To:  Oregon Energy Facility Siting Council (EFSC)

From:  Sisily Fleming, Siting Fiscal Analyst

Date:  October 5, 2017

Re:  Request for addition to the Approved Financial Institution List for EFSC Financial Assurance (Action Item) for October 19, 2017 EFSC Meeting

Background

In May 2015 the Council approved a process for the annual approval of bond and letter of credit templates and a pre-approved financial institution list for site certificate holder’s use in obtaining the financial assurance instruments for the retirement of their facilities. The most recent update occurred at the Council meeting April 28, 2017.

Request for Addition

On September 8, 2017 the Department received electronically a Site Certificate Bond from Montague Wind Power Facility, LLC, in the amount of $8,685,000 issued by Liberty Mutual Insurance Company, to satisfy Condition 8, 32, and 33 of the Third Amended Site Certificate for the Montague Wind Power Facility, and to allow construction activities to begin the week of September 11, 2017. However, Liberty Mutual Insurance Company is currently not listed on the Council’s pre-approved list of financial assurance providers, and requires Council approval to be added. It is noted that Safeco Insurance Company, which is part of the Liberty Mutual Insurance Group family, is included on the Council’s pre-approved list.

The Department agreed to temporarily accept the Site Certificate Bond as issued by Liberty Mutual Insurance Company, pending Council consideration at this October meeting.

Department staff based that decisions on an initial evaluation of the credit rating of Liberty Mutual Insurance Company and concluded that the company had the necessary financial strength to act as an issuer of bonds and letters of credit.

Following the initial evaluation, John Hobbs, Project Development Officer from the Department’s Loan Development Division conducted a thorough review of the qualifications of Liberty Mutual Insurance Company and concluded that the company demonstrates sufficient
financial strength to act as issuers for coverage provided by the State of Oregon. A copy of the financial analysis completed by Mr. Hobbs is attached.

**Staff Recommendation**

Staff recommends Council approve Liberty Mutual Insurance Group as a pre-approved financial institution for site certificate holder’s use in obtaining the financial assurance instruments for the retirement of their facilities, and direct staff to add Liberty Mutual Insurance Group to the pre-approved list for 2017.

**Attachments**

- Department’s letter to Montague Wind Power Facility, LLC temporarily accepting the Bond Issued by Liberty Mutual Insurance Company
- Financial analysis by John Hobbs: Liberty Mutual Insurance Company
September 8, 2017

Montague Wind Energy LLC
Brian Wash
1125 NW Couch, Suite 700
Portland, OR 97209

Mr. Walsh,

Thank you for the opportunity to review the final retirement cost estimate and bond template for the Montague Wind Facility. The Department concurs with your calculations and will consider a bond in the amount of $8,685,000 as a sufficient amount in complying with the financial assurance cost estimating standard.

As you are aware, the Energy Facility Siting Council pre-approves a list of financial institutions that have been determined to have the financial strength necessary to act as issuers of the coverage required by the State of Oregon. While Safeco Insurance Company is considered part of the Liberty Mutual Insurance Company family (LMIC), LMIC is not currently on the Council’s list of pre-approved financial institutions, and will require Council approval.

The Department understands that Montague Wind Energy, LLC has already obtained a bond in the amount of $8,685,000 from LMIC and has plans to begin construction activities the week of September 11, 2017. In an effort to reduce delays or setbacks for the construction schedule, the Department will agree to accept the Bond issued by LMIC, until the issue can be considered at the October 2017 Energy Facility Siting Council meeting. Staff have completed an initial evaluation of the credit ratings of LMIC concluding that LMIC possess the financial strength necessary to act as an issuer of financial assurance instruments and will recommend Council approve adding LMIC to the list of pre-approved entities.

However, in the event that Council does not approve LMIC, it will be incumbent on Montague Wind Energy, LLC to provide a new Letter of Credit or Bond issued by a financial institution on the Council’s pre-approved list before resuming construction activities to remain compliant with site certificate conditions.
Please also be aware that the Department must be in receipt of the original financial assurance instrument in order to satisfy Condition 32 of the Third Amended Site Certificate for the Montague Wind Power Facility. Provided Montague submits a bond issued by LMIC, I will have this item added to the Council’s October meeting agenda, and further action will only be required if the Council does not add LMIC to the approved list of financial institutions.

Please feel free to contact me with any questions you may have.

Regards,

Todd R. Cornett
Assistant Director
Energy Facility Siting Council Assurance Coverage Review

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company is an American property and casualty insurance provider. Liberty Mutual Surety, a business unit of Liberty Mutual Insurance, provides surety bonding for U.S. and foreign businesses operating domestically and abroad and is the second largest surety in the U.S. Presumably Liberty Mutual will be providing financial assurance through its surety line of business. Liberty Mutual has been licensed to do business in Oregon since 1934.

CORPORATE BUSINESS ADDRESS: 175 Berkeley Street, Boston, MA 02116
LIBERTY MUTUAL SURETY CLAIMS: Attn: LMS Claims, 1001 4th Ave STE 3800, Seattle, WA 98154

Assurance Review

Upon review of the December 05, 2016 Moody’s credit rating and 2017 A.M. Best credit rating of Liberty Mutual Insurance and the published 2016 combined corporate annual report, I conclude that the company demonstrates financial strength sufficient and necessary to act as an issuer and provide financial assurance required by the Oregon Department of Energy, based on the following:

Moody’s Insurance Financial Strength rating of A2

Obligations rated A(2) are judged to be upper-medium grade and are subject to low credit risk.

A.M. Best Insurance Credit Rating of A “Excellent”

The 2016 combined Liberty Mutual Insurance Company financials reflects a policyholder capital surplus of $19 billion and $751 million in new surety premiums written.

Reviewed by:

John Hobbs, SELP Project Development Officer
10/02/2017

Attachments: Moody’s credit rating, A.M. Best credit rating.
Liberty Mutual Insurance Company

Rating:
- **LONG TERM RATING**: A2, Not on Watch
- **Outlook**: Stable

**Other Debts on Watch?** No

**Moody's Org ID:** 445777
**Market Segment:** Financial Institutions
**Domicile:** UNITED STATES
**Industry:** INSURANCE: PROPERTY & CASUALTY

**Analyst:** Jasper Cooper, CFA

### Rating Class History: Insurance Financial Strength

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<th>Date</th>
<th>Currency</th>
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For credit ratings that are derived exclusively from an existing credit rating of a program, series, category/class of debt, support provider or primary rated entity, or that replace a previously assigned provisional rating at the same rating level, Moody's publishes a rating announcement on that series, category/class of debt or program as a whole, on the support provider or primary rated entity, or on the provisional rating, but often does not publish a specific rating announcement on each subsequent bond or note for which the credit rating is derived from the existing credit rating. Rating announcements are usually press releases classified as Rating Actions on www.moodys.com. Please refer to the Research tab on the issuer/entity page for the rating announcement.
FOR IMMEDIATE RELEASE

OLDWICK - MARCH 08, 2017

A.M. Best has affirmed the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of “a” of the members of Liberty Mutual Insurance Companies (Liberty Mutual), as well as Liberty Life Assurance Company of Boston (Liberty Life) (Dover, NH). These entities are operating subsidiaries of their ultimate parent company, Liberty Mutual Holding Company Inc. (LMHC).

Concurrently, A.M. Best has affirmed the Long-Term ICRs of “bbb” of LMHC and Liberty Mutual Group, Inc. (LMGI), a wholly owned subsidiary of LMHC, as well as the Long-Term Issue Credit Ratings (Long-Term IR) of LMGI. The outlook of these Credit Ratings (ratings) is stable. In addition, A.M. Best has affirmed the Short-Term Issue Credit Rating (Short-Term IR) of AMB-2 of LMGI. All the above named companies are domiciled in Boston, MA, except where specified. (See link below for a detailed listing of the companies and ratings.)

The ratings for Liberty Mutual’s members reflect the group’s solid risk-adjusted capitalization, historically favorable operating performance, dominant market profile and strong brand-name recognition, as the group ranked as the fourth-largest property/casualty insurer in the United States at year-end 2015, based on net premiums written. The ratings further acknowledge the sustainable competitive advantages of the group’s multiple distribution channels, active risk management of its catastrophe exposures, in-house expertise in traditional and alternative investments, and solid product and geographic diversification. Furthermore, A.M. Best views Liberty Mutual’s enterprise risk management program as appropriately comprehensive and sophisticated given the size and complexity of the organization.

Management’s strategic objectives have been focused on improving Liberty Mutual’s financial performance through product, geographic and distribution channel diversification, while maintaining a sustainable competitive advantage in its core business operations. Over the past several years, the achievement of these objectives has been evidenced by the group’s generally improved and less volatile underwriting performance, measured acquisitions and divestitures, and proactive strategies in the marketplace, as well as reinsurance transactions. In addition, Liberty Mutual’s extensive unbundled service capabilities, risk management services and strategic alliances with managed care networks provide a significant competitive advantage and a superior market profile.

The positive rating factors for Liberty Mutual’s members are offset somewhat by the group’s relatively high underwriting leverage measures, above-average higher-risk assets relative to peers (which includes significant affiliated international insurance operations), and less profitable operating results in the earlier years of the most recent five-year period, largely driven by weakened underwriting results, substantial catastrophe losses in 2011 and 2012 and unfavorable prior-year loss reserve development in years 2011 through 2013, which influenced underwriting results to some extent. A.M. Best views the group’s purchase of the adverse development cover for its workers’ compensation and asbestos and environmental liabilities, effective Jan. 1, 2014, as lessening the uncertainty of these liabilities going forward and enhancing the group’s risk-adjusted capitalization.

A.M. Best also anticipates that a continued competitive underwriting environment likely will pressure the group’s operating profitability and the internal generation of surplus in the near term. The group’s above-average higher-risk assets include non-investment grade bonds; common stocks; energy and metals and mining operations; and other Schedule BA investments, including significant affiliate international insurance companies. A.M. Best notes that material impairments and unrealized losses in these potentially more volatile asset classes have negatively impacted results in 2015 and 2016.
The ratings of Liberty Mutual’s members also consider the financial flexibility provided by LMHC, which maintains financial leverage that is in line with its current ratings, as well as additional liquidity through its access to capital markets and lines of credit. Additionally, LMHC benefits from its global operations.

The ratings of Liberty Life recognize its strategic role within LMHC, its strong risk-adjusted capitalization, positive revenue growth trends, positive earnings trend and well-established business profile in the individual and group insurance markets. In addition, the ratings also reflect Liberty Mutual’s explicit support in the form of an unconditional guarantee and recent capital contributions as evidence of the commitment to maintain favorable capital levels at Liberty Life.

Partially offsetting these positive rating factors are the competitive nature of Liberty Life’s individual life and group disability income markets, the impact of the low interest rate environment and its continued losses in its discontinued business lines. A.M. Best believes that despite these challenges, Liberty Life remains well-positioned to support its long-term profitability objectives.

For a complete listing of Liberty Mutual Holding Company Inc. and its subsidiaries’ FSRs, Long-Term ICRs and Long- and Short-Term IRs, please visit Liberty Mutual Holding Company Inc.

This press release relates to Credit Ratings that have been published on A.M. Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see A.M. Best's Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Understanding Best's Credit Ratings.

A.M. Best is the world’s oldest and most authoritative insurance rating and information source.