



Lack of Water Cover

Risk Solutions

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Not enough rain? Does not need to be financial pain.

Since ancient times, mankind has been using hydropower to drive machines. And business has been adversely affected by arid periods ever since. In 1999, for instance, due to a precipitation anomaly caused by the La Niña phenomenon, Chile experienced a drop in normalised net hydropower generation of more than 31% compared to the long-term average – following a fall of more than 20% the year before. From 1999, Portugal underwent five years of a shortfall of over 26%, including a record of more than 62% negative deviation in 2005. What happens to the key figures of your hydro business if next year is freakishly dry?

Today, river-flow rate below expectations has consequences far beyond output and turnover. As power producers are often equipped with a diversified portfolio of energy sources, lack of water is primarily a cost overrun issue. In such cases, more expensive and less eco-friendly alternatives have to be ramped up to ensure a reliable energy supply. In order to mitigate this financial burden, we can help hydropower operators and investors with innovative risk transfer solutions.

Safeguard your profits

Smoothing cost volatility can help to maintain financial key figures stable even in years with record average temperatures and little rain during the summer. With the right risk management tool – we call it the “Lack of Water” product – such poor years for hydropower production are no longer an excuse for a substantial loss of profit. Having this cost stabiliser can bring value to your business in terms of credit rating.

The weather is varied – as are our solutions

Munich Re’s long-standing involvement in weather-related coverage coupled with excellent financial capacity as well as the client’s individual risk profile form the basis for structuring a hedge against insufficient power output.

Whether you prefer an off-the-shelf product or a tailor-made solution, our team of highly experienced specialists can offer a wide range of features to meet clients' needs. These include:

- Plain vanilla option, collar or swap
- Multi-year contract
- Settlement on the basis of a precipitation or discharge index
- Deductible
- Substantial tick size and limit

For example, a cover could pay out a fixed amount per m³/s below 75% of the long-term average of the annual average discharge at a specified river gauge station up to a limit of liability. Let's browse the Munich Re tool box together.

Get access to a smarter way of managing weather risks

You need more detailed information or want to discuss your individual hydro exposure with one of our experts? Please contact us.

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