

Staff Report

for the Special Administrative Practices Committee June 22, 2020

TO: Administrative Practices Committee Members

FROM: Greg Jones, Interim General Manager *GJ*

DATE: June 17, 2020

SUBJECT: Alternative Insurance Package

ADMINISTRATION

RECOMMENDED ACTION:

Receive an update on an alternative insurance program and advance a recommendation to the Board of Directors as appropriate.

BACKGROUND:

On Monday, February 24, 2020, NID received a call from SDRMA's Chief Membership Services Officer explaining that beginning July 1, SDRMA will no longer provide insurance coverage for above ground distribution and/or high-voltage electrical lines. Notice of this decision precipitated NID's investigation of additional insurance alternatives.

Currently, the District owns and operates approximately 12 miles of above-ground electrical lines with an additional 1.7 miles of infrastructure to be acquired with the Deer Creek Powerhouse system in the near future. These electrical lines connect NID hydroelectric powerhouses with PG&E's regional distribution electrical system. The above-ground electrical lines are critical to NID's delivery of clean, renewable power from its generation source.

Today, members of the Committee will receive a final review of Gallagher's findings and recommendations on an alternative insurance program. Members will hear information regarding insurance coverage opportunities, costs, and deductibles.

On May 5, 2020, members of this Committee received an overview of Arthur J. Gallagher & Company's work to date relating to an alternative insurance package for NID. Inclusive of Gallagher's presentation were preliminary findings on

insurance programs and costs as they relate to the SDRMA 2020/2021 Program Year Projections and line-item coverage costs received to date from other carriers.

Since that date, NID and Gallagher have continued to press forward with quotes and questions from additional insurance carriers. Gallagher has been fortunate to have been able to work through the month of June on this process, and up until as recent as last week, have finalized a 100% program package coverage with qualifying firms.

Gallagher has successfully identified an alternative insurance package program for both Property/Liability and Workers Compensation Programs. Staff and Gallagher are convinced this alternative package coverage is far superior to the package coverage from the existing SDRMA policy. As noted in the chart below and the attached Deep Dive Coverage chart, if accepted, NID will engage in a more comprehensive and inclusive coverage package with nominal increased annual cost.

The window to evaluate NID’s total insurance package has been during an extremely condensed timeframe coupled with a worldwide pandemic. A great effort of data collecting and analysis has been conducted during the past two months. The window to make a decision to withdrawal from SDRMA’s insurance package programs close on June 30, 2020.

SDRMA’s 5-year Workers Compensation & Property/Liability Package program costs are listed below for reference.

SDRMA Workers Compensation & Property/Liability Package Program Invoices				
Program Year	Workers Comp	Property/Liability	Total Program Invoice	% Change
2015 - 2016	\$ 447,692	\$ 379,797	\$ 827,489	
2016 - 2017	\$ 466,288	\$ 475,071	\$ 941,359	14%
2017 - 2018	\$ 352,668	\$ 545,555	\$ 898,223	-5%
2018 - 2019	\$ 451,444	\$ 633,137	\$ 1,084,581	21%
2019 - 2020	\$ 527,601	\$ 686,355	\$ 1,213,956	12%
2020 - 2021*	\$ 624,568	\$ 1,062,764	\$ 1,725,332	42%
<i>* Inclusive of \$38K Risk Engineering Reports & 51% Program Cost Increase ~\$355,000</i>				

It is staff’s analysis that the Gallagher package will add a higher level of professional support to and for NID’s insurance and risk management needs. This support has been demonstrated over the past two months as NID staff have worked with Gallagher on both hydroelectric recommendations and safety loss-control consultations.

The Gallagher proposal will help solidify an NID insurance package with several improvements in overall coverage. Below is a high-level list of cost and coverage comparisons for review.

Cost & Coverage Comparison Chart

Coverage program major lines	SDRMA 2020-2021 projected cost and features	Gallagher package 2020-2021 projected cost and features current status	Quoting insurance carrier
Package program, which includes:	\$882,347	See bindable proposals received to date below.	
Property incl machinery, non hydroelectric	Included	\$741,956	Glatfelter AIG
Property including machinery hydroelectric	Included	\$535,000 plus taxes*	Zurich 35% lead
Quota share program participants >100% filled			Munich Re 20%
			Aegis 35%
			Lloyds 10%
Property and machinery risk engineering	Strongly recommended to purchase, \$38,000	\$38,000	Zurich
General Liability incl primary \$10MM umbrella	Included	Included	Glatfelter AIG
Overhead Electrical	Not covered	Covered full \$11MM premium included	Glatfelter AIG
Wildfire	Not covered	Covered full \$11MM premium included	Glatfelter AIG
Inverse Condemnation	Limited	Covered full \$11MM premium included	Glatfelter AIG
Failure to Supply Water	Limited	Covered full \$11MM premium included	Glatfelter AIG
Pollution	Limited	Included	Glatfelter AIG
Crime	Included	Included	Glatfelter AIG
Mobile Equipment	Included	Included	Glatfelter AIG
Cyber	Included	Included	Glatfelter AIG
Auto	Included	Included	Glatfelter AIG
Excess Liability \$10MM x \$10MM	\$180,417	\$92,577	Allied World
Workers Compensation	\$624,568	\$388,418	Glatfelter AIG
Target Solutions service	Included	\$12,005	Target Solutions
Expected total	\$1,725,332	\$1,807,956	

*California Department of Insurance assesses "Surplus Lines taxes" on foreign domiciled insurers. This applies to both taxable and tax exempt policyholders.

It is staff's recommendation that this committee advance the Gallagher Insurance package to the Board of Directors for approval.

BUDGETARY IMPACT:

None. NID has a combined total of Workers Compensation and Property/Liability insurance coverage budgeted at \$1,452,541 in FY 2020. Staff anticipates that half of the premium will be expensed in FY 2020 and half in the FY 2021 budget when incurred.

ATTACHMENTS(s): (2)

- Gallagher Deep Dive Comparison by Line
- Gallagher PPT Presentation

Nevada Irrigation District July 1 2020 Insurance Proposals
Deep Dive Coverage Comparisons

Coverage program major lines	SDRMA 2020-2021 coverage detail	Gallagher proposal 2020-2021 coverage detail	Gallagher proposed insurance carrier
General Liability	\$10,000,000	Covered \$11,000,000	Glatfelter AIG
Deductible	\$5,000	\$5,000	Glatfelter AIG
Defense Costs	Included in limit, reduces limit	In addition to limit, does not reduce limit	Glatfelter AIG
Overhead Electrical	Not covered	Covered \$11,000,000	Glatfelter AIG
Wildfire	Not covered	Covered \$11,000,000	Glatfelter AIG
Failure to Supply Water	Limited to \$1,000,000. Coverage only if caused by damage to NID property	Covered \$11,000,000	Glatfelter AIG
Water Contamination	Fungal Pathogens Exclusion	Covered \$11,000,000	Glatfelter AIG
Water Treatment Errors and Omissions	Not covered	Covered \$11,000,000	Glatfelter AIG
Inverse Condemnation	Limited to \$1,000,000 SHARED WITH ALL SDRMA MEMBERS	Covered \$11,000,000	Glatfelter AIG
Employment Practices	\$10,000,000 coverage, deductible 50% of first 200,000	Covered \$11,000,000, no deductible	Glatfelter AIG
Scope	Limited to arising out of operations	Covered \$11,000,000	Glatfelter AIG
Sexual Harrassment	MEMBERS	Covered \$11,000,000	Glatfelter AIG
Dam Failure	Not covered with minor exceptions, broad exclusionary language	Primary coverage all dams, excess coverage smaller dams	Glatfelter AIG
Bowman South Arch	No Coverage	\$1,000,000	Glatfelter AIG
Bowman North Rockfill	No Coverage	\$1,000,000	Glatfelter AIG
Deer Creek Diversion	No Coverage	\$11,000,000	Glatfelter AIG
French Lake	No Coverage	\$11,000,000	Glatfelter AIG
Milton Diversion	No Coverage	\$11,000,000	Glatfelter AIG
Combie	No Coverage	\$1,000,000	Glatfelter AIG
Sawmill Lake	No Coverage	\$11,000,000	Glatfelter AIG
Jackson Lake	No Coverage	\$11,000,000	Glatfelter AIG
Scotts Flat	No Coverage	\$1,000,000	Glatfelter AIG
Jackson Meadows	No Coverage	\$1,000,000	Glatfelter AIG
Rollins	No Coverage	\$1,000,000	Glatfelter AIG
Faucherie	No Coverage	\$11,000,000	Glatfelter AIG
Dutch Flat Afterbay	1,000,000	\$11,000,000	Glatfelter AIG
Dutch Flat 2 Forebay	No Coverage	\$11,000,000	Glatfelter AIG
Loma Rica Airport	No Coverage	\$11,000,000	Glatfelter AIG
Pollution	\$1,000,000 note: aggregate limit shared with all other SDRMA members	\$1,000,000	Glatfelter AIG

Nevada Irrigation District July 1 2020 Insurance Proposals
Deep Dive Coverage Comparisons

Coverage program major lines	SDRMA 2020-2021 coverage detail	Gallagher proposal 2020-2021 coverage detail	Gallagher proposed insurance carrier
Cyber	\$2,000,000 note shared aggregate limitation other SDRMA members. Coverage limited to "devices for the purpose of processing data"	\$1,000,000	Glatfelter AIG
Data and Network Liability	\$2,000,000	\$1,000,000	Glatfelter AIG
Fraudulent Instruction	\$75,000	\$250,000	Glatfelter AIG
Funds Transfer Fraud	\$75,000	\$500,000	Glatfelter AIG
Cyber Extortion	\$2,000,000	\$20,000	Glatfelter AIG
Deductible	\$25,000	\$5,000	Glatfelter AIG
Auto	Included	Included	Glatfelter AIG
Liability deductible	\$5,000	\$0, no deductible	Glatfelter AIG
Physical Damage deductible	\$5,000	\$5,000	Glatfelter AIG
Excess Liability \$10MM x \$10MM	Limited form, no dropdown over SDRMA	\$10,000,000 following form excess, will integrate and drop down over exhausted	Allied World
Public Officials Liability	Excluded	Included	Allied World
Overhead Electrical and Wildfire	Excluded	Included	Allied World
Failure to Supply Water	Excluded	Included following damage to NID equipment	Allied World
Property - Fire, non hydroelectric Sublimits	Included	Included	Glatfelter AIG
Non-Hydro Machinery Breakdown	Included	Included	Glatfelter AIG
Deductibles	\$25,000	\$50,000	Glatfelter AIG
Property - Fire, hydroelectric			Zurich, AEGIS, MunichRe, London
Coverage limit	Per schedule	Per schedule	Zurich, AEGIS, MunichRe, London
Deductible Other Than Breakdown	\$25,000	\$100,000	Zurich, AEGIS, MunichRe, London
Deductible Machinery Breakdown*	\$350,000	\$350,000*	Zurich, AEGIS, MunichRe, London
*Note re breakdown deductibles applicable to generators only		*Machinery breakdown deductible for generators only will be higher at inception. Bowman, Combie North and South, and Scotts Flat \$1,000,000. Rollins \$2,000,000. Dutch Flat \$3,000,000. Chicago Park \$5,000,000. Zurich risk engineer to visit Chicago Park, Dutch Flat, Rollins, Bowman. Following that review, Zurich will provide risk control recommendations. Following completion of recommendations those deductibles will revert to \$350,000	Zurich, AEGIS, MunichRe, London
Crime - Employee Theft	\$1,000,000	\$1,000,000	Glatfelter AIG
Forgery or Alteration	\$1,000,000	\$500,000	Glatfelter AIG
Computer Fraud	\$1,000,000	\$500,000	Glatfelter AIG
Funds Transfer Fraud	\$1,000,000	\$500,000	Glatfelter AIG
Fraudulent Impersonation	\$75,000	\$250,000	Glatfelter AIG
Deductible	\$0	\$5,000	Glatfelter AIG
Mobile Equipment	Included, deductible \$25,000	Included, deductible \$1,000	Glatfelter AIG

Presentation on Insurance Alternatives

June 22, 2020

Nevada Irrigation District

Allen Tyler, CPCU, ARM
Senior Director,
Power and Utilities



Insurance | Risk Management | Consulting

A brief introduction to our California Water and Power team

Allen Tyler – Senior Director, Gallagher Power & Utilities



A 1980 graduate of the University of California, Berkeley, Allen received the Chartered Property and Casualty Underwriter (CPCU) designation in 1987, the Associate in Risk Management (ARM) designation in 1989, and the Construction Risk Insurance Specialist (CRIS) designation in 2018. Allen has served Public Entity Water Utility industry for many years. He was involved in the development of EPPIC, an alternative liability insurance market that brought liability insurance cost savings to municipal utilities. Allen and a partner co-developed the Public Utility Property/Argus Programs which have brought property insurance cost savings to public utilities for over a dozen years. Allen's clients are among the largest irrigation and public power agencies on the West Coast.

Daniel Lemus – Client Service Manager



Daniel is a 17 year veteran of the insurance industry, and handles the marketing, negotiating coverage with underwriters, managing customer service requests, and policy delivery to our utility and other public sector clients. Daniel worked for several leading regional brokers before coming to Gallagher. Daniel is a 1999 graduate of the University of California, Berkeley, and is a candidate in the CPCU program

Additional team members assigned to assist NID

John Munno – Director of Engineering Services, Gallagher Power & Utilities



John has 35-plus years of utility engineering and risk management experience; 25 years in the power generation and oil and gas industries as a plant engineering supervisor & risk manager and 10 years in the insurance brokerage industry. He began his career at Georgia Power as a nuclear fire protection engineer and spent time in utility company corporate loss control and risk engineering where he supported a variety of business units including generation, gas storage and delivery, electric transmission and distribution, and oil and gas exploration and production.

John has experience in manuscript policy modification, technical claims advocacy, client risk engineering advocacy and proposal development and delivery.

Linda Pierce, Esq. – Area Executive Vice President, West Region Claims Leader



Linda has more than 17 years' experience as an attorney. She works with complex and disputed claims for some of Gallagher's largest and most complex clients on the West Coast. She also has expertise in management liability claims, including directors and officers, errors and omissions, and employment practices liability. Linda is part of Gallagher's human resources consulting team and frequently assists clients with risk management issues such as leaves of absence, employee discipline matters, and related policies and procedures.

Will Valdriz, ARM, WCCA – Loss Control Consultant



Before joining Gallagher in 2020, Will has been a workers compensation specialist with experience as a claims adjuster, underwriter, as well as a loss control/safety consultant.

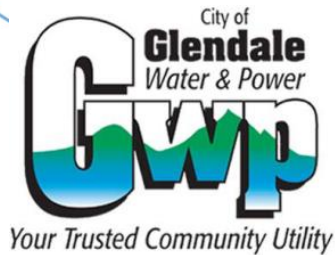
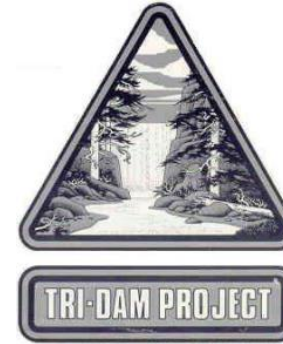
He has experience assisting clients with loss control support and is well versed in performing safety audits for a variety of client types. He specializes in claim risk reduction along with Cal/OSHA compliance. Will has been successful at developing and implementing program-specific safety plans for clients across diverse and demanding industries that reduce loss frequency and severity. He focuses on core loss drivers in order to reduce losses as well as insurance costs.

Value added service objectives

Deliver a high level of professional support.

- **Engineering review of hydroelectric plant maintenance and recommendations, along with advocacy for reasonableness of recommendations will be accomplished this year.**
- **Gallagher's Power and Utilities engineer John Munno (introduced earlier in this presentation) has already had an opportunity to consult with NID staff re the Combie South new transformer installation.**
- **Gallagher loss control specialist Will Valdriz has been introduced to your safety team and will be consulting to help you control workers compensation cost.**

Representative clients of our California team



Nevada Irrigation District insurance current state

Gallagher's perspective

- I. You have enjoyed a long relationship with SDRMA.**
- II. We perceive your happiness with SDRMA stems significantly from your management team's focus on excellence and quality. You make terrific use of available resources.**
- III. In a challenging reinsurance market SDRMA made the difficult business decision to no longer offer coverage important to NID.**
- IV. Proposals we have developed for NID have solved the SDRMA coverage problems, and we have discovered several other opportunities to improve coverage.**

The objectives for our development of alternatives

We began with topics of greatest importance, and have generally accomplished all objectives

- I. We sought a favorable budgetary impact of program changes**
- II. We have arranged an unbundled coverage structure, best in class by line of coverage**
- III. We have found several improvements in coverage**
- IV. Quotes preserve the best of what you like**
- V. We pledge a high level of professional support**
- VI. We have introduced enhanced ancillary services available to meet Nevada Irrigation District's needs**

Objectives for our presentation of insurance alternatives

- I. **Unbundled coverage structure – best in class by line of coverage. Examples:**
 - **For liability and non-hydroelectric property coverages**
 - Glatfelter water district specialty program
 - Allied World public entity specialty excess liability program
 - **For hydroelectric machinery breakdown and property coverages, a quota share program of power generation specialty underwriters:**
 - Zurich Global Energy – 35%
 - Associated Electric and Gas Insurance Services – 35%
 - MunichRe America Property Engineering – 20%
 - Underwriters at Lloyds, London - 10%

Status of quoting process as of June 16, 2020

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Workers Compensation	\$624,568	\$388,418	Glatfelter AIG
Target Solutions service	Included	\$12,005	Target Solutions
Expected total	\$1,725,332	\$1,807,956	
		*California Department of Insurance assesses "Surplus Lines taxes" on foreign domiciled insurers. This applies to both taxable and tax exempt policyholders.	

Thank you!

Allen Tyler, CPUC, ARM
760-352-2611
Allen_Tyler@ajg.com

1225 Main Street
El Centro, CA 92243
USA



Gallagher

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