

**Exh. JH-7**  
**Dockets UE-200900, UG-200901,**  
**UE-200894**  
**Witness: Joanna Huang**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,**

**Respondent.**

**DOCKETS UE-200900, UG-200901,  
UE-200894 (*Consolidated*)**

**EXHIBIT TO  
TESTIMONY OF**

**Joanna Huang**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Pro Forma Insurance Expense, Adjustment 3.07*

**April 21, 2021**

AVISTA UTILITIES  
WASHINGTON ELECTRIC RESULTS  
TWELVE MONTHS ENDED DECEMBER 31, 2019  
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Avist as-Filed	Staff
		Pro Forma Insurance Expense	Pro Forma Insurance Expense
	Adjustment Number	3.07	3.07
	Workpaper Reference	E-PINS	E-PINS
	REVENUES		
1	Total General Business	\$0	\$0
2	Interdepartmental Sales	-	-
3	Sales for Resale	-	-
4	Total Sales of Electricity	-	-
5	Other Revenue	-	-
6	Total Electric Revenue	-	-
	EXPENSES		
	Production and Transmission		
7	Operating Expenses	-	-
8	Purchased Power	-	-
9	Depreciation/Amortization	-	-
10	Regulatory Amortization	-	-
11	Taxes	-	-
12	Total Production & Transmission	-	-
	Distribution		
13	Operating Expenses	-	-
14	Depreciation/Amortization	-	-
	Regulatory Amortization		
15	Taxes	-	-
16	Total Distribution	-	-
17	Customer Accounting	-	-
18	Customer Service & Information	-	-
19	Sales Expenses	-	-
	Administrative & General		
20	Operating Expenses	3,539	-
21	Depreciation/Amortization	-	-
22	Regulatory Deferrals/Amortization	-	-
23	Taxes	-	-
24	Total Admin. & General	3,539	-
25	Total Electric Expenses	3,539	-
26	OPERATING INCOME BEFORE FIT	(3,539)	-
	FEDERAL INCOME TAX		
27	Current Accrual	(743)	-
28	Debt Interest	-	-
29	Deferred Income Taxes	-	-
30	Amortized ITC - Noxon	-	-
31	NET OPERATING INCOME	(2,796)	-
	RATE BASE		
	PLANT IN SERVICE		
32	Intangible	\$0	\$0
33	Production	-	-
34	Transmission	-	-
35	Distribution	-	-
36	General	-	-
37	Total Plant in Service	-	-
	ACCUMULATED DEPRECIATION/AMORT		
38	Intangible	-	-
39	Production	-	-
40	Transmission	-	-
41	Distribution	-	-
42	General	-	-
43	Total Accumulated Depreciation	-	-
44	NET PLANT	-	-
45	DEFERRED TAXES	-	-
46	Net Plant After DFIT	-	-
47	DEFERRED DEBITS AND CREDITS & OTHER	-	-
48	WORKING CAPITAL	-	-
49	TOTAL RATE BASE	\$0	\$0

AVISTA UTILITIES  
WASHINGTON NATURAL GAS  
TWELVE MONTHS ENDED DECEMBER 31, 2019  
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Avist as-Filed	
		Pro Forma Insurance Expense	Staff Pro Forma Insurance Expense
	Adjstment Number	3.08	3.07
	Workpaper Reference	G-PINS	G-PINS
	REVENUES		
1	Total General Business	\$ -	\$ -
2	Total Transportation	-	-
3	Other Revenues	-	-
4	Total Gas Revenues	-	-
	EXPENSES		
	Production Expenses		
5	City Gate Purchases	-	-
6	Purchased Gas Expense	-	-
7	Net Nat Gas Storage Trans	-	-
8	Total Production	-	-
	Underground Storage		
9	Operating Expenses	-	-
10	Depreciation/Amortization	-	-
11	Taxes	-	-
12	Total Underground Storage	-	-
	Distribution		
13	Operating Expenses	-	-
14	Depreciation/Amortization	-	-
15	Taxes	-	-
16	Total Distribution	-	-
17	Customer Accounting	-	-
18	Customer Service & Information	-	-
19	Sales Expenses	-	-
	Administrative & General		
20	Operating Expenses	1,079	-
21	Depreciation/Amortization	-	-
22	Regulatory Amortizations	-	-
23	Taxes	-	-
24	Total Admin. & General	1,079	-
25	Total Gas Expense	1,079	-
26	OPERATING INCOME BEFORE FIT	(1,079)	-
	FEDERAL INCOME TAX		
27	Current Accrual	(227)	-
28	Debt Interest	-	-
29	Deferred FIT	-	-
30	Amort ITC	-	-
31	NET OPERATING INCOME	\$ (852)	\$ -
	RATE BASE		
	PLANT IN SERVICE		
32	Underground Storage	\$ -	\$ -
33	Distribution Plant	-	-
34	General Plant	-	-
35	Total Plant in Service	-	-
	ACCUMULATED DEPRECIATION/AMORT		
36	Underground Storage	-	-
37	Distribution Plant	-	-
38	General Plant	-	-
39	Total Accumulated Depreciation/Amortization	-	-
40	NET PLANT	-	-
41	DEFERRED TAXES	-	-
42	Net Plant After DFIT	-	-
43	GAS INVENTORY	-	-
44	GAIN ON SALE OF BUILDING	-	-
45	OTHER	-	-
46	WORKING CAPITAL	-	-
47	TOTAL RATE BASE	\$ -	\$ -

**Insurance Analysis**

AVISTA UTILITIES  
SYSTEM RESULTS  
TWELVE MONTHS ENDED DECEMBER 31, 2019

Column A	Column B	Column E	Column F	Column G	Column H	Column I	Column J	Column K	Column I	Column J	Column K	Column I
Test year	Test period actual	2013	2014	2015	2016	2017	2018	2019	2020	2021	Requested Pro Forma Adjustmen	Overestimated Pro Forma increase
UE-140188	6/30/2013	4,588,016		Rate Year pro forma 5,813,343							1,225,327	895,650
UE-150205	9/30/2014		Test period actual 4,917,693		Rate Year pro forma 5,575,651						657,958	480,341
UE-160228	9/30/2015			Test period actual 5,095,310			Cross Check pro forma 5,242,104	5,515,707			146,794	
UE-170485	12/31/2016				No Adj							
UE-190335	12/31/2018						Test period actual 4,590,085	Rate Year pro forma 4,751,313			161,228	925,622
UE-200900	12/31/2019							Test period actual 4,590,939		Rate Year pro forma 11,874,745	7,283,806	160,374
Total												2,461,987
Conclusion : AVA's insurance estimated calculation for the future rate year tends to overestimate the acutal paid as they file GRC later Note: Insurance has not changed much from 2013-2018.												

## Insurance Analysis

AVISTA UTILITIES  
SYSTEM RESULTS  
TWELVE MONTHS ENDED DECEMBER 31, 2019

Line of Insurance	2014	2015	2016	2017	2018	2019	12/31/21 - Projected	Acutal 2019	6-Year Average
	premium with cc (1)	premium with cc	premium with cc	premium with cc	premium with cc	premium with cc	premium with cc	premium with cc	premium with cc
General Liability	2,353,426	2,472,961	2,530,402	2,525,273	2,330,543	2,259,774	8,642,424	\$2,404,991	\$ 2,412,062.98
Directors & Officers Liability	1,156,138	1,200,327	1,067,046	878,208	898,833	850,468	946,671	\$910,011	\$ 1,008,503.18
Property	1,489,214	1,432,325	1,373,127	1,310,238	1,359,443	1,480,696	2,285,651	\$1,631,909	\$ 1,407,507.27
	<u>4,998,778</u>	<u>5,105,612</u>	<u>4,970,574</u>	<u>4,713,719</u>	<u>4,588,818</u>	<u>4,590,939</u>	<u>11,874,745</u>	<u>4,946,911</u>	<u>\$ 4,828,073.43</u>
Increase amount							7,283,806		
Total change		2.14%	-2.64%	-5.17%	-2.65%	0.05%	158.66%		

**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.

Line of Insurance	TOTAL COSTS								
	as of 12/31/2019			9/14/2020 as of 12/31/20 - Projected			9/14/2020 as of 12/31/21 - Projected		
	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
<b>TOTAL INSURANCE COSTS</b>	<b>4,590,939</b>	<b>5,429,619</b>		<b>5,216,926</b>	<b>6,057,562</b>		<b>11,874,745</b>	<b>12,784,119</b>	

**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:

Line of Insurance	TOTAL COSTS									
	as of 12/31/2019			1/11/2021 as of 12/31/20 - Actual			1/11/2021 as of 12/31/21 - Projected			
	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
<b>TOTAL INSURANCE COSTS</b>	<b>4,590,939</b>	<b>5,429,619</b>		<b>5,409,629</b>	<b>6,053,333</b>		<b>8,913,134</b>	<b>9,576,751</b>		
	IA-1			IA-1			IA-1			
Less 10% D&O	-			89,465			114,828			
<b>Adjusted for 10% D &amp; O Removal</b>	<b>4,590,939</b>			<b>5,320,164</b>			<b>8,798,306</b>			
							(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.



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

JURISDICTION:	WASHINGTON	DATE PREPARED:	02/22/2021
CASE NO.:	UE-200900 & UG-200901	WITNESS:	Elizabeth Andrews
REQUESTER:	UTC Staff	RESPONDER:	Bob Brandkamp
TYPE:	Data Request	DEPT:	Risk Management
REQUEST NO.:	DR 130	TELEPHONE:	(509) 495-4924
		EMAIL:	bob.brandkamp@avistacorp.com

**RE: Insurance Adjustment Expense**

**REQUEST:**

Referring to Elizabeth M. Andrews's workpaper for the insurance expense adjustment 3.07, in Excel file entitled "12.2019 Insurance Pro Forma adjustment.xls," worksheet entitled "IA-2," cell "H11," the cell note states, "Brandkamp, Bob: Add \$5,624,411 to achieve 5.13% ROL scenario." Please provide a detailed explanation for this note and provide any documents that support the explanation or that are otherwise related to the note.

**RESPONSE:**

The above referenced Pro Forma adjustment and comments was the first early estimate of initial insurance expense adjustments and relied on a Rate on Line (ROL) methodology to estimate what the ultimate insurance expense adjustment might be given that invoices for 2021 had not yet been received. A more definitive Pro Forma based on the receipt of some actual invoices for 2021 was subsequently provided in Staff-DR-044. These new estimates, supersede those provided in the initial Pro Forma. Please refer to the response in Staff-DR-044 for the latest Insurance Pro Forma insurance adjustments and explanations for the changes in insurance premiums.