

GLOBAL POWER MARKET UPDATE

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Richard Keeley joined UIB in September 2010 as Divisional Director for Global Power. This is his first six-month update on the Global Power Market.



Richard Keeley

GLOBAL POWER MARKET UPDATE

Throughout 2010 and well into 2011 the global power market has endured substantial pressures on a continued downward trend to rates terms and conditions. The market has continued to soften principally due to the fact that the market is awash with capacity.

A number of the major markets have maintained or enhanced their capacities along with new capacity such as the introduction of the Power Alliance venture between Inter Hannover and Ascot providing a further possible USD150,000,000 of capacity to the market.

The loss picture looks pretty bleak as demonstrated by the table below which highlights a number of the significant losses above USD 10,000,000 from January 2010. These coupled with the devastating catastrophe losses sustained in Australia, New Zealand, Japan and the USA, portray a pretty dour picture. The loss figures from those catastrophic events are still being released but the figures announced so far are substantial as expected.

Paid Power Losses in excess of USD 10,000,000 to September 2010

Jan	Costa Rica Power Plant	USD 10,250,000
Jan	Italian Power Plant	USD 42,728,000
Jan	Qatar Power Plant	USD 13,500,000
Jan	Argentina Power Plant	USD 25,000,000
Jan	Louisiana Power Plant	USD 11,562,500
Jan	Polish Power Plant	USD 10,000,000
Feb	Connecticut Power Plant	USD 145,000,000
Feb	Chilean Power Plant	USD 50,000,000
Feb	Chilean Power Plant	USD 27,366,000
Feb	Chilean Power Plant	USD 52,000,000
Feb	Texas Power Plant	USD 20,000,000
Mar	Turkish Power Plant	USD 14,300,000
Apr	Thai Power Plant	USD 45,000,000
May	German Power Plant	USD 15,000,000
May	Taiwan Power Plant	USD 34,116,555
June	Texas Power Plant	USD 12,000,000
July	UK Power Plant	USD 22,631,400
Aug	Texas Power Plant	USD 21,000,000
Aug	Arizona Power Plant	USD 12,000,000
Aug	Colombian Power Plant	USD 12,000,000
Sep	New Jersey Power Plant	USD 16,000,000
Sep	Michigan Power Plant	USD 14,500,000
Sep	Malaysian Power Plant	USD 16,800,000

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Major Power Losses in excess of USD 10,000,000 in 2011 so far

US Power Plant	USD 65,000,000
South African Power Plant	USD 165,000,000
Hydro Loss	USD 105,000,000
Argentina Power Plant	USD 80,000,000

As always with this technical and engineering biased class of business the technology issues on combustion turbines are at the top of underwriter's lists of concerns. In conjunction with underwriters UIB are pleased to provide the following summary of the generating units causing concerns to underwriters and the specific issues for each unit:

GE LMS 100

These 100MW peaking units seem to have some design issues despite using proven parts. GE have gone through a redesign process which is now being implemented.

Siemens 501

The 501 units had some combustion problems but those now seem to have been resolved. The latest issues are with the compressor side of things and whilst Siemens have a fix it has not been fully rolled out.

GE LM 6000

These high efficiency, high stress, aero derivative units are sensitive and have developed a number of problems over the years. Underwriters are more comfortable where clients have access to lease pool agreements.

GE 7FA / 7FB /9FB

There have been a number of compressor problems which has led to extensive redesign by GE. Currently there are 5 different packages that can be implemented. If clients elect not to purchase any of these then there is a need for a much more frequent inspection programme which obviously entails taking units out of service thus has a major revenue impact. The FB units have higher firing temperatures and as a consequence some design problems have arisen in the turbine blade platform. There is currently a roll out of new blades.

H Technology

The H units have an even higher firing temperature as the manufactures strive for that 60% combined cycle efficiency. Siemens units are air cooled whilst GE are currently going with steam cooled units. The biggest change in direction has happened with GE who, for the first time, are doing works testing. There is a greater amount of joint risk sharing and also seemingly a great deal of caution.

Finally it should also be noted that underwriters are still sustaining a significant number of transformer losses principally due to the ever aging population of transformers around the world.

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The insurance industry is showing further concerns over other issues currently such as:

- The volatility of the wholesale markets
- Valuations
- Availability and lead times of spare or replacement parts
- Business Interruption

SO, WHAT DOES ALL THIS MEAN?

London continues to be a centre for power generation business and is endeavouring to firstly remain competitive but is more mindful today of the new challenges facing the sector. It should be noted however that rate reductions seem to now be consigned to history for the time being and a greater emphasis is being put on terms and conditions.

As regards UIB, we have obtained orders on number of new accounts over the past few months and have retained our positions on our renewals. We are still aggressively looking for new opportunities and have capacity that is ready to react to client requirements. Chris Copping recently joined us from Lockton who gives us even greater depth in our expertise and capability. We have also recently hired a mechanical engineer, Fredrik Osund, who will be 'in situ' at UIB Nordic, which further demonstrates our commitment to the sector.

Should you have clients or prospects that you feel would benefit from our depth in experience and expertise please don't hesitate to contact us as we would be delighted to assist you in winning or retaining business from the Global Power arena.

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