

FOR BOARD ACTION

Agenda Item # 4.

Meeting Date:

12/14/06

SUBJECT:

Insurance Quotations for 2007

PREPARED BY:

Curt Kraft, Director of Corporate Services
Marny Billings, Manager of Business Services

ITEM DESCRIPTION:

Listed below are the recommended insurance quotations for obtaining all risk property insurance, general liability, and automotive insurance for 2007.

ALL RISK PROPERTY INURANCE:

The C.O. Brown Agency received three proposals on RPU Property Insurance. The first one is from AIG, the second is from Starr-Technical Risk Agency (Hartford Steam), our current property insurance provider and the third is from AEGIS, who provides our umbrella liability coverage; they have started a new program to offer property coverage to utilities.

The three carriers based their quotes on policy limits that were decreased from \$ 200 million to \$ 150 million, and the deductibles remained the same. Their quotes were based on values adjusted by 8% to better reflect current replacement costs. The coverage from all three carriers are very comparable, therefore the staff is recommending to accept the lowest premium submitted by Starr-Technical Risk Agency.

	<u>PROPERTY VALUE</u>	<u>PREMIUM</u>
2005	\$ 209,390,000	\$ 532,177
2006	\$ 224,850,000	\$ 420,000
2007	\$ 231,449,000	\$ 313,897

The above coverage does not provide for acts of terrorism.

LIABILITY AND COMMERICAL AUTO INSURANCE:

Staff recommends maintaining the same structure of coverage for liability and auto insurance, having the League of MN Cities Insurance Trust provide the primary coverage up to \$ 1,000,000. In 2006, RPU will be receiving a dividend from the League of \$7,200.

Staff also recommends maintaining AEGIS to provide blanket liability coverage with limits from \$ 1,000,000 up to \$ 20,000,000.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
League of MN Cities	\$ 118,328	\$ 123,571	\$ 129,633
AEGIS	\$ 69,385	\$ 71,361	\$ 84,123



General Manager

12/11/06

Date

FOR BOARD ACTION

Agenda Item # 4.

Meeting Date:

12/14/06

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the attached resolutions for property and liability insurance for 2007 and to request Council approval of the same.

General Manager

Date

ROCHESTER PUBLIC UTILITIES

December 11, 2006



Mr. Curt Kraft
Rochester Public Utilities
4000 East River Road NE
Rochester, MN 55906

Dear Mr. Kraft;

RPU's current Property / Boilers insurance program is with AIG. AIG was affiliated with Starr-Tech until February 2006. At that time, Starr-Tech and AIG terminated their relationship. Starr-Tech has since that time formed a relationship with ACE Insurance Company for providing coverage for utility companies.

Both of these companies are now aggressively pursuing the utility market for business. Now, there is a third player in this market, AEGIS Insurance Company. They have provided RPU's Excess Liability coverage for a number of years and are now aggressively pursuing the Property / Boiler coverage.

Thus, this year RPU was able to obtain three very competitive proposals from companies specializing in the utility industry. Please see the attached premium breakdown by the three companies based on the various policy limits.

The current policy limit of coverage is \$200 Million. We requested that each of the three companies provide proposals based on a \$150 Million limit as RPU staff believes this limit is adequate if a catastrophic loss were to occur. The total replacement cost values at the Silver Lake Plant are approximately \$110 Million. Each of the companies matched up with similar limits of coverage on the various sub limits.

The AEGIS proposal is also based on RPU being included in a group discount program thru SMMPA.

Your current Property / Boiler premium for the policy year of December 31, 2005-2006, is \$420,000. The Starr-Tech premium of \$313,897 represents a premium reduction of \$106,103 or 26%, the AIG proposal a premium reduction of \$100,115 or a 24%, and the AEGIS proposal a premium reduction of \$65,847 or 16%.

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These three competitive proposals are an indication of the "soft market" and competition in the utility market since RPU was able to obtain these proposals in spite of the large \$2.2 million loss that occurred in December, 2005.

Regarding RPU's Excess Liability renewal, AEGIS, the current carrier, is still the most competitive company in the market place. RPU has built up 20+ years of excellent experience and have continuity credits in addition to experience credits. There are no other companies aggressively pursuing the Excess Liability market in the utility industry.

AEGIS's proposed renewal premium of \$84,123 is approximately 18% higher than last year. This is due to a 9% rate increase and a 9% reduction in the EPPIC discount.

The combined Property / Boiler Excess Liability renewals proposals result in an overall premium reduction of 19% with the Starr-Tech & AEGIS proposals and 18% with the AIG & AEGIS proposals.

This is good news in light of the large loss in December, 2005.

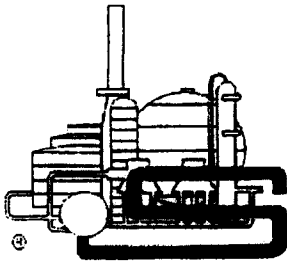
Respectfully Submitted,



Lyle Papenfuss

ROCHESTER PUBLIC UTILITIES

<u>Company</u>	<u>\$150 Million Limit</u>
Starr-Tech	\$313,897
AIG	\$319,885
AEGIS	\$354,153



TARR TECHNICAL RISKS AGENCY, INC.

Name: Justin Weltscheff
Title: Senior Underwriter
Phone: (312) 577-7784

500 W. Monroe Street, Suite 2600
Chicago, IL 60661
Fax: 312.577.7820

REVISED QUOTATION

NAMED INSURED: ROCHESTER PUBLIC UTILITIES

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POLICY NUMBER:

To Be Advised

MAILING ADDRESS OF INSURED:

4000 E. River Rd., NE, Rochester, MN 55906

**DESCRIPTION AND LOCATION
OF PROPERTY INSURED:**

As per schedule on file with the Company

VALUES

Property Damage: \$231,448,633

Total Insured Value: \$231,448,633

TERRITORY:

United States of America

POLICY TERM:

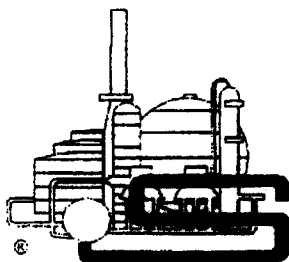
Effective: December 31, 2006 at 12:01 AM
Expiration: December 31, 2008 at 12:01 AM.

FORM:

per the previously submitted Starr Tech Manuscript Policy Form plus endorsements listed under Additional Terms and Conditions.

COVERAGE:

All Risks of direct physical loss or damage, covering Property Damage and Boiler & Machinery.



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REVISED QUOTATION

NAMED INSURED: ROCHESTER PUBLIC UTILITIES

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- m. Errors and Omissions
- n. Exclusion of Certain Computer-Related Losses
- o. Exclusions – Silver Lake Dam – Gate Equipment modification
- p. Extra Expense
- q. Extra Expense Coverage Restriction
- r. Flood Exclusion at Flood Zone A, V, and subzones locations
- s. Gas Turbine Generator
- t. Mobile Equipment
- u. Mold Exclusion
- v. OFAC Advisory Notice to Policyholder (IL P0010104)
- w. Political Risk Exclusion
- x. Reported Values
- y. Schedule of Forms and Endorsements
- z. Schedule of Locations
- aa. Service Interruption
- bb. Signatures Page
- cc. State Amendatory Endorsements – MN
- dd. Steam Turbine Generator
- ee. Terrorism Exclusions (If Coverage Declined)
- ff. Valuable Papers and Records
- gg. Wind

STARR TECH PREMIUM:

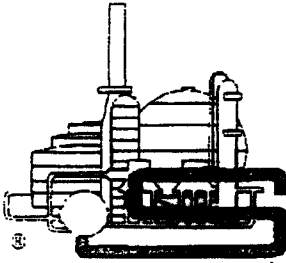
\$ 300,697 (plus applicable State or Local Surcharges, Taxes and Fees, Countersignature Fees) that being 100%, part of 100% policy premium of \$ 300,697 (excluding Acts of Terrorism).

**STARR TECH CERTIFIED (TRIA)
TERRORISM PREMIUM:**

\$ 15,787 (plus any State or Local Surcharges, Taxes or Fees, Countersignature Fees) that being 100%, part of 100% policy Certified terrorism premium of \$15,787 (as respects Certified Acts of Terrorism as defined by the Terrorism Risk Insurance Act of 2002, As Amended).

**STARR TECH NON-CERTIFIED
TERRORISM PREMIUM:**

\$6,766, (plus applicable State or Local Surcharges, Taxes and Fees, Countersignature Fees) that being 100 %, part of 100 % policy Non-Certified terrorism premium of \$ 6,766.



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REVISED QUOTATION

NAMED INSURED: ROCHESTER PUBLIC UTILITIES

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**STARR TECH BOILER AND MACHINERY
JURISDICTIONAL INSPECTION FEE:**

\$ 13,200 The Jurisdictional Fee is exclusive of
any commissions, taxes, fees or surcharges.

SECURITY:

ACE American Insurance Company

CANCELLATION:

60 days except 10 days for nonpayment of premium.



COMMERCIAL MUNICIPAL LIABILITY COVERAGE (CLAIMS MADE BASIS)

<u>Limits</u>	<u>Coverage Description</u>
\$1,000,000	Each Occurrence Limit
\$1,000,000	Products & Completed Operations Annual Aggregate
\$1,000,000	Limited Pollution Liability – per “sudden occurrence”/aggregate
\$1,000,000	Failure to Supply Annual Aggregate Limit
\$ 200,000	Lead & Asbestos Claim Limit – per claim/annual aggregate
\$1,500,000	EMF Annual Aggregate Limit
\$ 50,000	Fire Damage Liability (any one fire)
\$ 1,000	Premises Medical Payments - per person
\$ 10,000	Premises Medical Payments - aggregate
\$ 25,000	Deductible Per Occurrence with Annual Aggregate Deductible of \$100,000 & after that \$5,000 Deductible Per Claim

Based on:

- \$986,088 Waterworks Payroll (LY-\$916,984)
- 5,000,000,000 Waterworks Gallons (LY-5,000,000,000)
- 1 Boat-Less than 25 hp (LY-1)
- \$7,278,498 Electric Department Payroll (LY-\$6,971,398)
- \$156,790,779 Expenditures (LY-\$116,518,851)
- \$ 10,483,062 Independent Contractors (LY-\$8,908,510)

NOTE: HIGHER LIABILITY LIMITS ARE AVAILABLE





COMMERCIAL AUTOMOBILE COVERAGE

<u>Limits</u>	<u>Coverage Description</u>
\$1,000,000	Combined Single Limit - Bodily Injury and Property Damage
\$1,000,000	Uninsured Motorists
\$1,000,000	Underinsured Motorists
\$ 20,000	Personal Injury Protection - medical/non-medical

Includes: Non-Owned Auto Liability
 Hired Auto Liability

NOTATION:

- Fellow Employee Coverage included
- Annual Aggregate Deductible is \$100,000 with \$25,000 per Occurrence for all lines. Once the Annual Aggregate is met, then \$5,000 Deductible to all lines.
- Vehicle with an amount of insurance over \$5,000 have comprehensive and collision coverage - schedule is per renewal listing.
- Policy based on 131 units of which 98 have physical damage coverage (LY-policy based on 134 units of which 99 had physical damage coverage)

NOTE: HIGHER AUTOMOBILE LIABILITY LIMITS AND UNINSURED & UNDERINSURED MOTORISTS LIMITS ARE AVAILABLE.

Total Annual Premium: \$129,633

The above is a summary of the premium as proposed in this analysis. If you decide to accept coverage other than as proposed, this summary will change accordingly. It is not an application, binder, or contract, and does not summarize all provisions of our insurance policies.

PROPOSAL ACCEPTED AS PRINTED _____

PROPOSAL ACCEPTED WITH CHANGES NOTED _____

(Signature Required)





RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve an insurance agreement with Starr-Technical Risk Agency, Inc. (Hartford Steam) for furnishing the following insurance coverage:

ALL RISK PROPERTY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be THREE HUNDRED THIRTEEN THOUSAND EIGHT HUNDRED NINETY-SEVEN AND NO/100 DOLLARS (\$313,897.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 14th day of December, 2006.

President

Secretary



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve an insurance agreement with the League of Minnesota Cities Insurance Trust for:

COMMERCIAL AUTOMOBILE AND GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be ONE HUNDRED TWENTY-NINE THOUSAND SIX HUNDRED THIRTY-THREE AND NO/100 DOLLARS (\$129,633.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 14th day of December, 2006.

President

Secretary



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve an insurance agreement with the Associated Electric and Gas Insurance Services, Ltd. (AEGIS) for furnishing the following insurance coverage:

EXCESS GENERAL LIABILITY INSURANCE

The insurance agreement to be for a twelve month policy period commencing December 31, 2006 and expiring December 31, 2007.

The amount of the twelve month premium effective December 31, 2006 to be EIGHTY-FOUR THOUSAND ONE HUNDRED TWENTY-THREE AND NO/100 DOLLARS (\$84,123.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 14th day of December, 2006.

President

Secretary