



## **Power Industry Claims**

There are few events that concentrate the minds of insurers as effectively as a major breakdown at a power station. From the minute that the event occurs until the affected unit comes back on line the clock is relentlessly ticking with losses mounting, often at an alarming rate.

Most power companies are all too aware of how much a breakdown costs and so they take actions as soon as the event happens. Most units run 24 hours per day and so a breakdown is as likely to occur in the middle of the night as during office hours. By the time insurers are notified and adjusters instructed the operation to find out what went wrong and how to fix it might have been underway for some time. Critical decisions with large price tags may have already been made by the time the adjuster starts work on the claim. The adjuster therefore needs to get a grip on the facts rapidly not only to be able to report to Insurers, but to identify where he or she can make a difference on critical issues.

Machinery used in power stations such as gas or steam turbines, generators and transformers are not easily interchangeable. This means that, for repairs to be undertaken quickly and effectively, the power company will usually involve the original equipment supplier to provide spare parts and workshop or site based repairs. In many cases they may have no choice. Consequently, competitive tendering is often not possible to help the adjuster to judge the fairness of prices charged.

When power companies buy power generating equipment they establish relationships with equipment suppliers that last the lifetime of the unit. Apart from the original supply and installation, these suppliers will be involved in inspections, providing technical advice, routine maintenance, providing long term services agreements, spare parts, fine tuning and upgrades to performance as designs are refined. They can also be responsible for sorting out glitches that all too frequently seem to appear when new models are developed. A power company's relationship with its equipment supplier tends therefore to be vital to its success and is of necessity long-standing.



Insurers like to believe that the power companies they insure appreciate the value of having good relationships with them. To the power companies, preserving a good relationship with its major equipment suppliers may be equally, if not more, important. The supplier has the potential to provide enormous help to a power company in difficulty by sourcing alternative machines and components that may not be available elsewhere. Adjusters have to be alert to an insured company's sometimes conflicting interests. Power companies are always looking for good value from equipment suppliers but they may also be reluctant to challenge these suppliers over quicker or cheaper alternatives to what they are being offered. Adjusters may find they are the only ones pressing for a better deal.

Where insurance coverage extends to both Material Damage and Business Interruption, the cheapest and most convenient method of undertaking repairs may not be the best alternative, taking into account the Business Interruption consequences.

Power companies may have valid business reasons for picking a particular repair option or even taking advantage of an unplanned shutdown to change the configuration of their station or upgrade units. Insurers and Adjusters however, are concerned only with a like-for-like replacement/repair and the lowest possible business interruption loss. Putting a value on this when a company has opted for an upgrade with associated delay produces a complicated adjusting task.

It would also be wrong to underestimate the importance to suppliers of income from repair work. It is not a peripheral activity. The repair division of a supplier is expected to make a profit. It will also have to deal with warranty obligations of the company. It is only natural that a supplier looks to minimise their warranty costs by seeking every opportunity to offset these by undertaking chargeable work at the same time. It is part of the adjuster's job to keep cost centres clearly separate so that insurers do not reimburse costs that fall within warranty coverage.

The root cause of a loss can also create difficult issues. When a breakdown occurs there is the potential for the power company's relationships with its insurers and with its suppliers to come under strain. If an insurer suspects that the cause of a breakdown is a fault in a piece of equipment or sub-standard workmanship by the equipment supplier they will



expect the adjusters to look very closely at deflecting the costs of damage toward the equipment supplier. If this is not possible, not then they may need to mount a recovery action. This might be the last thing the power company want to happen.

With possible policy issues and recoveries in mind, Insurers try to avoid making hasty decisions on policy coverage particularly if their decision turns upon the outcome of intricate investigations. Most power company insurers expect investigations to involve technical specialists with expert knowledge of the causes of machinery breakdown in general and the type of machine that has failed in particular. Metallurgists, chemists, combustion engineers and others may need to become involved. Managing investigations is a crucial responsibility of the adjuster. Loss adjusters are expected to identify which technical specialist should undertake the cause investigation and to keep that specialist, once appointed, focussed on issues that are relevant to the policy. Many machinery breakdown policies and their associated Business Interruption coverage are written on an All Risks basis with few exclusions. Losses often are required to be 'accidental' or 'sudden and unforeseen' or 'unintended and unexpected'. Exclusions generally focus on wear and tear and gradual deterioration. For an Insurer to prove that a policy exclusion applies can be complex and requires intricate analysis of physical evidence. Some experts appointed to undertake the analysis sometimes think that, if they can establish that the cause is an ill-considered decision by a power company operator then insurers, their client, are off the hook. Policies however cover damage resulting from operator error. Establishing that poor operator decisions caused a loss can nevertheless be of great interest in cases where they point to damage having occurred due to several separate incidents, each subject to a separate deductible (e.g. repeatedly over-riding alarms during a sequence of starts).

Power generating equipment tends to be very costly, made from specialist materials often operating at the limits of their endurance at high speeds and expected to perform with high precision. Clearances inside gas or steam turbines can make even the slightest deviation catastrophic. Units are normally fitted with an array of sensors so establishing precisely what went wrong from the wreckage can be a substantial piece of detective work. When repairs are undertaken the cost of transporting units to repair workshops sometimes in special heavy lift aircraft at short notice can be extremely high.



Determining the value of a business interruption loss is also complex. Power companies in many countries operate in intricate markets with revenues changing by the minute based on highly variable levels of demand and the fluctuating supply depending upon which units in which stations are available to satisfy that demand. Power companies are paid not only for what they provide to the grid or the market but also for having their units operationally ready and available should they be needed.

Policies are normally subject to time deductibles and insured Business Interruption periods can be reduced when scheduled or re-scheduled maintenance outages are taken into account.

Most power companies have a number of stations operating on different fuels with differing abilities to react quickly to fluctuations in demand. The breakdown of a unit at one location can increase revenue for their others. Companies also have obligations to use some generating units before others. With the help of forensic accounts the adjuster has to pick a way through the labyrinth to establish whether a loss has resulted from a breakdown and if so how much it is worth. At first glance it might seem obvious that a loss of generating capacity would lead to a business interruption loss. This however is far too simplistic a view. Calculating the true value is work for a specialist with a comprehensive understanding of how the power market works and the insured's position within it.

When a generating unit is out of action everyone involved is under pressure to bring the loss to an end as rapidly as possible. To the insured power company the money they obtain from their insurance policy is just one element to consider in a complex and stressful situation. For perfectly sound commercial reasons the power company may have decided to spend considerably more or to take extra time to bring the unit back into operation. Whilst deeply involved in a complex situation, it is important that the adjuster does not lose sight of the fact that it is the policy and its provisions that will govern how much the claim is worth.

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