

Construction solutions for power projects



CONSTRUCTION

We have more than 100 construction professionals, of which more than a dozen specialise in the provision of insurance advice for independent power projects (IPP).

The team provides covers including Erection All Risks (EAR), Machinery Breakdown (MB), associated Revenue Protections, Third Party Liability and Terrorism covers.

This team's extensive experience in international power projects provides us with the tools to advise our clients on the risks, contractual liabilities and insurance solutions.

Our Power & Utilities practice has an international portfolio of clients, ranging from independent power producers (IPPs) to vertically integrated companies.

JLT are the world leader in the provision of insurance advisory and placing services for the power industry. All our team members have experience in the placement and management of international construction project insurance programmes.

By 2007 JLT had insured more than 25,000MW of power construction encompassing all the main gas turbine technologies, and the table on page 2 shows a representative sample of some projects with which we have recently been associated.

Many of these developments were project financed.

The policies usually purchased for a power project are:

- Erection All Risks (EAR)
- Third Party Liability (TPL)
- Delay in Start Up (DSU)
- Marine Cargo with DSU
- Initial operation.

Project	Type	Technology	Value US\$m
Marafiq (Saudi Arabia)	2,750MW combined cycle and desalination	GE 7FA	2,600
Plum Point (US)	700MW coal fired	Siemens	900
OPPD (US)	700MW coal fired	Siemens	800
West Burton (UK)	1,200MW combined cycle	GE9FB	655
CPS Spruce (US)	650MW coal fired	Siemens	630
Centrica Langage (UK)	700MW combined cycle	Alstom GT26B	600
Grain CCGT (UK)	700MW combined cycle	Alstom GT26B	600
Marchwood Power (UK)	700MW combined cycle	Siemens V94.3a2	600
Barka 2 (Oman)	670MW combined cycle	GE 9E	520
Conoco Power UK	700MW combined cycle	GE 9FA+	480
Sohar Power Station	585MW combined cycle	Doosan 94.2	450
Al Ezzel Bahrain	950 MW combined cycle	Siemens 94.2	450
High Desert USA	800MW combined cycle	Westinghouse 501FD2	410
UTE Norte Brazil	800MW combined cycle	Siemens 501FD2s	382
Oleander USA	850MW single cycle	GE 7FA+e	350
San Lorenzo Philippines	500MW combined cycle	Siemens 84.3a2	280
ANP USA	500MW combined cycle	Alstom 24/6 2	260
Ballylumford N. Ireland	600MW combined cycle	Ansaldo 94.2a/64.3a	260
Eletrobolt Brazil	360MW single cycle	LM6000 PC Sprints	211
Huntstown I S. Ireland	450MW combined cycle	Siemens 94.3a	160
Huntstown II S. Ireland	400MW combined cycle	Mitsubishi 501F	150

Power projects risks and underwriting considerations

We will consider these concerns under four main areas: Technology, Insurability, Lender Associated issues and Contractual issues. It is important to keep in mind they are interrelated and need to be considered as a whole when putting together your final placement.

Technology

There have been many advances in combined cycle gas turbine (CCGT) technology and whilst as a developer of an IPP you would like the latest cutting edge technology with the ability with to maximise output and efficiency, this presents the insurance market with a number of issues. Of particular concern to insurers is gas turbine manufacturers pushing the technological and operational envelope through the introduction of their next evolutionary gas turbine (GT).

Insurability

With concerns about the cutting edge technology being pushed by manufacturers, comes the issue of whether this is insurable? To counter the evolution of technology, insurers look to include certain restrictions within the policies. Such restrictions need to be considered by project developers and lenders. These include:

- design clauses
- deductibles
- technology clauses: these are limitations insurers put in place.

Contractual issues

It is important that you involve your insurance advisor at an early stage as we are experienced in the negotiation with other contract parties and on your indemnity and insurance clauses.

It is essential to get the right balance of risk sharing between the contracting parties and then structure an insurance placement around the obligations so to best serve all project parties in the most economic manner.

Lenders' issues

If your power project is to be debt financed this will have particular impact on the insurance requirements, as lenders are typically very risk adverse and any insurance strategy must be 100% acceptable to lenders. Any issues with which lenders are uncomfortable will make the project less "bankable" and therefore project financing may cost more. JLT are not only one of the largest advisers to projects borrowing funds, but we also work with lenders involved with project finance – giving us an insight into the lenders' requirements.

JLT Specialty Limited

6 Crutched Friars
London EC3N 2PH
Tel +44 (0)20 7528 4000
Fax +44 (0)20 7528 4500
www.jltgroup.com

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CONTACTS

Tony Rastall

Tel +44 (0)20 7528 4526
tony_rastall@jltgroup.com

Stuart Fatt

Tel +44 (0)20 7558 3885
stuart_fatt@jltgroup.com

Spencer Banks

Tel +44 (0)20 7528 4807
spencer_banks@jltgroup.com

Bernadette Hackett

Tel +44 (0)20 7528 4765
bernadette_hackett@jltgroup.com

Areas of particular concern in a project finance transaction include:

- sums insured and indemnity limits
- the loss of revenue indemnity periods
- classes of insurance to be purchased
- financial security of (re)insurers
- dovetailing of construction and operation insurances
- breadth of cover
- evidence of insurance prior to financial close
- lenders'/investors' interest endorsements including non-vitiation
- technology issues, where insurers are concerned about "prototype" or "cutting edge" technology
- lenders' endorsements and assignments
- managing all the parties' expectations regarding Terrorism insurance.