

Rocky Mountain Power
Docket No. 23-035-40
Witness: Shelley E. McCoy

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Shelley E. McCoy

October 2023

1 **Introduction and Witness Qualifications**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **d/b/a Rocky Mountain Power (“PacifiCorp” or the “Company”).**

4 A. My name is Shelley E. McCoy, and my business address is 825 NE Multnomah Street,
5 Suite 2000, Portland, OR 97232. My present position is Director of Revenue
6 Requirement.

7 **Q. Please describe your education and professional experience.**

8 A. I earned my Bachelor of Science degree in Accounting from Portland State University.
9 In addition to my formal education, I have attended several utility accounting,
10 ratemaking, and leadership seminars and courses. I have been employed by PacifiCorp
11 since November of 1996. My past responsibilities have included general and regulatory
12 accounting, budgeting, forecasting, and reporting.

13 **Q. What are your current responsibilities as Director of Revenue Requirement?**

14 A. My primary responsibilities include overseeing the calculation and reporting of the
15 company’s regulated earnings and revenue requirement, assuring that the
16 interjurisdictional cost allocation methodology is correctly applied, and explaining
17 those calculations to regulators in the jurisdictions in which the company operates.

18 **Q. Have you submitted testimony in any previous regulatory proceedings?**

19 A. Yes. I have provided testimony in multiple dockets before the California, Oregon,
20 Washington, Wyoming, and Utah public service commissions.

21 **Purpose and Summary of Testimony**

22 **Q. What is the purpose of your direct testimony in this case?**

23 A. My testimony explains and supports the Company’s historical ratemaking treatment
24 used to recover prudent insurance premium costs. Additionally, my direct testimony
25 quantifies the financial impact that would occur if the Utah Public Service Commission
26 (“Commission”) denies deferral of the higher excess liability insurance premiums
27 requested in this docket.

28 **Insurance Premium Ratemaking Treatment**

29 **Q. How does the Company recover insurance premium costs?**

30 A. When the Company calculates the revenue requirement for a general rate case, it begins
31 with 12-months of actual historical data known as the base period. This historical data
32 is analyzed to determine if pro-forma adjustments are needed to reflect conditions
33 expected to occur in the 12-month test period (i.e., the 12-month period in which rates
34 are in effect). In the Company’s most recent Utah general rate case in 2020 (“2020
35 GRC”) the Company included an adjustment to reflect estimated test period insurance
36 premium costs for both property and liability insurance. The Commission ultimately
37 approved these premium costs for recovery in that docket and they have been in Utah
38 rates since January 2021.¹ This same ratemaking methodology for insurance premiums
39 has also been used in many previous Utah general rate cases.

¹ *In the Matter of Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 20-035-04, Redacted Order at 7, 58 (Dec. 30, 2020) (approving recovery of items related to insurance expenses and insurance reserves).

40 **Q. Is the ratemaking treatment described above used in other PacifiCorp**
41 **jurisdictions?**

42 A. Yes. That same ratemaking treatment has been used in all of the Company's other
43 jurisdictions for insurance premium costs.

44 **Q. What amount did the Company include in the revenue requirement of the 2020**
45 **GRC for insurance premiums?**

46 A. The Company included \$14.4 million, total-Company, for insurance premiums in the
47 revenue requirement of the 2020 GRC. Of the \$14.4 million, \$10.5 million was for
48 excess liability insurance premiums and \$3.9 million was for property insurance
49 premiums. These were the actual insurance premiums paid on the most recent renewal
50 policy in August 2020 for coverage in effect during the 2021 test period.

51 **Q. Has the Company revised the insurance premium costs included in Utah rates**
52 **since the 2020 GRC?**

53 A. No. The cost for insurance premiums has historically been updated only in general rate
54 case proceedings as these costs have been fairly stable year-over-year. As such, Utah
55 customer rates continue to reflect \$14.4 million, total-Company, in insurance premium
56 costs.

57 **Q. If insurance premiums increase, how does the Company collect this prudent cost?**

58 A. Any differences between the insurance premium costs set in rates and increased actual
59 premium costs will go unrecovered without a separate recovery mechanism such as a
60 deferral until these costs are updated in a general rate case.

61 **Q. Why is the Company seeking a deferred accounting order for the excess liability**
62 **insurance premiums?**

63 A. As discussed in the direct testimony of Mariya V. Coleman, insurance premiums,
64 specifically for excess liability, have been increasing exponentially. The Company's
65 most recent policy renewal for excess liability insurance for the policy period beginning
66 August 15, 2023, increased from \$32 million to \$125 million, total-Company in just
67 one year. This material and unforeseeable cost increase has driven the Company's
68 request for deferred accounting treatment.

69 **Q. Is the Company seeking a deferred accounting order for property insurance**
70 **premiums also?**

71 A. No. Property insurance premiums continue to be fairly stable, so the amount reflected
72 in customer rates remains sufficient. If a material change to property insurance
73 premiums were to occur, the Company would evaluate ratemaking options at that time.

74 **Q. Why didn't the Company file a general rate case to seek recovery of its materially**
75 **higher excess liability insurance premium costs?**

76 A. While the Company does have control over the timing of a general rate case filing, it
77 does not have control of the 8-month statutory period required for review prior to rates
78 becoming effective. Furthermore, the preparation of a general rate case takes months
79 which extends the time required even further. For costs such as the liability insurance
80 premiums which have risen exponentially in a very short period, the time frame
81 required to prepare, file, and obtain approval of these costs in a general rate case would
82 leave a significant portion of these costs unrecovered.

83 **Q. What is the financial impact to the Company if the Commission were to deny**
84 **deferral of the liability insurance premiums?**

85 A. Insurance premiums have increased by approximately \$115 million, total-Company,
86 over the amount the Company included in the revenue requirement of the 2020 GRC.
87 Using the System Overhead allocation factors of 44.4 percent from the Company's
88 most recent December 2022 Utah Results of Operations report, this amounts to over
89 \$50 million on a Utah-allocated basis. Non-recovery of this amount would severely
90 impact the Company's ability to fairly earn its authorized return on equity. To further
91 quantify, non-recovery of the \$50 million excess liability insurance cost increase would
92 lower the Company's earned return on equity in Utah by almost 100 basis points. By
93 any measure, this impact is materially adverse. For example, the return on equity of
94 7.0 percent using the same December 2022 Utah Results of Operations, would drop to
95 6.0 percent due solely to the increase in insurance premium costs. This is almost 365
96 basis points lower than the Company's authorized return on equity of 9.65 percent.

97 **Q. Has the Company sought recovery of its increased excess liability insurance costs**
98 **in other jurisdictions?**

99 A. Yes. The Company is seeking to update its excess liability insurance costs in its
100 pending rate case in Wyoming. The Company has filed for deferred accounting for
101 these costs in Utah, Oregon, Idaho, California, and Washington.

102 **Q. Does this conclude your direct testimony?**

103 A. Yes.