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*Working to support a public-private partnership that improves economic and environmental vitality, opportunity, and excellence.*

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## 2005 Annual Summary Report

1/11/06

### Agency Mission

The mission of the Washington State Pollution Liability Insurance Agency (PLIA) is to make pollution liability insurance available and affordable to the owners and operators of regulated underground petroleum storage tanks (USTs) and heating oil tanks by offering reinsurance services to the insurance industry.

### Statistics for Calendar Year 2005:

- The average insurance premium per commercial UST site was \$1,236 compared to \$3,100 in 1990.
- PLIA reinsured 2,061 commercial UST sites or 68% of insured tanks in the state.
- PLIA received 2,319 registrations for Heating Oil Pollution Liability Insurance, making the total number of insured homes and businesses over 62,800 statewide.
- PLIA received over 160 claims and paid out over \$1.3 million in claim costs for insured heating oil sites.

### Commercial UST Reinsurance Program

Owners of USTs are required by state and federal law to be financially responsible for corrective action in case of an accidental release of petroleum. There are a variety of ways to demonstrate financial responsibility. However, for most small businesses and local government entities, pollution liability insurance is the only practical alternative.

PLIA makes pollution liability insurance available and affordable to the owners by serving as the reinsurer of insurance policies. As the reinsurer, PLIA assumes part of the risk for each release. In the case of a \$1 million policy, PLIA is responsible for settlements over \$75,000. This assumed risk allows the insurance companies to reduce insurance premiums. The lower premiums have saved businesses and local governments over \$24 million since PLIA began in 1990. In that time, PLIA has contributed over \$12.2 million to clean up contamination at 340 PLIA reinsured sites.

### Heating Oil Pollution Liability Insurance Program

Heating oil tanks used for providing heat are not regulated like commercial petroleum tanks. However, contamination resulting from a leak or spill must be addressed according to the state's cleanup regulations. PLIA has been providing coverage for owners of active heating oil tanks since 1996 with the Heating Oil Pollution Liability Insurance Program. Tank owners register with PLIA to receive up to \$60,000 in pollution liability coverage. Some insurance companies that write homeowners coverage are now requiring homeowners to have PLIA insurance. Since the program started, PLIA has received over 1,100 claims and paid for cleanups at over 680 sites.

In response to increased program costs, PLIA changed the cleanup method used at heating oil sites. This change resulted in a reduction of the average claim cost from \$17,000 in 2003 to \$6,800 in 2005. Revenue to pay for the program is generated by a fee paid annually by heating oil dealers. Legislation introduced by industry associations in 2004 increased the fee from .6 cents per gallon sold to 1.2 cents. The fee increase became effective July 1, 2004.

### Underground Storage Tank Community Assistance Program

In the early 1990s, PLIA provided grants to owners of USTs at remote and rural gas stations to upgrade their tanks. Each grant was limited to \$150,000 of which no more than \$75,000 could be spent on cleanup of contamination. By 1995 USTs at 112 sites were upgraded to meet federal and state standards with

cleanups conducted at 70 sites. The 2005 legislature approved an additional one million dollars for grants. As of January 2006 PLIA has received four grant applications (3 in Okanogan County and 1 in Jefferson County). Two grants have been approved with construction anticipated to start in spring of 2006.

### Financial Assessment

PLIA and its programs are funded from the Pollution Liability Trust Account (Trust Account) and the Heating Oil Pollution Liability Trust Account. PLIA does not receive any State General Fund revenue. The main source of revenue for PLIA is the Petroleum Products Tax (PPT), an excise tax of 0.5 percent on the wholesale value of petroleum on the first introduction into the state. The PPT is only collected when the unrestricted cash balance in the Trust Account falls below \$7.5 million. The tax was not collected between July 1992 and July 2003. The tax was collected from July 2003 through July 2004 and generated \$30.2 million. Since 1991, \$22.7 million in interest earned by the Trust Account has been transferred to the State General Fund.

Revenue for the Heating Oil Pollution Liability Trust Account is generated by the 1.2 cents per gallon fee paid yearly by heating oil dealers. This revenue covers the administrative costs of the program, the insurance premium, and a portion of the cleanup costs. The remaining claim costs are paid out of the Trust Account.

### Calendar Year 2005 Financial Report

| Pollution Liability Trust Account – Fund 544    |                | 2004         |              | 2005       |                     |
|---|----------------|--------------|--------------|------------|---------------------|
| <b>Cash Balance</b>                             |                | (1/1/04)     | \$24,882,448 | (1/1/05)   | \$ 41,975,533       |
| Revenue (tax period 7/1/04-6/30/05)             |                |              | 20,111,990   |            | (2,632)             |
| Transfer to General Fund (7/1/05)               |                |              |              |            | 3,750,000           |
| Administrative Expenses                         |                |              | 541,341*     |            | 260,027             |
| Claim Payments                                  | Commercial UST | \$ 1,506,076 | 2,582,683    | \$ 709,408 | 2,033,352           |
|   | Oil Heat       | 1,076,607    |              | 1,323,944  |                     |
| <b>Cash Balance</b>                             |                | (12/31/04)   | \$41,975,533 | (12/31/05) | \$35,929,522        |
| Loss Reserve(set aside for existing UST claims) |                | \$ 3,129,348 | 11,129,348   | 3,585,385  | 11,585,385          |
| Surplus Reserve (emergency/natural disaster)    |                | 8,000,000    |              | 8,000,000  |                     |
| <b>Unrestricted Cash Balance</b>                |                | (12/31/04)   | \$30,846,185 | (12/31/05) | <b>\$24,244,137</b> |

\*Includes some Oil Heat Program administration costs.

| Heating Oil Liability Trust Account – Fund 545 |  | 2004       |          | 2005     |                 |
|--|--|------------|----------|----------|-----------------|
| <b>Existing Balance</b>                        |  | (1/1/04)   | \$91,524 | (1/1/05) | <b>\$25,877</b> |
| Revenue  |  |            | 374,809  |          | 501,179         |
| Administrative Expenses                        |  |            | 228,891  |          | 395,977         |
| Insurance Premium                              |  |            | 106,446  |          | 108,980         |
| Transferred to Fund 544*                       |  |            | 105,119  |          | 0               |
| <b>Ending Balance</b>                          |  | (12/31/04) | \$25,877 |          | <b>\$22,099</b> |

\*2004 legislation requires that any remaining balance be transferred to the Pollution Liability Insurance Trust Account (less January's expenses).

### Statutory Authority

- **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 heating oil tanks.
- **Title 374 WAC, Pollution Liability Insurance Agency**– Agency's rules and operating procedures.