

1 **Q. Please state your name, business address and present position with**
2 **ScottishPower, parent company of PacifiCorp dba Utah Power & Light**
3 **Company (the Company).**

4 A. My name is Gareth D. Walker. My business address is Cathcart House, Spean
5 Street, Glasgow, United Kingdom (UK). My present position is Acting Head of
6 Group Insurance.

7 **Qualifications**

8 **Q. Briefly describe your educational and professional background.**

9 A. I received a Bachelor degree (with Honours) in Mathematics and Physics from
10 the University of Glasgow, UK in 1993. I have been employed by
11 ScottishPower's Group Risk Management function since 1997 and have held
12 positions with increasing responsibility in the market risk function with
13 ScottishPower UK and PacifiCorp. Prior to joining ScottishPower I worked for 3
14 years as a Management Information Analyst with General Accident, one of the
15 UK's largest general insurance companies.

16 **Q. What are your responsibilities as Acting Head of Group Insurance?**

17 A. I manage ScottishPower's US and UK insurance teams. The teams'
18 responsibilities include: day-to-day support to the Company on insurance-related
19 matters; design of annual insurance cover and placement of cover in the market;
20 and handling of insurance claims.

21 **Purpose**

22 **Q. What is the purpose of your testimony?**

23 A. The purpose of my testimony is to respond to two insurance-related adjustments

1 proposed by witnesses for the Committee of Consumer Services (CCS) and the
2 Division of Public Utilities (DPU). Specifically, I will address the following
3 proposed adjustments:

- 4 • The proposal of CCS witness Helmuth W. Schultz, III to remove the
5 entire amount of Directors & Officers (D&O) Liability Insurance expense
6 from the test year; and
- 7 • The proposal of CCS witness Donna DeRonne to adjust test year property
8 and liability insurance expense to correct alleged errors in the Company's
9 calculation methodology and reflect premium amounts based on the most
10 recent forecast amount for the current fiscal year.

11 **D&O Liability Insurance**

12 **Q. Mr. Schultz recommends disallowing all expense associated with D&O**
13 **Liability Insurance in this proceeding because its purpose is to protect**
14 **shareholders from management improprieties. Do you agree that this is the**
15 **purpose of D&O Liability Insurance?**

16 A. No. Mr. Schultz is proposing a novel adjustment for this jurisdiction that is not
17 reasonable or warranted. D&O Liability Insurance is professional liability
18 insurance that shields PacifiCorp's officers and directors against the normal risks
19 associated with managing the business. The D&O insurance premiums requested
20 in this case are reasonable expenses that are necessary to attract and maintain
21 qualified and competent officers and directors and they provide a direct benefit to
22 customers. In short, D&O liability insurance is a necessary cost of doing
23 business. Indeed, I am not aware of any utility or other Fortune 500 company for

1 that matter that does not provide D&O liability insurance coverage to its directors
2 and officers. In fact, in response to Discovery Request 4.95, Mr. Schultz admitted
3 that D&O insurance is “standard practice” at public utilities.

4 **Q. Is D&O insurance designed only to protect shareholders from management’s**
5 **improprieties in running the utility business as suggested by Mr. Schultz?**

6 A. No. The D&O insurance policy does not provide coverage for management
7 “improprieties”. Indeed, the D&O policy by its own terms specifically excludes
8 coverage of civil or criminal penalties, claims arising from any actions taken for
9 personal gain, and any losses resulting from dishonest or fraudulent acts
10 (established as such by a court or by an admission from the employee concerned).

11 **Q. Then what is the real purpose for D&O insurance?**

12 A. D&O insurance is a part of doing business in the modern world. D&O is not a
13 new form of insurance coverage, and PacifiCorp’s D&O insurance has been in
14 place and included in revenue requirement for many years. It protects the
15 Company’s balance sheet from losses incurred due to lawsuits against it and its
16 directors and officers for wrongful acts. This protects shareholders and ratepayers
17 alike from the consequences of financial distress. It also protects against costs
18 incurred from defending frivolous or unsubstantiated claims. D&O insurance
19 allows the chance for the company (or a D&O) to defend its reputation in court.
20 A company that is unable to defend itself could suffer a loss in public and/or
21 employee confidence (causing employees to leave), or causing the organization
22 financial hardship.

1 **Q. Mr. Schultz also claims that PacifiCorp has seen a sharp increase in the cost**
2 **of D&O insurance. Is this trend unique to PacifiCorp?**

3 A. No. In fact, Mr. Shultz admits in his testimony that large increases in D&O
4 liability insurance premiums have been “typical across the nation.” The causes
5 for this increase include increased litigation, September 11 fallout and availability
6 of providers. These increases are a function of the insurance market and do not
7 relate to any imprudence on the part of the Company in obtaining the insurance
8 coverage it has. PacifiCorp has taken steps to ensure that it has market-
9 competitive premiums. For these reasons, the mere fact of a national trend
10 towards higher premiums that is outside the reasonable control of the company
11 should not serve as a basis for disallowance.

12 **Q. What would be the impact on PacifiCorp's ability to attract and retain**
13 **qualified senior management personnel if it chose to forego D&O insurance**
14 **coverage?**

15 A. The lack of D&O insurance would make it difficult if not impossible for
16 PacifiCorp to hire qualified and competent new people for positions at the director
17 and officer level. In addition, lack of appropriate D&O cover would provide a
18 significant motivation for our experienced officers and directors to seek
19 employment elsewhere. Given that D&O liability insurance is standard at public
20 utilities by Mr. Schultz’ own admission, it is not reasonable to ask PacifiCorp to
21 be the guinea pig for an experiment of attempting to attract and retain qualified
22 officers and directors in its absence. Such an experiment is not in the best interest
23 of ratepayers.

1 **Q. Does Mr. Schultz’s proposal to disallow recovery of D&O insurance**
2 **premiums have any merit?**

3 A. No. D&O insurance is a cost of doing business that is every bit as essential as
4 traditional property and liability insurance. It is a necessary and prudent cost of
5 providing electric service to our customers and is appropriately included in the
6 Company's revenue requirement in this case.

7 **Property and Liability Insurance**

8 **Q. In addition to calculation adjustments to property and liability insurance**
9 **addressed in Mr. Ted Weston’s testimony, Ms. Deronne recommends that**
10 **the Commission adjust the Company’s proposed test year expense for**
11 **property and liability insurance to the “most recent forecast” data for FY05.**
12 **Do you agree with this adjustment?**

13 A. Not entirely. I think the Commission should look with skepticism on the
14 proposed adjustment. As discussed in more detail in the testimony of Mr. Larson,
15 this adjustment seems to be a selective, one-sided adjustment. While elsewhere in
16 the Committee’s testimony, witnesses propose to reject forecasted data as too
17 speculative, here, the more recent forecasted data is, for no specified reason other
18 than that it is “declining”, more reliable than the recent historical data. In any
19 event, if more recent forecasted data is to be used, Ms. Deronne’s adjustment
20 should be corrected for the most recent projections. While property insurance
21 premiums have declined very slightly since the case was filed, the current forecast
22 shows only a \$450,000 total company expected decline, not the \$2.175 million
23 reduction reflected in Ms. Deronne’s testimony. However, forecasts for other

1 components of the property and liability insurance premiums and uninsured losses
2 have increased, resulting in a very slight increase to the as filed total number
3 (\$41,834,200 opposed to the filed \$41,730,000 request).

4 **Q. Is the Company advocating for recovery of the updated number?**

5 A. No. I am providing this updated information to show that Ms. Deronne's
6 proposed adjustment departs too far from the actual projected increase and would
7 virtually guarantee under recovery of prudently incurred expenses. Moreover, the
8 updated figures should give the Commission comfort that the Company's original
9 forecast (as corrected per Mr. Weston's testimony) was and continues to be a
10 reasonable and conservative estimate of test period expense.

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes.