

1 **Q. Please state your name, business address and present position with PacifiCorp**
2 **(the Company).**

3 A. My name is John F. Fryer. I am the Group Director – Insurance for PacifiCorp based
4 at 825 NE Multnomah, Suite 1800, Portland, Oregon 97232.

5 **Qualifications**

6 **Q. Briefly describe your education and business experience**

7 A. I graduated from Manhattan College in 1975 with a degree in Business Administration.
8 In 1978, I graduated from Oregon State University with an MBA. I previously directed
9 all aspects of PacifiCorp’s corporate credit function and provided counsel on all major
10 credit issues to senior management. I have had a variety of risk and treasury related
11 roles during my 14 years with the Company.

12 **Q. Please describe your current duties.**

13 A. I am responsible for implementing and managing all aspects of PacifiCorp’s insurance-
14 related risk management strategy. I have also recently assumed Dawn Cartwright’s
15 insurance risk management responsibilities. Ms. Cartwright had previously submitted
16 testimony to the Commission regarding the Company’s insurance costs.

17 **Purpose of Testimony**

18 **Q. What is the purpose of your rebuttal testimony?**

19 A. I will respond to certain adjustments to the Company’s uninsured loss accrual proposed
20 by WUTC witness Mr. Schooley.

1 **Uninsured Losses**

2 **Q. What adjustments did PacifiCorp make to the test year provision for uninsured**
3 **losses?**

4 A. In its filing, PacifiCorp proposed that the historic level of uninsured loss reserves be
5 increased by approximately \$6.3 million. In support of this request, the Company cited
6 its historical pattern of losses compared to current levels of coverage, the impact of loss
7 aggregate protections on some policies, the loss of transmission and distribution system
8 coverage and higher deductibles.

9 **Q. What adjustments have been proposed by Mr. Schooley to the Company's test**
10 **year provision for self-insured losses?**

11 A. Mr. Schooley claims that recent experience does not support the Company's proposal,
12 and has proposed a more limited adjustment that would disallow \$953,000 of the
13 Company's additional uninsured loss accrual from Washington revenue requirement.

14 **Q. Do you agree with Mr. Schooley that the Company's proposed increase in its**
15 **uninsured loss accrual is overstated?**

16 A. No. I believe that the additional uninsured loss accrual proposed in the Company's
17 filing is reasonable and conservative.

18 **Q. What additional evidence can you offer to support the requested increase in**
19 **uninsured loss reserves?**

20 A. It is necessary to start with a review of a few basic concepts. In addition to insurance
21 premiums, PacifiCorp incurs costs in respect of loss events that are not covered by an
22 insurance policy. These are classified as "uninsured loss exposures," and for these

1 exposures PacifiCorp has established and maintained reserves. Historically PacifiCorp
2 has established, with the consent of regulators, a level of reserves that was based upon
3 a review of loss history in conjunction with a review of our insurance coverage and
4 deductibles. In the 1990s, insurance costs, scope of coverage and deductibles
5 remained relatively unchanged for most insureds. This was true for PacifiCorp as well.
6 However, given the events of September 11, 2001 and other critical changes in the
7 insurance market, a shift in the distribution pattern for these costs has occurred. For
8 example, where once PacifiCorp had a property deductible of \$1 to \$2 million per
9 event, this deductible now stands at \$7.5 million per event. This means that there has
10 been a significant change in the magnitude of exposure for PacifiCorp.

11 **Q. What are the consequences of the shift to higher deductibles?**

12 A. There are two main consequences of this shift. The average annual cost of these events
13 will increase and the volatility of actual outcomes around this average will increase. The
14 uncertainty of these events means that it is difficult to accurately predict the value of the
15 change. Exhibit No.__(DTC-3) to Ms. Cartwright's direct testimony attempts to
16 quantify the potential additional exposure to PacifiCorp.

17 **Q. Do you have additional data that would help to quantify the increased
18 exposure?**

19 A. Yes. The following information is provided to help illustrate a few key areas of
20 increased exposure and actual experience that justifies the requested increase in
21 uninsured losses. The chart below indicates that the level of Property uninsured losses
22 for the period 1999 through March 2003 has averaged \$6.3 million per year. While

1 this information represents actual losses, it is important to remember that typically such
 2 information would be trended for inflation to reflect the present day value for current
 3 and future reserving purposes and such inflation-trended information is also shown
 4 below.

| Year | Property Uninsured Losses | Property Uninsured Losses (Inflation Adjusted) |
|----------------|----------------------------------|---|
| 1999 Calendar | \$ 4,837,843 | \$ 5,321,627 |
| FY 2000 (3mos) | \$ 1,029,084 | \$ 1,101,119 |
| FY 2001 | \$ 4,612,371 | \$ 4,796,865 |
| FY 2002 | \$ 6,297,603 | \$ 6,423,555 |
| FY 2003 | \$ 8,356,756 | \$ 8,356,756 |
| | | |
| Total | \$ 25,133,657 | \$ 25,999,922 |
| 4 year average | \$ 6,284,414 | \$ 6,499,980 |

5 PacifiCorp has requested only \$6 million in Property loss reserves in this case. The
 6 remainder of this increased exposure is reflected in the \$6.3 million additional uninsured
 7 loss category described in Exhibit No.____(DTC-3). It is apparent that the \$6 million
 8 requested with respect to Property uninsured losses alone will not be sufficient to meet
 9 even the average of the actual experience in the past few years, let alone keep up with
 10 the trend of the increasing uninsured losses. Because of the volatility in uninsured losses
 11 both on the Property and Liability side, it is preferable not to categorize all of the

1 increased exposure as either Property or Liability to maintain some flexibility as to how
2 reserves are used, based on any given year's loss pattern.

3 **Q. What is your response to Mr. Schooley's claim that PacifiCorp's recent claims**
4 **experience does not support the proposed increase in the Company's self-**
5 **insurance accrual?**

6 A. The data presented above clearly show that uninsured property losses have steadily
7 increased since Fiscal Year 2001. The most recent claims experience fully supports the
8 need for a significant increase in the self-insurance accrual, especially when the future
9 risk of multiple large losses is considered.

10 **Q. What additional evidence do you have to support this request?**

11 A. As stated in Ms. Cartwright's direct testimony, the "other" category in Exhibit
12 No.__(DTC-3) is meant to capture the overall increased exposure PacifiCorp has for
13 the various changes in our coverage and risks that cannot be tied to past loss events and
14 exposures. There is the potential for any of these issues to have a significant impact on
15 PacifiCorp's uninsured losses. The \$2.5 million included in the other category in this
16 case is an attempt to recognize this increased exposure and to try to reduce the impact
17 of any of these losses. In reality, however, these losses could be much higher than the
18 annual figure we have submitted. The "other" category includes items such as the
19 possibility of several large loss events in a short period of time where larger-than-ever
20 per event deductibles would have to be met. In addition, there is potential for future
21 claims to be more frequent in both the Property and Liability coverage, due to a wide
22 range of factors including:

- 1 ? The impact of global climate change on weather related losses,
- 2 ? Aging plant,
- 3 ? More intensive plant usage due to increasing loads,
- 4 ? Exposure to loss from newly constructed assets not included in historic risk
- 5 profiles, and
- 6 ? The increase in the litigious nature of society generally.

7 **Q. Have there been restrictions in insurance coverage?**

8 A. Yes. Restriction of insurance coverage in a number of key areas has resulted in
9 increased exposure to certain risks. These areas include :

- 10 ? Exclusion for asbestos liabilities in the General Liability policy from April 2003.
11 Many organizations, including utilities, have an exposure to litigation in respect
12 of asbestos liabilities, which may result in large settlements and legal fees being
13 incurred. There has been a general increase in asbestos claims in recent years
14 and many of the original manufacturers and their insurers are no longer solvent.
- 15 ? Exclusion of defense costs coverage for some categories of Electro Magnetic
16 Field (EMF) liability claims.
- 17 ? Restriction of Pollution coverage in upper layers of liability cover.
- 18 ? Restriction of Property cover for certain technologies. For some of
19 PacifiCorp's new generation assets, coverage is not provided for parts
20 damaged due to defective materials, workmanship or design. These restrictions
21 will be removed only when insurers become comfortable with these
22 technologies.

1 **Q. Have you seen a shift in insurers' approach toward claims?**

2 A. Yes. There has been a general shift in insurers' approach towards claims. Insurers are
3 now taking a much more prescriptive approach to claims that they accepted previously,
4 due to significant losses incurred worldwide in the insurance industry. Examples of this
5 include:

6 ? A far stricter approach to claims and policy wording than was previously
7 required. In addition, the insured bears more responsibility to disclose all
8 relevant facts in underwriting information, and increased risk of claims being
9 rejected or restricted.

10 ? Insurers questioning the basis of indemnity for key assets being questioned by
11 insurers. The insurance industry is increasingly unwilling to meet claims at full
12 replacement cost for older assets, and may seek to adjust a claim based on the
13 expected useful life of the asset. This is of particular concern with some of our
14 older coal generating plants.

15 **Q. Please summarize your response to the proposal by the Mr. Schooley to reduce**
16 **the Company's additional accrual for uninsured losses.**

17 A. I believe that the Company's adjustment to increase the accrual for uninsured losses is a
18 reasonable and measured response to the issues I have outlined above.

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

20 A. Yes.