



OEE Strategy Day 2021
(Session 3)

Insurance and Warranty Survey Update by:
Michael Bullock and Joe Hulm



in association with:





Renewable Risk Advisers is a specialist risk management / insurance claims consultancy and insurance broker with an unparalleled depth of experience of risk mitigation in the renewable energy sector since 2005.

We work with clients developing and operating projects and for new technologies in the following sectors:

- floating wind
- fixed offshore wind
- onshore wind
- wave
- tidal
- floating solar
- onshore commercial solar
- hydro
- geothermal
- ocean-thermal
- waste-to-energy
- biomass
- biofuels
- energy storage
- energy savings contractors

“Our goal is to be seen as trusted advisers and a valuable part of our clients’ broader project team.”



Who We Are



Michael Bullock

MSc (Finance) ACII

Chartered Insurance Practitioner

Founding Director

- 20 years of insurance experience in the London and Bermudian insurance markets, including as one of the founder-directors of a Lloyd's Broker.
- Drove the establishment of the first specialist renewable energy underwriting unit in Lloyd's, Ascot Renewco.



Joe Hulm

MSc (Energy Economics)

Chartered Marine Technologist

Director of Post-Loss Advisory

- 4 years of recent experience of loss adjusting complex and high-value insurance claims, mostly offshore wind and subsea cables.
- 8 years of tidal power project development and corporate strategy across UK/Europe and North America.



What We Do

Our suite of services can be split between Risk and Insurance Advisory and Post-Loss Advisory support:

Risk and Insurance Advisory

Although we retain our insurance broking capability for selected clients, our wider offering as trusted advisers and outsourced insurance and risk managers supports projects from origination to financial close. When required by clients we support market placements and the preparation of necessary documentation, including bespoke policy wordings.

Post-Loss Advisory

Our post-loss advisory services seek to frame the structure and pace of a claim, through effective agenda-setting and informed advocacy. We also act either side of disputes over performance, where liquidated damages (LDs) are sought from the original equipment manufacturer (OEM) or installation contractor.



New insurance fund to accelerate ocean energy's roll-out

18 February 2021. The design of a brand-new European insurance fund for the ocean energy sector is underway, to slash the costs of the first commercial projects and accelerate the roll-out of this exciting new industry. Ocean Energy Europe (OEE) has appointed risk and insurance consultancy, Renewable Risk Advisers (Renewable Risk), to carry out the work as part of the EU-funded OceanSET project.

A well-designed insurance fund will mitigate the early risks of innovative ocean energy projects, for which investors typically demand returns of 10-12%. Access to project finance is a significant obstacle for wave and tidal developers, looking to leverage equity and crack a €53bn per annum global market.

De-risking projects through an insurance fund can act as a 'golden ticket' for the scale-up of ocean energy. By enabling more projects to reach financial close, this will generate the operational data and experience necessary to meet the needs of insurers, lenders, and equity investors.

Research update

- Focus on wave and tidal stream (but concept could apply elsewhere)
- How to fund first revenue-dependent deployments at scale?
- Not prototype testing: some prior data required for 3rd Party verification
- Sector capability review and gap analysis:
 - *29 technology and project developers interviewed*
 - *12 expert organisations for due diligence input*
 - *12 specialist insurers (as at 31 March 2021)*
 - *11 lender / equity investor stakeholders (as at 31 March 2021)*
 - *Initial interaction with EU / EIB*

in association with **b2b**sure[✓]



Common problems

- Offshore projects are capital intensive – project CAPEX range of c. €5m to €50m, and phasing up thereafter
- Commercial finance reliant on insurance and warranties
- OEM's warranties often not deemed "*creditworthy*"
- Supply chains, lead times & spares strategies to be developed
- Even minor component failures – downtime & marine ops
- Decommissioning / Performance Bonds / Liquidated Damages (LDs) need funding or shareholder support:
 - Long term data from arrays is not yet available: *Insurer appetite limited and also sometimes doubling up – charging high rates even after excluding key risks.*



Insurers / Lenders / Equity Investors

EARLY FEEDBACK:

- ESG push towards investing in projects strong but unknown risk element / lack of counterparty balance sheet problematic
- To be able to offer a creditworthy “*limited wrap*” would allow many potential sources of finance to open the door
- All financiers and investors recognise that a strong “*risk panel*” story would help short and medium term engagement
- Some strongly of the opinion that making the warranties broad enough and “*bankable*” is crucial
- An equity portfolio across multiple portfolios / projects could help with de-risking and generating interest.



Risk Panel as “Gatekeeper”

Acting as insurer’s (and investors’) engineers to audit and analyse gaps in the project’s own risk management to review, e.g.:

- Contractor etc. expertise
- Marine Warranty Surveyor brief
- Third Party verification
- Contingency / emergency response planning
- Marine Ops, Supply Chain and Spares strategies
- Scenario analysis & risk quantification

Prior notification to projects of expected standards in order to be accepted into fund.

Output to include a high level report for sharing with investors and insurers, as part of education process.



Risk Panel ongoing engagement

Input into

- Lessons learned from other projects
- Best practice in project risk management and training
- Insurance / Warranty Claims plans
- Review of inspection reports (and physical review when brought to shore?)

Further reports to investors and financiers to help establish technology maturity / commercial readiness / refined estimates of claims costs and downtime.

And possibly to inform and manage “mutual” – style support, e.g.

- Joint call-off agreements for suitable vessels?
- Where possible, some shared spares e.g. compatible moorings and cables?

Learning together, reducing costs, educating the finance community...



How currently addressed

Risk	Current Experience
<i>“Fortuitous”</i> damage	Available but expensive, limited cover and high deductibles, and some reports of slow settlement.
Defect and Breakdown	Insurers won’t provide without min 12 months uninterrupted ops – preferably multiple devices / longer (3 years?).
Warranties	Limited experience. Gaps in appetite for e.g. availability and marine ops. Uncertainty over creditworthiness of most.
Liability / Wreck Removal	Market shrinking, but cover available.
Decommissioning Bonds	Most have had to fully fund decom costs up front. Wide variability in site requirements.
Delay Damages	Limited experience. Difficult to address absent major EPCI contractors, so parental guarantees or cash reserves.



How might these be addressed?

Risk	Possible Approach
<i>“Fortuitous”</i> damage	Engage with existing insurers: Risk Panel should aid learning, gradually lower premiums / excesses & broaden cover. Potential to accelerate claims payments too. Revenue cover via warranty?
Defect and Breakdown	Covered by broad warranty through public fund: Parts, labour, marine ops, availability + revenue shortfall e.g. if <75% any year, any cause? (3 to 5 years?). Premium / co-insurance tba.
Warranties	Included in the above for the first period. Possible limited cover thereafter?
Liability / Wreck Removal	Should improve with scale and intervention of Risk Panel as above.
Decommissioning Bonds	Separate as timescales longer. Possible pooling – e.g. 15% risk premium, guaranteed by EIB(?) then annually top up into escrow.
Delay Damages	Difficult – maybe still within project contingency funds



Other thoughts

- Shared liquidity mechanism? Could cover gap before insurance pays, unexpected frequency of claims etc. Also might serve to accelerate repair times, reduce the amount of contingency each project requires...
- And/or “*step in*” fix and repair facility?
- Mutual? But normally requires all members to top up funds if one suffers loss. Possible second phase once projects cash-generating
- Reinsurance of technical risks assumed by mutual may become available once successfully operational – or via other financial instruments?
- May also be able to pass some exposures (e.g. decommissioning bond) to commercial insurers once operational
- Greater supplier participation



Your chance to comment on findings to date



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