



**Lodi Energy Center Project Participant Committee**

**Staff Report**

AGENDA ITEM NO.: 12

**Date:** November 8, 2017  
**Meeting Date:** November 13, 2017  
**To:** Lodi Energy Center Project Participant Committee  
**Subject:** Approval of Major Insurance Renewals for the Policy Year of 2018

Proposal

NCPA staff recommends that the LEC PPC delegate authority to the General Manager to negotiate and bind property damage and liability coverages amounts as presented (or better) and a not-to-exceed proposed premiums of approximately \$558,000.

Background

The Agency utilizes the insurance brokerage services of Aon Risk Solutions, San Francisco, California to market and place the Agency’s insurance programs. Each insurance policy and the related insurance market conditions are reviewed prior to the renewal date and remarketed as required to qualified insurers experienced in underwriting the applicable insurance risk. Current property and liability insurance coverage expires on December 15, 2017.

This year NCPA, together with Aon, launched an extensive marketing effort focused on presenting NCPA’s proactive enterprise risk management approach and its rigorous loss prevention programs. Staff spent two days meeting with four leading underwriters in the electric sector market hoping to obtain improved coverage levels and/or reduced premiums for insuring the members’ assets. Prior to scheduling these meetings, the property insurance market was soft until the recent floods in Texas, hurricanes along the east coast, the devastation of Puerto Rico, and wildfires in California turned sentiment around. But despite these events, management’s commitment to loss prevention and the marketing effort successfully improved the insurance underwriters’ confidence and knowledge of NCPA’s business and risk profile.

LEC Insurance Programs Renewal Proposal

This year Aon recommended to combine the NCPA and Lodi Energy Center property policies into one policy to secure competitive rates and unify the policy limits, terms and conditions. Due to the difference in casualty exposure of NCPA and LEC projects, casualty insurances are still underwritten separately. Although NCPA and Aon are still in process of securing final quotes, the indicative rates from the underwriters show the renewal will remain flat (or better) as last year. Our brokers continue pushing the markets for improved limits and a final report will be made available after all the quotes and limits are secured. Examples of improved limits for the LEC project include:

Insurance Type	2016-2017 LEC Coverage	2017-2018 Proposed LEC Coverage	Change
Earthquake	\$25,000,000	\$75,000,000	+\$50,000,000
Flood	\$25,000,000	\$75,000,000	+\$50,000,000

Aon and NCPA were able to secure higher limits in several areas including the ones listed above. The NCPA deductible for both earthquake and flood were raised to \$500,000 from \$100,000 which aligns with the proposed coverages. Staff thought this was appropriate given the rather large increases in coverages for earthquake and flood.

#### Highlights of the Program

- Given the changed market conditions and three claims in the past two years (2015 Geothermal wildfire and Hydro Plant landslide and 2017 storm damage on Hydro Beaver Creek), it is a great accomplishment to secure flat premium to 2017 levels
- Consolidating the two property policies into one and the underwriters panel into a few lead markets
- With a 3.96% increase of insurable value, this means the rate essentially decreased by 3.81%
- The liability policy premium is basically kept flat over last year. The normal increase that AEGIS charges to "no loss" accounts is 5%
- Enhanced limits on earthquake, flood, etc.

#### Fiscal Impact

The total cost of the policy year 2018 insurance programs, including taxes and fees, is about \$558,000 or 23% below FY2018 budget of \$721,000 for the underlined programs. When the FY2018 budget was created, staff made an assumption the 2018 renewal rates would come in higher than 2017 mainly for two considerations: 1) insurance market had been soft for a while, staff anticipated at some point it would turn around; 2) the three pending claims imposed some uncertainty on premium change. However, due to NCPA's marketing effort and adding new underwriters into the bidding process, premium rates are expected to remain flat (or better) from the previous year.

Funds are available in Property insurance and Liability insurance accounts to fund this program.

#### Environmental Analysis

Insurance renewals do not result in a direct or reasonably foreseeable indirect change in the physical environment and are therefore not a "project" for purposes of Section 21065 of the California Environmental Quality Act. No environmental review is necessary.

Submitted by:



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