



POLLUTION LIABILITY INSURANCE AGENCY
STRATEGIC PLAN
07-09 BIENNIUM

VISION STATEMENT:

Working to support a public – private partnership that fosters economic and environmental vitality, opportunity and excellence.

MISSION STATEMENT:

The mission of the Pollution Liability Insurance Agency is to make federally mandated pollution liability insurance available and affordable to owners and operators of regulated petroleum underground storage tanks (UST) and heating oil tanks by providing reinsurance services to the insurance industry.

STATUTORY AUTHORITY:

The Pollution Liability Insurance Agency was created in 1989 by the Washington State Legislature. The enabling legislation is contained in:

- **Chapter 70.148 RCW, Underground Petroleum Storage Tanks** – Creates a state financial responsibility (pollution liability insurance) program meeting EPA standards for owners and operators of underground storage tanks.
- **Chapter 70.149 RCW, Heating Oil Pollution Liability Protection Act** – Authorizes PLIA to develop a program that provides pollution liability insurance for home heating oil tanks.
- **Title 374 WAC, Pollution Liability Insurance Agency** – Agency’s rules and operating procedures.

GOAL: To ensure that required pollution liability insurance is available and affordable to owners and operators of regulated petroleum underground storage tanks.

Objective: Contain UST insurance premium costs

Agency Activity: Administer Pollution Liability Reinsurance Agreements

Measure: Pollution liability insurance policy costs

Comment: Target is impacted by tank age, equipment, environmental conditions and insurance rates industry wide.

Strategies:

- Negotiate reinsurance contracts with additional insurance companies to increase market competition.
- Make UST compliance information easily accessible to insurance companies.
- Provide education and outreach to UST owners and operators concerning risk factors that influence insurance costs.

Objective: Increase the number of PLIA reinsured sites

Agency Activity: Pollution Liability Reinsurance

Measure: Number of PLIA reinsured sites

Comments: The target represents an increase in the number of UST sites covered by a PLIA reinsured provider.

Strategies:

- Negotiate reinsurance contracts with additional insurance companies to increase market competition.
- Make UST compliance information easily accessible to insurance companies.
- Provide education and outreach to UST owners and operators concerning risk factors that influence insurance costs.

GOAL: To ensure that pollution liability insurance is available to owners and operators of heating oil tanks.

Objective: Increase the number of insured heating oil tanks

Agency Activity: Administer the heating oil tank program

Measure: Number of insured heating oil tanks

Strategies:

- Develop and implement an improved consumer registration process.
- Publicize availability of fuel oil environmental remediation insurance.

Objective: Contain heating oil claim costs

Agency Activity: Administer heating oil liability insurance

Measure: Average heating oil claim cost

Strategies:

- Develop a model remedy for remediation in compliance with the Model Toxics Control Act.
- Develop and distribute materials on tank leak prevention.

PERFORMANCE ASSESSMENT:

Commercial Petroleum Underground Storage Tanks:

Performance measure one: The end of the third quarter of FY06 showed an average insurance premium of \$1,236, well below the fourth quarter estimate of \$1,384. The estimate of a five percent increase per year has not yet occurred.

Performance measure two: While the number of UST sites is limited, our goal was to set an ambitious target and strive for it. The baseline was 2,322 with a target of 2,547. Our actual of 2,023 is well below the target. A number of factors influence these totals including competition from non-PLIA insurance providers. PLIA will continue to evaluate the numbers to ensure that insurance remains available.

Heating Oil Tanks:

Performance measure one: Increase the number of registered heating oil tanks: As of the end of the third quarter, PLIA has 63,044 heating oil tanks registered statewide. This exceeds the fourth quarter goal of 62,700 and nearly exceeds the biennial goal of 63,200 sites.

Performance measure two: Contain increase in cleanup costs: PLIA has successfully maintained the reduction in average cleanup costs which saw a high of \$17,000 in 2003. The average cleanup cost at the end of the third quarter was \$10,400.

Strategic plan elements for future biennia: PLIA has striven to build consistency, predictability, and stability into all of its operations and relationships with stakeholders and partners. While this strategic plan specifically addresses the 07-09 Biennium, it may be assumed that many of its goals, objectives and strategies will be key elements in the 09-11 and 11-13 Biennia.

APPRAISAL OF EXTERNAL ENVIRONMENT:

Commercial petroleum underground storage tanks: All owners of commercial petroleum USTs in the United States are required to prove financial responsibility for any damage resulting from a UST leak. While most states rely on a state cleanup fund, supported by a continuously applied fuel tax, Washington is one of a small number of states that rely on private insurance to provide financial responsibility for most of the state's commercial USTs (schools, cities and some other public entities meet financial requirements through risk retention groups and/or self insurance). This type of pollution liability insurance is generally available throughout the state because PLIA administers a reinsurance program designed to back up private insurance companies. The system Washington uses promotes private enterprise and continues to save the state's taxpayers millions in fuel taxes. The real challenge to PLIA is the fact that the insurance industry in general is faced with premium increases in virtually every sector of the industry. Underwriting standards have tightened across the board, and UST-pollution liability is no exception.

Heating oil tanks: In addition to potential UST insurance cost increases identified above, there are external factors impacting PLIA's heating oil program. PLIA has over 62,000 homes, schools, and businesses insured from losses associated with the accidental release of heating oil. While these tanks are exempt from the Department of Ecology and EPA regulations, the owner of the tank is not exempt from the liability associated with contamination. Prevention of releases is a priority for PLIA and requires the coordination and cooperation of the oil heat industry. PLIA continues to work with this industry group through the mandated Heating Oil Technical Advisory committee.

Trends in Customer Characteristics:

PLIA's client base remains stable and largely unchanged. PLIA deals with two major customer bases (1) commercial USTs and (2) heating oil tanks. The first group of regulated commercial USTs total 9,800 tanks located at 3,600 sites across the state. Of the 3,600 sites, PLIA reinsurance covers 2,023. The remainder are composed of 620 public utilities, schools, cities or similar facilities, with the balance being self insured or privately insured. One of the reasons that the number of private petroleum dealers remains stable in Washington State, is PLIA's reinsurance treaties with front line insurance companies continue to ensure that this type of coverage is both available and affordable.

PLIA's second customer base is the 62,000 heating oil tank owners and fuel oil dealers across the state. An important component of PLIA's workload during the 07-09 Biennium involves improved and increased communications with both customer bases, which promotes proactive and preventative tank maintenance designed to reduce or avoid tank failure and the resulting costly environmental cleanup.

Major Partners:

PLIA and the Department of Ecology maintain an effective and professional relationship. While PLIA focuses primarily on the insurance and financial responsibility components required of commercial UST sites, Ecology serves as the regulator of those sites. In most cases, owners of commercial and/or

residential properties that have undergone remediation for petroleum contamination have to deal with their insurance provider, PLIA, and Ecology. Continued collaboration and cooperation between all parties remains a priority for PLIA.

PLIA supplies quarterly financial reports to the Department of Revenue and the Office of the Insurance Commissioner. While these reports are routine in nature, they continue to provide required information to all partners. PLIA maintains the same professional relationship with the Department of Licensing, which collects fees from fuel oil dealers.

PLIA also maintains close working relationships with the Washington Oil Marketers Association/Pacific Northwest Oil Heat Council and the Western States Petroleum Association. Each of those private sector associations are represented on the Heating Oil Technical Advisory committee established to assist and advise the agency on its heating oil program. PLIA continues to maintain strong and effective ties with its private and public sector partners.

FINANCIAL HEALTH ASSESSMENT:

PLIA's commercial UST program is funded from the Pollution Liability Insurance Trust Account. The source of funding for commercial UST programs is the Petroleum Products Tax, an excise tax of 0.5 percent on the wholesale value of petroleum on the first introduction into the state. Given normal operating expenditure and claims costs, it is anticipated that this tax will not be re-imposed until approximately 2013.

PLIA's oil heat program is supported by the Oil Heat Insurance Trust Account, funded by a fee of 1.2 cents per gallon on heating oil. Excess costs not covered by this fee are paid from the Pollution Liability Insurance Trust Account.

Neither PLIA nor any of its programs receive any State General Fund revenue. Since 1991, interest earned by the Pollution Liability Insurance Trust Account has been transferred to the State General Fund and has amounted to over \$22,000,000. The agency's financial condition is stable so long as the two trust accounts remain protected.

CAPITAL AND TECHNOLOGY NEEDS:

The current building lease for PLIA's office will expire in fall of 2009. At that time PLIA will assess the value of co-location or moving to a state owned facility. No major technology changes are anticipated.