**BEFORE THE WASHINGTON**

**UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

---

DOCKET NOS. UE-200900 and UG-200901 (*Consolidated*)

**ANDREA C. CRANE**

**ON BEHALF OF THE**
**WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL**
**PUBLIC COUNSEL UNIT**

---

**EXHIBIT ACC-11**

Avista Response to Commission Staff Data Request No. 44

**April 21, 2021**

**AVISTA CORP.**
**RESPONSE TO REQUEST FOR INFORMATION**

| | | | |
|---|---|---|---|
| JURISDICTION: | WASHINGTON | DATE PREPARED: | 01/13/2021 |
| CASE NO.: | UE-200900 & UG-200901 | WITNESS: | Elizabeth Andrews |
| REQUESTER: | UTC Staff | RESPONDER: | Bob Brandkamp |
| TYPE: | Data Request | DEPT: | Risk Management |
| REQUEST NO.: | Staff – 044 | TELEPHONE: | (509) 495-4924 |
| | | EMAIL: | bob.brandkamp@avistacorp.com |

**SUBJECT: Insurance Expense**

**REQUEST:**

Referring to the workpaper of Elizabeth M. Andrews for insurance adjustment, please explain why the *estimated* insurance expense for 2021 ($11,874,745) is more than double the 2019 level ($4,590,939) and provide support for the estimated 2021 level.

| TOTAL COSTS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | as of 9/14/2020 | | | as of 9/14/2020 | | | as of 9/14/2020 | | |
| | 12/31/2019 | | | 12/31/20 - Projected | | | 12/31/21 - Projected | | |
| Line of Insurance | premium with cc (1) | premium without cc | basis | premium with cc | premium without cc | basis | premium with cc | premium without cc | basis |
| General Liability | $2,259,774 | $2,704,244 | actual | $2,612,998 | $2,981,117 | estimated | $8,642,424 | $9,046,649 | estimated |
| Directors & Officers Liability | $850,468 | $1,221,598 | actual | $856,617 | $1,279,676 | estimated | $946,671 | $1,401,670 | estimated |
| Property | $1,480,696 | $1,503,777 | actual | $1,747,311 | $1,796,768 | estimated | $2,285,651 | $2,335,799 | estimated |
| TOTAL INSURANCE COSTS | 4,590,939 | 5,429,619 | | 5,216,926 | 6,057,562 | | 11,874,745 | 12,784,119 | |

**RESPONSE:**

Please see Avista's **CONFIDENTIAL** response to data request Staff-DR-044C. Please note that Avista's response to Staff-DR-044C is **Confidential per Protective Order in UTC Dockets UE-200900 and UG-200901**.

Revised Insurance expenses at 01.13.2021:

| TOTAL COSTS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | as of 1/11/2021 | | | as of 1/11/2021 | | | as of 1/11/2021 | | | |
| | 12/31/2019 | | | 12/31/20 - Actual | | | 12/31/21 - Projected | | | |
| Line of Insurance | premium with cc (1) | premium without cc | basis | premium with cc | premium without cc | basis | premium with cc | premium without cc | basis | |
| General Liability | **$2,259,774** | $2,704,244 | actual | $2,749,608 | $2,981,117 | Actual | **$5,529,138** | $5,788,307 | Actual (a) | FERC 925 |
| Directors & Officers Liability | **$850,468** | $1,221,598 | actual | $894,646 | $1,279,676 | Actual | **$1,148,276** | $1,504,665 | estimated (b) | FERC 925 |
| Property | **$1,480,696** | $1,503,777 | actual | $1,765,375 | $1,792,539 | Actual | **$2,235,720** | $2,283,779 | Actual (a) | FERC 924 |
| TOTAL INSURANCE COSTS | 4,590,939 | 5,429,619 | | 5,409,629 | 6,053,333 | | 8,913,134 | 9,576,751 | | |
| | IA-1 | | | IA-1 | | | IA-1 | | | |
| Less 10% D&O | - | | | 89,465 | | | 114,828 | | | |
| Adjusted for 10% D & O Removal | 4,590,939 | | | 5,320,164 | | | 8,798,306 | | | |
| | | | | | | | (a) Actual premium, estimated credits | | | |
| | | | | | | | (b) estimated, will be available 4/1/2021 | | | |

As previously provided in Company witness Ms. Andrews' testimony, initial 2021 estimates as of 9/14/20 were subject to extreme variability over time given the significant rate increases across most lines of insurance in 2020 combined with the fact that we were several months away from some policy renewals. Ms. Andrews noted the Company would provide updated information when available in Q'1 of 2021. As our policies began to renew for the 2021 period, our insurance costs for each line were able to be more accurately assessed. This is reflected in the updated chart above which reflects substantially lower overall insurance costs than originally projected in September of 2020 (see Staff-DR-044C Confidential Attachment A). The revised estimate of 2021 costs are 94% above those in 2019. Explanations for the increases by line of insurance follow below.

Insurance companies began raising premiums, some significantly, beginning in late 2019 after a multi-year period in which their premiums were held flat or actually decreased, while claim frequency and severity continued to increase. Avista experienced extraordinary increases in 2021 Liability insurance premiums above and beyond industry wide increases based on recent wildfire activity in Oregon and Washington combined with insurers' continuing wildfire losses and perceived increase of wildfire risk throughout the western United States. Avista also incurred significant increases in its 2021 Property premiums and expects significant increases in D & O insurance premiums at the 3/31/21 renewal as insurers look to bring collected premiums in line with increases in losses across these programs industry wide. Avista will supplement this response at a later time after the final D&O insurance premium invoices are received.

**Excess General Liability**

The excess liability insurance market place started to see significant premium increases in 2019 due to an increase in loss costs for the industry primarily attributable to the frequency of large jury settlements. Avista experienced a 21.6% increase in excess general liability costs in 2020 due to a combination of rate increases related to increased industry loss costs combined with the loss of an $115,000 credit typically received from one of our insurance companies.

Costs in 2021 built significantly off of the 2020 cost increases due to an increase in wildfire exposure in Avista's service territory. Prior to the September 7, 2020 wildfire event across the Pacific Northwest, Avista had anticipated a premium increase of approximately 15% at the 12/31/2020 renewal due to ongoing increase in loss costs in the industry. However, given the occurrence of the September 7, 2020 wildfire event coupled with the occurrence of two prior fires in Avista service territory, our insurance companies applied significant premium increases related to wildfire exposure. The increase directly attributable to wildfire exposure constitutes $2.5 million of the $2.8 million (89%) increase in excess general liability costs in 2021. Unlike issues such as increased loss costs which tend to be cyclical in nature, and abate after two or three years, the issue of wildfire exposure is one which will only get worse with time. This will result in expected significant insurance expenses into the future as all utilities in the Pacific Northwest will struggle with obtaining affordable wildfire coverage in the future. With the exception of credit offsets (estimated and included) expected to be received during 2021, excess general liability premium costs are known and measurable at this point in time. See Staff-DR-044C Confidential Attachment B - Liability Invoices for a record of premiums paid.

**Property Insurance**

The property insurance market in the latter half of 2018 began a pivot away from several years of declining rates (2013-2017) to one where premium increases will be the new norm through at least 2022. While premiums continued to decrease over this period, claim activity did not decrease, resulting in ever decreasing profitability for insurance companies. This problem became compounded when the industry experienced two of the biggest catastrophic loss years in the history of the industry in 2017 and 2018. This triggered an industry wide move for insurers to start to seek property insurance premium increases in order to return this line of business to profitability.

Avista had a 18.5% increase in property insurance premiums at its 12/1/19 renewal due to the market minimum increases in addition to additional premium increases related to a 2017 property loss at our Cabinet Gorge hydro generation plant and an expected insurance loss resulting from a 2018 transformer failure at our Coyote Springs CT generation facility. Industry wide, premiums have continued to increase, often at a monthly rate, since that time.

Avista is projected to experience an additional 27% increase in property insurance expense in 2021 as the property market continues to work to return their property lines of business to profitability. Some insurance companies have restricted the amount of capacity they will write due to profitability issues, thus decreasing supply and causing a corresponding increase in premiums. These increases may be even higher for property programs insured in part through Lloyds of London, due to losses in Lloyd's syndicates' property books in 2017 and 2018. Industry forecasts are for similar increases in 2022 as well. With the exception of credit offsets (estimated and included) expected to be received during 2021, and premium change beginning with the 12/21 renewal, property premium costs are known and measurable at this point in time. See Staff-DR-044C Confidential Attachment C for a record of Property Invoices premiums paid.

**Directors and Officers Insurance**

Directors and Officers (D & O) insurance shares the same history of declining premiums during a period of increasing loss activity. Increased losses were driven by specific large loss events, merger objection lawsuits, an increase in securities class-action suits, general increases in claims frequency and higher defense costs. Going forward, insurers see additional risk in that additional claims may be brought under the False Claims Act (FCA) or other regulatory venues, as the government audits and investigates the borrowers within the programs established by the Coronavirus Aid, Relief, Economic and Security Act (CARES). Other risks that are driving increases in premiums include publicly traded companies may be subject to disclosure suits if their company performance doesn't match with how they indicated they would respond in disclosures or that there will be an increase in D & O claims related to the increased number of business failures as a result of the COVID pandemic.

Although premiums increased from 2019 through 2020, net premium remained relatively flat due to an increase in credits applied to D & O premiums and the mitigation of our mutual insurers who typically hold rate increases to less than that of the commercial insurers. However, based on the conditions noted above, we expect the 2021 premium increase magnitude to outpace credit receipts in 2021. At this time, Avista expects a blended gross premium rate increase of 21% at the 3/31/21 based on broker estimates (see the est tab in Staff-DR-044C Confidential Attachment A). We will amend our projected 2021 D & O expense in April after we've received the invoice for the 3/31/21 renewal.

Updating for changes in amounts due to actual invoices received at this time, reduces the Company's Washington electric and natural gas insurance expense from that as filed by $1,031,000 and $785,000. The impact on the Company's proposed revenue requirement is a reduction of approximately $1,024,000 and $821,000. The Company will supplement this response with actual amounts for the estimated "credits" and D&O insurance premiums once received.