

# ClubPac News

May 2008

## Power Failures

It should come as no surprise when we state that golf clubs are particularly vulnerable to local and regional power failures and/or blackouts. Many golf clubs are located in rural and isolated areas where backup or alternative electrical grids are limited or just not available. Unfortunately power outages in some of these areas can last for days.

What does often come as a surprise to golf clubs is that there is little or no insurance protection against these events. Furthermore, local hydro suppliers are not actually obliged to guarantee the continuous delivery of power and are not liable for any losses resulting from an outage.

Insurance companies have generally taken the position that an interruption of hydro service is not "damage" to insured property, furthermore in the absence of damage to insured property there is no Business Interruption coverage applicable either.

In addition to this general position, virtually ALL commercial insurance policies exclude both damage caused by "... change of temperature..." and damage caused by "... mechanical or electrical breakdown or derangement...."

The Ontario Superior Court recently confirmed (Leo Delucca Enterprises Ltd. & Koolini's Italian Cuisini Inc. vs Lombard General Insurance) that as a result of these exclusions, neither frozen food spoiled as a result of a 2003 power failure, nor the subsequent business interruption loss due to the blackout were covered by the Insureds' ALL RISKS policy.

Even custom designed, high-end, deluxe policies like ClubPac only provide very limited protection for these occurrences. Depending upon the specific circumstances some recovery may be available under various sections of the ClubPac contract.

**Frozen Food Spoilage** – ClubPac like most policies, excludes loss due to "...temperature change..." however the exclusion has been specifically modified to cover spoilage of frozen food as a result of a power outage. You would be able to recover the cost of your lost food stocks.

**Contingent Business Interruption** - ClubPac's basic business interruption coverage includes a provision for "Contingent Business Interruption" protection. C.B.I. coverage allows the club to claim for a business interruption loss (even though no damage has actually occurred at the club) as a result of an insured loss at a "supplier's" premises which results in a business loss to the club.

The ClubPac underwriters have acknowledged that they consider the local hydro authority a supplier of a product / service to the club and therefore coverage might apply.

That said, the policy still requires that the “damage” at the “supplier’s premises” must have been caused by an INSURED PERIL of the ClubPac contract. Therefore a power outage as a result of a fire at the hydro supplier’s facility would qualify, but a general power outage resulting from a breakdown or a grid overload would not. It would be the club’s responsibility to establish and prove the cause.

Furthermore, even if coverage applies, the limit of payment is the lesser of 25% of the Business Interruption coverage on the Club’s policy or \$100,000.

**Civil Authority** - The Business Interruption section of the ClubPac policy also includes a provision for up to four [4] weeks ( most policies include only two [2] ) of coverage in the event that a civil authority bars access to the club premises.

In very rare circumstances it is conceivable that some reimbursement might be available to the club if civil authorities ruled that the power outage posed a threat to public safety and “closed” the area.

**Boiler & Machinery** - Assuming that the club purchased this optional protection, coverage might be available for both a perishable food loss and a subsequent business Interruption loss if the power outage resulted from an ACCIDENT as defined by the boiler & machinery contract.

Coverage is further limited to only accidental damage occurring to hydro equipment located within 300 meters of the club premises. Breakdown of a power station three miles away would not be covered.

In the absence of comprehensive insurance protection for this type of exposure RISK MANAGEMENT and DISASTER RECOVERY must be a priority. Serious consideration needs to be given to backing up refrigeration units and essential facilities with adequate diesel or gasoline driven generators and backing up essential alarm and telephone services with batteries.

Alternative facilities and mutual assistance agreements should be made with other area clubs who might still have power.