Insurance regulators to grapple climate

The National Association of Insurance Commissioners will launch a task force to tackle the climate change issue and its potential impact on the US insurance industry.

The National Association of Insurance Commissioners (NAIC) voted to set up the task force at its quarterly meeting last week after state insurance regulators voiced their concerns about the impact of climate change on the financial health of insurance companies and the availability and affordability of insurance services.

"We have to examine what we as regulators can do on this chronically difficult issue," said Tim Wagner, director of the Nebraska Department of Insurance who will be co-chairing the taskforce.

"Several things have occurred at NAIC that pushed this issue to a tipping point," Wagner said. He said the regulators had received comments from several European reinsurance firms concerned about the rising costs of catastrophe insurance. At the urging of a number of advocates, NAIC held a forum on climate change last December.

Ceres, an investor coalition advocating sustainable investment choices, released an extensive study, *Availability and Affordability of Insurance Under Climate Change: A Growing Challenge for the US*, at a NAIC conference in December. That conference had been planned for New Orleans in early September (AAD 9/08/05), but was canceled after the region was devastated by Hurricane Katrina, which has since been found to have caused as much as $60 billion in insured losses alone.

Ceres found that catastrophic weather events over the past three decades have resulted in a 15-fold increase in insured losses for US insurers. The report argues the increasing rate of weather-related losses threatens the long-term viability of insurance companies, because every time an insurer raises premiums or refuses to provide certain types of coverage, the industry's customer base shrinks.

The report also warns of more extensive financial losses, both to the companies and to their customers who will face rising premiums or even declining coverage, should such events — which have been linked to climate change — continue unmitigated.

State regulators face a particular challenge of becoming responsible for uncovered losses, as insurers back out of providing coverage for catastrophic events, Wagner said. He said NAIC was unsure what the task force will accomplish yet, because it is unclear how regulators can push the insurance companies to take action. But, "we, as regulators, need to get into focus the climate change issue and how it is going to affect a number of the things we do in insurance," Wagner said.

"There is increasing investment exposure of all sectors of the insurance industry, and as impacts of climate change continue, we need to investigate what investments would be good, and which of our previous investments could become more risky," Wagner said.

"[Most] insurance companies are only taking action right now by decreasing coverage and increasing prices," said Andrew Logan, insurance program director at Ceres. He said insurers could have a lot of leverage over their clients. "If companies face rates based on levels of [greenhouse gas] emissions, for example, that could really change how those companies operate," Logan said. "We are pleased to see regulators want to evaluate these issues as a first step to engaging industry."

Wagner expects the task force will meet at the NAIC summer meeting in June. He and his co-chairman, Washington Insurance Commissioner Mike Kreidler, are currently putting the task force together by identifying which regulators want to join.

Northeast wind projects still in works

Although energy companies in Northeastern markets continue to be hesitant to invest in new baseload and peaking generation as they are expecting reserve margin capacity shortages in the next two to three years, renewable energy sources, particularly wind, may still see a surge.

Most of the projects under development are stalled, waiting for a decision from the Federal Energy Regulatory Commission on the proposed capacity market designs in New England and PJM, which would guarantee higher capacity payments for units located in congestion areas on the East Coast.

Aside from the two 600MW coal plants proposed by AEP in Ohio and West Virginia, PJM does not have any other major projects, but could see a boost in renewable energy sources in the future. After completing the Bear Creek Wind Farm and the 7.5MW Jersey-Atlantic Wind project, Community Energy has plans to develop about 2,000MW of wind generation throughout the country with a focus on the PJM market. Two major transmission lines have been proposed by AEP and Allegheny Energy to connect central PJM to the East.

In New York, the first 500MW of the 1,000MW Astoria project will be in operation by May, while most of the wind farms scheduled for 2005 start-up were delayed. The Astoria gas-plant will be mot likely dispatched as a baseload, as gas in New York City is in the money even at night. The 500MW Poletti unit went in operation in December last year, just in time to help meet the new and more stringent independent system operator requirements for capacity, specifying it must be physically located in New York City.

Ethanol shipments surging in US

US ethanol shippers will add 2 billion gallons of production over the next 18 months above the 4 billion produced in 2005 to quench demand by oil companies phasing out the oxygenate MTBE in gasoline.

The shift in gasoline blends is boosting railroad ethanol busi-