



Current Articles 2005 – May

Stock Spoilage Endorsements

The IBC has recently released advisory wordings for Stock Spoilage to be used with the Commercial Building, Equipment and Stock, either Broad Form or Named Perils. The intent is that if accepted, they will replace the current Consequential Loss Assumption Endorsement.

Both forms will cover spoilage of perishable stock due to temperature or humidity changes (dampness or dryness of atmosphere) directly resulting from physical loss of or damage to the building or equipment **caused by an insured peril**.

Form 4052 (the limited form) will limit coverage to spoilage caused by damage to buildings or equipment **on the insured's premises**. The broader Form 4053 additionally covers spoilage caused by damage to utility equipment in the immediate neighbourhood – up to 1 km. of the insured's premises. However, this form excludes power interruptions arising from damage to **transmission and distribution lines** or from **brownouts or blackouts**. At the discretion of an individual insurer the broader form can be modified to include utility equipment within a larger area up to and including all of Canada and the continental United States.

Neither form is regulated and therefore is subject to editorial changes from individual insurers. It is too early to tell but it would appear that these endorsements may be subject to sub-limits and higher deductibles.

In addition, the broader form will cover defined spoilage as a result of damage to transmission lines and pipes and their connections furnishing "services" **on the premises**. It will also pay for spoilage due to the interruption to the supply of "services" to the "premises" This will be subject to the 1 km. or greater distance as named in the endorsement..

There is a further exclusion removing coverage from partial or total interruption to the supply of "services" arising from (i) loss of or damage **to** any electrical transmission lines or distribution lines, **except for those located on the "premises"**; (ii) lack of sufficient capacity; or (iii) intentional reduction in supply.

In reflecting on these new endorsements, the question is how they would have applied to the blackout of August, 2003. At the time of my article (Nov. 2003) –*When the Lights went out* – the proximate cause of the loss had not been determined. A paper titled the U.S. – Canada Power System Outage Task Force – Washington, D.C. was released in late November 2003. This report has determined that the outage was caused by human error. Three high-voltage lines short circuited and went out of service when they came in contact with trees that were too close to the lines. A control room alarm system wasn't working properly and lastly control room operators were unaware it was not working properly. The loss of the three lines caused electricity to flow to other lines and overloading them. The report also indicated that the operator was using outdated data to support monitoring. Their summation was that the conditions that led to the blackout

included **human error**, poor communications, mechanical breakdown, inadequate training, software glitches and insufficient attention to things ranging from the performance of sophisticated computer modeling systems to simple tree-trimming!

It is my opinion that because the cause of the blackout loss was human error and maintenance problems at the source, the blackout was not caused by an Insured peril and these new endorsements may not have covered the spoilage incurred as a result of the blackout of August 2003

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