

Letter of Insurance Risk Analysis Glanmire Solar Farm

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General Disclosure

The information contained in this letter is general in nature and may not be appropriate for your own objectives, financial situation and needs in making recommendations.

You will need to consider the appropriateness of any information or general advice we give you, having regards to your situation, before acting on our advice or buying any product.

The current insurance market

Australia is currently in a hard market, which is an upward swing in the insurance cycle. Currently there is no sign that this market will soften over the next 12 months.

The current hard market has been caused by the increased severity of natural perils & hazards, which has resulted in large loss ratios and investment losses across the insurance industry.

In Australia the 2022 natural perils & hazards are the costliest catastrophe on record based on insured losses.

Australia is currently facing high inflation which is putting stress on householders and employers because of labour shortages and rising reinsurance cost, which is being passed onto the consumer.

In Australia many insurers are finding it difficult to source reinsurance across many markets, which is causing supply chain issues. Reinsurers are raising their fees to mitigate any losses due to increased claims and the increased likelihood of natural hazards, which are also being passed onto the consumer.

The result is that premiums in Australia have increased, insurance coverage is constrained, and the capacity for insurance products has reduced in the market.

It is anticipated that across the Australian insurance market premiums will rise by at least 10% across 2023.

The Australian Crop Market

The economic value of agriculture within Australia is estimated at \$93 billion. In 2022/2023 the economic value of agriculture to the Bathurst region was \$72 million.

The average cropping farmer in Australia between 2021-2022 had a cash income of \$380,400. However, some cropping farms earned as low as \$57,000. Therefore, there is high motivation for risk mitigation through farm insurance policies.

The current peril crop insurance market provides insurance coverage against natural perils that affect crop production and yield. Many farmers also mitigate risk using farm broadform liability. Farm broadform liability can be extended to include coverage for any incident that affects an adjoining property in the form of excess layers. Extensions and excess layers on insurance policies incur increased premiums.

There are only a couple of insurers who offer peril crop insurance. When insurance coverage is offered it comes with substantial exclusions and limitations such as being limited to winter

crops such as wheat, barley, oats, triticale, lupin and canola. This does not take into account any additional broadform extensions or excess layers required to protect any adjoining property from an incident that start elsewhere.

Current insurers in the market who may consider insuring crop liability insurances with additional extensions are:

- Allianz
- QBE
- Certain underwriters of Lloyds
- IAG

Of these insurers, it is highly unlikely that they would provide insurance terms to insurer against the increased liability posed by an adjoining solar farm because of the hard market. If terms were provided they would be very expensive and cost prohibitive to the running of any adjoining cropping farms.

Unauthorised foreign insurers

In this instance the likely hood of needing to go to an unauthorised foreign insurer is high, due to the current hard market, to secure the additional farm broadform liability.

The process of getting approval by ASIC, APRA and NIBA to use a foreign insurer is a long, time-consuming and expensive process.

The below is a list of Direct Offshore Foreign Insurers (DOFI) who were approved before "1 July 2008, applied to APRA for authorisation under subsection 12(1) of the Insurance Act 1973 and paid the relevant application fee"

As of 2009 the DOFI were:

- Sovereign Insurance Pty Ltd
- Contractors Bonding Limited (has since ceased trading)

It should be noted that, policies bound with an unauthorised foreign insurer does not have the protections of the Insurance Act 1973. Also, APRA cannot guarantee the quality of the insurance services provided by these companies.

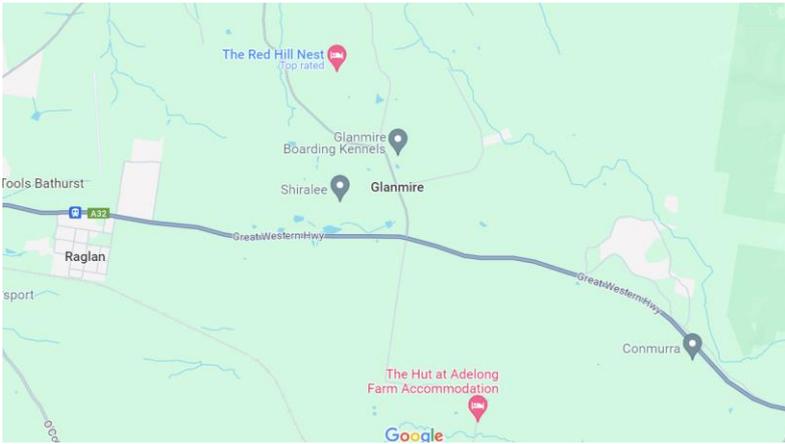
In conclusion, this is not a market that should be entered into lightly, due to the lack of oversight, protection, and insight by APRA. This market should not be used as the only risk mitigation tool for adjoining cropping farms that may impact the daily operations of the proposed solar farm in the event a cropping farm had an incident that disrupted the running of the solar farm.

Location of the Risk

Glanmire NSW is located 13.4km from Bathurst. Glanmire comprises of primary production land used for various agricultural enterprises such as cropping, grain, cattle, sheep, the Glanmire Boarding Kennels, Air BnB's and Wedding Venues.

The proposed future solar farm is located at the Corner of the Great Western Highway and Brewongle Lane. Access for the solar farm will be off Brewongle Lane.

The adjoining neighbours are identified as primary producer land with many of the farming activities comprising of cropping activities.



Risk Assessment

Underwriters and reinsurers use risk frameworks and catastrophe profiles in accordance with ISO 31000 standard.

When we look at the risk frameworks for the cropping farm and the impact it may pose to the proposed solar farm at Glanmire the main risks are:

- Climate change
- Fire
- Spray drift
- Environmental contamination

Aside from the high risk that climate change has on cropping farms, due to the increased risk of drought and loss of productivity.

Fire from crop harvesting or climate change is also a high risk that is associated with cropping farms and a risk that is likely to cause a substantial risk to the proposed solar farm. Fire can also start on a cropping farm due to lightning storms, which can set the crops on fire. Natural perils such as storms are on the rise in Australia. Therefore, there is the potential for this risk to increase.

When we look at fire incidents, we need to consider the damage the farm poses to the adjoining solar farm and the long-term contamination this can cause. If the soil and water table becomes contaminated, then the long term effect on the adjoining crop productivity may decline or the farming enterprise may have to cease trading.

Spray drift may interfere with productivity of the solar panels, by reducing how much energy the panels can produce.

Enclosed are Risk Reports for Farming Cash Grains and Renewable Energy Farm, which contain additional risk and catastrophe details.

Risk Mitigation

A solar farm may impact the productivity of any neighbouring cropping farms and vice versa if alternate risk mitigations other than insurance are not implemented. These risk mitigation measures may be and are not limited to:

- Fire exclusions areas within the solar farm. Eg 30 metre minimum exclusion next to adjoining farmland from the fenceline.

- The Crop Farm also needs an exclusion area as well to the adjoining Solar Farm. This will need to be a minimum of 30 Metres from the fence line.
- Dedicated water tanks with high pressure fire hose attachments and pumps to put out fires
- Additional cleaning and maintenance programs to ensure that spray drift from adjoining cropping farms does not cause long term damage to the solar panels
- A clear daily program of maintenance for any Harvesters and other cropping equipment that must include pre and post harvest checks.
 - This will need to be date, time and signed for each check
 - Blowing down of each machine confirming it is clear of all debris and crop dust
 - All fluid levels are checked in all machines and topped up
 - All filters checked and changed if required.
 - That all fire extinguishers are in place on the machines and ready for use.
 - Water Tankers are full and pumps function ready for use.
 - Crop is free from Rocks and debris that could be struck causing fire
 - Harvesting is not done on total fire ban days.
- The use of any contracted or sub-contracted Harvest operators.
- Both the Farm and Solar farm should be engaging a work health and safety consultant to develop comprehensive risk management and mitigation plans.
- Both the Farm and Solar farm should be engaging in maintenance specialists to manage onsite equipment and operational maintenance.

To accurately consider insuring the risk that the cropping farm proposes to the solar farm the following claims have been identified:

- Supply chain interruptions to the electricity supply
- Business interruptions and claims for loss of income
- Loss of assets on the solar farm
- Connection and reestablishment fees
- Environmental and contamination fines

Insurance required

For the properties that neighbour the potential solar farm it would be fair and reasonable for Broadform liability with excess layers to be taken out considering the contingent liability exposure. When the above losses are considered, the neighbouring crop farms would need to insurer against a potential liability of \$200 Million, to mitigate risk and future claims.

Indicative premiums

If the neighbouring crop farms were to seek quotes for this insurance the indicative premiums may commence or be in excess of \$200,000 plus government charges, underwriting fees and brokers fees. This is dependent on being able to secure formal quotes, which is significantly reduced due to the hard market.

If a formal quote and terms were to be obtained, this insurance would be cost prohibitive to the continued running of any adjoining cropping farm, without considering or taking into account their current outgoings and expenditures.

Conclusions

We would like to draw attention to page 75 of the NGH submission report where the DPE Agricultural commissioners informal response states the following:

“Recommendation 22: Project applicants in the renewable energy sector should cover any additional Public Liability insurance costs incurred by neighbouring landholders as a result of proximity and risk to new energy facilities. In cases where suitable insurance cannot be obtained the applicant should indemnify the neighbour for reasonable risk in relation to typical public liability cover.”

With all of the above taken into account, it is our professional opinion that no neighbouring crop farm could easily secure the broadform liability and its excess layers required to protect them from a claim occurring due to a loss sustained on the solar farm due to their farming activities. Additionally, if terms were to be obtained then the premium payable would be unsustainable for the crop farm to pay.

In conclusion we would recommend following the informal remarks stated by the agricultural commissioner that the renewable energy sector should cover these costs or indemnify the neighbouring properties against the reasonable risks of their farming activities relating to Public Liability. We would recommend extending this statement to be broadform liability rather than limited to Public Liability only.

Resources

Enclosed

PDF Risk Report Farming Cash Grains

PDF Risk Report Renewable Energy Farms

FSG - <https://www.nltinsurance.com.au/wp-content/uploads/2022/11/FSG-NLT-Insurance-Brokers-Pty-Ltd-V009-8-November-2022.pdf>

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<https://www.agriculture.gov.au/abares/research-topics/surveys/cropping>

Our Team and Support

At NLT Insurance Brokers Pty Ltd we have a team of qualified professional brokers who are dedicated to providing you with a great client experience.

You can contact us via the following and we will endeavour to respond to your within 24 hours.

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If you need special assistance

We are committed to supporting people with diverse needs and take into account their specific circumstances. This includes people currently experiencing any vulnerability, for example relating to age, disability or mental or physical health conditions. Please advise us if there is anything we can do to provide you the required level of support. For further information, please refer to our Vulnerable Clients Policy.