

DSU due to condenser tubes burst during commissioning

No: DOICxv (EAR)

Type of Insurance:

DUS/Advance Loss of Profit

Description of damaged item:

Condenser tubes

Cause of Loss:

(2) Faulty material or workmanship (?)

(3) Faulty design (?)

Claim Cost

PD 1,5 million GBP

DSU 10 million GBP

Description of Incident and Loss Prevention Measures initiated:

The claim concerned a small to mid-size "merchant" combined cycle gas generating plant conveniently situated to take supplies of gas coming in from North Sea production. At the time of loss, construction was nearly complete. Within the construction period, during commissioning, condenser tubes burst and seawater contamination occurred. The resultant repair required re-tubing within the condensers and chemical cleaning of the system. There was a four month delay.

Outline the interesting or unusual aspects of this claim or problems experienced during settlement:

The proposed start date for trading was not in dispute and the period of business interruption was also clear. There was a 15 day waiting period applicable to the business interruption loss.

Well before construction was complete, the plant's anticipated generating output had been forward traded in the electricity market. The operators were using Salomon Bros. to do their trading, and in truth the whole exercise was more akin to a financial trading venture than a straightforward industrial generating operation. However, the fact that their trading in electricity futures could be supported by actual production was the key to achieving advantageous profit margins.

At the time of the loss, the entire output for the period of business interruption had already been sold in the futures market. However, not many of these contracts had been closed out, and therefore there was still an obligation to supply which because of the casualty could not be met.

This required the traders therefore to close out these contracts, irrespective of movement in the market, and of course with the plant out of commission their bargaining position was also weakened. It was these trading losses which formed the basis of the business interruption claim, rather than a straightforward loss of revenue due to non-production.

The resultant claim was a difficult one to adjust. What would the trading profits otherwise have been but for the casualty? It proved extremely difficult to try to replicate the half hour market so as to provide a comparison between what actually occurred and what might have occurred. No consistent market trends could be discerned because of the volatility of the UK and European market.

The end result was that what could have been potentially a very much larger claim was mitigated by some sophisticated trading, both of the future potential product of the generating plant and of the fuel supply. The claim ultimately was resolved by negotiation, and the exercise of adjusting and finalising the claim probably cost Insurers twice what one would expect a business interruption loss in a more conventional industry to have cost.

Source: Deregulated Electricity Markets: Engineering Insurance BI Exposures related to Construction and Operation of Power generation Plants—IMIA Paper WGP56 (08): Case Study

<https://www.imia.com/wp-content/uploads/2013/05/IMIA-WGP56-08.pdf>