

Chelan County PUD Captive Insurance Option

*Presenter: Ron Gibbs, Manager - Insurance and Risk Management
June 3, 2024*



Wildfire Liability Insurance

Unprecedented Market Conditions

Increasing non-California wildfire claims

Date	Location	Name of Fire	Power Utility	Structures Lost
September 7, 2020	Oregon	Labor Day Fire	PacifiCorp	~5,000
December 21, 2021	Colorado	Marshall Fire	Xcel Energy	991
August 8, 2023	Hawaii	Lahaina Fire	Hawaiian Electric	~1900
August 18, 2023	Washington	Gray Fire	Inland Power	259
February 26, 2024	Texas	Smokehouse Creek	Xcel Energy	500+

- 2020 Labor Day wildfire liability verdict (6/23): \$6.9M damages per home, pending future challenges
- Recent verdicts indicate District wildfire liability exposure may exceed ability to cover entirely with insurance
- Insurance companies reducing coverage availability
- FSOM type programs required by some insurance companies
- July 1st renewal: Potential gap in liability insurance coverage
- Insurance premiums for remaining coverage escalating dramatically
- Broker estimates premium increases 2 – 3 times greater than last year’s premiums

Captive Insurance

Definition: Captive insurance is a form of self-insurance whereby an insurance company is owned and controlled by its insureds

Purpose: Optimize District strategy for maintaining insurance covering wildfire liability risk

- Broker recommends captive insurance that would allow District to access wildfire coverage through reinsurance
- Reinsurance is insurance that is sold exclusively to insurance companies
- Captives also shield premium pricing for excess insurance carriers which can result in significant savings (broker client recently saved 47%)

Current Liability Coverage Structure

Combined Policy Limits	Current Program	Premium
\$150M	Domestic/London/Bermuda Markets \$55M x \$95M Premium: \$11,800/\$M	\$650,000
\$95M	EIM \$60M x \$35M Premium: \$10,650/\$M	\$639,000
\$35M	AEGIS \$35M x \$2M deductible Premium: \$28,370/\$M	\$993,000
		\$2,282,000

Potential New Liability Coverage Structure

Combined Policy Limits	Estimated Renewal Program - 7/1/24
\$150M	Domestic/London/Bermuda Markets \$55M x \$95M
\$95M	Chelan Wildfire Retention with Captive and Reinsurance \$20M x \$75M
\$75M	EIM (quote received) \$25M x \$50M
\$50M	AEGIS (quote received) \$50M x \$2M deductible

Broker Estimates

High Estimate: \$6.7M

Low Estimate: \$5.1M

EIS Cell Captive

Overview

- Formed in 1992 for utilities
- Formed by EIM - District Insurer for 15+ years
- EIM created by utility industry
- 22 current utility EIS members
- Annual fee of ~\$65,000

Notable Members

- Duke Energy
- Arizona Public Service
- First Energy
- Entergy
- Ameren
- Dominion
- DTE

Cell Captive Advantages

EIS established WA specific entity, ERS, to meet WA captive financial filing requirements

- EIS registers ERS with the State of WA
- Performs all administration including obtaining reinsurance policies
- Provides investment, accounting and tax services
- District forms Advisory Committee to direct on all insurance purchases and investments

Considerations

- EIS represents that there is no potential for the District to pay for other member's liability
- Captives provide flexibility in structuring liability insurance and reinsurance coverage amounts
- Regulatory uncertainty remains and District staff continues to do its due diligence to ensure compliance

Options and Flexibility

Illustrative example showing potential options with captive

	Reinsurance Premium	Wildfire Liability Risk Exposure	Minimum Captive Reserves	Annual Cost for Captive SI Reserves	Liquidity Reserves	Shielding Savings
\$20M gap covered by 100% reinsurance	\$2 million	\$0	\$250k	\$0	\$0	(\$200k - \$350k)
\$20M gap covered by 50% reinsurance/50% Captive SI	\$1 million	\$10M	\$250k	\$1,000,000	TBD	(\$200k - \$350k)
\$20M gap covered by 100% Captive SI	\$0	\$20M	\$250k	\$2,000,000	TBD	(\$200k - \$350k)
\$20M gap covered by 100% District SI Reserves	\$0	\$20M	\$0	\$0	TBD	\$0

SI = Self Insurance

Additional Considerations

- Even though the District would direct captive reserve investments, by regulation the captive reserve would remain unavailable for other uses
- Liquidity reserves are under the full control of the District
- Should the District dissolve the membership with EIS/ERS and no claims have occurred, all reserves would be returned to the District
- District staff continues to review the EIS/ERS membership agreement and are comfortable proceeding with due diligence review
- Staff has engaged the Washington State Office of the Insurance Commissioner to verify compliance with state statutes

Recommendation

- Captive insurance provides the District with access to reinsurance options and greater flexibility in structuring the program to the District's advantage during insurance negotiations for the July 1st renewal and in future years
- The results of our comprehensive evaluation indicate the District would be best positioned to address current and future volatility in wildfire liability insurance markets with a Cell Captive membership

Next Steps

- If the Board supports, District will continue its due diligence on the captive cell concept
- Once District staff have completed that work, District would seek authorization to enter into a participation agreement with EIS/ERS and the EIS/ERS Board would vote to accept the District as a member
- EIS/ERS would register as a captive insurer with the State of Washington
- The District would then begin directing EIS/ERS on the purchase of reinsurance, if applicable, in accordance with the June 17th Board approved motion authorizing the 2024-25 insurance program renewals
- If for any reason the cell captive is not activated until after the July 1st renewal, reinsurance may be purchased at a later date

QUESTIONS?