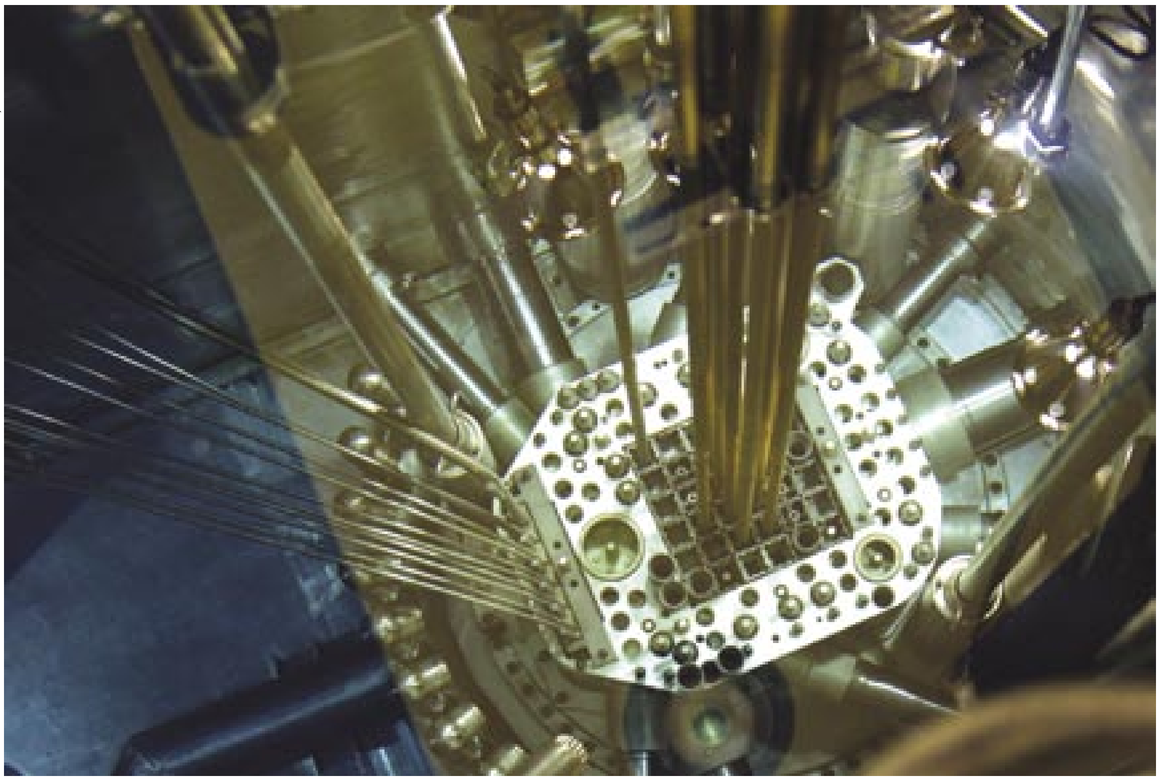

AP PHOTO, JOHN MOORE

A REACTOR core lies submerged in a pool of water. The leadership of the best-known U.S. nuclear insurance pool, the Nuclear Electric Insurance Ltd., will change in June when senior vice president and general counsel David Ripsom takes the helm.

Nuke Duke to Step Aside

Quentin Jackson, president of Nuclear Electric Insurance Ltd., steps aside in June. His departure ushers in a new era as successor David Ripsom takes the helm. *By Gregory DL Morris*

Quentin Jackson may not have led the nation's nuclear power utilities to the promised land, but he certainly has led them through their time in the wilderness.

Jackson is widely credited as the guiding force for the Nuclear Electric Insurance Ltd. and its predecessor Nuclear Mutual Ltd. from the latter's inception in 1973. At that time commercial underwriters were reticent about providing property coverage to nuclear generators, so a group of 15 utilities formed their own pool.

More than 33 years later, in June, Jackson will lift the needle of his long-playing record of leadership and retire, handing off to David Ripsom, currently senior vice president and general counsel. Ripsom will take over a widely respected mutual with a dominant position in the United States and a budding international presence, one that offers property coverage to a limit of $2.75 billion, sustained by assets of $4.6 billion and a surplus of $3.6 billion. Not too shabby for a group that offered initial property coverage to a limit of $100 million to just 15 members for an aggregate annual premium of $7 million—and a retrospective premium of 14 times that.

Frank Garrett, program manager for the Palo Verde Insurance operation of Arizona Public Service, is vice chairman of NEIL's engineering committee, as well as a member of the property standards subcommittee and active on three insurance task forces. "From a financial perspective, NEIL has been a great success," Garrett says. "For each dollar spent on premium, we get the most value back compared to other insurance. The difference is the members' ability to influence the organization. We are not dictated to."

NEIL executives agree. "From Day One we had a technical advisory committee," say Jackson. "In those days utilities did not compete with each other, so everyone was willing to share expertise. Today, that franchise-like market is not so clear-cut, but members are still willing to share best practices and agree on requirements for insurability and operations."

Nuclear power utilities are "a focused industry that for better or worse has a high profile," says Ripsom. "Our members are quite pleased that our overall loss ratio is about 20 percent, and that has allowed us to generate distributions of $3.7 billion over the last 10 years. Our current level of distribution has been in the range of $250 million per year." In a few cases, a member's distribution has been greater than its premium that year.

"Other mutuals have a higher claims frequency, and typically a lower severity, than the catastrophic-type claim that NEIL is designed to insure against," says Marshall Nadel, practice leader for utilities and power at brokerage firm Aon.

"NEIL took advantage of misperceptions in the insurance market regarding the nuclear risk, and it has paid off quite well for its members," Nadel adds. "This is evidenced by the surplus and the distributions. Typically, nuclear property insurers were loading 60 percent to 75 percent of the premium toward the nuclear rate. The likelihood of a nuclear incident of significant magnitude at a member's location is on the order of one in 10,000 years."

"NEIL is a classic case study of how a captive should be run," says John Diacogiannis, corporate risk and insurance supervisor for PPL Corp. in Allentown, Pa. "Sometimes captives grow their own legs, but that is not the case here. There has always been a strong interest and understanding of the concept of mutuality."

That mutuality is manifest in its three advisory committees: engineering, insurance and legal. "The operating committees are the real strength of the organization," says Jeff Triplette, vice president of continuity insurance and security services at Duke Energy, one of the largest nuclear generators in the country. "So there will not be much change with a new president. Part of the strategic plan is that this is not a one-person operation."

David Abstance, manager of corporate insurance for Scana, based in Columbia, S.C., says, "The board of directors comes from industry and are able to make decisions from the industry perspective. They rely on the advisory committees. What we are doing is efficient and effective."

At the height of the first Gulf War, when many other carriers were tightening their war-risk exclusions, NEIL assured its members there would be no change. "We clarified our war risk that we would cover damage except for an actual military attack on the country," says Jackson.

Ripsom adds, "We made our war exclusion very narrow to give our members more comfort."

Similarly, in the wake of the terrorist atrocities of Sept. 11, 2001, NEIL reiterated its pledge to cover two full-limit losses. "Sept. 11 showed us that there can be multiple risks," says Jackson. "It has been part of our mission statement to cover two full-limit losses, so we assured our members of continuing coverage for damage caused by acts of terrorism."

In those type of actions, "NEIL epitomizes the power of a mutual insurer," says Dan McGarvey, managing director of the utility practice at broker Marsh. "It liberalized its war exclusion in the heat of the first Gulf War, provides coverage that is custom crafted to the needs of its members and has never ceased to provide full terrorism coverage for these high-profile facilities. And it offers the potential for annual distributions to its members based upon favorable loss experience. The inspection services

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—Quentin Jackson

contribute to the phenomenal loss history at domestic nuclear plants, and the engineering advisory committee is continually honing property and fire protection standards."

Ripsom says NEIL has several layers of protection to cover that pledge: the surplus, $1 billion in excessive-loss reinsurance placed in the commercial market, tax treatment allowing carryback of losses and, as a last resort, that retrospective premium. That is still in the policy from its earliest days, although now it is only a multiple of 10 rather than 14.

"All three utility mutuals—NEIL, the Association of Electric and Gas Insurances Services (Aegis), and the Energy Insurance Mutual—have accumulated policyholders' surpluses that are substantial," says John McLane, senior vice president and energy practice leader at William Gallagher Associates Insurance Brokers Inc. in Boston. "Somehow they should redeploy that capital to the benefit of the rest of the industry. NEIL has done a good job of serving its members in the nuclear power industry, but not the rest of the industry, fuel processors, research labs and universities."

Although a $3.6 billion surplus might seem like quite a pile, Ripsom says it is "in the comfort level for our low-frequency, high-severity exposures. We are fortunate that our losses have never exceeded premium income." He notes, however, that the largest recent loss was a $180 million turbine failure—not chump change, but certainly not a serious hit to the mutual. Jackson adds that NEIL has also shifted from a passive investment strategy for its assets to a more active portfolio management.

Jackson says the two most immediate needs for new coverage are for builders' risk and to re-examine all coverage and protocols as existing plants extend their lives. "No one has built a plant in a long time, so we have to explore the builders' policies we used to issue," he says. "Also, current plants were mostly built with life expectancies of 40 years. Operators are now planning to extend those to as much as 60 years. We have to be sure we have the insurance and technical expertise to inspect and cover that."

Further out, NEIL is trying to develop insurance to top off decommissioning costs. Every nuclear plant must set aside over its operating life the costs of its own decommissioning. If a plant were to suffer a catastrophic loss, it would still face those full decommissioning costs, but before the full amount could be accumulated.

"That is a work in progress," says Ripsom. "It involves the Nuclear Regulatory Commission, as well as the Internal Revenue Service and state regulators."

The biggest market for expansion is international. To facilitate that, NEIL established a subsidiary in Dublin called Overseas NEIL, which has come to be known as ONEIL Who says engineers, lawyers and accountants have no sense of humor? Despite the vast potential, there are to date only five international members.

"That is indicative of our deliberate pace in this field," says Jackson. "We would not take in any utility, domestic or international, that did not meet our membership standards."

Ripsom adds that there is a chance another generator in the United Kingdom or France may be insured on a nonmember basis this year, but there is nothing imminent.

Except for the change at the top. Jackson joined Marsh & McLennan Cos. in Bermuda as an accountant, and was assigned to the weeks-old NML. When the mutual established its own staff in 1980, he became the first employee and general manager.

Abstance, at Scana, has known Jackson for many years and says, "He has led us through the tough times and has been a strong force for the industry—keeping us on the straight and narrow. David (Ripsom) has been with the organization for a decade and is very easy to work with. NEIL is not waiting to see what is going to happen. We are going to be ready for the next phase."

Garrett, at Palo Verde, concurs. "Dave is a very sharp guy. He is less flamboyant than Quentin Jackson, but has every ability to carry on the successes of the organization. He is in tune with the attention to detail and the rigor and accountability we will need.

"The challenge will be new plants," he says. "We are now setting the groundwork for moving from standards-based to a performance-based, risk-informed basis. Those tools did not exist in the '70s and '80s."

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