

Application No.: A.09-08-  
Exhibit No.:  
Witnesses: J. Ball  
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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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1  
2 **B. SCE Insurance Testimony**

3 **1. Background And Purpose Of Testimony**

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

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

13 SCE renews its insurance on an annual basis. The next renewal is scheduled to occur on  
14 September 1, 2009. Policies purchased as of that date are expected to cover claims made during the  
15 period from September 1, 2009 through August 31, 2010. My testimony will describe SCE's current  
16 insurance program, which is effective during the period from September 1, 2008 through August 31,  
17 2009, and the significant changes anticipated in connection with SCE's September 1, 2009 renewal.

18 **2. Procurement Strategy**

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

25 In order to achieve the best insurance coverage for the lowest premium, SCE works with  
26 brokers to evaluate potential insurance options and to explain to such insurers the steps that it takes to  
27 preserve and protect its assets and to mitigate the risks which it seeks to insure. SCE spends

1 considerable time to develop its insurance procurement strategy and pursue the most cost-effective  
2 insurance options.

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

22 Several months prior to each annual insurance renewal, SCE develops a specific strategy  
23 for the upcoming renewal, which includes setting goals on how much insurance to buy and what markets  
24 to approach. For the renewal effective September 1, 2009, SCE's intent is to purchase as much  
25 reasonably-priced wildfire liability insurance as possible, together with additional liability insurance to  
26 cover SCE's non-wildfire exposures. SCE has met with insurers in the United States and Bermuda to  
27 review the wildfire risk and other exposures, and to discuss the mitigants to SCE's wildfire exposure,

1 including vegetation management, system operations, and fire fighting capabilities within SCE's service  
2 territory. Through its broker, SCE is also making contact with other insurers in the United States,  
3 London, and continental Europe.

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

### 8 **3. SCE Loss Experience**

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

### 16 **4. Overview And Changes In Excess Liability Insurance**

17 The full effect of the above-described insurer concerns regarding wildfire risk on SCE's  
18 premiums and available coverage for SCE's September 1, 2009 insurance renewal are not yet known.  
19 AEGIS has indicated it will no longer provide coverage of \$35 million per occurrence, but rather only a  
20 \$35 million total annual aggregate of wildfire coverage. In addition, even that \$35 million limit is to be  
21 subject to 50% coinsurance, meaning that SCE and AEGIS would each pay 50% of any wildfire claim  
22 cost within the AEGIS layer. Other carriers also have indicated that coverage will be reduced. SCE is  
23 in the process of soliciting quotes from carriers now. SCE will file supplemental testimony regarding its  
24 2009 – 2010 insurance program after the September 1, 2009 renewal is complete.



1           **5.     Future Changes In Excess Liability Insurance**

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

1

2

**ATTACHMENT**

**To Chapter III-B**

**Southern California Edison Company  
Liability Insurance**

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

\$650,000,000	(90,000,000 Limit)	
\$560,000,000	(75,000,000 P/O 100,000,000 Limit)	(25,000,000 P/O 100,000,000 Limit)
\$460,000,000	(150,000,000 Limit)	
\$310,000,000	(50,000,000 Limit)	
\$260,000,000	(100,000,000 Limit)	
\$160,000,000	(25,000,000 Limit)	
\$135,000,000	(100,000,000 Limit)	
\$ 35,000,000	(35,000,000 Limit)	
	2,000,000 Self-insured Retention	