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(U 902-M), (U 338-E), (U 904-G) and (U 39-M)

***TESTIMONY IN SUPPORT OF JOINT
APPLICATION FOR AUTHORITY TO ESTABLISH
A WILDFIRE EXPENSE BALANCING ACCOUNT
TO RECORD FOR FUTURE RECOVERY
WILDFIRE-RELATED COSTS***

Before the

Public Utilities Commission of the State of California

Rosemead, California

August 31, 2009

**TESTIMONY IN SUPPORT OF JOINT APPLICATION FOR
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1 II.

2 TESTIMONY OF JONATHAN E. BALL REGARDING INSURANCE

3 A. Introduction

4 My name is Jonathan E. Ball.

5 I am a Managing Director employed by Marsh USA Inc., where I am the National Casualty
6 Leader & Placement Director for Marsh Power & Utility Practice. I am also a senior relationship
7 manager between Marsh and the leading utility industry insurers – AEGIS and EIM.

8 My responsibilities involve the design and negotiation of liability insurance programs for Marsh
9 clients in the power and utility industry sector. In performing these duties, I am in daily contact with
10 clients, Marsh representatives and leading insurers around the world. Annually I am directly engaged in
11 such negotiations for approximately 50 of these clients in the U.S. I keep abreast of emerging trends
12 relevant to the liability insurance industry and disseminate that information to Marsh representatives in
13 our offices throughout the U.S. I am called upon to offer advice and guidance to colleagues and clients
14 as they conduct their own annual insurance renewal negotiations, as well. When negotiations become
15 difficult, or hit the proverbial “snag,” I am brought in as a troubleshooter to assist in arriving at an
16 acceptable outcome. This frequently requires that I engage senior insurance company management to
17 resolve impasses.

18 My career focus has been on the provision of casualty consulting and placement services for
19 clients in the energy sector. I have been employed in this endeavor by Marsh since 1985, when I joined
20 its Marine & Energy Division as a trainee. I have held various positions within Marsh ever since,
21 always focused on energy insurance. I assumed my present responsibilities in 2001.

22 Risk & Insurance magazine, a highly respected insurance industry publication, selected me as a
23 2009 “Power Broker” in recognition of my work on behalf of utility industry clients. (The title “Power
24 Broker” refers to excellence in representing insurance clients generally, not just to electric power or
25 energy insurance clients. The award is given to brokers who provide services to clients in many
26 different industry groups.)

1 **B. Purpose of Testimony**

2 I have been retained by Pacific Gas and Electric Company, San Diego Gas & Electric Company,
3 Southern California Gas Company and Southern California Edison Company to explain current
4 insurance market conditions with respect to the utility industry and to discuss the unique situation that
5 utilities operating in the state of California face in the current market as they attempt to obtain adequate
6 amounts of liability insurance at reasonable premium levels.

7 **C. Summary Of Conclusions**

8 The amount of liability insurance currently available to California-based electric and gas utilities
9 has decreased substantially and may not be adequate to cover potential exposures. At the same time, the
10 cost to purchase liability insurance has escalated dramatically in 2009. Liability insurance costs for
11 these gas and electric utilities are substantially higher than such costs paid by utilities operating in other
12 states.

13 The primary cause of this situation is the liability insurance markets' response to the prospect of
14 paying large claims arising out of wildfires in recent years. I am not qualified to predict whether or not
15 wildfires will continue to plague California. However, in my opinion, if large wildfires should occur in
16 the future that are alleged to involve electric or gas utilities, it will become increasingly difficult –
17 perhaps impossible – for California utilities to find insurers willing to provide coverage for this type of
18 loss. Available amounts of insurance will certainly decrease significantly. If available at all, insurance
19 coverage will become increasingly expensive.

20 **D. Background**

21 Human error is inevitable. Mistakes and uncontrollable events are an ordinary part of business
22 and will occur in even the most prudently managed enterprises. Businesses purchase liability insurance
23 to protect themselves against the possibility that they may be sued and held liable for bodily injury,
24 property damage, or other costs to third parties when such accidents occur. To the extent that such
25 claims result in an obligation on the part of the enterprise to pay monetary damages, and insurance is in
26 place to pay those damages on behalf of the enterprise (or to reimburse the enterprise for any such
27 payments), the enterprise can continue to fund its normal activities. In the absence of insurance

1 protection, after using its capital to pay damages, an enterprise may find itself lacking necessary funds to
2 conduct its business in a prudent manner. It may encounter difficulty in meeting its normal expenses,
3 maintaining adequate staffing levels, and investing in the maintenance of its facilities. It may be forced
4 to reduce these types of important expenditures because of the depletion of its funds from uninsured
5 losses.

6 Much as people consider the liability insurance that is included in their homeowner's or renter's
7 insurance policies to be a prudent purchase to ensure that they can continue to pay their own bills and
8 maintain their properties, a business enterprise will make similarly prudent decisions. Many people
9 purchase personal umbrella policies to increase the amount of their insurance protection, recognizing
10 that in today's legal environment the potential always exists that they might be sued because someone is
11 injured on their property, or because one of their family members is involved in an auto accident that
12 injures a person. With no real way of knowing whether this will happen, or how much it might cost
13 them if it does happen, they elect to buy more insurance when they find a policy that is reasonably
14 priced. They can budget for the cost of that insurance policy far better than they can budget for the
15 unknown costs that they may face if they do not have the insurance. This allows them to conduct their
16 normal pursuits with more confidence – they can decide to replace the aging roof before it leaks, or they
17 can purchase a new vehicle to replace an unreliable clunker. In short, they can invest in their immediate
18 needs and make plans for their future expenditures without fear that all might be lost if someone were to
19 fall and injure themselves on their property, or their teenage driver becomes involved in an auto
20 accident, and the resultant lawsuit wipes out their funds.

21 Prudent business enterprises make similar decisions in order to ensure their own capital liquidity.
22 The ability to transfer the unknown costs of possible litigation to insurance companies in exchange for
23 the payment of a reasonable fixed premium amount allows them to conduct their business operations
24 while continuing to make prudent investments in their facilities. They can do this because insurance
25 improves their ability to forecast the amount of funds they will have available to do so. When
26 enterprises are better able to meet obligations such as payroll, while also investing in the maintenance of

1 their facilities to enhance safe and reliable operations, benefits accrue, enhancing the financial security,
2 health and safety of those who come in contact with them.

3 **1. Insurance Concepts – Overview**

4 Fundamentally, the concept of liability insurance is to spread the financial risks that
5 might be faced by one business among the many businesses that purchase insurance, thereby protecting
6 the individual business against very large costs that might otherwise negatively impact its ability to
7 continue safe and effective operations. It is by collecting premiums from their many clients, and
8 investing those funds wisely, that insurance companies are able to pay the claims of the few (they hope)
9 clients who face liability in a given year.

10 **2. Insurance Company Financial Ratings And Stability**

11 a) Surplus

12 Surplus is money held by an insurance company which is available to pay claims.
13 An important feature of any insurance program is the ability of the insurance company to pay any claims
14 that may arise. Paying a very low price for a policy that appears to provide broader coverage or much
15 higher limits than another available insurance policy would seem to be a great idea. And it is a great
16 idea, as long as the company from which you buy the insurance actually has the funds to pay a claim.
17 For this reason, the financial stability of insurance companies is a key criterion – along with breadth of
18 coverage and premium costs – in choosing the insurer with whom you would want to do business.

19 Various rating agencies measure the financial stability of insurers, which is in
20 large part a function of their surplus. BEST is a rating agency that specializes in the insurance industry.
21 As a result, their ratings are the most widely recognized in this industry. Standard & Poors (S&P) and
22 other agencies also rate insurance companies.

23 Generally, a BEST rating of A- is the lowest rating that Marsh would consider
24 relatively safe to utilize for a large commercial enterprise such as a major public utility.

1 b) Loss Ratio

2 Insurance companies measure their performance based upon their “loss ratio.”
3 Simply stated, the loss ratio is a percentage derived by dividing the amount of losses the company pays
4 out (or reserves) by the premium income that the company receives. In other words:

5
6 Loss Ratio = Claim Payments and Reserves by Company
7 (\$) / Premium Revenue Received (\$)

8 A loss ratio in excess of 100 percent means the insurance company is paying out
9 more than it takes in. That is not a strong business model. The company, in order to make its claims
10 payments, would be forced to draw upon its surplus funds. Reductions in surplus get the attention of the
11 rating agencies, and that can lead to a lower rating. By way of example, BEST recently reduced the
12 rating of a leading utility industry insurer, AEGIS (discussed below) from “A” to “A-,” in part because
13 of its negative (greater than 100%) loss ratio and the resultant reduction in its surplus.

14 Insurance companies also make decisions about the amount of coverage, if any,
15 that they are willing to sell to a buyer based upon that particular buyer’s loss ratio, i.e., the amount of
16 losses that the insured has claimed against its policies divided by the amount of premium that it has paid
17 to its insurers for the policies over a period of time (5 or 10 years, typically).

18 c) Reinsurance

19 Insurance companies often purchase insurance from other companies. These
20 other companies are known as “reinsurers.” The reinsurers’ policies help pay for any claims that the
21 insurer may owe. The insurance company is buying reinsurance to help protect its own balance sheet, in
22 the same way that a business buys insurance to help protect the business’ balance sheet.

23 3. Liability Insurance Programs

24 Businesses attempt to purchase enough insurance to protect themselves against unusually
25 large losses. Because those losses can amount to many millions, even hundreds of millions of dollars or
26 more in a given year, large businesses often seek insurance in amounts that far exceed what any one
27 insurance company is willing to sell. Insurance brokers play an active role in these circumstances. They

1 negotiate with many different insurers to put together a program in which multiple insurers participate,
2 in order to deliver a large enough amount of insurance to meet their clients' desires.

3 Program design involves the selection of a "lead" insurer, whose premiums and type of
4 coverage offered set the tone for all other participants in the program. Various factors go into the design
5 and negotiation of these programs, which I will explain in this testimony. Depending on the amount of
6 insurance desired, a program design often includes the development of an insurance "tower" containing
7 multiple "layers".

8 The negotiation process that develops the eventual design of the total excess liability
9 program can be described as fitting together pieces of a complicated puzzle. Quotes are negotiated for
10 various limits and different attachment points (described below) with a variety of insurers. Then,
11 somewhat like a puzzle, the pieces are fitted together to create a tower of insurance policies. Each level
12 of the tower ("layer of insurance") is occupied by insurance company(s) willing to provide the best
13 combination of coverage and premium in that "layer." Each layer attaches, or sits on top of, the layer
14 immediately below.

15 The dollar amount excess of which an insurance policy begins to pay losses is also
16 referred to as the policy's "attachment point." For example, a policy may provide limits of insurance
17 that are described as being "\$25 million excess of \$100 million," which in this case would mean that the
18 loss amount paid must exceed \$100 million before this particular policy will have to pay up to an
19 additional \$25 million in claims. The "attachment point" of this \$25 million "layer" is therefore \$100
20 million.

21 4. Insurance Companies

22 a) Mutual Insurance Companies

23 AEGIS (Associated Electric & Gas Insurance Services Limited) and EIM (Energy
24 Insurance Mutual) are mutual insurance companies who together provide as much as \$135 million in
25 insurance limits to policyholders. They were formed to serve the needs of the utility industry and are
26 owned by their policyholders, principally utilities. They are not publicly traded companies. AEGIS
27 provides insurance coverage to more than 400 "policyholder-members." EIM provides insurance

1 coverage to approximately 175 “policyholder-members.” Given the fact that these companies provide
2 insurance to a large number of policyholder-members, individual policyholders do not have the ability to
3 impose their unique desires for coverage and pricing on the companies.

4 These companies traditionally sell insurance products at lower cost and/or provide
5 a broader scope of coverage (i.e. covering more possible losses with fewer exclusions) than the balance
6 of the insurance market, which consists of stockholder-owned insurance companies. In addition, since
7 they were formed by the utility industry to serve its insurance needs, both AEGIS and EIM have tailored
8 their coverage to address those needs. They provide coverage that is important to utilities but is
9 extremely difficult to obtain in other liability insurance policies.

10 Finally, for policyholder-owned mutual insurance companies to remain
11 financially viable, their premium and investment income must keep pace with the amount of claims
12 being paid.

13 b) Commercial Insurance Market

14 There are, of course, other providers of insurance available to utilities. Several
15 U.S. based insurance companies, most notably Chartis (formerly AIG), and ACE, as well as insurance
16 providers domiciled in London (including Lloyds of London), Europe (such as Swiss Re and Scor) and
17 Bermuda (such as XL, ARCH, Allied World, and a host of others) offer liability insurance to utilities. I
18 will discuss these other insurance “markets” in more detail later in this testimony.

19 **5. Liability Insurance Program Design**

20 a) Lead Insurer

21 To construct a liability insurance program, the first step is to identify insurance
22 companies that will pay claims of relatively low value, which typically occur more frequently than large
23 claims. These insurers are known as “lead” or “first layer” insurance carriers. They sell policies that
24 pay claims in excess of a “deductible” or “Self Insured Retention” (“SIR”). The insurance policy
25 therefore “attaches excess of the SIR,” meaning that the policy will not pay for claims until the SIR has
26 been paid by the insured. These lead policies are the most expensive when measured in terms of the cost
27 per million dollars of insurance, because they are far more likely to pay claims compared to policies that

1 do not have to pay until a loss reaches a much higher dollar value. In other words, policies that “attach”
2 only after higher dollar amounts are paid by the insured (or by policies that attach at lower dollar
3 amounts) charge less premium for each million dollars of insurance than “lead” policies.

4 In this testimony, I am focusing on AEGIS because it is the lead insurer for the
5 vast majority of utility companies in the US, and it is the lead insurer on the programs that insure Pacific
6 Gas and Electric Company, San Diego Gas & Electric, Southern California Gas Company and Southern
7 California Edison Company. I have mentioned that AEGIS coverage is broad compared to other
8 insurers. By this I mean that the language of the policy document assures that it will pay for more types
9 of claims than the policies that are sold by other lead insurers. Because of this broad coverage and
10 AEGIS’ willingness to provide coverage at relatively low attachment points, AEGIS policies are usually
11 preferable to those offered by other insurance companies.

12 In addition, both the premiums charged by the lead insurer and the breadth of the
13 coverage that it provides have a direct bearing on the premiums and scope of coverage offered by the
14 other insurers who agree to follow the lead policy’s coverages.

15 AEGIS offers \$35 million in insurance, which becomes available to the insured
16 after the insured has paid losses up to the negotiated SIR amount. AEGIS therefore pays up to \$35
17 million excess of the SIR.

18 b) Other Insurers

19 Once the insurance broker and the client have identified the lead insurer, and have
20 negotiated a policy with that insurer in accordance with the client’s needs, they can negotiate additional
21 limits of insurance with insurance companies who are willing to cover the exposures involved, but are
22 unwilling to put their own policy at risk at the lower attachment points.

23 I discussed EIM earlier. EIM has in recent years offered up to \$100 million of
24 coverage (although, as described below, that amount is being reduced in some instances in California),
25 but it will not agree to pay losses until the loss amount exceeds \$35 million. In other words, EIM’s
26 policy will attach excess of the amounts paid by AEGIS. EIM offers this large amount (limit) of
27 insurance because its higher “attachment point” means that it is less likely to have to pay a claim. EIM

1 is the only insurance company that will agree to provide nearly exactly the same broad coverage that
2 AEGIS offers. That willingness, the large limit it offers, and the relatively lower price that it charges
3 makes it an attractive option for utility insureds – who are, after all, its owners as well. Many large
4 utilities choose EIM as their “second layer” insurer for these reasons.

5 Commercial market insurers can also provide coverage excess of AEGIS, in
6 competition with EIM. However, since the coverage that these insurers offer is not as broad as AEGIS
7 and EIM, and their policies are generally more expensive than EIM, most utilities will purchase
8 coverage from EIM before they will consider using the commercial market insurers. These commercial
9 market insurers then provide additional limits of insurance, attaching excess of EIM, for utilities who
10 desire more than \$135 million of insurance coverage.

11 c) How Much Insurance Should A Utility Purchase?

12 Utility companies of any substantial size will often purchase both AEGIS and
13 EIM, buying up to \$135 million limits of liability insurance. The total amount that they purchase is a
14 decision made individually by each buyer, taking into account such issues as:

15 The potential financial impact on their business of uninsured losses,

16
17 The legal environment in which they operate (US legal system, propensity of state or
18 other local jurisdictions to award large verdicts, etc),

19 Their prior loss experience,

20
21 The loss experience of other utility companies in the same geography or of similar size in
22 other geographies,

23
24 The cost of the available additional limits of liability vs. the likelihood of claims reaching
25 the attachment point of that layer.

26 When a utility decides that it wants or needs more than the \$135 million limit
27 available from AEGIS and EIM, the broker works with other insurance companies to negotiate the best
28 deal available, in terms of the cost of the policy and the breadth of the coverage. Every insurance
29 company has its own appetite for risk, translating into its own preferred attachment points and pricing
30 models, which vary according to the utility’s business operations (and therefore the resultant perceived
31 exposure to potential losses).

The cost of the policy in each layer is evaluated in terms of the premium charged for each million dollars of insurance. This is necessary because the amount of insurance offered in each layer is not necessarily the same as the amount offered in all other layers. Typically, that cost per million dollars decreases as the attachment point of the layer in question increases so that the cost of the top layer of a large program will usually be significantly less than the cost of the lead – or first – layer of the tower. With the understanding that utility companies’ program designs vary widely in response to their unique circumstances, an example of a utility liability insurance program of \$1 billion is presented in the diagram below:

INSURANCE COMPANY	LIMIT (\$ Millions)	ATTACHMENT POINT (\$ Millions)
J	\$90	\$910
I	\$100	\$810
H	\$50	\$760
G	\$50	\$710
F	\$150	\$560
E	\$50	\$510
D	\$100	\$410
C	\$100	\$310
B	\$75	\$235
A	\$50	\$185
AEGIS London Syndicate	\$50	\$135
EIM	\$100	\$35
AEGIS	\$35	SIR

Sample Listing of Commercial Insurers

Chartis Energy (US and Bermuda)
 ACE (US and Bermuda)
 Zurich Global Energy (US)(US and Bermuda)
 Swiss Re
 Scor Re
 Lloyds of London
 XL (Bermuda)
 Allied World Assurance
 Argo Re
 Torus
 Canopus
 OCIL
 Aspen (UK and Bermuda)
 Endurance
 Chubb Atlantic

10

11

1 **E. Market Conditions**

2 **1. Geographic Risk**

3 All insurance companies, whether mutual or publicly traded, can face unexpected spikes
4 in costs when they have a concentration of insureds in a geographic region whose unique characteristics
5 create a greater potential for losses to occur. Consider, for example, homeowner's insurance. In
6 California, where earthquakes are more common than in other areas, homeowners (and businesses) may
7 find it difficult to obtain reasonably priced insurance policies for damage caused by earthquakes.
8 Property owners may find that many insurers will simply refuse to sell insurance to them, and those that
9 are willing to do so charge premiums that are far more expensive than premiums charged to owners of
10 similar premises located in areas that are less susceptible to earthquakes.

11 In the commercial liability insurance arena, California has become associated with
12 wildfire liability risks in a more direct way than any other part of the country. Prior to 2009, wildfire
13 liability was not a focus of significant attention in the negotiation of business liability insurance policies.
14 Owing to substantial fire activity, and the resulting large financial damages for which utilities in
15 California are alleged to be liable, wildfire liability has now received similar attention to the earthquake
16 risk discussed above. The wildfires that occurred in 2007 have altered the insurance industry's
17 perception of the chances that they may have to pay more such claims in the future. In addition, while I
18 will remind you that I am not an attorney and am not qualified to interpret California law, underwriters
19 from several insurers have indicated to me that they believe that California's "inverse condemnation"
20 doctrine imposes a strict liability standard which makes it far more likely that electric utilities in
21 California will be held liable for damages caused by wildfires.

22 **2. 2009 Insurance Market Condition – Power And Utility Industry**

23 The power and utility liability insurance market has experienced dramatic changes in the
24 past year. Among the reasons for these changes are significant increases in the number and amount of
25 claims, lower insurer investment income (which previously helped offset negative loss ratios), and
26 increased costs of "reinsurance." (Reinsurers have experienced the same market realities as the insurers,
27 and are taking similar steps to protect their own ongoing financial stability including raising premium

1 levels and reducing or eliminating coverage.) Power and utility clients are feeling the results of these
2 changes.

3 California wildfires have also been a major contributor to this situation, so much so that
4 they are featured prominently in the AEGIS 2008 Annual Report, which states that “fires involving
5 natural resources” account for 19 percent of its Claims Reserves, which refers to the amount of claims it
6 expects to pay, as opposed to the amount already paid. Sempra has advised that homeowners’ insurers
7 have paid out and reserved approximately \$1.6 billion for claims relating to the 2007 wildfires. If those
8 claims amounts hold up and payments reach that level, this could easily be the largest insured liability
9 loss ever for a U.S. electric utility. Elsewhere in its Annual Report, AEGIS states “For the past three
10 years, our excess liability net loss ratios have been 135 percent, 170 percent and 173 percent.”
11 Obviously, with diminished prospects for investment income in 2009, overall premiums must increase to
12 fund losses.”

13 As a result of this increasingly difficult claims environment, beginning in the fourth
14 quarter of 2008, AEGIS’ premium increases generally ranged from 15 percent to 30 percent. The
15 increases charged to each insured largely depend upon its own specific loss record as compared to its
16 premiums paid to AEGIS over the past few years.

17 Following AEGIS’ lead, EIM renewals have evidenced premium increases in the range of
18 5 percent to 10 percent since year end 2008. Based upon recent trends and my experience in the
19 insurance industry, I anticipate that EIM’s premiums will continue to escalate in the near future to a
20 range of 10 percent to 40 percent higher than their expiring pricing.

21 Insurance companies located in London and Bermuda generally provide insurance that
22 comes closest to following the broad coverage offered by AEGIS and EIM. As a result, utilities that
23 need higher amounts of insurance than those offered by AEGIS and EIM usually purchase policies from
24 London and Bermuda insurance companies. However, a number of London insurers have discontinued
25 writing insurance for US utilities. Accordingly, the amount of insurance that is available from London
26 insurers has decreased substantially as compared to prior years. The few London insurers who continue
27 to offer coverage have been quoting substantial premium increases as well.

1 Many European insurers, as well as many of the Bermuda insurance companies, will not
2 provide coverage for any liability arising out of wildfires and/or will not provide coverage to electric
3 utilities located in California. With fewer insurers offering smaller amounts of insurance, there is less
4 competition among the insurers to sell insurance to California electric utilities. As a result, those that
5 continue to offer coverage are doing so at premiums that are significantly higher than the amounts
6 charged in prior years.

7 The result has been that California electric utilities are seeing overall premium increases
8 from AEGIS of 25 percent or more. At the same time, AEGIS has imposed “coinsurance” requirements
9 (similar to the copayments that we make under our medical insurance policies) of as much as 50 percent
10 of their total \$35 million limit. This means that an AEGIS \$35 million policy will actually pay only
11 \$17.5 million for wildfire liability; the policyholder will pay the other \$17.5 million.

12 EIM provides as much as \$100 million of insurance to electric utilities, but currently for
13 California electric utilities they will not sell more than \$25 million of coverage for wildfire liability.
14 EIM may also ask for a coinsurance arrangement similar to the AEGIS arrangement described above.
15 Meanwhile, EIM’s premium for the \$25 million limit could be many times the size of the premium that
16 it previously charged to California insureds (again, measured in terms of the cost per \$ million in limits).

17 AEGIS established a Lloyds of London syndicate to provide broad coverage in excess of
18 that supplied by AEGIS and EIM. The AEGIS London Syndicate, which has historically provided \$50
19 million of limits attaching excess of EIM with similar broad coverage is excluding wildfire liability on
20 many of its policies. When it does offer wildfire liability coverage to a California based utility,
21 premium costs are dramatically increased as compared to previous years.

22 Thus a utility that obtained the first \$185 million of limits, including wildfire liability,
23 from AEGIS, EIM, London, and other European insurers in 2008 may now find that the same insurers
24 will provide as little as \$30 million (\$12.5 million from EIM and \$17.5 million from AEGIS)—a 78
25 percent reduction in available coverage.

26 At this point, electric utilities will likely turn to the Bermuda market. In the past, a
27 typical attachment point for Bermuda insurer layers has been at least \$135 million to \$185 million (for

1 example, \$35 million from AEGIS + \$100 million from EIM + \$50 million from Lloyds of London). As
2 I have described, this amount of insurance for wildfire liability may no longer be available from these
3 insurers. That means that we now have to ask Bermuda or other insurers to provide coverage at much
4 lower attachment points than in the past, for an exposure that is far more worrisome to them.

5 Insurer's decisions may vary among the utilities depending upon the extent to which the
6 insurers' perceive ongoing exposure to future wildfire losses, as well as each utility's prior loss
7 experience. In my experience, those who are willing to provide this coverage now charge much higher
8 premiums than ever before for doing so.

9 **3. Future Insurance Market Conditions – Power And Utility Industry Entities**
10 **Exposed To Potential Wildfire Liability Claims**

11 Based on my observations, I do not expect that this situation will improve in the
12 foreseeable future. I do not believe that premiums will return to pre-2008 levels. In fact, I would
13 suggest that annual increases will probably continue, albeit at perhaps a more modest rate than we have
14 seen in the past year. None of us, however, can guarantee future market performance. Ongoing turmoil
15 in the financial markets that continues to impact investment returns earned by insurance companies'
16 surplus funds may cause these companies to continue to focus on pure underwriting profitability. This is
17 not good news for insurance buyers who have been responsible for insurance company losses in the past.

18 In the case of wildfire liability coverage, if wildfires should again become an issue for
19 California's electric utilities, I envision that coverage might simply disappear entirely. Alternatively,
20 premiums for this coverage will probably continue to rise, the amount of insurance available will
21 probably decline, and the deductibles (self-insured retentions) demanded by the few insurers who might
22 still offer the coverage will likely be many times greater than the current levels.