

Exhibit No. _____ (KHB-4C)
Docket UE-111190
Witness: Kathryn H. Breda
REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP d/b/a PACIFIC POWER
& LIGHT COMPANY,**

Respondent.

DOCKET UE-111190

EXHIBIT TO TESTIMONY OF

Kathryn H. Breda

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Adjustment 4.11 Liability Suits and Property Damage

January 6, 2012

CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION

ACCOUNT	TYPE	TOTAL COMPANY	FACTOR	FACTOR %	WA ALLOCATED	REF#
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Adjustment to Expense:

Liability Accidents and Damages Account 925:								
1 Remove existing Captive Liability Insurance and Accruals								
2	Remove Captive Liability Insurance Premium	925	PRO	(1,584,944)	SO	7.204%	(114,185)	Page 2, Line 2
3	Remove Captive Liability Accruals	925	PRO	(4,831,787)	SO	7.204%	(348,100)	Page 2, Line 4
4	Remove Captive Liability Insurance Reimbursements	925	PRO	1,010,101	SO	7.204%	72,771	Page 2, Line 6
5								
6	Add Six-year Average Activity (Western Control Area)	925	PRO	551,709	CAGW	22.474%	123,991	Page 2, Line 23
7								
8	Net Adjustment to Expense - Account 925	925	PRO				<u>(265,523)</u>	
9								
10 Property Insurance Account 924								
Remove "Captive" Property Insurance Premium,								
11 Reimbursements and Accruals from FERC Account 924								
12	Test Period Captive Property Premium - Account 924	924	PRO	(5,560,493)	SO	7.204%	(400,599)	Page 3, Line 2
13	Self-Insured Property Damage Expense	924	PRO	(8,644,574)	SO	7.204%	(622,787)	Page 3, Line 4
14								
15								
16 Add Six-year Average Activity:								
17	Washington Distribution	924	PRO	596,588	WA	Situs	596,588	Page 3, Line 20
18	WCA Transmission	924	PRO	587,554	CAGW	22.474%	132,048	Page 3, Line 29
19	WCA Non Distribution and Transmission	924	PRO	329,347	CAGW	22.474%	74,018	Page 3, Line 38
20	Total Average Activity	925	PRO	<u>1,513,489</u>			<u>802,654</u>	
21								
22	Net Adjustment to Expense - Account 924						<u>(220,732)</u>	
23								
24 Adjustment to Tax:								
25 Remove Test Period Schedule M Adjustment MEHC								
26	MEHC Insurance Services - Premium	SCHMAP	PRO	(6,969,001)	SO	7.204%	(502,073)	Page 4, Line 1
27	MEHC Insurance Services - Receivable	SCHMDP	PRO	(16,311,944)	SO	7.204%	(1,175,173)	Page 4, Line 6
28								
29	Property Insurance(same as Injuries & Damages)	SCHMDT	PRO	(109,564)	SO	7.204%	(7,893)	Page 4, Line 12
30								
31	Total Schedule M Adjustment			<u>9,452,507</u>			<u>680,994</u>	

Staff's adjustment removes all captive insurance from the test year and reflects a six-year average of actual claim activity, in other words a normalized level of expense. Without any insurance, it is appropriate to consider the appropriate level of expense in the test period for liability legal proceeding and settlements (liability) and property damage.

Washington General Rate Case - December 2010
 Adjustment 4.11 Liability Suits and Property Damage
 Summary Comparison of Staff and PacifiCorp Adjustment
 Washington Basis

	Source	Staff	PacifiCorp	Difference
1 Liability Suits:				
2 Remove Captive Permium	Page 3, Line 2	(114,185)	(114,185)	(0)
3 Remove Accruals less Reimbursements	Page 3, Line 4&6	(275,328)		(275,328)
4 Net Adjustment to Test Period		<u>(389,514)</u>	<u>(114,185)</u>	<u>(275,329)</u>
5 Staff Normalized Expense:				
6 Include Average 6 yr activity	Page 3, Line 21	123,992	-	123,992
7 Company Accrual for Self Insurance:				
8 Add Captive Jan 1 to March 22, 2011	RBD-3 at 4.11		25,027	
9 Add Self Insurance March 22 to Dec 31 2011	RBD-3 at 4.11		35,490	
10		<u>123,992</u>	<u>60,517</u>	<u>63,475</u>
11 Net Adjustment for Liability	Line 4+10	<u>(265,522)</u>	<u>(53,668)</u>	<u>(211,854)</u>
12				
13 Property Damage				
14 Remove Captive Permium	Page 4, Line 2	(400,599)	(400,599)	0
15 Remove Accruals less Reimbursements	Page 4, Line 4	(622,787)	(622,787)	(0)
16 Net Adjustment to Test Period		<u>(1,023,386)</u>	<u>(1,023,386)</u>	<u>0</u>
17 Staff Normalized Expense:				
18 Include Average 6 yr activity	Page 4, Line 40	802,654	-	802,654
19 Company Accrual for Self Insurance:				
20 Add Captive Jan 1 to March 22, 2011	RBD-3 at 4.11		87,802	
21 Add Net Accruals Jan 1 to March 22, 2011	RBD-3 at 4.11		136,501	
22 Add Self Insurance March 22 to Dec 31 2011	RBD-3 at 4.11		557,142	
23			<u>781,445</u>	<u>(781,445)</u>
24 Increase Expense for Deductible Change	RBD-3 at 4.11		475,548	(475,548)
25 Net Adjustment for Property Damage	Line 16+23	<u>(220,732)</u>	<u>233,607</u>	<u>(454,339)</u>
26				
27 Total Expense Adjustment	Line 14+25	(486,254)	179,939	(666,193)
28				
29 Federal Income Tax	Page 6, Line 76	408,537	137,326	271,210
30				
31 Net Operating Income	-Line 27-Line 29	<u>77,717</u>	<u>(317,266)</u>	<u>394,982</u>
32				
33 Revenue Requirement		<u>(125,304)</u>	<u>511,530</u>	<u>(636,834)</u>

Summary of Liability Insurance Legal Proceedings and Settlements

1. Remove "Captive" Liability Insurance Premium, Reimbursements and Accruals from FERC Account 925

	Total Company	Factor	Percentage	Washington Allocated
1 Test Period Captive Liability Premium - Account 925				
2 (Dalley Exhibit RBD-3 Page 4.11.1)	(1,584,944)	SO	7.204%	(114,185)
3 Test Period Captive Liability Accrual/Provision - Account 925				
4 (Attachment 99b Accrual)	(4,831,787)	SO	7.204%	(348,100)
5 Remove Captive Insurance Reimbursements - Account 925				
6 (Attachment 99b Reimbursement)	1,010,101	SO	7.204%	72,771
7				
8 Total	(5,406,630)	SO	7.204%	(389,514)
9				
10				
11				

2. Replace Captive Insurance with a Six Year Average based on claim activity.

13 Western Control Area Claim Activity:				
14 2005 Response to WUTC 99a	-			
15 2006 Response to WUTC 99a	-			
16 2007 Response to WUTC 99a	1,417,560			
17 2008 Dalley Exhibit RBD-3 Page 4.11.1	65,407			
18 2009 Dalley Exhibit RBD-3 Page 4.11.1	1,500,000			
19 2010 Dalley Exhibit RBD-3 Page 4.11.1	327,289			
20 Total of six years	3,310,256			
21 Average (Line 19/6)	551,709	CAGW	22.474%	123,992
22				
23				
24 Total Adjustment for Liability Suits and Settlements	(4,854,921)			(265,522)

Summary of Property Damage

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1. Remove "Captive" Property Insurance Premium, Reimbursements and Accruals from FERC Account 924

	Total Company	Factor	Percentage	Washington Allocated
1 Test Period Captive Property Premium - Account 924 (Dalley Exhibit RBD-3 Page 4.11.2)	(5,560,493)	SO	7.204%	(400,599)
3 Test Period Captive Liability Accrual/Reimbursement Net - Account 924 (Dalley Exhibit RBD-3 Page 4.11.2)	(8,644,574)	SO	7.204%	(622,787)
5 Total	(14,205,067)	SO	7.204%	(1,023,333)

2. Replace Captive Insurance with a Six Year Average based on claim activity. (1)

11 Washington Distribution Claim Activity:				
13 Apr 2005 - Mar 2006 Response to WUTC 79a	239,827			239,827
14 Apr 2006 - Mar 2007 Response to WUTC 79a	582,828			582,828
15 Apr 2007 - Mar 2008 Response to WUTC 79a	1,493,728			1,493,728
16 Apr 2008 - Mar 2009 Response to WUTC 79a	425,221			425,221
17 Apr 2009 - Mar 2010 Response to WUTC 79a	246,685			246,685
18 Apr 2010 - Mar 2011 Response to WUTC 79a	591,239			591,239
19 Total of six years	3,579,529			3,579,529
20 Average (Line 19/6)	596,588	WA	100.00%	596,588
21 Western Control Area Transmission Claim Activity				
22 Apr 2005 - Mar 2006 Response to WUTC 79a	122,962			
23 Apr 2006 - Mar 2007 Response to WUTC 79a	245,993			
24 Apr 2007 - Mar 2008 Response to WUTC 79a	1,426,203			
25 Apr 2008 - Mar 2009 Response to WUTC 79a	335,571			
26 Apr 2009 - Mar 2010 Response to WUTC 79a	1,058,872			
27 Apr 2010 - Mar 2011 Response to WUTC 79a	335,721			
28	3,525,321			
29	587,554	CAGW	22.474%	132,048
30 Western Control Area Non Transmission and Distribution Claim Activity				
31 Apr 2005 - Mar 2006 Response to WUTC 79a	100,592			
32 Apr 2006 - Mar 2007 Response to WUTC 79a	411,139			
33 Apr 2007 - Mar 2008 Response to WUTC 79a	199,641			
34 Apr 2008 - Mar 2009 Response to WUTC 79a	6,593,230			
35				
36 Apr 2009 - Mar 2010 Response to WUTC 79a	847,444			
37 Apr 2010 - Mar 2011 Response to WUTC 79a	278,384			
38	1,976,084			
39	329,347	CAGW	22.474%	74,018
40				
41 Total	1,513,489			802,654
42				
43 Total Adjustment for Property Damage	(12,691,578)			(220,679)

Summary of Related Tax Adjustments

			Total Company	Reference	Factor	Washington
<u>1. Permanent Schedule M Addition for Tax</u>						
1	Remove Permanent Schedule M Addition in base period CY 2010		(6,969,001)	B6, pg 1	7.204%	(502,073)
2						
<u>2. Permanent Schedule M Deduction for Tax</u>						
3						
4						
5	<u>FERC A/C</u>	<u>SCH M #</u>				
6	4099200	130560	MEHC Insurance Services - Receivable - Sch M Deduction	SO	16,311,944	B6, pg2 7.204% 1,175,173
7						
8						
<u>3. Temporary Schedule M Deduction for Tax</u>						
9						
10						
11	<u>FERC ACCT</u>	<u>SAP ACCT</u>				
12	4099300	705210	Property Insurance(Injuries & Damages)	SO	\$109,564	B6, pg 3 7.204% 7,893
13						
14						
15						
<u>4. Revenue Requirement of Tax Adjustment:</u>						
16						
17						
18						
19	Estimated Price Change (Revenue Requirement)		5,334,114			384,289
20						
TAX CALCULATION:						
21						
22	Operating Revenue					-
23	Other Deductions					-
24	Interest (AFUDC)					-
25	Interest					-
26	Schedule "M" Additions		(6,969,001)			(502,073)
27	Schedule "M" Deductions		(16,421,508)			(1,183,066)
28	Income Before Tax		9,452,507			680,994
29						
30	State Income Taxes					-
31	Taxable Income					9,452,507
32						680,994
33	Federal Income Taxes Before Credits					3,308,377
34	Energy Tax Credits					238,348
35	Federal Income Taxes					3,308,377
						238,348

	PacifiCorp	Staff	Difference
1 Operating Revenues:			
2 General Business Revenues			
3 Interdepartmental			
4 Special Sales			
5 Other Operating Revenues			
6 Total Operating Revenues	-	-	
7			
8 Operating Expenses:			
9 Steam Production			
10 Nuclear Production			
11 Hydro Production			
12 Other Power Supply	64,690		(64,690)
13 Transmission	125,356		(125,356)
14 Distribution	285,502		(285,502)
15 Customer Accounting			
16 Customer Service & Info			
17 Sales			
18 Administrative & General	(295,608)	(486,254)	(190,646)
19 Total O&M Expenses	179,940	(486,254)	(666,194)
20 Depreciation			
21 Amortization			
22 Taxes Other Than Income			
23 Income Taxes - Federal	137,326	408,537	271,210
24 Income Taxes - State			
25 Income Taxes - Def Net			
26 Investment Tax Credit Adj.			
27 Misc Revenue & Expense			
28 Total Operating Expenses:	317,266	(77,717)	(394,984)
29			
30 Operating Rev For Return:	(317,266)	77,717	394,984
31			
32 Rate Base:			
33 Electric Plant In Service			
34 Plant Held for Future Use			
35 Misc Deferred Debits			
36 Elec Plant Acq Adj			
37 Nuclear Fuel			
38 Prepayments			
39 Fuel Stock			
40 Material & Supplies			
41 Working Capital			
42 Weatherization			
43 Misc Rate Base			
44 Total Electric Plant:	-	-	
45			
46 Rate Base Deductions:			
47 Accum Prov For Deprec			
48 Accum Prov For Amort			
49 Accum Def Income Tax			
50 Unamortized ITC			
51 Customer Adv For Const			
52 Customer Service Deposits			
53 Misc Rate Base Deductions			
54			
55 Total Rate Base Deductions	-	-	
56			
57 Total Rate Base:	-	-	
58			
59 Estimated Price Change	511,530	(125,304)	(636,834)
60			
61 TAX CALCULATION:			
62 Operating Revenue	(179,940)	486,254	666,194
63 Other Deductions			
64 Interest (AFUDC)			
65 Interest			
66 Schedule "M" Additions	(389,243)	(502,073)	(112,830)
67 Schedule "M" Deductions	(961,544)	(1,183,066)	(221,522)
68 Income Before Tax	392,361	1,167,248	774,887
69			
70 State Income Taxes	-	-	
71 Taxable Income	392,361	1,167,248	774,887
72			
73 Federal Income Taxes Before Credits	137,326	408,537	271,210
74 Energy Tax Credits			
75 Federal Income Taxes	137,326	408,537	271,210

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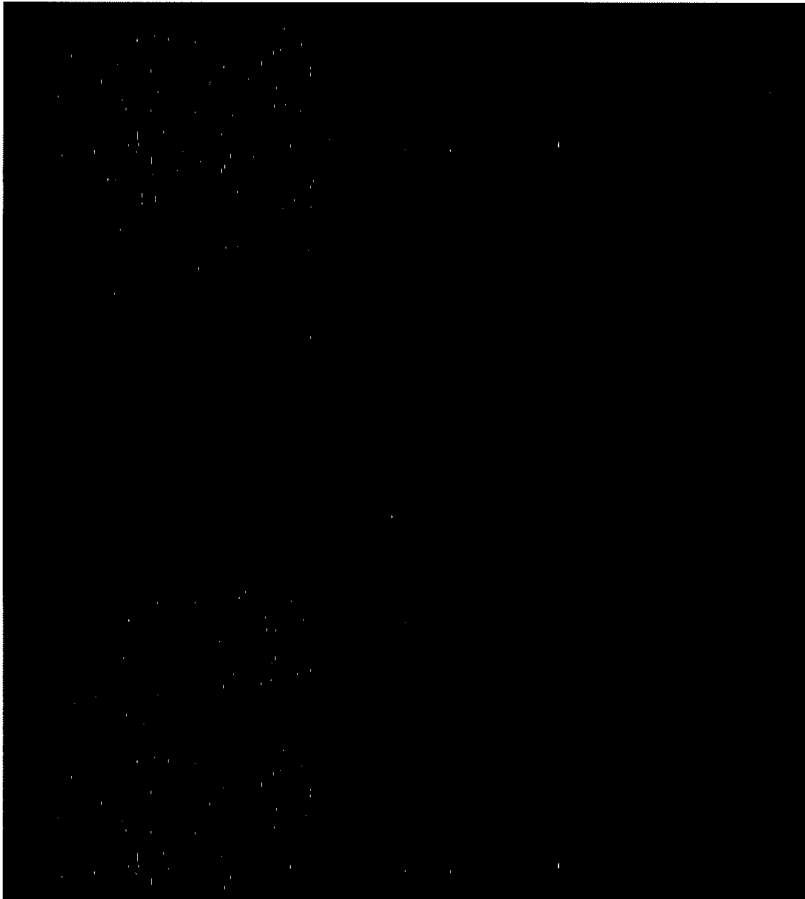
WUTC 99a

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Please list the liability insurance claims paid from 2005 through 2007, and please provide the following for each claim:

- a) A description of the incident giving rise to the claim;
- b) The date of the incident;
- c) The full amount of the claim as requested;
- d) The amount paid by PacifiCorp; and
- e) Whether or not the amount was litigated.

Response:



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Attachment WUTC 99b
 99b - 2010 Accruals for Insurance Reimbursement
 Account 549302 - Credited to FERC Account 925
 CY 2010

Month	Description	Amount				
		Total	Subtotal Captive	Captive - West	Captive - East	Commercial
	Total Company	-2,628,706.82	(1,010,101)	(327,289)	(682,812)	(1,618,605)
	WA SO Factor	7.2044%	7.2044%			7.2044%
	WA Portion	(189,382)	(72,771)			(116,610)

PacifiCorp
UE-111190
Washington General Rate Case - December 2010
Adjustment 4.11 Liability Suits and Property Damage

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Attachment WUTC 99b
99b - 2010 Accruals of Property Damage
Account 545050 - Charged to FERC Account 925
CY 2010

Month	Claim No	Description	Amount
			

Total Company	<u>4,831,787</u>
WA SO factor	<u>7.2044%</u>
WA Portion	<u>348,100</u>

**UE-111190/PacifiCorp
 WUTC Data Response 79a**

Annual Losses Above Deductible

	WCA System Transmission Losses	Washington Distribution Losses	WCA System Non- T&D Losses
Current Plan Structure:			
Apr 2005 - Mar 2006	122,962	239,827	100,592
Apr 2006 - Mar 2007	245,993	582,828	411,139
Apr 2007 - Mar 2008	1,426,203	1,493,728	199,641
Apr 2008 - Mar 2009	335,571	425,221	6,593,230
Apr 2009 - Mar 2010	1,058,872	246,685	847,444
Apr 2010 - Mar 2011	335,721	591,239	278,384
Total	3,525,321	3,579,529	8,430,430
Annual Average	\$ 587,554	\$ 596,588	\$ 1,405,072
<i>Per Event Deductible</i>	\$ 25,000	\$ 25,000	\$ 25,000

	<u>FERC</u>	<u>2010</u>	<u>Offsetting Entry Account</u>
Reserve Beginning Balance 12/31/2009	254 SO	(109,565)	None, Prior Period
Charges after deductible-T&D ⁽¹⁾	254 SO	15,598,507	CASH /AR
Charges after deductible-non T&D ⁽²⁾	254 SO	1,462,303	CASH /AR
Accruals	254 SO	(8,644,574)	924 SO
Captive Insurance Receivable	254 SO	(8,306,671)	CASH /AR
Reserve Ending Balance 12/31/2010		-	

<u>Washington Allocation of Cost in Test Year</u>	<u>Factor</u>	<u>Total Co.</u>	<u>WA %</u>	<u>WA Alloc.</u>
AMA of Account 254 2010 (Tab 2 RBD-3)	254 SO	(192,171)	7.2044%	(13,845)
12 ME Dec. 2010 924 SO (Captive Related Accrual)	924 SO	8,644,574	7.2044%	622,790
12 ME Dec. 2010 924 SO (Captive Premium)	924 SO	5,560,493	7.2044%	400,600
		14,205,067		1,023,390

(1) For detail see T&D Cost by Orders tab for total costs and T&D Deductible tab for costs not charged to property reserve but to OMAG.
 (2) There were no Non-T&D losses incurred in 2010 which would have resulted in a charge in the Washington rate filing.

UE-111190 / PacifiCorp
October 26, 2011
PC Data Request to PacifiCorp 244

PC Data Request 244

Re: PacifiCorp's Response to Public Counsel Data Request 136.

The response to PC DR 136 indicates that the insurance broker Aon Risk Services got verbal quotes and responses from various insurance market vendors regarding prices, but with very little detail shown about the quote (no information regarding deductibles and specific coverage terms). Also the response indicates that no vendor was willing to write a policy for the Company. Explain the following:

- (a) Provide all written documentation that the Company received from Aon Risk Services about quotes from outside insurance vendors, including all specific details about the insurance coverage such as premiums, specific coverage amounts, limitations and other terms.
- (b) Provide all written and verbal documentation and information received from Aon Risk Services which explains why no vendor was willing to write insurance policies for the Company. Was this due to the history of claims by the Company and explain all reasons.
- (c) Explain if the Company is self-insuring because it is most cost efficient or because it could not get insurance coverage from any other vendor. Explain in detail and provide supporting documentation.
- (d) Provide the names of the insurance vendors not disclosed in PC DR 136.
- (e) Explain if the response to PC DR 136 represents the entire effort of the Company in seeking insurance coverage from independent vendors. And if not, provide all additional information and supporting documentation.
- (f) Explain if Company representative's personally discussed insurance coverage alternatives and quotes with independent vendors and provide the results of this discussion and related analysis.

Response to PC Data Request 244

The response provided in the Company's response to PC Data Request 136 did provide deductible and coverage terms limits:

Excess Liability - \$750.0k excess \$240.0k Layer
• \$750.0k in coverage after \$24.0k deductible
All Risk Property - \$6.0m excess \$1.5m Layer
• \$6.0m in coverage after \$1.5m deductible
T&D Property - \$10.0m aggregate limit excess \$5.0m
• \$10.0m in coverage after an aggregate deductible of \$5.0m

- (a) Please refer to Confidential Attachment PC 244a.
- (b) With the exception of T&D property insurance for grid systems which has not been available since 2002 at commercially reasonable terms, vendors were not willing to write liability and non-T&D policies with such low deductibles without charging higher premiums but in most instances were not willing to write.

UE-111190 / PacifiCorp
October 26, 2011
PC Data Request to PacifiCorp 244

(c) Self insurance is more cost efficient than paying higher premiums for lower deductibles. Please refer to the Company's response and 1st supplemental to PC Data Request 135.

(d) Insurance vendors listed in the Company's response to PC Data Request 136:

Vendor 1	AEGIS
Vendor 2	Chartis
Vendor 3	ACE
Vendor 4	Liberty International
Vendor 5	Lexington

(e) Yes, this was the Company's entire effort.

(f) No Company representatives discussed insurance coverage alternatives and quotes with independent vendors.

Confidential information is provided subject to the terms and conditions of the protective order in this proceeding.

PREPARER: Margaret Reed

SPONSOR: To Be Determined

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REDACTED

UE-111190/PacifiCorp
October 7, 2011
PC Data Request 148

PC Data Request 148

Re: Self-Insurance Adjustment

Regarding the "annual losses above deductible" shown at workpaper page 4.11.3, provide the following information and documentation for two of the losses identified in this workpaper; (1) \$6,593,230 from April 2008 to March 2009 (under the \$1,000,000 deductible category for WCA Non T&D Losses), and (2) \$1,058,872 from April 2009 to March 2010 (under the \$1,000,000 deductible category for WCA System Transmission Losses):

- a) Explain and identify the most significant single event (or related events) causing the losses of \$6,593,230 and \$1,058,872.
- b) Identify the specific dates of the losses, type of assets damages/losses, and the location of the losses.
- c) Provide documentation filed with the insurance company showing the loss amount.
- d) Provide documentation showing the amount of all proceeds received from the insurance company related to all losses of \$6,593,230) and related to all losses of \$1,058,872 - - instead of just limiting the proceeds to the two single largest events comprising the amounts of \$6,593,230 and \$1,058,872 as noted above.
- e) Identify when these proceeds were actually received by the Company and recorded on the books, and identify the account where these amounts were recorded.
- f) Provide documentation explaining and showing how the subsequent proceeds from the insurance company were treated in rate cases in all applicable state jurisdictions - - explain if the Company treated insurance proceeds as a reduction in the revenue requirement of the rate case or explain if the insurance proceeds were recorded below-the-line or not included as a reduction in the cost of service.

Response to PC Data Request 148

- a) The most significant single event in the \$6,593,230 was the Lewis River high runoff event on January 8, 2009. This amounted to \$6,410,474 during the period. The most significant single event in the \$1,058,872 was the Williams Creek fire in the Roseburg area on July 28, 2009. This amounted to \$599,424 during the period.
- b) Please refer to the Company's response to part a) above.
- c) Please refer to Attachments PC 148c -1 and PC148c -2.
- d) Please refer to Attachment PC 148c -1, which shows there were no other insurance recoveries related to any other events included in the \$6,593,230. The only insurance recovery relates to the Lewis River Runoff referred to as "Swift" on this document. Refer to Attachment PC 148c- 2, which shows the

UE-111190/PacifiCorp
October 7, 2011
PC Data Request 148

cumulative recoveries for transmission and distribution claims which includes the \$1,058,872.

- e) Damage claims are reviewed each month with the appropriate receivable being booked as the costs are incurred. The storm costs are transferred to the property damage reserve account by debiting the reserve and crediting the appropriate expense account originally charged. The receivable is then established by crediting the reserve and crediting Intercompany MEHC Account 116128 Receivable MEHC Insurance Services LTD. When payment is received it is booked against this accounts receivable balance. The final claims were filed in December following the end of the contract year. Payments were received for the contract years ending in March 2009 and March 2010; December 21, 2009 and December 30, 2010 respectively.
- f) Subsequent proceeds are charged to the receivable described in item d above. Revenue requirement is reduced when expenses are credited as described in item d above. Because of this, insurance proceeds reduce revenue requirement and reduce cost of service and are not recorded below the line.

PREPARER: R. Bryce Dalley

SPONSOR: R. Bryce Dalley

REDACTED