EXH. SEF-26
DOCKETS UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

TWENTY-FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

FEBRUARY 15, 2024

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PSE SOUND ENERGY For an Order Authorizing Deferred Accounting Treatment of PSE's Wildfire Insurance Costs	))))))	Docket UE-23______________ PETITION OF PUGET SOUND ENERGY

I. INTRODUCTION

1. In accordance with WAC 480-07-370 (3), PSE Sound Energy ("PSE" or "the Company") respectfully petitions the Washington Utilities and Transportation Commission ("Commission") for an order that authorizes the accounting and ratemaking treatment related to the incremental costs the Company will incur associated with its Wildfire insurance premiums.

2. Statutes and rules at issue in this Amended Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-100-203 and WAC 480-07-370 (3).

3. PSE is a combined gas and electric utility that provides service to approximately 1,200,000 electric customers and 860,000 natural gas customers in Western Washington.

4. All correspondence related to this Petition should be directed as follows:

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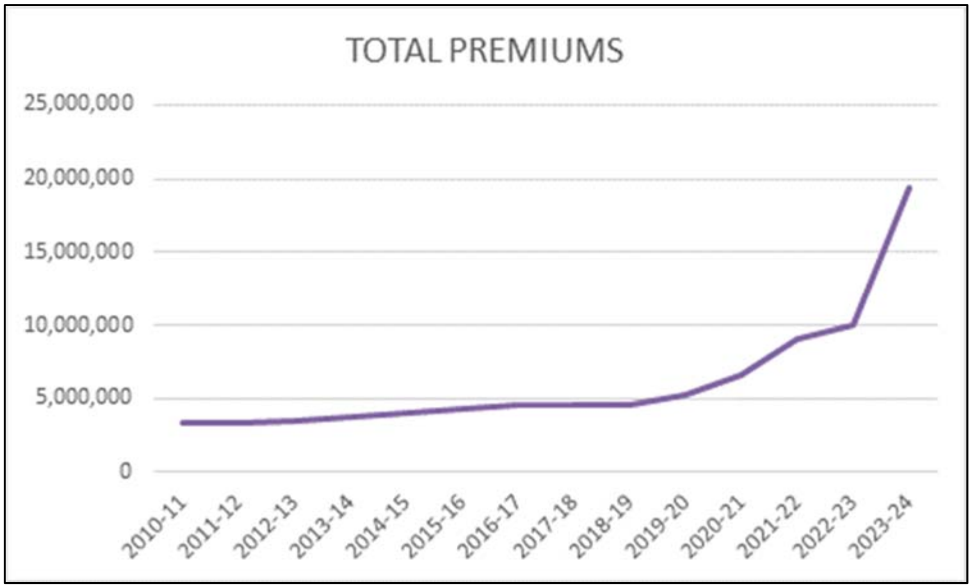
II. SUMMARY OF PETITION

5. PSE requests the Commission approve accounting treatment that would allow the Company to defer, for later consideration, the costs associated with incremental wildfire insurance expense. Wildfire insurance costs have increased dramatically because of higher prices and decreasing insurance coverage availability throughout the Western United States. PSE must incur substantially higher prices to secure policies that maintain the same level of insurance protection and avoid higher risks for customers.

III. BACKGROUND AND JUSTFICIATION FOR DEFERRAL

6. The significant increases in insurance premiums that PSE is witnessing result from heightened wildfire risk in the Western U.S. due to climate change and chronic drought conditions. Insurer capacity restrictions and price escalations continue as severe wildfire activity has affected states outside of California, punctuated by the unexpected and tragic event in Maui and the adverse jury verdict against PacifiCorp for a fire event in Oregon. PSE's liability insurance costs, as demonstrated in the chart and table below, remained relatively stable until 2019, when material increases occurred each year from 2019-2023 followed by a sharp spike in the 2023-2024 term.



7. As noted in the memo from PSE's insurance broker, attached as Attachment A to this petition, increases in liability premiums are largely attributable to the frequency and magnitude of Western-state wildfires in recent years, as well as PSE's specific wildfire risk. The increase in PSE's liability policy costs began with one of PSE's insurers pulling out of wildfire-exposed utility business in 2019, due in large part to multiple large wildfire losses it incurred in California. This required restructuring of the insurance panel to maintain PSE's historical liability insurance coverage limits. According to their internal risk modeling and underwriting guidelines, insurers began imposing new "wildfire load" surcharges on top of increases to rated premiums1 to offset some risk presented by utilities with operations in high-risk zones for wildfire. In December 2020, PSE's wildfire load surcharge was initially set at $250,000.

8. For the December 2023-2024 policy term, wildfire load alone accounted for $2,000,000 of premiums assessed. Altogether, the total premiums increased dramatically, 98 percent

[1] Rated premiums relate to an insurer's calculation of premium rates based on the full risk profile of the utility.

or $9.6 million above the previous premium period, and well beyond PSE's forecasted escalation. This steep rise is due primarily to one key mutual insurer's decision to cut wildfire coverage limits[2] available to PSE by $50 million from $100 million. It was extraordinarily challenging to replace the lost $50 million of coverage limit in the commercial marketplace;[3] and as a result, PSE was ultimately required to pay a much higher price to maintain the same coverage. PSE continues to believe maintaining adequate coverage for all utility risks, including wildfire, is vital and in customers' best interest. Consistent with the Company's mitigation and response strategy, PSE recognizes its obligation to protect its customers through its ability to recover damages by having insurance coverage for wildfires.

9. PSE's risk management team undertakes substantial efforts to ensure it receives the greatest level of insurance value possible for its customers, but PSE is in large part a price-taker in the insurance market and must absorb price increases as insurers raise premiums due to frequency and severity of losses. Therefore, the Company believes that incremental insurance premium costs are appropriately included in this request for deferral authority.

10. Notwithstanding its efforts to negotiate favorable rates, premiums for insurance will continue to increase for the foreseeable future. To manage these premium increases and to ensure that PSE can maintain an adequate level of insurance, the Company is requesting the authority to defer the incremental insurance costs.

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[2] Coverage limits are the highest amount an insurer will pay for a claim under a given insurance policy.
[3] PSE currently receives a portion of its coverage under mutual policies where covered members are invested in the mutual company. With the loss of coverage limit under its mutual policies, PSE had to fill the coverage limits through the commercial insurance marketplace.

11. Additionally, in light of the swiftly changing environment surrounding wildfire risk for all utilities operating in the West, PSE is in the process of re-assessing and updating its wildfire mitigation plan on file with the Commission.4 PSE also plans to address rate recovery for wildfire mitigation and response in its next general rate case filing expected to be filed sometime around January 2024. The deferral of PSE's incremental wildfire insurance premiums will allow PSE to preserve the incremental costs for later discussion in its general rate case.

12. Finally, this deferral request is similar in nature to deferred accounting treatment granted for Avista Corporation under Docket UE-200894.

IV. PROPOSED ACCOUNTING TREATMENT

13. PSE has just recently secured coverage for the period December 2023 through November 2024. The amount PSE will pay for this period is known with certainty now and has already been paid. The accounting for these premiums is to record them to a prepaid asset account when paid and to amortize them to expense over the premium period (December 2023 through November 2024). PSE requests an order authorizing the Company to record the deferral of incremental wildfire insurance expense beginning December 1, 2023 when the premium became materially out of line with expected increases. The period requested for deferral may span into the next premium period (December 2024 through November 2025) and the amounts PSE would defer in that period will be based on the level of incremental premiums paid for that period once known. The incremental expense is defined as the portion of the increase in liability insurance cost that is attributable to

[4] See PSE's submission on July 13, 2023 under Docket U-210254.

wildfire over what is included in current rates. As previously referenced, the December 2020 through November 2021 policy period was the first period in which a wildfire load was charged. Amounts included in the 2022 general rate case were based on a forecast for 2023 and 2024 prepared prior to the finalization of December 2020 through November 2021 premiums, and PSE could not have accurately predicted the severe and ongoing insurance market reaction to wildfire risk that has actually occurred. No other material changes were anticipated in PSE's operations or exposures, and no material claims activity occurred to negatively affect premium rates.

14. The insurance policies still cover all risks, from gas explosions, to electric contacts, to automobile accidents, etc. Insurers do not share their methodology and rating matrices for wildfire related costs to clearly identify the portion of the premium that relates to wildfire. Premiums are assessed for the most part as one lump sum, with the exception of the wildfire load surcharge added to the rated premium by PSE's two mutual insurers, AEGIS and EIM.

15. Therefore, in order to isolate the portion of liability insurance premium related to wildfire coverage, PSE evaluated premium trending for the last thirteen policy terms. PSE analyzed its pricing trends for two distinct periods. The first being between 2010-2018 and the second being from 2019-2023 when the liability insurance marketplace entered into an unusually long duration "hard market."5 The trending for these two time periods are presented in Attachment B to this petition.

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[5] A hard market is characterized by significant increased premium costs for insureds, stricter underwriting criteria, decreased available capacity, restricted terms of coverage, and less competition among insurance carriers.

16. The policy year beginning December 1, 2019 was the first term in which wildfire risk materially impacted PSE's premiums, when the insurer that had provided the top layer of coverage for many prior years declined to renew for the 2019-2020 term. This exit from wildfire-exposed utility business, which they viewed as any West Coast utility, was due in large part to multiple large wildfire losses this insurer paid for fire losses in California.

17. As shown in Attachment B, annual premiums increased an average of 4.3 percent per year from 2010-2018 (cell H24), with the annual premium increasing by $1.3 million over those 9 periods, from $3.32 million in December 2010 to $4.61 million in 2018. In contrast, the escalation trend for the next 5 terms rose to an average of 36.5 percent annually (cell H29), with the annual premium increasing from $4.61 million in December 2018 to $19.47 million for the 2023-24 policy term.

18. As previously stated, these dramatic escalations were driven primarily by the shrinking pool of insurers willing to cover wildfire risk which resulted in smaller capacity offered at sharply higher prices. To allocate premiums between wildfire risk and all other coverage, as described below, PSE used the delta between an "expected" percentage increase for non-wildfire risk and the increase due to wildfire risk.

19. To estimate the non-wildfire percentage increase, all market conditions outside of wildfire risk were considered to come up with a growth rate. Factors that could be deemed to impact pricing to a greater degree than the prior years' 4.3 percent average increase include the COVID-19 pandemic, economic downturn with low interest rate and investment returns, and increased average claim costs. For this reason, the allocation in

Attachment B in column “g” assumes an extended hard market with a conservative[6] estimated annual increase rate for the premium excluding wildfire coverage, to be roughly double the 2010-2018 average increase of 4.3, or 9 percent as the annual premium increase for 2019-2023 for non-wildfire risk, after removing known wildfire premium loads/surcharges. Accordingly, column “i” represents the estimated premium solely attributable to wildfire assuming the 9 percent increase related to the non-wildfire portion.

20. The amounts that are currently set in rates for both 2023 and 2024 are depicted in the range of cells J48 through O53 in Attachment B. Three percent of the $7.4 million of the liability premiums (cell M38)[7] was attributable to wildfire as shown in cell N12. Cells K42 through M42 demonstrate the portion of the final assumed liability premiums attributable to wildfire that were used to set current rates after allocation to O&M. The amount of the premiums associated with wildfire for the current 2023-24 term of $10.1 million (cell M18)[8] or $846,000 per month (cell N18) is compared to the amount used to set rates. The difference of $9.9 million and $829 thousand, shown in cells M20 and N20, represent the amount of the requested annual and monthly deferral through November 2024. Once the December 2024 to November 2025 increase related to wildfire becomes known, PSE will adjust the monthly incremental amount to defer accordingly until such time as the higher level of wildfire premiums is incorporated into rates.

[6] The higher the assumed non-wildfire related increases, the lower the resulting allocation of the total premium to wildfire risk.
[7] This is the amount used to develop rates for both 2023 and 2024.
[8] This amount is for wildfire only after allocation to O&M and between electric and gas.

21. The Company requests to defer the costs in Account 186 – Other Deferred Debits for consideration of future inclusion in rates. The credit will be recorded to a FERC 925 account, Injuries and Damages, which is the account to which the amortization of the prepaid insurance premiums are originally expensed. Should the deferral be approved for recovery in rates, PSE requests that it be amortized to FERC 925.

V. REQUEST FOR RELIEF

22. For the reasons discussed above, PSE respectfully requests the Commission issue an Order approving the deferred accounting as set forth in this Petition.

DATED this 22nd day of December, 2023.

PSE Sound Energy

By /s/ Susan E. Free

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