EXH. DAD-6
DOCKETS UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: DANIEL A. DOYLE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-240004** **Docket UG-240005**

FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF

DANIEL A. DOYLE

ON BEHALF OF PUGET SOUND ENERGY

FEBRUARY 15, 2024

Greg Miller

Marsh USA Inc.
1301 Fifth Avenue
Suite 1900
Seattle, WA 98101
+1 206 214 3073
greg.j.miller@marsh.com
www.marsh.com

Julie Milbrandt, Insurance Risk Program Manager
Puget Sound Energy

December 8th, 2023

Subject: Wildfire / Excess Liability and Property Premiums

Dear Julie,

This letter provides information regarding factors that have contributed to the very large increases in Puget's premiums for liability insurance due to wildfire risks.

The risk of wildfires has had a significant impact on liability insurance premiums for utilities in wildfire-prone regions of the US, including Puget Sound Energy (PSE). Here are some ways in which the risk of wildfires has influenced insurance premiums.

Increased Frequency and Severity of Wildfires: The increasing frequency and severity of wildfires have led to higher insurance claims and losses for utilities. As a result, insurers have adjusted their underwriting practices and pricing models to account for the heightened risk, leading to higher premiums for liability insurance.

Strict Liability Laws and Legal Environment: In regions prone to wildfires, such as California, utilities can be held strictly liable for damages caused by their equipment, even if they were not negligent. This legal environment has increased the potential liability exposure for utilities and subsequently impacted insurance premiums.

Rising Costs of Claims and Litigation: The costs associated with wildfire-related claims and litigation have been on the rise. Utilities have faced significant financial liabilities for damages caused by wildfires, including property damage, loss of life, and environmental harm. The increasing costs of claims and litigation have contributed to higher insurance premiums.

Insurance Market Dynamics: The insurance market for utilities operating in wildfire-prone areas has become more challenging. Insurers have become more cautious and selective in underwriting policies, leading to reduced capacity and increased premiums. The limited availability of coverage options and increased competition among utilities for insurance coverage have driven up premiums.

Risk Mitigation Efforts: Utilities have implemented various risk mitigation measures to reduce the likelihood and impact of wildfires. These efforts include vegetation management, equipment upgrades, and enhanced safety protocols. While these measures can help mitigate risk, they may not fully alleviate the insurance industry's concerns, resulting in higher premiums.

Marsh

These factors have driven very difficult insurance market conditions for Puget and other utilities over the past several years. This market is dominated by two insurers, AEGIS and EIM. As utility industry mutual insurers, these insurers exist to serve the insurance needs of their members, thereby insulating them, to at least some extent, from the vagaries of the commercial insurance market. Historically, for Puget as well as nearly all peer (by size) utilities, these two insurers offered a combined capacity of $150m for excess liability, including wildfire. Over the past several years, AEGIS and EIM steadily increased premiums in response to rising losses and increasing exposures; however they maintained their available capacity, thereby limiting the need to buy capacity in the commercial market. Two major events in 2023—the Maui wildfire that occurred in the summer, as well as the Oregon court ruling against Pacificorp in litigation stemming from wildfires in 2020--prompted both insurers to reevaluate their position with respect to wildfire for all utilities, including Puget. This reevaluation resulted in significant premium increases from both insurers. In addition, EIM reduced their capacity by $50m, requiring Puget to seek this capacity in the commercial market. Commercial underwriters price this risk at significantly greater pricing than the industry mutuals.

Market conditions are very unlikely to improve in the near future, absent a major change in the exposure, such as a change in public policy through legislation. In fact, it is likely to continue to worsen. EIM has told members they may stop offering wildfire capacity completely as soon as 2025. This will likely result in even greater demand for the limited amount of capacity available in the commercial market, resulting in even greater price increases.

Please let me know if you have any questions.

Sincerely,

Greg Miller
Managing Director