

REDACTED

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-220053

DOCKET NO. UG-220054

DOCKET NO. UE-210854

(consolidated)

REBUTTAL TESTIMONY OF

ROBERT E. BRANDKAMP

REPRESENTING AVISTA CORPORATION

1 **Q. Please state your name, business address and present position with Avista**
2 **Corporation?**

3 A. My name is Robert E. Brandkamp and my business address is 1411 East Mission
4 Avenue, Spokane, Washington. I serve as Senior Risk Program Manager in the Risk
5 Management Department.

6 **Q. Would you briefly describe your educational background and professional**
7 **experience?**

8 A. Yes. I am a 1986 graduate of the University of Illinois, earning a Bachelor of
9 Science in Finance. In 1993 I graduated from University of Illinois, earning a Master of
10 Business Administration degree. I also hold certifications as an Associate of Risk Management
11 and a Certified Internal Auditor. My professional background includes a mix of insurance and
12 auditing work. Prior to my tenure with Avista, I worked in the insurance industry for 10 years.
13 In this capacity, I worked 8 years as an insurance underwriter, and two years as both a state rates
14 filing and insurance portfolio analyst.

15 I started with Avista in July 2012 as a Risk Management Analyst in the Company's Risk
16 Management department responsible for analysis and procurement of corporate insurance,
17 providing rate case responses, and implementing the enterprise risk management programs. I
18 was promoted to Senior Risk Program Manager in July 2016, and I am responsible for the
19 entirety of Avista's insurance and enterprise risk management programs.

20 **Q. Would you please provide further details on your extensive experience and**
21 **knowledge related to the insurance industry?**

22 A. Yes. I have served since 2015 as an adjunct faculty member at Whitworth
23 University teaching Risk Management. I am also founder and past President of the Spokane

1 Risk and Insurance Management Society (RIMS) chapter in Spokane, WA. I participate on
2 numerous and industry advisory committees. These include AEGIS Insurance Loss Control
3 Task Force (2017 to present), State of Oregon Workers' Comp Advisory Committee (2015 to
4 present), American Gas Association (AGA) Risk Committee (2015 to present), Edison Electric
5 Institute (EEI) Risk Committee (2015 to present),

6 In addition, I participate on a Washington State working group co-sponsored by the
7 Washington Office of the Insurance Commissioner, Washington Utilities and Transportation
8 Commission, and the Washington State Department of Commerce studying the impacts on the
9 rising costs of liability insurance on Washington State utilities.

10 I have also participated on industry presentation panels and have been recognized by
11 respected institutions and asked to present on risk management. My risk panel participation
12 includes presentations at the 2018 RIMS Western Regional Conference, "Critical Infrastructure:
13 Basic Necessities, Complex Risks" and as an insurance industry panel member at CPCU
14 Industry Day in Spokane, WA in 2018. I was selected as recipient of the annual Walton Lecturer
15 (2019) for the Carson College of Business at Washington State University and presented to
16 students on risk and insurance. I was also selected by Central Washington University and the
17 Spencer Foundation to participate in the Risk Manager on Campus Program, where I conducted
18 several lectures on risk and insurance to Central Washington University students over the course
19 of two days in April 2022. Finally, I also have specific industry education on risk and insurance.
20 I attended the Energy School program, which focuses on risk and insurance within the utility
21 industry, October 28 - November 1, 2018, at Florida State University.

22 **Q. What is the scope of your testimony in this proceeding?**

23 A. The purpose of my testimony is to respond to the testimony of Public Counsel

1 Witness Coppola who proposes a substantial reduction in insurance costs for the Two-Year Rate
2 Plan.¹ My testimony will demonstrate that the costs Avista included in our filed case are not
3 only appropriate, but they are also perhaps understated, or conservative given further changes
4 occurring in the insurance markets. Company witness Ms. Andrews provides the Company's
5 rebuttal to Witness Coppola's testimony supporting the rejection of the Insurance Balancing
6 Account agreed to by the Parties supporting the Settlement Stipulation filed in this case.

7 **Q. Are you sponsoring any exhibits that accompany your testimony?**

8 A. No, I am not.

9 **Q. Is Witness Coppola's suggestion that the 17% increase between 2020 and**
10 **2021 in Property Premium was caused by risk of wildfire damage to Company property**
11 **correct (p.19 - Lines 14-16)?**

12 A. No. Rate increases were due to catastrophic weather losses (2017 Hurricanes;
13 Harvey, Irma, Maria; 2018 Hurricane Michael) in prior years and property insurers seeking
14 rates to return their property programs to profitability. This points to how variability of events
15 can cause premiums to be change. Catastrophic weather events are not predictable and occur
16 with varied frequency. Property premiums typically increase industry-wide in response to the
17 occurrence of large, catastrophic weather-related losses and will contribute to the overall of the
18 variability of total insurance spend on a year-to-year basis for the Company.

19 **Q. Does Coppola's contention (SC-1CT, p. 20, lines 10 - 15) that the Company's**
20 **forecasted insurance increases for 2023 and 2024 are "speculative" mean that such**
21 **forecasts should not be used by the Company to support future costs?**

22 A. No. Any forward looking estimates for insurance are going to be "speculative"

¹ Exh. SC-1CT, p. 24, ll. 4-16.

1 as there are numerous variables (i.e., industry losses, specific insurance company profitability,
2 changes in Avista insurable exposures and claims, etc.) that can occur and have material
3 impacts on the premium changes in pro forma years. Avista does not make these estimates in
4 a vacuum. We consult with our insurance brokers who have a number of utility clients across
5 the industry to identify overall trends they are currently seeing, as well as projected movements
6 in future premiums in the industry in the future years. It is important to note that any premium
7 estimate made for a pro forma year is subject to a material change to the upside should
8 significant insurance losses with the industry or projected losses for Avista occur between now
9 and that year. Within Avista's confidential response to Public Counsel DR 103C ("PC DR
10 103C"), Attachment A, included by Witness Coppola as Exh. SC-6C, currently projects a
11 decrease in the magnitude of premium increases in 2023 and 2024. This was based on an
12 assumption that there wouldn't be any increase in material industry losses (especially in the
13 Property or Cyber markets) nor an increase in projected Avista wildfire losses related to the
14 2018 Boyd's Fire or 2020 Labor Day Fires that occurred in Washington State or any new
15 significant claims submitted by Avista.

16 However, the forecasted premium increases for liability now appear to be
17 underestimated, as Avista has received several class action lawsuits related to the 2020 Labor
18 Day Fires (Malden, WA fire) after the premium forecasts associated with Exh. SC-6C (PC DR
19 103C) were made. These additional claims are likely to result in an increase in additional
20 premiums charges related to the 2020 Labor Day Fires. This is an example of how changes in
21 any number of factors can result in variability of insurance premiums.

22 **Q. And should the steady increase in premiums abate in the future, will**
23 **customers be protected?**

1 A. Yes, that is the very purpose of the insurance balancing account. Ms. Andrews
2 will address this variability in her testimony addressing the need for a Balancing Account for
3 insurance expenses.

4 **Q. Do you agree with Witness Coppola’s argument beginning on Line 16 of page**
5 **20 and continuing through Line 8 of page 21 of Exh. SC-1CT, that insurance companies**
6 **determine rates across two different time horizons, resulting in near-term higher**
7 **premiums, and then “as insurance companies get past their initial reaction to the apparent**
8 **higher risk of insurance losses and are able to better assess real losses versus perceived**
9 **losses for specific companies, insurance premiums will tend to moderate.”?**

10 A. No. In insurance ratemaking, insurance companies consider a multitude of
11 factors at the same time. It is not uncommon for multiple factors (i.e. industry losses, Company
12 losses and exposures) be at play concurrently, resulting in premiums being elevated for a
13 prolonged period. It is the changes to a combination of variables from year to year that dictate
14 the direction of premium change, rather than the simplistic linear example Coppola offers. It
15 is not a sequential process where insurance companies consider industry wide losses for a few
16 years, and then once they have abated, assess a Company’s specific loss history to set rates
17 several years later.

18 The recent premium increases experienced in the Company’s Excess General Liability
19 is a good example. The significant spike of 101% in excess liability premiums from 2020 to
20 2021 was primarily due to the reaction of the insurance marketplace to the occurrence of the
21 2020 Labor Day Fires.² However, also incorporated in this rate increase was the fact that
22 insurance companies were being negatively impacted at the same time by large jury awards

² See also Andrews direct testimony, Exh. EAM-1T, starting at page 69:11.

1 granted to plaintiffs in cases that went to trial. Both of our primary insurance companies,
2 AEGIS and EIM, have included increases of 10-15% not only in 2021, but in 2022 as well, due
3 to this negative trend in the marketplace. Indications are they will seek to increase their base
4 components by the same percentage for 2023 due to the same concerns. Also, starting in 2020,
5 our primary mutual insurer AEGIS began to charge additional premiums for what it perceived
6 were going to be Company losses related to the 2020 Labor Day Fires. Avista, incurred
7 additional premium charges in 2021 [REDACTED] and 2022 [REDACTED] due to lawsuits received
8 related to (1) the 2018 Boyd's Fire, (2) AEGIS Insurance's perception that Avista would incur
9 a [REDACTED] loss due to the 2020 Labor Day Fires, even though no lawsuits had been
10 received at that time, and (3) a [REDACTED] annual wildfire premium load beginning in 2021
11 due to the increased risk of wildfire in the Company's service territory. Subsequent to the
12 submission of pro formas for insurance expense for this case, several class action lawsuits have
13 been received by Avista related to the Babb Rd (Malden, WA) fire that was a part of the 2020
14 Labor Day Fires. In addition, Avista also received a [REDACTED] demand related to the Road 11
15 Fire (June 2020). This is likely to increase the amount of additional wildfire premium that
16 AEGIS applies at the 12/31/22 renewal and may exceed the [REDACTED] Additional Premium
17 charged by AEGIS that was estimated in the Insurance Pro Forma Adjustment for 2023, and
18 [REDACTED] for 2024.

19 Although on a relative basis it appears that general liability premium increases
20 forecasted for 2023 and 2024 of 15.5% and 14.1% are moderating, it only appears this way
21 because of the shock increase in 2021 of 101%. On a historical basis, the 2023 and 2024

1 forecasted premiums are well above the historical average from 2009-2020 of 5.3%³ and are
2 expected to continue to trend above the historical average for the foreseeable future due to
3 continued adverse trends industry wide in large plaintiff settlements in combination with
4 continued additional premium charges related to perceived potential Company losses related
5 to wildfire events. In addition, with climate change models continuing to predict hotter, longer
6 wildfire seasons for our region for the years ahead, it is likely that the frequency of wildfire
7 activity in the region will continue to increase in coming years, resulting in once again,
8 industry-related premium increases due to overall fire activity within the region. As evidenced
9 here, a number of negative variables are occurring simultaneously resulting in the persistence
10 of higher-than-historical insurance rates now, and into the foreseeable future, for this line of
11 insurance.

12 **Q. Do you agree with Coppola’s assertion (Exh. SC-1CT, p.21 lines 10-14) that**
13 **“the Wildfire Resiliency Plan that Avista began to implement in 2020 should mitigate its**
14 **risk of fires. Insurance premiums for general liability should decline further in 2023, 2024,**
15 **and future years, as insurance companies realize the benefits of the Company’s Wildfire**
16 **Resiliency Plan.”?**

17 A. No. The Wildfire Resiliency Plan (“Plan”), although a critical component of
18 Avista’s response to increased wildfire risk within its service territory, is only one variable
19 considered by insurance companies when setting insurance premiums. The additional
20 occurrence of wildfires within the West, the increasing climate change trend of hotter, longer
21 wildfire season in the region, and the potential development of adverse wildfire litigation

³ This data was previously provided to all parties in response to Public Counsel DR 104C, Confidential Attachment A.

1 related to past wildfires in Avista’s service territory, could certainly outweigh any benefits of
2 implemented Wildfire Resiliency Plan elements and still result in a net increase to general
3 liability premiums associated with wildfire exposure. In addition, it is important to remember
4 that the Wildfire Resiliency Plan is a 10-year implementation Plan, and that Avista will not
5 even be half-way through Plan implementation by 2024. Even upon full implementation at the
6 end of year ten of the Plan, the fully-implemented Plan, while mitigating the risk of wildfire
7 occurrence, does not guarantee that wildfires won’t occur. Therefore, insurance companies
8 will consider the existence of the Wildfire Resiliency Plan as a favorable element in its rate
9 making process, but there are other variables such as the ones mentioned previously that also
10 are considered when developing final premium levels. The existence of a Wildfire Resiliency
11 Plan, even when fully implemented, will not necessarily translate to decreased premiums if
12 other negative variables within the rating structure exist.

13 **Q. Do you agree with Coppola’s contention (Exh SC-1CT, pp. 22, lines 6 - 9)**
14 **that “...the Company has experienced no losses from wildfires to date that should cause**
15 **great concern to insurance companies in setting insurance premium for Avista in future**
16 **years.”?**

17 A. No. AEGIS, our primary insurer, “loss rates” our account, which means it
18 develops and trends prior claims activity to derive the required premium for our policy. It takes
19 into account what it thinks will be potential losses, whether there has actually been a paid claim
20 to date. As noted above, AEGIS has developed the prior wildfire claims related to Boyd’s Fire
21 (2018) and Labor Day Fires (2020) based on their previous experience of fires and have
22 required additional wildfire premiums (excluding the Wildfire Load of [REDACTED] discussed
23 earlier) of [REDACTED] and [REDACTED] respectively at the last two renewals, even though these

1 claims are still in the early periods of being adjudicated and no fault or damages have been
2 established by the court. It is likely this additional premium amount will continue to increase
3 given that Avista was recently served with several class action lawsuits related to the Babb Rd
4 (Malden, WA) and received a [REDACTED] demand related to the Road 11 Fire (June 2020).

5 The fact that no losses have been paid does not mean that insurance companies don't
6 think losses won't ultimately be paid. The imposition of additional premiums by AEGIS is an
7 example of where losses haven't been paid to date, but additional premium is imposed because
8 they feel that ultimately losses will be paid out at some point in the future.

9 **Q. Do you agree with Coppola's position (Exh. SC-1CT, pp.22, lines 10-14) the**
10 **Company doesn't face any issues related to cyber since it has incurred only one cyber-**
11 **related incident for which it is seeking recovery from a third-party?**

12 A. Absolutely not. The 64% increase in Cyber insurance at the October 2022
13 renewal was the result of a premium increase related to industry-wide losses, and not a result
14 of any loss history specifically related to Avista. As mentioned earlier, a lot of variables enter
15 into rate making. Several variables include Company exposures, Company loss history, and
16 industry related loss activity. All cyber insureds received significant premium increases in
17 2022, many incurring premium increases of over 100%. This was due to several significant
18 cyber losses within the industry in 2022, including the ransomware loss at Colonial Pipeline.
19 Avista's favorable loss experience and significant Information Technology (IT) controls
20 resulted in us receiving a lower than industry average premium increase in 2022. If cyber
21 insurers continue to pay significant losses related to cyber-attacks, premiums will continue to
22 increase significantly, regardless of how good Avista's IT controls are or how favorable our
23 loss experience is.

1 **Q. Do you agree with Coppola’s statement (Exh SC-1CT, p. 25, lines 1-5) that**
2 **“The Company should be able to manage through those moderate premium increases by**
3 **working with insurance brokers and insurance companies to communicate the action it has**
4 **taken to reduce risk through the Wildfire Resilience Plan and other mitigation steps?**

5 A. No. Avista did forecast insurance premium costs to begin to moderate in 2023
6 and 2024, but that moderation was based on no additional negative events or information
7 arising that could negatively impact rates. Further, the term moderation here is relative, as the
8 moderated premium increases for general liability insurance of 15.5% and 14.1% for 2023 and
9 2024 respectively, are significantly higher than the average annual increase of 5.3% that
10 occurred from 2009-2020.⁴ Since submission of Avista’s filed case including insurance
11 expense, Avista was served with several class action lawsuits related to the Babb Rd (Malden,
12 WA - Labor Day fire), and a demand for the Road 11 Fire, which is likely to increase the
13 additional wildfire premium that our primary insurer AEGIS looks to collect at our upcoming
14 December 31, 2022 renewal.

15 Avista’s general liability insurance has increased approximately 200% [REDACTED]
16 since 2020. This constitutes more than a “moderate” increase as suggested by Coppola. This
17 has been at a time when we’ve had numerous underwriting meetings with our brokers and
18 insurance companies on an annual basis to inform them of our mitigation activities to reduce
19 wildfire risk. Even though none of our recent wildfire claims have been fully adjudicated nor
20 decisions made regarding actual claim liability, our insurer AEGIS has priced into our
21 premiums losses that they think will materialize which has contributed to significant increases
22 and volatility associated with our general liability premiums. In a market where general

⁴ Previously provided to all parties in response to Public Counsel DR 104C, Confidential Attachment A.

1 liability insurers are extremely concerned about wildfire exposure in our area, additional fires
2 that occur in this region, whether or not caused by Avista, could also result in additional
3 increase in rates, thus adding to the volatility.

4 Finally, as noted in discovery responses to Public Counsel requests, recent premium
5 increases in Property and Cyber premiums have been because of industry-related losses and
6 not those attributable specifically to Avista. This also adds to premium volatility, as these
7 losses are not within control of Avista, and can occur at any time, with the responding reaction
8 by insurers being rate increases passed on to insured companies across the industry.

9 **Q. Witness Coppola, starting at pp. 24, line 19 of Exh. SC-1CT, suggests that**
10 **use of the Insurance Expense Balance Account should be avoided as it removes the**
11 **incentive for the utility to control costs and to take appropriate steps to reduce costs if it**
12 **is likely the utility may absorb higher costs. Do you agree with this statement?**

13 A. No, I do not. Avista is always looking for ways to reduce insurance costs, such
14 as considering changes to policy retentions and analyzing the structure of programs to optimize
15 costs. Avista also controls insurance costs through participating in industry led engineering
16 reviews and risk assessments in order to promote increased loss control across our system. In
17 the case of wildfire, a Wildfire Resiliency Plan was developed to reduce the likelihood and
18 severity of utility caused wildfires.

19 However, involvement in loss control efforts does not by itself guarantee that premiums
20 will decrease. There are variables of rate change, such as industry-related losses and how an
21 insurance company “rates” for claim activity, that are outside of Avista’s control and can have
22 significant impact on the variability of premiums. We have seen the impacts of this during the
23 last couple of years in our general liability, property, and cybers lines of insurance. Climate

1 change has led to increased wildfire activity and is projected to result in an increase in
2 frequency and severity of hurricanes, all of which will continue to add to significant variability
3 in general liability and property rates over which insureds will have little control. The cyber
4 market continues to see increases and severity in the nature of cyber breaches and ransomware
5 events. This is not expected to decline, and premium increases are likely to be elevated for the
6 foreseeable future. We are in a new phase of the insurance cycle, in which increased variability
7 in rates is likely.

8 **Q. Please summarize the importance of the Insurance Expense Balancing**
9 **Account as sponsored by Ms. Andrews.**

10 A. As noted previously, there is considerable uncertainty in future insurance
11 expense. Ms. Andrews' rebuttal testimony (Exh. EMA-7T) describes not only the insurance
12 expense amounts included in the Settlement, but also notes that recent insurance levels have
13 been harmful financially to the Company. Avista absorbed \$5.3 million in excess insurance
14 expense for Washington operations alone in 2022 (see Table No. 6 of Exh. EMA-7T). These
15 costs are clearly beyond the Company's control, notwithstanding our best efforts under the
16 Wildfire Resiliency Plan or our efforts related to cyber-security. For these reasons - volatility
17 and uncertainty - it is important for the Commission to provide protection for both customers
18 and the Company by approving the agreed-upon Insurance Expense Balancing Account. Such
19 an account will ensure actual insurance expense compared to the levels included in the
20 established baseline will be deferred, resulting in customers paying no more and no less than
21 actual insurance expense paid by the Company. And, importantly, the Commission will be
22 able to review the actual expenses when the Company seeks to rebate or surcharge any deferred
23 balance.

1 **Q. Does this conclude your rebuttal testimony?**

2 A. Yes it does.