MINIMUM GAS TAKE

CONTRACT POWER PLANT

- The loss has occurred at a UK CCGT plant whose revenue is derived entirely from the supply of energy under a Power Purchase Agreement (PPA).

- The PPA is a 25 year contract where the gas supply agreement forms part of the PPA. The PPA operating year is 1st October to 30th September.

- Minimum take provision is 75% of projected and which is based upon previous year's consumption.

- The gas supply has a carry forward provision allowing the station to carry forward gas take credit into the following operating year.

- A significant loss occurred on 2nd September 2009 but which was resolved and the station returned to service on 30th November 2009. During that interruption period a gas take liability of £18m arose.

- By July 2010, with no further interruption to the business, the contractual minimum take position had been clawed back. This was achieved with the significant contribution of the carry forward provision of gas credit from the previous operating year.

Questions:-

1. What happens if the station sustains a lengthy uninsured outage sometime in the following operating year, which commences on 1st October 2010, and find that they now face a minimum gas take liability because Insurers have used all of their carry forward gas credit to mitigate the Insured loss that occurred on 2nd September 2009?

2. Do Insurers need to pay back some or all of the Insured's gas credit that was used to mitigate the Insured loss?

3. Would Insurers need to keep their file open into subsequent operating years pending confirmation from the Insured that no uninsured losses have occurred which have impacted their minimum gas take obligations?

4. What happens if a subsequent loss is a covered event? Would Insurers simply accept that there is no opportunity to mitigate the minimum gas take obligation? What happens if the policy has renewed in between times?

5. Without specific reference to Gas Payments in the policy wording – is minimum gas obligation covered under the policy?

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