

## CONTINGENCY EXPENSE?

### MERCHANT PLANT

- The loss location is a UK CCGT plant insured on an all risks basis for Property Damage and Business Interruption with MIP of 24 months
- A major failure occurred in the slip ring of the generator rotor on 2<sup>nd</sup> September 2010.
- A temporary repair was effected which included machining of the rotor to realign the unit. The temporarily repaired unit was returned to service on 2<sup>nd</sup> October 2010
- The OEM advised that the temporary repair could not be guaranteed to last and that the only proper reinstatement was to replace the rotor and slip ring assembly.
- The lead time for the new assembly is 12 months. The Insured advised that it is their intention to effect the changeout of the temporarily repaired unit with the new assembly at the next scheduled major outage in December 2011. The scheduled outage period will not be exacerbated by the reinstatement works
- Delivery of the new assembly can be accelerated from 12 months to 6 months with an additional payment of £1,000,000. The BI loss measure has been established as having a daily value of £250,000.

### Questions:-

1. This is a contingency cost which may not produce any saving in the event that the temporary repairs hold good until the scheduled outage in December 2011. If however there is a premature failure of the repairs, having the new unit on site could potentially produce a very significant saving in BI. Is this a covered cost?
2. Should Insurers pay the acceleration cost of £1,000,000 to have the new unit on site 6 months ahead of normal delivery to hedge against a premature failure of the temporary repairs? Should the cost be shared with the Insured?



3. Would your consideration of making a contingency payment be affected if the daily BI value was £1,000,000 and the acceleration cost £250,000?
4. What would be your view if the Insured approached you ahead of making any decision on acceleration looking for support in their moment of distress? What would be your view if the Insured advised that they would not be willing to accelerate without your advance commitment?
5. Can you force the Insured to incur the contingency payment for their own account on the grounds that failure to do so would be a failure to mitigate?
6. Should “*Contingency Expense*” be added to standard cover provided by Insurers?