



ERIE COUNTY WATER AUTHORITY INTEROFFICE MEMORANDUM

December 13, 2018

To: Terrence D. McCracken, Secretary to the Authority

From: Karen A. Prendergast, Comptroller *KAP*

Subject: Insurance Settlement with AFM

Since the 42" main break at the Sturgeon Point plant in August of 2017 the Risk Manager, Tony Alessi, has been working with our insurance broker, Lawley and our property insurance carrier AFM to determine if the cost of repairing the break would be covered under our policy. At that time, the Authority began to accumulate all of the costs associated with the repair project.

In a letter to Tony dated October 8, 2018 (attached), AFM agreed the break should be covered and began preparing a settlement offer. On December 3, 2018 AFM offered to settle our \$2,365,429 claim for \$1,619,179. Details of the settlement offer are attached. After our \$250,000 deductible, the Authority would receive \$1,369,179. The reduction is due to improvements completed at the time of the pipe repair and a 60% reduction in the amount of overhead we included in the claim. A complete comparison of the claim and the settlement is attached.

The offer has been reviewed by Lawley, Tony Alessi, Russ Stoll, Len Kowalski, Bob Lichtenthal, and me. Everyone concurs that the offer is fair and should be recommended for approval by the Board.

Please include a staff item to discuss the settlement offer and a resolution accepting the offer for the meeting of 12/13/18.



October 8, 2018

Anthony J. Alessi
Claims Representative/Risk Manager
Erie County Water Authority
Via email to: aalessi@ecwa.org

Re: Erie County Water Authority
Sturgeon Point Treatment Plant
722 Sturgeon Point Road
Evans, NY
Claim ID: 468289
Date of Loss: 06-Aug-2017

Dear Mr. Alessi:

This letter follows our meeting on September 18, 2018 and will confirm coverage for the pipe rupture claim at the above captioned location.

Loss Background

On August 6th, Sturgeon Point personnel noticed standing water at ground level outside of the east side of the high service pump building. Since it had not rained recently, the local personnel believed they had a leak in the underground piping beneath this area. Unfortunately, there are several pipes and other items which are located underground in this area. They began excavating and examining all pipes beneath this area. It was determined that a joint of the 42" concrete encased steel outflow pipe ruptured and was leaking water. This 42" pipe is located approximately 20 ft below grade. Therefore, to reach the pipe and to perform repairs, they had to remove and reroute high voltage wiring, remove a large concrete duct bank, remove part of a 48" concrete encased steel pipe, and build shoring to safely work in the excavation area.

Coverage Comments

This confirms our review of Policy No. MK578 with Affiliated FM Insurance Company, with regards to Location No. 10 as scheduled in the Policy. This Policy was effective from 01-July-2017 to 01-July-2018. The covered loss is subject to a \$250,000 combined per occurrence deductible.

As we have discussed at past meetings, in order for coverage to be applied under the AFM Policy, there must be a discrete event of physical loss or damage. For this particular loss, we needed to determine whether the rupture of the pipe joint occurred quickly or over an extended period of time. To determine whether this loss could be considered a discrete event, we attempted to visually inspect the pipe. However, in order to maintain water distribution operations during the time that repairs were being planned, the broken pipe joint was welded and a rubber sleeve was installed on the interior. Because of these temporary measures, we



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determined that it would be extremely difficult to examine the crack surface without removing all the welds and breaking open the pipe again.

Therefore, we looked for an alternative approach to determine whether the rupture of the pipe was a discrete event. You recently provided SCADA data (flow data) at 5-minute intervals for the pipe in question. In reviewing the SCADA data, we noticed that on the date of loss, there was a sharp decrease in the flow through the pipe within a single 5-minute interval. That combined with the employee statements that the water appeared on the ground surface on the date of loss has provided us the necessary confirmation that this pipe break occurred as a discrete event.

Given the above confirmation of a discrete event, coverage is provided for damage to Real and Personal Property of Erie County Water Authority. Valuation for the damaged property is the lesser of the cost to repair or replace the property with materials of like kind and quality. As we discussed at our 9/18 meeting, coverage is also provided for the costs incurred to excavate down and locate the leak and complete temporary repairs. This would include the cost to reroute or cap all pipes and electrical conduits which were above the affected 42" line.

One item that will need to be discussed in more detail is the claimed amount of "Overhead". Thank you for sending independent auditor's report from Drescher & Malecki LLC describing what is included in this overhead amount. From the report, we understand the various components which make up the overhead. However, not all of these components are directly related to the loss and subsequent claim to AFM. Only costs which are directly related to the loss/claim are recoverable under the Policy. For example, the categories of Design, Construction, and New Services could be related to this loss but the categories for Information Services, Controller, Legal, and Secretary (among others) are not. We will need to discuss this further to determine the appropriate amount of overhead to apply to this claim.

Coverage is also provided for Business Interruption on an actual loss sustained basis. It is our understanding that with the temporary repairs that were completed, water distribution was not affected to the point where revenue was lost. If this is incorrect, please let me know as soon as possible so that we can address Business Interruption coverage further.

Any additional coverage comments can be made at a later date should the need arise.

Payment Information

Policy information indicates that any payment made associated with the above loss would be payable to or as directed by **Erie County Water Authority**. There are no other applicable payees listed in the Policy.

Next Steps

Thank you for providing all of the information requested during our meeting. We also received the change orders for Kandey regarding the pipe repair and will review those as soon as possible. Once we have completed our review, we will contact you if we have any additional questions.



In the meantime, please feel free to contact me with any questions.

Sincerely,

Philip Dresden
Senior Adjuster
AFM Cleveland Operations – Claims
Direct Dial: (216) 898-4663
E-Mail: Philip.Dresden@FMGlobal.com

Anthony Alessi

From: Dresden, Philip <Philip.Dresden@fmglobal.com>
Sent: Monday, December 3, 2018 4:44 PM
To: Anthony Alessi
Cc: Tami Stoj; Pat Quinn
Subject: ECWA - Sturgeon Point Pipe Claim - Final Summary/Next Steps CMS:053990826
Attachments: Claim Summary Spreadsheet.xls

Hi Tony,

I wanted to follow up with you on the Sturgeon Point pipe claim. We received Len's breakdown of the Kandey Company invoices from Tami Stoj, thank you for sending those. The goal of this breakdown was to split the costs from the Kandey Company into two buckets: 1) the cost to replace the 22.5° bend and a piece of pipe on each side, and 2) the cost to upgrade all the piping and other equipment from the pump building to the venturi meter. This breakout was requested because the Policy responds to the costs associated with Bucket #1 mentioned above. We have reviewed this breakdown and have a few comments. Overall, it does not appear that the breakdown accurately reflects the additional costs that were incurred to replace the remainder of piping to the venturi meter. In the breakdown provided, Len removed the material cost associated with the new piping. However, the materials are a relatively minor cost compared to the additional labor, materials, and equipment associated with the excavation and installation of the additional piping. To calculate an accurate split, all of the costs associated with procuring and installing this additional pipe must be captured. These costs would include all the labor, materials, and equipment associated with the additional excavation and installation.

As we have previously discussed, the recoverable portion of the work is the cost to replace the 22.5° bend and a piece of pipe on each side. Any costs associated with the replacement of additional piping would not be recoverable. At our last meeting, we both expressed interest in getting this claim completed before the end of the year. In an effort to accomplish this goal, we have developed the attached claim spreadsheet to show our calculation of this split along with the other claimed costs. The attached calculation is based on the actual costs incurred for the temporary repairs. We took these known costs and then indicated whether they would be incurred again, partly incurred again, or not incurred again in the replacement of the 22.5° bend and a piece of pipe on each side. This calculation is included on the "Pipe Split Calculation" tab of the spreadsheet. This was the most reasonable and fair way which we could think of to calculate this amount. We believe that we have been more than fair in the calculation and it accurately reflects the costs that would have been incurred to replace the damaged section of pipe with materials of like kind and quality.

Please review the attached spreadsheet and let me know if you have any questions. Once you review, the following is what I will need from you to process final payment for this claim:

- A letter on Erie County Water Authority letterhead requesting final payment in the amount of \$1,369,179.02 (\$1,619,179.02 from the spreadsheet less the \$250,000 deductible). In this letter, please also address the following:
 - Confirmation that no other insurance applies to this loss other than that provided by AFM Insurance Company.
 - Directions for payment. This can be ACH or Wire transfer banking instructions, or a name and address in which to send a check.

A response within 14 days would be appreciated. This would allow us to have enough time at the end of the year to process the payment around the holiday so you can receive the funds before the end of the year.

Thanks,

Philip K. Dresden | Claims | Senior Adjuster
FM Global | Affiliated FM | 25050 Country Club Blvd | Suite 300 | North Olmsted, OH | 44070 | USA
T: 216-898-4663 | M: 937-602-1279 | E: philip.dresden@fmglobal.com

Expense Line	Claimed Amount	FM Global		Comments
		Agreed Amount		
Payments to Contractors - Other	\$ 14,322.08	\$ 10,523.60		CRM Contracting invoice was determined to be an upgrade.
Water Purchased	\$ 87,626.64	\$ 87,626.64		
Special Services	\$ 1,281.00	\$ 1,281.00		
Overhead	\$ 106,476.33	\$ 42,590.53		40% of claimed cost to account for Project Management, other claim related overhead costs. Not all overhead costs are related to this claim, therefore not all can be considered part of claim.
Payments to Contractors - Rental	\$ 130,923.12	\$ 130,923.12		
Payments to Contractors - Electrical	\$ 167,345.45	\$ 167,345.45		
Material & Supplies	\$ 78,529.16	\$ 78,529.16		
Payments to Cotnractors - Repairs	\$ 406,506.88	\$ 406,506.88		
Stone & Cold Patch	\$ 47,026.38	\$ 47,026.38		
Straight Time Labor	\$ 26,580.06	\$ 26,580.06		
Overtime Labor	\$ 73,684.06	\$ 73,684.06		
Transportation & Equipment	\$ 44,713.59	\$ 44,713.59		
Permanent Repair of Pipe	\$ 1,032,000.00	\$ 427,641.38		See "Pipe Split Calculation" tab for breakdown of agreed cost. Difference is upgrading all piping versus just replacing 22.5 degree bend and one length on each side.
Landscape/Pavement Repairs	\$ 148,414.34	\$ 74,207.17		50/50 split because some of the landscape/pavement repairs is due to the additional pipe replacement and not in the original excavation area.
	\$ 2,365,429.09	\$ 1,619,179.02		

ECWA Personnel		
Last Name	First Name	Title
Advey	William	General Crew Chief
Alessi	Anthony	Claims Representative / Risk Manager
Ball	Dennis	Director of Operations
Bradley	Russell	WTPO Crew Chief
Damstetter	Thomas	Construction Inspector
Haendiges	Michael	Production Engineer
Heneghan	Shannon	Associate Attorney
Klubek	Scott	Pump Mechanic Crew Chief
Kowalski	Leonard	Senior Distribution Engineer
Mogavero	John	Chemist / Chief WTPO
Noyes	Steven	Control Operator Crew Chief
Paluch	Stephen	General Crew Chief
Prendergast	Karen	Comptroller
Spier	Scott	General Crew Chief
Spratz	Nicholas	Construction Inspector
Stoll	Russell	Executive Engineer
Tomaka	Joyce	Assistant Manager of Accounting Services
From Lawley Services, Inc.		
Lawley	Michael	Managing Partner
Powell	Paul	Account Executive
Powell	Steven	Account Executive
Quinn	Patrick	Account Executive
Stoj	Tami	Claim Consultant

