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100% Contracted Plant

Scenario No. 1: Fact Sheet

- All Risks policy
- Maximum indemnity period – 24 Months
- Deductible – 60 day waiting period
- The insured operate a 700MW CCGT and have a PPA for 100% of capacity
- Availability payments are GBP 6.2 million per month provided the insured's actual availability is within a 90% to 110% range of target availability
- The 90% to 110% range is measured on a 24 month rolling average basis
- Contract year runs from April to March
- An annual bonus / under performance calculation is conducted to assess performance within the 90% to 110% range – Ignored in this scenario for simplification
- Steam turbine outage occurs on June 2010
- Station cannot operate in open cycle
- Outage lasts until January 2011
- Monthly target v actual availability impacted in the period June 2010 to January 2011
- Cumulative target v actual availability impact in the period June 2010 to January 2013

Discussion Points:

1. Is the availability cash flow loss (GBP 4.7 million) beyond the maximum indemnity period recoverable?
2. Is the availability cash flow loss (GBP 0) in the waiting period the correct measure of the deductible?
3. Should the loss of availability payments be considered on an accrued or cash flow basis?
4. How can policy wordings be improved to cater for availability payments conducted on a rolling average basis?



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Scenario No. 2: Fact Sheet

- All Risks policy
- Maximum indemnity period – 24 Months
- Deductible – 60 day waiting period
- The insured operate a 700MW CCGT and have a PPA for 100% of capacity
- Availability payments are GBP 6.2 million per month provided the insured's actual availability is within a 90% to 110% range of target availability
- The 90% to 110% range is measured on a 24 month rolling average basis
- Contract year runs from April to March
- An annual bonus / under performance calculation is conducted to assess performance within the 90% to 110% range
- Steam turbine outage occurs on June 2010
- Station cannot operate in open cycle
- Outage lasts until July 2011 – 1 day prior to the expiration of the waiting period
- Monthly target v actual availability impacted in the period June 2010 to July 2011
- Cumulative target v actual availability impact in the period June 2010 to July 2012

Discussion Points:

1. Is the shortfall in the annual bonus calculation conducted in March 2011 and March 2012 recoverable?
2. Should the loss of availability payments be considered on an accrued or cash flow basis?
3. How can policy wordings be improved to cater for availability payments conducted on a rolling average basis?