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Witness: Brendan J. O'Brien, Garrett J. Murray and Denise Cosentino
Request from: Public Utilities Regulatory Authority

Question:

(AC-INSURANCE EXPENSE) Application, Sch, WPC- 3.19. Explain what the following insurance coverages are, what each policy covers, and why each is needed for the provision of utility services.

a. Accrual for Uncollectible Claims;
b. Public Liability Expense;
c. General Liability;
d. All Risk Property/Boiler & Machine;
e. Privacy Protection; and
f. Fiduciary.

Response:

a. The accrual for uncollectible claims is a reserve against damage to the Company's infrastructure such as poles and underground lines by third parties. The third parties are billed for the costs to repair and this accrual accounts for the uncollectible portion of the amount billed. The Company estimates the likelihood of recovery through the third party's insurance, settlement, legal action, or other means, and books a reserve adjustment against the receivable. By pursuing the third party who caused the damage for the associated costs to repair, the costs are transferred away from customers.

b. The Company maintains a reserve for general liability claims within the self-insurance retention that the Company becomes legally obligated to pay. The accrual expense associated with this reserve provides a smoothing effect on the cost to customers related to such claims. An actuary reviews the balance in the Company reserve each year for adequacy and the expense is the steady addition of funds to cover claims.

c. General Liability insurance covers third party claims the company becomes legally obligated to pay. Maintaining this insurance transfers the risk of paying claims over the self-insurance retention away from customers. For example, in 2016, the Company settled a wrongful death case for $5 million and insurance paid for all costs over $1 million. The $1 million came from the public-liability reserve.

d. All Risk Property/Boiler & Machine covers physical losses to insurable property owned, used, or leased by the Company from covered perils. Property insurance transfers the risk of repairing/replacing damaged insurable infrastructure away from customers.

e. Privacy Protection covers breaches of networks and operational technology including investigation, remediation and credit monitoring. Maintaining this insurance transfers the risk of costs associated with a cyber breach that exceeds self-insurance retention away from customers.

f. Fiduciary Liability covers breach of responsibilities, obligations or duties by a fiduciary of any named benefit program sponsored by the Company such as the pension and 401k. Fiduciary insurance protects the benefit plans that are an important piece to retaining workers who provide utility services.