Application No.:	A.09-08-________
Exhibit No.:	
Witnesses:	J. Ball
	J. Butler
	M. De Bont
	A. Fohrer
	C. Johns
	H. Martin
	D. Reed
	M. Schneider
	B. Smith
	D. Snow

(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 AUTHORITY TO ESTABLISH A WILDFIRE EXPENSE BALANCING ACCOUNT TO RECORD FOR FUTURE RECOVERY WILDFIRE-RELATED COSTS

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B. SCE Insurance Testimony

1. Background And Purpose Of Testimony

I am the Director of Corporate Risk Management for Edison International, the parent company of SCE. I am responsible for developing SCE's insurance program, including working with brokers to determine the insurers who offer the best value to SCE in terms of coverage, premium amount and other relevant factors.

The purpose of my testimony is to build upon the overview of the insurance market for utilities as described by Mr. Ball, and to illustrate how the world insurance market is likely to affect the availability and expense of insurance for SCE. Specifically, I will review SCE's procurement strategy for liability insurance and provide an overview of SCE's loss experience (i.e., claims against SCE which have been paid by SCE's insurers over the past 10 years).

SCE renews its insurance on an annual basis. The next renewal is scheduled to occur on September 1, 2009. Policies purchased as of that date are expected to cover claims made during the period from September 1, 2009 through August 31, 2010. My testimony will describe SCE's current insurance program, which is effective during the period from September 1, 2008 through August 31, 2009, and the significant changes anticipated in connection with SCE's September 1, 2009 renewal.

2. Procurement Strategy

SCE purchases liability insurance to indemnify the Company for losses that may result from lawsuits or negotiated settlements with third parties alleging bodily injury, personal injury or property damage for which the Company is found liable. SCE purchased $650 million of liability insurance for the period September 1, 2008 through August 31, 2009. This was an increase of $50 million from the prior year. SCE's plan had been (prior to the events described below) to continue increasing its liability insurance limit gradually over time.

In order to achieve the best insurance coverage for the lowest premium, SCE works with brokers to evaluate potential insurance options and to explain to such insurers the steps that it takes to preserve and protect its assets and to mitigate the risks which it seeks to insure. SCE spends considerable time to develop its insurance procurement strategy and pursue the most cost-effective insurance options.

SCE's insurance program is based on the model described in the "Liability Insurance Program Design" section of Mr. Ball's testimony, which involves several "layers" of coverage. (The attached chart depicts SCE's current insurance structure.) Beneath the first layer of insurance is the "self-insured retention," which represents the portion of a claim to be paid by the company and not subject to reimbursement by insurance. Currently, SCE's self-insured retention is $2 million, which means that the company pays the first $2 million of any claims from its own funds. SCE contracts with a "lead umbrella" or "first layer" carrier, to cover the next level of claims for an insured event. For over 10 years, SCE has selected AEGIS, an industry mutual that insures over 95% of the electric and gas utility industry, to be its first layer carrier. As described by Mr. Ball, AEGIS typically offers the broadest coverage at the lowest premium, and helps set the best terms and conditions for SCE as it approaches other companies to provide additional layers of insurance, as described below. AEGIS currently covers the first $35 million in claims in excess of the $2 million self-insured retention amount. (Thus, for an event resulting in $15 million of covered claims, SCE would pay the first $2 million as its self-insured retention and AEGIS would pay the remaining $13 million.) SCE also contracts with several additional liability carriers who are willing to provide additional layers of coverage, for claim levels above those covered by AEGIS up to the $650 million amount noted above. For example, SCE currently obtains coverage from a company called Energy Insurance Mutual, which provides $100 million of insurance for claims in excess of the $35 million covered by AEGIS. Other carriers provide insurance at higher excess claim levels.

Several months prior to each annual insurance renewal, SCE develops a specific strategy for the upcoming renewal, which includes setting goals on how much insurance to buy and what markets to approach. For the renewal effective September 1, 2009, SCE's intent is to purchase as much reasonably-priced wildfire liability insurance as possible, together with additional liability insurance to cover SCE's non-wildfire exposures. SCE has met with insurers in the United States and Bermuda to review the wildfire risk and other exposures, and to discuss the mitigants to SCE's wildfire exposure, including vegetation management, system operations, and fire fighting capabilities within SCE's service territory. Through its broker, SCE is also making contact with other insurers in the United States, London, and continental Europe.

Insurers have expressed concerns about the inverse condemnation doctrine which applies in California, and their perception that it increases their exposure to liability for fire claims. SCE provided information about the effect of the inverse condemnation doctrine on its claims, and how the effect has grown over the last 10 years.

3. <u>SCE Loss Experience</u>

A major driver impacting the cost and availability of insurance is past losses paid by insurers. In the 10 years preceding the 2007 wildfires, SCE never had a claim exceeding the layer of insurance which was provided by AEGIS. However, SDG&E's recent claims experience, combined with potential claims against SCE arising from the 2007 wildfires, have caused insurance carriers to be increasingly concerned about the wildfire risk in California. As a result, SCE's liability insurance premium increased by approximately 15% at the September 1, 2008 renewal, and is expected to increase much more at the September 1, 2009 renewal.

4. <u>Overview And Changes In Excess Liability Insurance</u>

The full effect of the above-described insurer concerns regarding wildfire risk on SCE's premiums and available coverage for SCE's September 1, 2009 insurance renewal are not yet known. AEGIS has indicated it will no longer provide coverage of $35 million per occurrence, but rather only a $35 million total annual aggregate of wildfire coverage. In addition, even that $35 million limit is to be subject to 50% coinsurance, meaning that SCE and AEGIS would each pay 50% of any wildfire claim cost within the AEGIS layer. Other carriers also have indicated that coverage will be reduced. SCE is in the process of soliciting quotes from carriers now. SCE will file supplemental testimony regarding its 2009 – 2010 insurance program after the September 1, 2009 renewal is complete.

5. Future Changes In Excess Liability Insurance

The ability of SCE to purchase adequate limits of insurance in future years is open to substantial uncertainty, and will be driven by the frequency and severity of future fires in California where utility facilities are alleged to have played a role. If insurers continue to see fires of a catastrophic nature alleged to involve utility facilities, we expect a further dramatic reduction and possibly elimination of the availability of insurance for fire losses.

ATTACHMENT

To Chapter III-B

Southern California Edison Company
Liability Insurance

Current Excess Casualty Program
9/1/08 – 9/1/09
Premium: $7 million