient coverage—at a reasonable cost or at any cost—to address wildfire liability claims. The Insurance Mechanism and Catastrophic Fire Fund seek to alter the existing insurance tower framework, moving PacifiCorp from the “Current” to “Proposed Future” states summarized in Table 3:

Table 3: Current vs. Proposed Regulatory Mechanisms for Liability Coverage

Current State	Proposed Future State
<u>Uncovered Risk</u> Limits on wildfire coverage will leave large potential liabilities uninsured. Carrying such unbounded financial exposure is not sustainable.	<u>Catastrophic Fire Fund</u> A pool of funds drawn on only for extremely large claims that exceed insurance coverage. Creates a multi-state, Company-wide vehicle for managing the largest liabilities without sustaining negative credit impacts that could lead to major rate increases for customers.
<u>Commercial Insurance</u> Used for all excess liability coverage but exorbitant costs and sub-limits for wildfire coverage – or unavailability of wildfire coverage – will force reduced reliance on commercial policies.	<u>Insurance Mechanism</u> Provides more economic sustainable cost for wildfire liability coverage through use of commercial insurance and/or self-insurance, funded by a targeted surcharge. <u>Commercial Insurance</u> Commercial insurance will continue to be used for non-wildfire related needs.
<u>Self-Insured Retention</u> A retention for smaller claims continues to make economic sense even as other arrangements change.	<u>Self-Insured Retention</u> The Company expects an insurance retention similar to today’s level – covering claims up to $10 million – remains a prudent approach in the future.

The goal of the regulatory tools proposed by PacifiCorp is to create some stability in an increasingly unsustainable legal, regulatory, and financial environment, while maintaining flexibility to adjust liability coverage as circumstances change and policy responses evolve.

Q. What steps has the Company taken to develop its recommendations?

A. PacifiCorp gathered information from its own experience with wildfire mitigation and insurance issues. In addition, the Company examined responses to increasing climate change risks in other states. The Company drew from models such as the California Utility Wildfire Fund and the disaster mitigation framework adopted by Florida regulators, which was established to protect utility credit quality in light of increasingly extreme hurricane events. The Company retained The Brattle Group to evaluate and support the Company's development of regulatory tools. As discussed in more detail later in my testimony, PacifiCorp is also working on additional analysis to assist in informing the liability coverage level that should be supported by the proposed Insurance Mechanism and Catastrophic Fire Fund.

Q. Has PacifiCorp discussed its proposals with stakeholders?

A. Yes. PacifiCorp recognized that the proposed solutions would benefit from input from all of the states in which it operates. To facilitate input, PacifiCorp has convened an ongoing series of meetings and workshops with the participants in the Multi-State Process ("MSP"). To date, the Company has met with stakeholders in conjunction with MSP meetings in Portland and Salt Lake City and provided remote participation options for all of the workshops. Additional workshops are scheduled through July 2024 to be able to incorporate evolving information into the proposals. The participants include stakeholders who are involved in PacifiCorp's MSP. This group regularly addresses, and has developed substantial expertise in, cost allocation issues in PacifiCorp states. The MSP consideration of traditional cost allocation issues shares similarities with the issues that will arise in allocation of insurance and liability costs under the new proposals. Moreover, the MSP includes a broad representation of regulators, consumer representatives, and other participants in the Company's state regulatory proceedings.[20]

Q. What has been the outcome of the workshops?

A. The workshops have provided an opportunity for the Company and stakeholders to "level set" on the nature of the challenges posed by unbounded wildfire liability and the diminishing options for wildfire insurance. In its

[20] To the extent they are not already attending, PacifiCorp will invite intervenors to this proceeding to participate in future workshops (subject to agreement to confidentiality protections applicable to settlement discussions).

presentations, PacifiCorp has discussed options for addressing the challenges, with a focus on reaching consensus on actionable and effective regulatory mechanisms that could be timely implemented. As noted above, the workshop process will continue after this filing. PacifiCorp has committed to provide further information and details associated with the Insurance Mechanism and the Catastrophic Fire Fund proposals in future workshop sessions as more information becomes available.

Q. How does PacifiCorp view the interplay of the ongoing workshops and this Idaho rate proceeding?

A. PacifiCorp has included a forecast of commercial premiums for the test period in this case, along with the proposed amortization (over three years) for the deferred costs approved in Case No. PAC-E-23-18. The Company is seeking to recover the excess liability premium costs through a separate rider, the ICA, to be effective January 1, 2025. Recovery of these costs through a separate adjustment tariff will facilitate the new Insurance Mechanism, discussed later in my testimony, which the Company intends to file for approval separately. Filing for approval of the Insurance Mechanism separately allows for the Company to incorporate additional data and stakeholder feedback into the filed proposed mechanism. Filing separately will also allow for a different procedural schedule for the Insurance Mechanism in the event the current commercial insurance market provides insufficient coverage at a reasonable cost for the next renewal period, which next occurs in August 2024.

The Company acknowledges that it is unusual to have solutions that it advocates for in a general rate case being simultaneously further sharpened in a multi-state collaborative process. In substance, however, the setting is not so different from parties' normal process of seeking settlement on issues during the pendency of a contested case. A separate filing for the Insurance Mechanism provides a procedural vehicle that the parties and the Commission can utilize to advance consideration of liability insurance issues in light of a dynamic commercial insurance market and with the potential need to support resolution to ensure coverage for the next policy year while the forecast costs of the policies continue to be part of the GRC for ratemaking.

Second, as noted above, the "Proposed Future State" summarized in Table 3 involves regulatory structures that must necessarily include all PacifiCorp states. For example, current insurance costs are allocated based on the "System Overhead" factor in the 2020 Protocol.[21] If PacifiCorp's proposal for additional insurance options are adopted, those changes will need to flow through the MSP allocation process. It is thus imperative to continue the multi-state collaboration and information-sharing that has characterized the ongoing workshop process.

C. **The Insurance Mechanism Offers a New Least Cost Insurance Coverage Option and Promotes Financial Stability**

Q. Why is the Company developing a new insurance mechanism to address the wildfire insurance challenges you have identified?

A. Commercial insurance is an excellent option for managing liability risk, but only when it provides sufficient coverage at a reasonable cost. If a business can adequately capitalize it, a self-insurance program can provide several benefits. First, a company can customize its insurance for coverage that may not be readily available in commercial markets. This is the situation PacifiCorp faces with the changes in options available

[21] The 2020 Protocol "describes the way all components of PacifiCorp's regulated service, including costs, revenues, and benefits associated with generation, transmission, distribution, and wholesale transactions should be allocated and assigned among the six States during the Interim Period." 2020 Protocol, § 1. The "Interim Period" refers January 1, 2020, to December 31, 2025, the period during which the approved 2020 Protocol remains in effect. *Id*. at 4 (2020 Protocol, § 1). *See* Case No. PAC-E-23-13, Order No. 35984 (Nov. 2, 2023) (extending the effective date of 2020 Protocol through December 31, 2025).

for insuring wildfire liability risk. Second, self-insurance avoids overheads, transaction costs, and risk premiums associated with commercial insurance. If PacifiCorp's proposal is adopted, the Company would have more control over its insurance expenditure, and more flexibility to adapt what it spends on insurance to changing circumstances. Moreover, when claims are low a self-insurance reserve can provide customers a better value because every dollar collected remains available for use in the future versus paying annual premiums regardless of claims made.

Q. What are the key design elements of the proposed Insurance Mechanism?

A. There are three fundamental design elements important to any insurance program. To summarize it at a high level, there are three questions the Company must answer to design and implement a successful Insurance Mechanism.

(1) What is the amount of annual coverage the mechanism will provide?

(2) What is the source and amount of the funds available to pay claims?

(3) How will any self-insurance program be managed, and the reserve funds invested?

The participants in the workshops have discussed these issues and continue to work with the Company toward optimal answers to each of the key questions. In formulating its proposal PacifiCorp is assuming the Insurance Mechanism would be structured to use a self-insurance reserve to fill any gaps in the insurance tower and replace commercial insurance for wildfire coverage in the event commercial insurers no longer offer sufficient wildfire coverage at a reasonable price. My testimony also provides an illustrative example of the Insurance Mechanism that includes both commercial and self-insurance.

Q. How will the Company determine the amount of coverage the Insurance Mechanism will provide?

A. A critical aspect of developing the new insurance mechanism is to identify what is the appropriate amount of insurance coverage to target obtaining through commercial and/or self-insurance. The first step in determining coverage amounts is to prepare estimates and probabilities for losses. In the case of wildfire liability exposure, loss estimates would be comprised of, at a minimum, estimated third-party property damage, bodily injury, wildfire suppression, and legal costs. However, developing reliable loss estimates is a complex task that will benefit from other analysis inputs which will take additional time.

Q. What is the Company's proposal regarding the source and amount of the funds available to pay claims?

A. The Insurance Mechanism would be comprised of both commercial products and self-insurance, to the extent that the cost and availability of commercial products remains a prudent component for achieving the targeted coverage amount. PacifiCorp proposes using the ICA proposed in this GRC as the funding source. The ICA would be set to collect a reasonable amount to pay for the targeted liability coverage amount. Annually the Company would continue to try to obtain commercial insurance products to meet that coverage level. If commercial products are not available at a reasonable cost to meet the coverage target, the Company would use the ICA collections that are in excess of the annual commercial premiums to fund a self-insurance reserve. As such, all payments into the Insurance Mechanism would provide an equivalent type of coverage as insurance premiums for commercial insurance but at a potentially lower annual cost. The self-insurance reserve would build over a number of years up to the coverage target amount and once collections to the self-insurance reserve reach the targeted coverage level, the self-insurance collections would cease until replenishment was needed. The Company will make more specific recommendations on how to establish a level of contribution to the self-insurance reserve when it separately files the Insurance Mechanism for approval. In this case, however, the Company is seeking approval of the ICA with the underlying and minimal expectation that it will be used to fund commercial premiums that will be in effect for the test period. After the test period, the ICA surcharge could support a self-insurance program in lieu of higher cost commercial premium products.

Q. Commercial insurance policies usually include a deductible amount paid by the insured. Would the Insurance Mechanism include a deductible amount paid by the Company?

A. Yes. In typical insurance policies, deductibles provide an incentive to minimize claims and reserve coverage expenditures for more significant events. Low- or no-deductible policies usually come at a much higher cost to insureds. PacifiCorp's existing $10 million self-retention serves this purpose: covering smaller claims without calling on insurance in a way that could lead to higher premiums in the future. PacifiCorp proposes the Insurance Mechanism include an additional deductible, or co-insurance, component. PacifiCorp proposes a deductible arrangement where the Company would pay 2.5 percent of claims over $350 million (total Company), with an annual cap of $10 million (total Company). The inclusion of this co-insurance component is in direct response to feedback from stakeholders in the workshop process to incorporate an incentive for the Company to prudently manage decisions to pay claims to third parties.

Q. How will the self-insurance program be managed and invested?

A. In any insurance program, payment of claims relies on the insurer prudently investing premium payments. Interest and other earnings from investing premiums is essential to building an insurance reserve capable of paying claims up to coverage limits. The Company proposes to invest the surcharge amounts paid into the self-insurance reserve in an interest-bearing account held outside of the Company to make sure the collected funds receive a market-based time value of money.

Q. How does PacifiCorp propose the self-insurance program handle investment decisions, claims review, and other functions typically handled by an insurer?

A. PacifiCorp is evaluating creation of a captive insurance company to administer the self-insurance component of the Insurance Mechanism. Captive insurers are companies typically owned and controlled by their insureds. A captive's purpose is limited to insuring the risks of its owners. The Company would retain an experienced insurance administrator to manage the captive company. Captive insurance companies are subject to regulatory requirements, with particular focus on protection of funds devoted to payment of claims.[22] A regulated captive insurer arrangement may be ideal to ensure transparency and confidence that the Company's surcharge-funded Insurance Mechanism is managed prudently.

Q. Assuming the design elements proposed by PacifiCorp, please provide an illustrative example of how the Insurance Mechanism would work.

A. Table 4 below provides an illustrative example of the workings of the Insurance Mechanism on a total-Company level, from its inception through a 10-year period. The example assumes: (1) an annual total-Company coverage limit of $750 million; (2) a surcharge-funded total-Company premium of $183.9 million per year ($150 million of which is used for commercial premiums); (3) a 2.5 percent deductible for claims over $350 million, capped at $10 million per year; (4) interest earnings of 5 percent per year on balances in the self-insurance reserve; and (5) the Company utilizes a combination of

[22] *See*, National Association of Insurance Commissioners Center for Insurance Policy and Research, *Captive Insurance Companies* (April 3, 2023), available at: https://content.naic.org/cipr-topics/captive-insurance-companies.

commercial insurance and self-insurance to pay claims. The example also includes varying amounts of claims assumed to be paid each year, including a potential catastrophic event in year 8, which trigger the use of the proposed Catastrophic Fire Fund discussed in the next section.

Table 4: Insurance Mechanism – Year 1-10 Illustrative Example (Commercial excess liability insurance and self-insurance reserve funded by ICA)

$millions	Total Collections-Comm Insurance	Total Claims Paid	Self-Retention	Claims Paid - Comm Insurance	Self-Insurance Deductible - Pd by Co	Self-Insurance Beginning Balance	Total Collections-Self Insurance	Claims Paid - Self Insurance	Interest	Ending Self-Ins Reserve
Year 1	150.0	-	-	-	-	-	33.9	-	0.8	34.7
Year 2	150.0	15.0	10.0	5.0	-	34.7	33.9	-	2.6	71.2
Year 3	150.0	10.0	10.0	-	-	71.2	33.9	-	4.4	109.5
Year 4	150.0	-	-	-	-	109.5	33.9	-	6.3	149.8
Year 5	150.0	100.0	10.0	90.0	-	149.8	33.9	-	8.3	192.0
Year 6	150.0	15.0	10.0	5.0	-	192.0	33.9	-	10.4	236.3
Year 7	150.0	50.0	10.0	40.0	-	236.3	33.9	-	12.7	282.9
Year 8	150.0	2,000.0	10.0	490.0	6.3	282.9	33.9	243.8	8.9	82.0
Year 9	150.0	5.0	5.0	-	-	82.0	33.9	-	4.9	120.8
Year 10	150.0	8.0	8.0	-	-	120.8	33.9	-	6.9	161.6

The illustration in Table 4 assumes commercial premiums remain stagnant at $150 million per year, which past experience shows is not likely to happen. However, this illustration demonstrates how the Insurance Mechanism is proposed to operate.

D. **The Proposed Catastrophic Fire Fund Offers a Source of Liquidity Where Wildfire Liability Exceeds Commercial Insurance Coverage**

Q. How will a Catastrophic Fire Fund address the wildfire liability challenges the Company has identified?

A. The Insurance Mechanism creates a cost-efficient alternative to the increasing insurance expenses associated with wildfire liability. The extraordinary liability risk posed by more and increasingly severe wildfires may nevertheless exceed amounts recoverable from insurance. Regardless of a utility's prudent actions, utilities could face claims in the billions of dollars and may have to reach beyond insurance proceeds to meet those liabilities. Such massive claims on utility assets could compromise the financial stability that utilities require to maintain and expand infrastructure to meet both customer needs and state policies. The Catastrophic Fire Fund proposed by the Company would provide a backstop fund available to facilitate managing what could be an existential financial risk. The Company would use the Catastrophic Fire Fund in the event there are claims in excess of the annual insurance coverage limit.

Q. Is there a model for the Company's proposed Catastrophic Fire Fund?

A. Yes. The most prominent example is the California Wildfire Fund, created in 2019 by the California Legislature (AB 1054). The California Wildfire Fund was created to support the solvency of California investor-owned utilities that were facing massive wildfire liability claims. Notably, AB 1054 was only a part of California's response to growing wildfire risk.

California enacted laws that created new legal requirements for wildfire mitigation plans and authorized securitization for cost recovery under certain circumstances. The California Assembly and courts have also provided additional limits on utility liability and opportunity for cost recovery for wildfire-related claims.[23]

Q. Did the creation of the California Wildfire Fund improve financial stability for California utilities?

A. Yes. The California Wildfire Fund currently is available to the three large investor-owned utilities ("IOUs") in the state.[24] Credit rating agencies view the creation of the Fund as a positive step for IOU creditworthiness. In a 2021 report, S&P stated:

> We [S&P] view AB 1054 as generally supportive of the IOUs' credit quality. AB1054 created a vehicle for tempering California IOUs' financial exposure to wildfire liability …. California utility wildfire experience could

---

[23] *See, e.g., See, Gantner v. Pacific Gas & Electric Co.*(Nov. 20, 2023, S273340), __ Cal. 4th __ [p. 24] (Cal. Supreme Court 2023) (Ruling that the California Public Utility Commission, rather than the courts, has exclusive jurisdiction over the "supervision and regulation of [Public Safety Power Shutoff] PSPS implementation and review."); Cal. Pub. Util. Code, § 451.1; § 1701.8 (Requires that the CPUC allow cost recovery of just and reasonable costs and expenses arising from a wildfire caused by an electric utility. Costs are "just and reasonable" if "the conduct of the electrical corporation related to the ignition was consistent with actions that a reasonable utility would have undertaken in good faith under similar circumstances.")

[24] Those utilities are Pacific Gas & Electric; Southern California Edison; and San Diego Gas & Electric.

> serve as a template for utilities in other fire-prone states to follow.[25]

As noted by S&P, creation of a similarly purposed backstop fund in other states could help utilities like the Company, who have experienced ratings downgrades due to wildfire liability risk.

Q. Would PacifiCorp's Catastrophic Fire Fund be designed like the California fund?

A. There are similarities in the purpose behind PacifiCorp's proposal, but significant differences in how PacifiCorp proposes to design a catastrophic event fund. Like the California Wildfire Fund, PacifiCorp's proposal would establish a risk pool for potential catastrophic wildfire events where the Company's liabilities exceed available insurance. The availability of the risk pool provides liquidity and supports credit quality, similar both to the California Wildfire Fund and the storm reserves used by utilities in high-risk areas states like Florida. Because PacifiCorp operates as a multi-state utility with costs and benefits of the PacifiCorp system shared across all six states, the Company is proposing a multi-state fund that cost-effectively diversifies risks across the shared system

[25] S&P Global, *Credit FAQ: How Are California's Wildfire Risks Affecting Utility Credit Quality* (June 3, 2021). *See also,* Moody's Investor Service, *California utility wildfire mitigation efforts have reduced liability exposure* (Nov. 10, 2022).

and provides customer benefits through the financial stability of the utility. Other key differences in the design of the PacifiCorp Catastrophic Fire Fund proposal involve (1) the size of the fund, (2) how it is funded, and (3) the governance of the fund.

Q. What is the target size of the PacifiCorp Catastrophic Fire Fund?

A. PacifiCorp proposes an initial target level of $3 billion, total Company, for the Catastrophic Fire Fund. The ultimate size of the fund will need to be informed by the underlying level of insurance coverage and additional analysis that considers the potential uninsured risk in PacifiCorp's states.

Q. What is PacifiCorp's proposed funding mechanism?

A. The Company seeks a balance between fully funding the Catastrophic Fire Fund and moderating the impact of the surcharge needed to fund it. PacifiCorp proposes that the target reserve level be collected over 10 years, at $300 million per year, total Company. The Company proposes to contribute 20 percent of the target fund amount, along with a per event deductible, described below. Customer collections would be funded through a new surcharge, Electric Service Schedule 193—Catastrophic Fire Fund. The Company proposes implementation of funding as part of the rates that go into effect in in this proceeding on January 1, 2025. For Idaho, the Company is proposing annual contribution of $11.1 million. The proposed jurisdictional cost allocation for customer contributions to the fund is addressed later in my testimony. For rate stability, the Company proposes to fix allocations for five years with an update to the allocation inputs for year 6 of the collection period.

Because collections to the fund would occur over a number of years, the fund would act as a balancing account and would only begin to provide meaningful liquidity once a material balance is available in the reserve. A near-term event where uninsured liabilities exceed the reserve balance could require cash funding by PacifiCorp and could result in a liquidity event for the Company. In this scenario, the Catastrophic Fire Fund would be recorded as a regulatory asset on the PacifiCorp financial books and amortized using existing Catastrophic Fire Fund collections until the reserve was fully funded.

As with the Insurance Mechanism, funds would be held in interest-bearing accounts or other appropriate investments independent from the Company’s operations to grow the fund balance over time. As the fund nears its target level, a regulatory review would examine the funding level necessary, the level of the supporting surcharge, and the continued need for the fund based on future developments regarding wildfire liability. If at some point in the future it is determined that the fund is no longer needed, any remaining funds after pending claims have been accounted for, including the Company's contributions, would be returned to customers.

Q. Would the Catastrophic Fire Fund include a deductible amount like the Insurance Mechanism?

A. Yes, PacifiCorp proposes a per-event deductible, applicable to each event in which the Catastrophic Fire Fund would be drawn upon to fund claims in excess of the insurance coverage limit. The Company proposes a 5 percent co-insurance per event, capped at $50 million for the life of the fund. The inclusion of a Company funded deductible in addition to its 20 percent contribution to the fund ensures that the Company will prudently manage the claims process.

Q. Assuming the design elements proposed by PacifiCorp, please provide an illustrative example of how the Catastrophic Fire Fund would work from a financial perspective.

A. Table 4 provides an illustrative example of how funds would flow in Year 1-10 of the Catastrophic Fire Fund. As with the example in Table 3, the illustration here includes hypothetical claims paid during the 10-year period to demonstrate the impact of the outflow of claims payments on the accumulation of the target fund balance. The Catastrophic Fire Fund would work in conjunction with the Insurance Mechanism, with all components of the Insurance Mechanism being exhausted before utilizing the Catastrophic Fire Fund. As shown in Table 5, both customer and Company contributions begin to accumulate in the fund balance in an interest-bearing account. In the instance of a catastrophic event, the accumulated balance is then debited, less the proposed co-insurance, for that event. If no event occurs, the fund will continue to grow.

Table 5: Catastrophic Fire Fund
Year 1-10 Illustrative Example

$ - Millions		Fixed Contribution		**Claim Paid**						
	Beginning Balance	Total Customer Contribution	Company Contribution	Claims Paid[1]	Co-Insurance	Recoverable Claim Amount	Interest[2]	Ending Balance	Total Company Contribution	% of Co Contribution
Year 1	-	240	60	-	-	-	8	308	60	20%
Year 2	308	240	60	-	-	-	15	623	60	20%
Year 3	623	240	60	-	-	-	23	946	60	20%
Year 4	946	240	60	-	-	-	31	1,277	60	20%
Year 5	1,277	240	60	-	-	-	39	1,616	60	20%
Year 6	1,616	240	60	-	-	-	48	1,964	60	20%
Year 7	1,964	240	60	-	-	-	57	2,321	60	20%
Year 8	2,321	240	60	1,250	50	1,200	36	1,456	110	31%
Year 9	1,456	240	60	-	-	-	44	1,800	60	20%
Year 10	1,800	240	60	-	-	-	53	2,153	60	20%
Total		2,400	600						650	21%
Target Fund	3,000									
Interest Rate[3]	5%									

Notes:
1) Claims paid are assumed to be made in December 31 of each year.
2) Interest is not paid on regulatory liability balance. Company would fund regulatory liability and need to be reimbursed for cash outflow.
3) Interest rate is used for illustration purposes only. Funds would be held in interest bearing account and earn actual interest.

Q. What governance issues does the Company believe should be addressed as part of Catastrophic Fire Fund formation?

A. As previously noted, as a multi-state risk pool the PacifiCorp Catastrophic Fire Fund needs to consider regulatory review and surcharge funding from all states in which PacifiCorp operates. The Company proposes to address this through creation and approval of an Advisory Board appointed to oversee the Catastrophic Fire Fund.

Q. What would be the role of the Advisory Board?

A. PacifiCorp proposes the Advisory Board would review wildfire events where PacifiCorp seeks to draw on the Catastrophic Fire Fund and issue reports and recommendations to state regulatory commissions. At a minimum, the Board would review: (1) whether the Company's actions were in accordance with documented operational policies and approved WMPs in the state(s) where the event occurred; and (2) whether the claims paid were reasonable. The Board would also be empowered to make recommendations regarding:

- Whether the fund should be replenished back to its target level after claims are paid from the fund;
- Changes in operational policies or mitigation efforts for future wildfire events;

- When to conduct new studies or reports on the size and operations of the fund. New studies may be triggered when legislative or regulatory changes materially alter liability risk in particular states. (Studies would be funded from the reserve balance in the fund).

The Board’s recommendations would be advisory and not legally bind either state commissions or the Company. Additionally, the Company would have the option to seek Advisory Board input prior to paying wildfire liability claims from the fund.

Q. How does PacifiCorp propose the Advisory Board be composed?

A. The Company suggests that the Advisory Board be composed of up to nine members: one member would be appointed by state commissions in each PacifiCorp state (six members) and three non-Company employees appointed by PacifiCorp. The Company recommends the Advisory Board meet at least once yearly, and perhaps more often as the Catastrophic Fire Fund is being organized and established.

Q. How does PacifiCorp propose to structure the Catastrophic Fire Fund claims process?

A. The Company proposes that it would notify participating states and the Advisory Board when a potential triggering wildfire event occurs. No more than 90 days after the conclusion of the triggering event (or sooner if feasible), PacifiCorp would file a report detailing the event and PacifiCorp's action during the event. The report would include an estimate of damages and the status and expected timing of known or anticipated event investigations. The Company would provide updated event reports every six months until final resolution, subject to direction from state commissions. All of the event reports, to the extent necessary, would be subject to confidentiality protections.

Q. How would the Company provide notice of its intent to draw from the reserve fund?

A. PacifiCorp would provide notice to state commissions and the Advisory Board at least 30 days prior to drawing from the fund. The Company's notice would provide documentation that: (1) the funds will be used to pay for wildfire liability damages; (2) the claims from the wildfire event exceed insurance coverage (whether self-insurance or commercial policies); and (3) PacifiCorp acted in accordance with documented operational policies and approved WMPs.

E. State Allocation of Costs and Rate Impacts of Insurance Mechanism and Catastrophic Fire Fund

Q. How are liability insurance costs currently allocated in the 2020 Protocol?

A. As a general expense in the administrative and general category, the 2020 Protocol allocates excess liability insurance costs among the PacifiCorp states using the System Overhead ("SO") factor.

Q. Has PacifiCorp evaluated other options for allocating the costs of the Company's proposals?

A. Yes. The Company has explored nine potential options for allocating costs among the PacifiCorp states. The cost allocation categories and respective state-specific percentages are provided in Table 6:

Table 6: Cost Allocation Proposals[26]

Option #	Description	CA	OR	WA	UT	ID	WY
1	System Overhead	2.62%	27.43%	7.32%	44.46%	5.45%	12.72%
2	Distribution Line Miles	4.58%	30.02%	6.07%	37.17%	8.70%	13.46%
3	OH Distribution Line Miles	5.62%	33.67%	7.46%	27.08%	9.53%	16.64%
4	T&D Line Miles in State	4.51%	27.54%	5.63%	38.16%	9.93%	14.24%
5	SG Alloc T Line Miles, State D Miles	3.93%	29.38%	6.36%	38.75%	8.06%	13.52%
6	SG Alloc T Miles, State O/H D Miles	4.41%	31.73%	7.47%	32.17%	8.40%	15.82%
7	50% each SO and Dist OH Line Miles	4.12%	30.55%	7.39%	35.77%	7.49%	14.68%
8	1/3 each - SO, OH Dist Lines, EFR Reclosers	14.07%	33.04%	5.57%	32.54%	4.99%	9.79%
9	1/3 each - SO, SG T/OH D, EFR Reclosers	13.67%	32.40%	5.57%	34.24%	4.62%	9.51%

Q. Did the Company consider additional allocation options beyond those listed in Table 6?

A. Yes. While numerous allocation options were theorized, it is important the Company prioritizes options that are readily available and quantifiable. For example, while population density or property values may be factors in wildfire liability risk, the source of the data would be externally provided and subjective. These options were eliminated due to these factors.

[26] Allocation proposals calculated using year-end 2023 data and projected SO and System Generation (SG) allocation factors for 2025.

Q. What is PacifiCorp's recommendation for allocating the costs in the ICA?

A. Historically, the Company's insurance costs are considered corporate overhead expenses and are allocated using the SO factor (Option 1). Since the Insurance Mechanism is proposed to provide a cost-effective option for liability insurance coverage, PacifiCorp recommends continued use of the SO allocation factor for allocating costs of the ICA.[27] The state-by-state percentage allocation of costs using the SO factor is shown for Option 1 in Table 6.

Q. What is PacifiCorp's recommendation for allocating the costs of the Catastrophic Fire Fund?

A. The Catastrophic Fire Fund is a new regulatory tool and provides a level of liquidity support in excess of what the Company would otherwise seek through insurance. In the workshop discussions, PacifiCorp and stakeholders have discussed an allocation framework that acknowledges the fund is in part a form of insurance but will also have the most utility in the states where the largest and most destructive wildfires are most likely to occur. In examining the Company's service territory, a larger allocation appears appropriate based on two factors.

[27] The proposed ICA currently includes the costs for all excess liability premiums because wildfire coverage is not a readily distinguishable cost in all of the policies.

First, the SG allocation of overhead transmission lines plus overhead distribution line mileage in the state since utility wildfire risk is correlated with the presence of overhead line infrastructure. Second, the total Elevated Fire Risk Reclosers ("EFR") in a state is a quantifiable representative of higher fire risk areas, therefore the investment in EFRs is appropriately considered in assessing each state's share of wildfire liability risk. To recognize a balance between these factors, the Company proposes to allocate Catastrophic Fire Fund Costs:

- 1/3 System Overhead: SO factor calculation used to allocate system overhead cost including insurance premiums;

- 1/3 SG Transmission/Overhead Distribution – System Generation allocation of total transmission line miles + total distribution overhead line miles for each state; and

- 1/3 Elevated Fire Risk Reclosers – Total installed reclosers by state

Applying this proposed allocation to Catastrophic Fire Fund Costs results in the state-by-state allocations depicted in Table 7:

Table 7: State allocation percentages for proposed Catastrophic Fire Fund costs.

Description	CA	OR	WA	UT	ID	WY
1/3 each - SO, SG T/OH D, EFR Reclosers	13.67%	32.40%	5.57%	34.24%	4.62%	9.51%

Q. If the Commission approves the ICA as well as the Catastrophic Fire Fund recommended by the Company, what would be the overall estimated impact on Idaho customer rates?

A. The estimated impact to Idaho customers is shown in Table 8. It includes the assumptions and cost allocations discussed in my testimony.

Table 8: Idaho Rate Impact of Insurance Mechanism and Catastrophic Fire Fund

($millions)	**Idaho Allocated**	**Estimated Rate Impact**
Estimated 2025 Insurance Premiums	$9.8	3.5%
Amortization of Insurance Deferral	$2.6	0.9%
Total Insurance Cost Adjustment	**$12.4**	**4.4%**
Catastrophic Fire Fund	**$11.1**	**4.0%**

Additionally, removing liability premiums set in the 2021 GRC, Case No. PAC-E-21-07, decreases base rates by $12.4 million, or (4.4) percent. If the ICA is not approved for cost recovery, then the full costs of the

2025 insurance premiums and amortization of the deferral should be included in base rates.

Q. Does the Company make a recommendation on the class allocation and rate design for the ICA and Catastrophic Fire Fund surcharges?

A. Yes. Class allocations and rate design for the new surcharges are addressed in the direct testimony of Company witness Meredith.

VII. CONCLUSION

Q. Please summarize your recommendations.

A. I recommend that the Commission approve the proposals described in Section II of my testimony, including the Company's overall requested rate increase in this docket of approximately $92.4 million or 26.8 percent, with the increase in base NPC to be phased in over two changes.

Q. Does this conclude your direct testimony?

A. Yes.