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California Clean Energy Fund
5 Third Street, Suite 1125
San Francisco, CA 94103

tel: 415.957.0167
fax: 415.957.0177
www.calcef.org

Insuring Innovation: Reducing the Cost of Performance Risk for Projects Employing Emerging Technology

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Summary

The goal of this paper is to understand how efficacy insurance could be used to reduce the cost and increase the availability of financing for projects using emerging clean energy technologies. These are technologies that have succeeded in lab and pilot testing but have not yet been used—or used only a small number of times—at commercial scale. Commercial lenders generally will not provide financing for such projects until the technology is commercially proven and other financing options can be considerably more expensive.

Current insurance products in market, such as warranty insurance for solar PV and wind projects, cover certain performance-related risks for established technologies but do not address the gap for first and early commercial technologies. However, there exists an encouraging level of interest from the insurance companies, and there is precedent from other industries, such as satellite launch, for insurance that covers technology-related risks. There are also a number of existing examples of joint public-private approaches to insurance in markets that are challenging for private insurers on their own, such as terrorism risk or nuclear energy.

Our approach encompassed:

1. Analysis of current insurance offerings that relate to the performance of renewable energy technologies or projects;
2. Review of examples from other industries where insurance mechanisms have been used to manage technology risk and/or where risk sharing exists between government and private insurers;
3. Consideration of how to encourage the availability of efficacy insurance for clean energy projects, what the key terms of such policies might be and what supporting public policy changes may be required.

Workshop

Insurance for Projects that Employ Emerging Clean Energy Technologies: on April 15, 2011, Joint Venture Silicon Valley Network co-hosted a workshop on this topic with CalCEF. It was attended by about 40 people from project development, insurance, banking and technology industry associations, who contributed to a robust and productive discussion. Since then, the EIR project team has met with other parties working on various aspects of solutions at both the federal (via U.S. Department of Energy) and state (via the California Assembly) levels. Input from these events will be incorporated into a final version of the white paper.

Resulting Action

- Develop a database of energy technology performance data to help insurance providers access reliable, comprehensive information to support underwriting activities and more accurate pricing of system performance risk.
- Clean energy industry technology companies and associations should collaborate to support the launch of one or more new insurance providers focused on the specific needs of their respective market segments. We believe there may be an opportunity to form both a mutual or captive insurer focused on the needs of the solar industry and a new managing general agent (MGA) focused on efficacy insurance for projects employing emerging technologies.
- The most important form of public policy support would be the creation of a federal reinsurance

program.

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