

Warning: That Utility-Owned Transformer In Back Of Your Facility Could Become Your Worst Nightmare!!

Written By:
PDCM Insurance
3927 University Ave.
Waterloo, IA 50701
319-234-8888
1-800-373-2821
FAX 319-234-7702
PDCM@PDCM.com

In the back yard of virtually every company in America sits a transformer, usually on top of a telephone pole, that supplies electrical power to the entire operation. Like most companies, this transformer is owned by a public utility. In insurance terminology this is called a "non-owned utility exposure." This transformer sits there every day, reliably providing electrical power to production machines, cranes, computers, and overhead lighting to your operation. Below are pictures of typical non-owned transformers.



What most financial executives do not know is that a fire or other type of mechanical breakdown to this critical equipment is not automatically insured under their insurance policies. As a result, while the plant is shut down, waiting for a replacement from the utility company, they are losing revenue and incurring enormous expenses...with no chance of recovering any of these expenses from their insurance carrier. The good news is that there is an easily obtained endorsement that can be added to insure this financial exposure...at very minimal cost.

Could This Happen To You?

ABC, Inc. is a manufacturer of precision metal parts. There are a series of metal cutting machines that are critical to their manufacturing process, each totally dependent upon electrical power.

Early on a Saturday morning, on a very cold winter day, the controller got a call from the plant manager. Apparently the transformer out back had short-circuited and all the electrical power in the plant was off. The plant manager had tried all night to call the utility company who owned the transformer and he had been put on hold several times. After three hours he had finally gotten through to a "live person" who said "they would get to it right away." Unfortunately, because of the snow storm, the plant manager was eventually told that it would be at least a week before they could find and install a replacement transformer. In addition, not only were two of the machines damaged, it now looked like it would be impossible to supply finished product to a key customer on Monday.

John, the controller, and Pete, the plant manager quickly came up with a plan. They both called every supplier of electrical generators in the area. Unfortunately, many were out of stock and others did not have a generator that had the electrical capacity needed to run their plant operation. At least they found a company that could lease the electric generator starting Wednesday. However, it would cost \$15,000 a day plus installation costs. That meant that ABC, Inc. would suffer a loss of income and other expenses trying to satisfy the commitments to their customers until Wednesday. John quickly estimated the claim to easily be over \$75,000!!!

First thing Monday morning John called his insurance agent and reported the claim.

He Was Shocked To Learn That His Claim Would NOT Be Paid!!

Around 11:00 on Monday the insurance adjuster arrived...with good news and bad news. The good news is that John's company had purchased Boiler & Machinery Insurance. According to the adjuster this is the policy that must respond for these damages since their All Risk Property and Business Interruption policy specifically excludes breakdown of equipment.

The bad news is that John's Boiler & Machinery policy only insured property and business interruption losses caused by a breakdown to equipment owned by ABC, Inc., and since the transformer was owned by the utility company it was excluded from coverage. That meant also that there could be no business income or extra expense coverage.

In short, the entire \$75,000 of damages would be uninsured!!!

He Was Even More Upset To Learn That These Expenses Could Have Been Covered - And At Minimal Cost

The necessary endorsement required to fix this costly gap in coverage can be inexpensive - if you purchase it at the time of your insurance renewal. In fact, the cost is usually less than 5% of the boiler & machinery premium. Since the boiler & machinery premium is normally a small part of your overall insurance costs, this adds up to a very small cost indeed. Based upon the information you furnish on an application you may need to complete, we can develop a quote.

How Can We Help

Understanding and properly insuring your business interruption exposures stemming from non-owned utilities takes careful risk management analysis and guidance.

PDCM Insurance has the expertise with your help to identify these important exposures and design the insurance policy that is right for you and your organization.

As the Controller for ABC Company learned the hard way, at the time of loss your insurance policy is more than just a piece of paper. If not designed and monitored properly it can be a lot more costly than your insurance premium.

For more information on our services, or how we can work together to identify issues in our risk management survey, please contact:

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