

# RICHARD HARTLEY PARTNERSHIP

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## **MERCHANT PLANT**

### **SCENARIO 2: FACT SHEET**

Same merchant plant. At the time of despatch it is committed contractually to supply power to a whole raft of counter parties. Sometimes this commitment is contracted well in advance.

Often it would be almost 100% sold forward up to a year or more in advance of actual despatch.

Any idea why this is often undertaken?

Let's say the loss causes a full outage for six months and the plant was 100% contracted.

The policy is a normal BI wording with ICOW.

What actually happens – how does the loss manifest itself?

Where does this loss fit into the policy?

Would ACOW wording help?

Taking a very simplified example: on a typical day imagine the original contract price was £30 per MWh.

Variable costs, which are saved, amount to £20 per MWh (Coal plus carbon plus variables).

Dark spread £10 per MWh.

Cost of re-purchase £50.

It can be seen that the Insured's losses are £30 per MWh. It expected to make £10 but in fact lost £20 (i.e. sold for £30 brought for £50).

Is this a reduction in turnover?

Is it an ICOW?

Is it an ACOW?

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CHARTERED LOSS ADJUSTERS