

Rolling Stock Insurance Renewal

Glossary

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|--------------------|------|
| Auckland Council | (AC) |
| Auckland Transport | (AT) |

Executive Summary

The insurance cover on the AT owned rail rolling stock (rail carriages and DMUs) is due to expire on 31 October 2012.

The first scheduled delivery of the new EMUs will be arriving at the AT Depot in December 2013. The CAF contract requires them to fully insure all the EMUs until they are fully commissioned.

It is therefore recommended that the current rolling stock insurance cover be renewed for a 12 month period on the same terms and conditions as the existing cover, but that it be reviewed by the end of August 2013 to ensure all new circumstances and risks are taken into account particularly in relation to the EMU fleet and that additional insurance be arranged at that time, if it is required.

Recommendations

It is recommended that the Board:

- i). Receive the report
- ii). Approve the current rolling stock insurance cover being renewed (this may be subject to Board proposed changes to deductibles).

Background

Following the approval by the Finance and Risk Committee insurance policies were renewed in June 2012 for a 12 month period for all but rolling stock cover which is due to expire on 31 October 2012.

The existing rolling stock insurance cover was renewed in October 2011. This follows the initial 12 month renewal that (for assets and responsibility) AT took over from ARTA on 1 November 2010. At the time of the last renewal the premium increased by 21% from that set previously to \$564,706 plus Fire Service Levy and a fee for risk management assessment services and administration of \$30,000. The increases were due to the impact of the Christchurch earthquakes on the NZ insurance market.

A risk assessment matrix by operational area was prepared at the time of the renewal of the majority of the insurance policies in May / June 2012 (Attachment 1). The risks covered, as well as those identified but not covered by insurance, are set out under the "Rail" area. It should be noted that the rolling stock itself is covered while moving and also while stored at the various stabling facilities within the Auckland Rail Network.

Proposal

The current rolling stock insurance detail (Attachment 2) indicates that the maximum insured loss is \$100 million which is slightly more than the current valuation of the existing fleet. Included in the policy is a deductible of \$250,000 for every claim and directors may want to review the level of that deductible.

The existing insurance cover is considered adequate for the current rolling stock fleet but will need to be reviewed once the new EMUs start to arrive and the insurance liability moves from CAF to AT. Current estimates are that the first EMUs will arrive at the AT EMU Depot in September 2013 but will not be handed over to AT until December 2013. CAF are responsible for all insurance on the EMUs while they are under construction and transit and until they are handed over to AT for "acceptance".

The implications of the EMU delivery have been considered including whether this will have a major impact on the risks. It has been concluded that the following will need to be considered:

- 1) The sum insured will need to increase
- 2) Issues and cover for delivery, the transfer of risk and timing will be impacted
- 3) The risk of on-going electrical supply, while not insurable, will need to be assessed

An initial meeting was held with London based JLT rail expert in October 2011 and a complete review of the nature of cover for 2013 will commence in April 2013 to ensure there is adequate time to resolve cover/risk/pricing issues prior to the next renewal required in October 2013.

The current level of insurance is therefore considered adequate at this stage up to the time that the EMU fleet becomes AT's responsibility. Therefore it is proposed that the current insurance cover be renewed for a period of 12 months to 31 October 2013.

JLT (AT's insurance brokers) have submitted a request to their London office (rolling stock insurance has been placed in London for the last few years at a considerable saving to the local insurers) to renew the insurance and are currently waiting for a response.

Attachments

Attachment 1 – Risks and Insurance by Operational Area

Attachment 2 – JLT note on Rolling Stock Insurance Cover and Details

| | | |
|-----------------------------------|---|---|
| WRITTEN BY | Stephen Smith Manager Finance |  |
| RECOMMENDED by | Dave Foster Chief Financial Officer |  |
| APPROVED FOR SUBMISSION by | David Warburton Chief Executive |  |

SCHEDULE OF INSURANCE BY OPERATIONAL AREA

| RISK | OPERATIONAL AREA | | | |
|--|--|---|---|---|
| | Rail | Buildings | Vehicles | Policy |
| Loss of asset | Major assets are Rail stations, including Britomart, and associated "above track" assets. Stations are covered under material damage cover, for the cost of replacing the asset. Track and signals are not owned by AT and so no insurance is in place for these assets. Rolling stock is covered under the rolling stock cover. Note rolling stock is covered while it is moving and while it is stored at stabling facilities. | All buildings are covered by an AC Property policy. This includes all buildings whether in the AC Asset Register or AT's. AC have an excess of \$100k | Cover is under an AC Group policy with a \$10,000 excess | Material Damage. Vehicle. AC Property Contract Works |
| Liability to 3rd parties | Most likely to occur through contract works on Stations. As AT is not the "rail operator" liability for Train operations is principally covered by the operator (Veolia). AT could have some liability through safety of the Rail stations. This is covered through the Public liability policy. | Remote possibility | Liability to 3rd parties where an AT vehicle is involved in any incident where loss occurs. 3rd party liability is limited to \$10m | Public Liability. Motor Vehicle Directors and Officer's Liability |
| Loss of Revenue due to incident or asset loss. | Some risk covered if the loss of revenue occurs through damage to Britomart. A wider loss is not covered. This could occur if there was a major incident which affected services for an extended period. | A number of AT owned or managed buildings are rented. The loss of revenue is covered by the AC Property policy. | Remote possibility | Business Interruption AC Property |
| Increased costs due to incident or asset loss. | Could occur due to loss of a rail station, derailment or damage to the rail line, or natural disaster. Increased costs would be incurred through a requirement to put on buses to ensure PT services continue to be provided. There would be savings in the rail operating costs due to Trains not operating. For an extended outage say 1 month increased costs would depend on the nature of the rail network outage. Cover is in place if the outage is due to Britomart damage but cover is not in place for other incidents such as derailments between stations - although this is an insurable event. In future loss of Electricity would be a potential major risk to rail services. The estimated fixed costs of rail are \$60m per year or \$5m per month. | AT assets in an AC owned building are covered and are subject to lower deductibles than AC assets, however, that may change in the current insurance review following feedback from insurers and due to cost. | Funeral expenses, travel costs and other consequential losses are covered | Business Interruption Vehicle. AC Property AC IT |
| | Not all Rail related events are covered | Most events are covered | Most events are covered | |



12. Rolling Stock

(Royal & Sun Alliance, London)
(Expiry date 31 October 2012)

12.1 Covers physical loss or damage to property belonging to the Insured or for which the Insured is legally responsible or has assumed responsibility prior to the occurrence of any damage.

12.2 Insured

Auckland Transport

KiwiRail Limited (as operator of the locomotives pulling the Carriages)

Veolia Transport Auckland Limited (as operator of the rail service)

Note: Insurers retain subrogation rights against KiwiRail or its subsidiaries for loss or damage to the insured Rolling Stock arising out of KiwiRails' other activities such as freight operations, inter-city and other passenger services, associated organisations such as Tranz Scenic and heritage use.

12.3 Sums Insured

Limit each & every loss: \$100,000,000

12.4 Extensions/Sub-limits

| | |
|--|--------------|
| Alterations | \$100,000 |
| Professional Fees | \$2,500,000 |
| Removal of Debris | \$5,000,000 |
| Additional Vehicles | \$5,000,000 |
| Earthquake or Volcanic Eruption – any one claim/and in the aggregate | \$50,000,000 |
| Inadvertent Errors & Omissions | \$2,500,000 |
| Loss Reduction Expenses | \$2,500,000 |
| Salvage Recovery & Re-siting | \$5,000,000 |
| Loss Reduction Expenses | \$2,500,000 |
| Temporary Repairs & Expediting Costs | \$2,500,000 |
| Claim Preparation Costs | \$100,000 |

12.5 Basis of Settlement

Repairable Damage

Restoration to its former state of serviceability plus cost of dismantling and re-erection for the purpose of repair as well as ordinary freight to and from a repair shop to a condition substantially the same but not better than new limited to the agreed value of the insured item.

Total Loss/Constructive Total Loss
Agreed value of the insured item

12.6 Deductible

\$250,000 each claim

12.7 Operator

Veolia Transport Auckland Ltd

12.8 Use/Area of Operation

Passenger transport within the Auckland metropolitan region

Including travel outside the Auckland region for maintenance and occasional charter/heritage excursions – up to 10 per annum

12.9 Major Exclusions

Asbestos or anything related thereto

Corrosion erosion rust wet or dry rot shrinkage evaporation loss of weight dampness dryness marring scratching vermin or insects

Change in temperature colour flavour texture or finish

Consequential losses of any kind

Liquidated damages, penalties for delay or detention or in connection with guarantees of performance or efficiency or loss of use or any other form of consequential loss

Electronic data distortion

Fraud or dishonesty by the Insured or any director or employee

Disappearance unexplained or inventory shortage misfiling or misplacing of information or shortages due to error or omission

Voluntary parting with title or possession of any Property Insured if induced by any fraudulent scheme trick device or false pretence

Gradual deterioration wear and tear inherent vice latent defect frost

Faulty or defective design or materials

Change in water table level except in respect of subsidence ground heave or landslip

Faulty or defective workmanship operational error omission on the part of the Insured or employees (other than errors or omission by the driver conductor guard or other authorised person carrying out those duties employed by the Insured)

Correction of defects in design or content of any computer records or program

Pressure waves caused by aircraft or other aerial devices travelling at sonic or supersonic speeds

Impact to any property by any waterborne vessel or craft

Electrical or mechanical breakdown or derangement

Pollution or contamination

Explosion of any boiler or pressure vessel

Radioactive or nuclear contamination etc

Normal settlement bedding down of new structures or by settlement or movement of made up ground or by coastal or river erosion

Terrorism

War, civil war etc.