VECC Interrogatory #35

Interrogatory

Reference:
Exhibit F4-04-01 p.4

a) Please provide any correspondence from OPG's insurers which support the over 40% increase in OPG-Wide Insurance.
b) What is the current (2021) OPG-wide insurance cost based on current premiums?
c) Please provide the same as a) and b) for Nuclear Insurance.

Response

a) OPG does not correspond with insurers. Through its discussions with OPG, OPG's insurance broker Marsh Canada Limited ("Marsh") outlined to OPG the drivers behind the increases in insurance premiums, as set out below.

Over the last two decades, the insurance market experienced favourable competitive market conditions which resulted in low premium rates and occasional negotiated decreases. However, in early 2019, the insurance market began to harden due to poor financial results over 2017 and 2018, driven by multiple major catastrophic losses and compounded by lower investment market return expectations. Through the second half of 2019 and the first half of 2020, the insurance market tightened, where capacity was further constricting and premiums were increasing aggressively due to the following factors:

- Power & Utility insurers continued to experience adverse financial results due to an increase in attritional losses and ongoing incidents of catastrophic losses such as dam failures in North and South America in 2019 and early 2020
- Property insurers experienced more than US $3.5 billion in losses in the Global Energy and Power & Utility industry in 2019 and an average of $2.8 billion per year during 2014-2018 on $2 billion annual premium
- Insurers were focused on restricting their exposures by further reducing capacity and discontinued underwriting in certain sectors or for specific exposures that continuously contributed to these losses
- Low return environment exacerbated by even lower return expectation as a result of COVID-19, which reduced interest rates and increased return volatility

The limited capacity supply has enabled insurance companies' to charge "technical rates" driven by each insurer's corporate underwriting guidelines to achieve

underwriting profit and sustainable financial viability. This is in contrast to market pricing in prior years where insurers often competed in premium pricing for market share and OPG was able to capitalize on premium volume, name recognition and good risk management practices, securing the most favorable terms and price in comparison to peers.

Attachment 1 is a copy of the forecasted insurance premium percentage increases (OPG-wide and nuclear) provided by Marsh as part of the above discussions. This forecast underpins the planned insurance costs in this application for the 2021-2026 period.

The results of the 2020 insurance renewal noted at Ex. F4-4-1, p. 4, showed that the forecasted increases for OPG-wide insurance were not high enough as the market continued to deteriorate, compounded by the increased losses due to COVID-19 related claims. Additionally, during the 2020 renewals, multiple OPG-wide insurers confirmed that the company's expiring property premiums were and continue to be below their acceptable technical rate for power generation. This established that OPG is likely to continue to experience considerable rate increases in 2021 and beyond.

b) The current estimate for 2021 OPG-wide insurance cost for the nuclear facilities is approximately $10.8M, compared to the pre-filed forecast of $10.3M[1]. On a total OPG basis, the current estimate for 2021 is $32.6M, compared to the pre-filed forecast of $31.3M[2]. This follows the actual 2020 costs on a total OPG basis of $25.3M and as attributed to the nuclear facilities of $8.3M[3], compared to a budget of $23.7M and $7.6M[4], respectively.

The above figures are provided on a calendar year basis, whereas the forecasted insurance premium increases in Attachment 1 are shown on a policy year basis. With many of the larger policies having a policy year ending in mid calendar year, the actual insurance cost for the 2020 calendar year therefore does not reflect the full impact of the increased level of premiums from the 2020 renewal cycle; this will be realized in the 2021 calendar year.

c) As discussed in part (a) of this response, OPG does not correspond with insurers. Through discussions, Marsh has explained that nuclear insurers are subject to the same market pricing pressures as OPG-wide insurance; however the quantum of increases are less significant. At the same time, there is a limited number of

[1] Ex. F4-4-1, Table 3, line 2, col. (f)
[2] Ex. F4-4-1, Table 1, line 2, col. (f)
[3] Ex. L-A1-2-Staff-002, Attachment 1, Tables 30 and 31, line 2, col. (e), respectively
[4] Ex. F4-4-1, Tables 1 and 3, line 2, col. (e), respectively

insurers willing to provide coverage to nuclear perils, resulting in a relatively captive market that OPG can access.

The current estimate for 2021 nuclear insurance costs is $21.1M compared to the pre-filed forecast of $22.4M[5]. This follows the actual 2020 costs of $19.5M[6] compared to a budget of $20.9M[7].

[5] Ex. F4-4-1, Table 3, line 3, col. (f)
[6] Ex. L-A1-2-Staff-002, Attachment 1, Table 31, line 3, col. (e)
[7] Ex. F4-4-1, Table 3, line 3, col. (e)