



Press Release

Stormy outlook for new offshore wind farms as insurance costs hinder development

Madrid, Wednesday 8 April 2009 – Development of offshore wind farms around the coasts of the UK and Europe may well be hindered by the high price of insurance, a senior London market figure has warned.

Speaking last week at the 2009 AEGIS European energy conference in Madrid, Tom Sexton, energy renewables practice leader for global broker Aon explained that the economics of wind farm development were proving a problem for power generators with insurance being a significant cost factor – primarily because of the sheer complexity of the projects and risks posed.

Mr Sexton said:

“Major offshore wind farm projects are struggling to be commercially viable. Even though their size is increasing, costs are not coming down. There’s now an expectation in the market that some major utilities will consider debt finance to fund these projects.

“Right now, insurance can be the highest single operating expenditure for an offshore wind farm. The challenge is to reduce that cost but the insurance market is suffering from poor loss ratios. Farms are also moving into deeper, riskier waters further offshore. We need to deploy all the tactics at our disposal to get insurance costs down.

“Future investment in offshore wind is going to be huge and more funding is required. To date, insurance has provided effective protection but future expectations need to be adjusted. Strategies must be developed to manage these costs or insurance costs will hinder the development of offshore wind farm projects.”

Mr Sexton argued that wind farms' use of multiple contractors to build the facilities – up to 14 different firms in some cases – created significant issues in the management of risk.

Also, the lack of availability of the specialist vessels used in the construction and repair of wind farms was leading to delays and claims. Mr Sexton called on vessel owners and utility companies to develop vessel pooling arrangements to share them between a number of power firms. The vessels are critical in repairing damaged cables and are vulnerable to damage or loss. Some utility firms have even resorted to building their own ships.

The effect of sterling's declining value against the euro was also raising costs for UK projects, making them '30% more expensive overnight'.

Underwriters, Mr Sexton said, viewed the sector as 'tainted' by losses to cables and by problems with the foundations the wind turbines were mounted on. Risk of a serial loss of the foundations through an issue like corrosion could shorten the projected lifespan of a wind farm. The size of individual wind turbines continues to grow, with projections for turbines able to produce 10-20 megawatts each by 2020. The current maximum size is five megawatts.

AEGIS's second European energy conference took place at the Intercontinental Hotel, Madrid over 1-2 April. It was officially opened by AEGIS's CEO and President Alan Maguire. Attendees include representatives of European power generators, insurance brokers and related industries.

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Notes to Editors

AEGIS London

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AEGIS London was originally created to provide global insurance facilities for AEGIS members. Today it is a well diversified business, leading and participating in a wide range of onshore and offshore energy risks, as well as a number of other classes traditionally written in the Lloyd's market. As a result of this success the AEGIS London team has expanded to 80 people over the past five years.

AEGIS London continues to offer specialist expertise and leadership to clients in the global energy market, including:

- Indigenous utilities in various countries, including the United States
- Owners of international power projects
- Oil and gas businesses, including all aspects of oil and gas exploration, production, storage, transmission and processing
- Various contractors serving these market sectors

In addition, we work with a broad client base across a range of insurance classes. The main areas of coverage we provide are:

- Utility property
- Energy exploration and production
- Non-marine property
- UK leisure (property and casualty)
- Energy casualty
- Marine liability
- International casualty
- Marine cargo
- War and Terrorism
- Contingency

AEGIS

(Associated Electric & Gas Insurance Services Limited)

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