Utility Claims Are Different

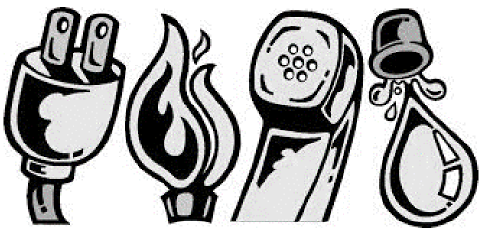
By: Michael R. Koeppel – CPA, ABV, CFF, CTP, CITP & CGMA

July 2022

Industry Overview

Few industries have their assets exposed to the elements, public, and everyday mishaps as prevalently as utility companies do. One downed utility pole or one severed cable could have significant financial implications on your business, and a negative impact on your customers' experience.

A significant number of utility claims are fraudulent – accordingly, our financial forensic expertise works in unison with the quantification of the economic loss.



For instance, the industries with the highest average number of proceedings were health care, manufacturing and energy. On average, in the last year, US companies filed two-and-a- half times the number of lawsuits filed by UK companies. The highest concentration of settlements before court consideration is the energy sector.

Moreover, next to the government – the most "Disliked Industries" in the U.S. per the Gallup Poll are:

- Oil and Gas (drilling and refining)
- Healthcare
- Legal
- Electric and Gas (utilities)
- Pharmaceuticals

Despite the professionalism of insurance claims adjusters and subrogation professionals – too often it behooves all parties to have an independent, accredited business valuator perform the analysis and reporting in quantifying the economic loss associated with a utility company's claim or to defend the utility company's exposure.

An independent, accredited assessment of the economic loss carries more weight when professional performed than either the damaged company or the utility itself. A key factor in utilizing an independent, accredited valuation is the ability to have a specialist who know the nuances of the industry and is not only independent in fact – but in perception.

Economic Loss Determination

Economic loss is a term of art which refers to financial loss and damage suffered by a person which is seen only on a balance sheet and not as physical injury to person or property. There is a fundamental distinction between pure economic loss and consequential economic loss, as pure economic loss occurs independent of any physical damage to the person or property of the victim. The utility claims are in a geometrically more complex environment than non-utility claims. In the United States, Chief Judge Benjamin N. Cardozo of the New York Court of Appeals famously described pure economic loss as "liability in an indeterminate amount, for an indeterminate time, to an indeterminate class.

According to insurance fraud stats from the Property Casualty Insurers Association of America, at least 10% of payouts made by insurers are based on fraudulent claims. Per the FBI – "The insurance industry consists of more than 7,000 companies that collect over $1 trillion in premiums each year. The massive size of the industry contributes significantly to the cost of insurance fraud by providing more opportunities and bigger incentives for committing illegal activities. The total cost of insurance fraud (non-health insurance) is estimated to be more than $40 billion per year. That means Insurance Fraud costs the average U.S. family between $400 and $700 per year in the form of increased premiums."

Numerous studies have illustrated, that in the event of an economic loss "created" by a utility provider – the damaged party seeks a more "generous" retribution than from a non-utility entity. This is due to the perception that the utility company has "deep pockets," this is the cost of doing business and their insurance provider can address the resolution. It is also that many states have their own peculiarities with regards to quantifying the associated economic loss in utility claims.

As for the utility company's perspective – given the number of "inflated claims" and the complexity of quantifying the economic loss – the process is timely and requires significant due diligence before settling the costs attributable to the damages.

Direct & Indirect Losses

Direct and indirect losses distinguish between the immediate and delayed losses because of a disaster. Direct losses refer to the physical or structural impact caused by the disaster such as the destruction of infrastructure caused by the catastrophe. Indirect effects are the subsequent or secondary results of the initial destruction, such as business interruption losses. Generally, these indirect costs are more challenging to quantify and support for the damaged party.

Direct Costs		**Indirect Costs**	
Direct Labor	Highly variable	Rent	Fixed
Raw materials	Highly variable	Lease	Fixed
Production supplies	Highly variable	Utilities	Fixed
Fuel costs	Variable due to different fuel taxes per jurisdiction	Administration costs	Variable

A full consideration of all direct, indirect, and intangible losses would produce much higher loss estimates than the more easily quantified and commonly seen records of direct loss. A full consideration of all direct, indirect, and intangible losses would produce a more accurate quantification as to the "true economic loss."

Damage Claim Services goal is to provide FAIR AND REASONABLE reimbursement on said damage claims. In summary the injured entity should not gain a profit from the damages, nor should they be penalized if the damage was not attributable to them.

Lakelet Advisory Group *has worked with the complex determination of loss associated with the utilities industries from both sides, including Fortune 100 utility companies. We specialize in complex business valuations and economic loss valuations, and how to leverage this to the best outcome for our clients.* ***Contact us*** *today for a complimentary consultation to discuss mutually beneficial claims loss valuations.*

©Lakelet Advisory Group LLC, 2022