Patterson, Ryan A

From:	Baker, Liam <lbaker@easterngen.com>
Sent:	Wednesday, July 1, 2020 1:59 PM
To:	Patterson, Ryan A
Cc:	Matthew Schwall (matthew.schwall@ippny.org)
Subject:	[EXT] FW: DCR Comment Deadline Extended to July 1
Attachments:	Market Update – General Overview.pdf

Ryan
Eastern Generation supports the comments filed by IPPNY. In addition to those comments, we offer the following on the topic of insurance cost assumptions. Thank you for your consideration.
Liam

A review of the insurance costs reflected in the draft report indicates that the Consultants have not incorporated the cost of policies covering Liability, Pollution and Business Interruption. This coverage is likely to be required by project finance lenders. The incremental cost of these policies for the proxy unit would be approximately $1MM/year as estimated by a third-party insurance broker that currently insures power assets. The estimates have been shared with the Consultants in response to presentations made throughout the DCR process thus far. We can arrange for a direct conversation between you and/or the Consultants and the broker.

It appears the analysis includes a reasonable estimate for property insurance for a new GE 7HA.02 unit in New York City, however, it should also be noted that there have been a number of issues with the H class machine which become problematic for insurers, limiting the "capacity' for the market to insure this equipment; some are requiring that H-class units have a 10,000 operating hour history prior to writing insurance. This is particularly noteworthy in a market that has "hardened" over the past year with premiums rising, deductibles increasing and terms generally shifting in the insurer's favor as appetite for risk has come down leading to reduced capacity. This was driven by losses experienced by insurers in prior years related to California wildfires and significant hurricanes. A market overview explaining these trends, prepared by Lockton Companies Inc., the world's largest privately held insurance brokerage firm, is attached for your reference.

At a minimum the incremental $1MM of cost estimated to cover Liability, Pollution and Business Interruption insurance should be included in the proxy unit operating cost assumptions; however a thorough review of the insurance program that can realistically be procured for the H-Class machine should be performed. The insurability of the machine should also be considered a risk factor in the WACC determination (i.e. higher cost of equity as well as debt as lenders push for more robust insurance programs).

MARKET UPDATE - GENERAL OVERVIEW

MARKET STATUS | December 2019

Insurance companies are holding the line across the board, almost in unison. Rate increases, higher deductibles, higher attachment points and limit reductions are today's new norm and predicted to continue as we head into early 2020. This translates into increased costs for insureds and potentially drastically altered program structures going forward.

Early in 2019, we anticipated a firming market. However, the market has moved into a hard status for many insureds in one or more lines of coverage. This status update will raise your situational awareness of the difficult insurance market in advance of your program renewals; providing you with the opportunity to communicate internally with your key stakeholders to ensure they are advised and prepared for what is to come.

By definition, a "hard market" is a term that has not been truly attributable to market conditions in almost 20 years. However, in certain classes of risk, we are experiencing more adverse market conditions and expect this to continue for the foreseeable future. Negotiating in a "soft market" is child's play compared to the acumen, skill and market knowledge needed to succeed in a hard market. Lockton has the right people and the strategic approach required to successfully advise our clients in this environment. We are in front of this challenging carrier-driven market and will do whatever it takes to obtain the best possible outcomes for our clients.

Underwriting trends characterizing the hard market

- Increased restrictions on risk selection - very few exceptions due to new "underwriting guidelines."
- Carrier budgets are achieved early, thus markets have become even more selective.
- Underwriters are focused on quality risks and less willing to overlook insureds that ignored prior risk improvement and inspection recommendations.
- Continued efforts with clients to re-evaluate safety programs and claim mitigation efforts.
- Increased costs for existing capacity - charging significantly more for the same limits.
- Reduced capacity offered - "$10M is the new $25M."
- Only offering high attachment points - the goal is to distance carrier balance sheets from losses.
- Not chasing premium as in a soft market - there is greater attention to the quality of risks with no sense of urgency from carriers.

What's causing the hard market?

- Catastrophic property losses in California wildfires and hurricanes in '17 and '18.
- Massive tort losses, third-party litigation funding, plaintiff's bar promoting trials over settlements, medical cost inflation and social inflation.
- The prevailing notion is that juries have the power to improve safety and outcomes by rendering punitive verdicts.
- Changing jury composition dynamics: millennials are prone to hand down very punitive verdicts - "someone has to pay."
- Ongoing commercial auto loss pressure from distracted drivers, higher repair expense, increased medical costs and more legal expenses.
- Directors & Officers/Management Liability losses at multiples of normal experience.
- More than a decade of low interest rates has drastically decreased investment income for insurers. No investment income, coupled with poor underwriting results, is not sustainable.

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What lines have been impacted and why?

DIRECTORS & OFFICERS LIABILITY
Market status: HARD
Public and private company losses are driving the market with Bankruptcy and Anti-Trust claims (private) and record number of securities class action claims (public) leading the way. Insurers are seeking rate on all classes of business. Expectations for clean renewals are approximately 10-20% and could be more for financially stressed or difficult classes of business. Insurers are re-assessing capacity and cutting back. IPO coverage is extremely challenging and capacity is limited. Excess pricing ILF factors are increasing, resulting in further tower pricing impact.

Ancillary Executive Liability lines of coverage (EPLI, Fiduciary, Crime) are also looking at rate increases but at a lesser rate and are typically driven by exposure. Market corrections are evolving monthly.

COMMERCIAL AUTO
Market Status: HARD
With increased focus on a higher attachment point, it is more difficult to find primary markets willing to write $2M; even if fleet sizes are 500 units or lower. Guaranteed Cost placements continue to be challenging to place. Distracted driving, soaring legal verdicts/settlements, legalized marijuana and less experienced drivers all impacting this space. Plus, a hot economy = more risks on the road.

PROPERTY
Market status: HARD
Risk appetite is reducing and carriers are scaling back capacity across all occupancies; as a result more markets are needed to complete a program. Competition is reduced and rates are increasing.

Property market as a whole is not making money and corrections are being made across the board. Windstorm, Flood and wildfire losses driving increased underwriting scrutiny and pressure on pricing as well as limits deployed.

GENERAL LIABILITY
Market Status: Still Competitive
In some cases, decreases are still achievable depending on industry and loss experience. We expect this to change due to the growing trend in large premises losses when owner has nothing to do with incident.

WORKERS' COMPENSATION
Market Status: Still Competitive
Single digit decreases are still achievable depending on the class and loss experience. However, trends are adverse; medical inflation, aging workforce, legalized marijuana impaired workers, non-traditional workers at low unemployment levels create challenging workplace environments (little time for proper onboarding and training).

UMBRELLA & EXCESS LIABILITY
Market Status: HARD
Fewer lead markets; $10M is the new $25M lead limit and at expiring $25M limit price and $2M attachment on traditional underlying auto is the new $1M. Outcomes vary by industry; transportation/heavy fleets impacted the most; risks with any type of fleet are not immune. Lack of reinsurance support for retail markets, forcing these markets to take more net. Adverse verdicts: Mass violence, #MeToo, Opioids/Pharma, Traumatic Brain Injury. Medical Cost Inflation and advances in medical treatment (people live longer with more expensive treatment) New phenomenon: "Inverted XS Layer" where higher limits are more expensive than lower layers. Excess market changing weekly.

CYBER
Market Status: Still Competitive
Losses are mounting, and we can expect a paring back of coverage and terms. We can also look forward to premium firming as carriers are realizing losses.

Specifically, we are seeing the first signals of potential market changes on large risk management programs. Rates on excess layers are slightly increasing as a consequence of the various limit losses in the market. That said, the coverage offered by the markets remains broad for now with markets offering coverages such as system failure, Outsourced Service Provider system failure, and bricking more frequently.

What is Lockton's approach to a hard market?

KEY STRATEGIES TO RELAY TO YOUR CLIENTS

- WE'VE SEEN AND PERSEVERED THROUGH THIS BEFORE! Our experienced market veterans are leading our client teams and guiding with sage, strategic advice.
- We are in front of the market, and will continue to update you of all meaningful changes.
- Our teams are starting early in the pre-renewal process. Timing is everything. When advantageous, (especially with regard to D&O), we are directly involving our clients' management teams in underwriting meetings to strengthen relationships with incumbent carriers and develop new relationships where needed.
- Our teams are working to separate our clients from "the herd."
- Lockton ensures that key underwriters understand your risk and your operations.
- We are providing more details via comprehensive submissions to underwriters around product quality, contractual controls and safety measures.
- Our teams tell your story best: information matters in times like these and can influence outcomes in market cycles like this - this is NOT a "less is more" situation.
- "Bad news doesn't get better with age." Our teams will advise you as concerns are identified, so you are always well informed and up to date.
- Lockton's teams are creative, smart and strategic: we consider the use of higher limits, buffer layers or fronts, and utilize analytics to highlight trends when presenting your risk profile for the best possible optics.
- We will continue efforts with clients to re-evaluate safety programs and claim mitigation efforts.
- COMMUNICATION with our clients early and often is a key component of our strategic plans - we know you need timely, up to date information and we will ensure you have it as it develops.

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