

# Blackout Outrage: Impact of Power Outage on Businesses in Western Queens

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## **Introduction**

For ten days – from July 17, 2006 through July 26, 2006 – large portions of Western Queens lost power or had serious power losses. Con Edison reported that all or nearly all of its customers had power restored by July 26<sup>th</sup>, however, sporadic outages continued to occur. While the impact on residents was appalling, and tens of thousands were left without light, air conditioning and refrigeration during some of the hottest days of the year, many businesses experienced crippling losses. Congresswoman Carolyn Maloney (D-NY) wanted to get a better sense of the impact of the blackout on area business. This report outlines the results of the Congresswoman’s survey of 63 businesses in Western Queens, all of which were impacted by the blackout.

According to the New York State Department of Labor, Western Queens has approximately 6,000 businesses. These businesses employ roughly 89,000 people, making this area the fourth largest business district in New York City. Not all of the businesses lost power, but a significant portion did. Some businesses had their power restored fairly quickly while others were without power for the entire duration of the blackout.

Some businesses were able to acquire generators during the crisis. The Economic Development Corporation reports that it assisted several companies and housing co-ops obtain emergency generators from Con Edison including Silvercup Studios, National Envelope, Playbill, Inc., and two housing co-ops in the NW Queens Boulevard Gardens. They report reaching out to 18 area companies to offer assistance. While some of the larger corporations received assistance, virtually all of the smaller businesses and many of the larger ones did not

## **Results of the Survey**

From July 26<sup>th</sup> through July 28<sup>th</sup>, members of Congresswoman Maloney’s office visited or contacted businesses in Western Queens. The businesses surveyed were without power for an average of more than five days (5.3), although some still did not have power when they were contacted.

The survey revealed that very few businesses received assistance from Con Edison or the City during the crisis. None were offered generators, although a few obtained generators on their own. At least one business reports that they did not obtain generators because they relied on Con Edison’s assurances that the power would be back on shortly.

Most businesses report that their losses exceed \$7,000, which is currently the maximum that Con Edison is willing to reimburse them, and most report that they have additional losses that are not due to spoilage. Very few businesses believe their insurance policies will cover the loss, and those that do worry that the premium increases would swallow any recovery they would receive.

### ***Contact with Con Ed***

Con Edison seems to have no way of identifying which of its customers were without power during this crisis. Con Edison's Chairman, President and Chief Executive Officer Kevin Burke indicated that the only ways the power company could determine where power was out was through phoned in reports and by canvassing neighborhoods.

Con Edison did not advise the public of the need to tell Con Edison where power outages were until days after the blackout began. Mr. Burke held his first press conference on Saturday, July 22<sup>nd</sup>, when some customers had already been without power for six days. At the news conference, for what may have been the first time, Mr. Burke told reporters and elected officials that Con Edison was sending crews out at night to drive around and see whether the lights were on. It is probable that Con Edison was unaware for days that certain of the businesses in our survey were without power.

Unfortunately, Con Edison never made a concerted effort to alert the business community that unless they called Con Edison, Con Edison would not know that their power was out. Further, most of Con Edison's outreach was through the press, rather than business to business. Only one business indicated that they had been contacted by Con Edison, and in that instance it was to notify them that they were on 80% power.

Only about half of the businesses reported having called Con Edison to report that their power was out. 32 of 63 contacted Con Edison or 51% of our survey group. Those that did report power outages to Con Edison indicate that they were given overly optimistic projections about when power would be restored, or no concrete assistance at all. Some, but not all of these businesses, were advised to complete claim forms. One business owner reported that he called every hour for the first 24 hours, and then every day, and never received assistance. Many of the businesses that called Con Edison report being treated rudely, left on hold, ignored or misled.

### ***Contact with the City***

Seven of the businesses surveyed reported calling the City or 311 to report the power outage. None of those surveyed report being given assistance of any kind by the City during the power outage. Some report being referred to Con Edison to seek reimbursement. None of them report being offered generators.

In order to assist businesses in recovering from the power outage, New York City has begun offering businesses low interest loans of up to \$10,000. Unfortunately, for many of these businesses, that is not enough to enable them to go back to business. For example, Cold Stone Creamery lost equipment worth \$40,000, and cannot reopen until the equipment and other raw materials are replaced. The owner estimates that it will cost \$45,000 to replace.

### ***Generators***

Seven businesses (11% of the survey sample) reported that they were able to obtain generators. Most of those businesses that were able to obtain generators were able to minimize their losses; however, one business reported that it had two generators, but that they failed to work. Further, generators are expensive and most small businesses did not have access to them. Many large businesses that did eventually obtain generators had large losses because the generators came too late to prevent spoilage of highly perishable items.

One business – Titan Foods – reported that it would have gotten a generator, but did not in reliance on Con Edison’s assurances that power would return soon. Because they relied on Con Edison’s representations and did not get a generator, their losses were substantially higher. Another business –Chop Stick Restaurant – reported asking for a generator. A third business –Sunset Pizza – reported being told that a generator would be made available, but it never materialized.

### *Losses*

As required by the tariff between Con Edison and the State of New York, Con Edison is covering damages up to a maximum of \$7,000, for actual losses of perishable merchandise spoiled due to lack of refrigeration. Con Edison is not covering (1) losses in excess of \$7,000, (2) losses resulting from damage not due to lack of refrigeration, (3) losses resulting from the inability of businesses to operate without power or (4) damage to equipment as a result of the power outage.

Losses range from a low of nothing (Realty 2000) to a high of \$100,000 (Fresh Start). The size of loss depends on the size and financial strength of the business, the number of days that the business was without power and the nature of the business. The businesses in the survey were without power from a low of less than a day to a high of 9 days. Businesses that rely on refrigeration were hardest hit, but not all of their damages were caused by spoilage. Those that experienced equipment failure as a result of the power outage reported the highest losses. One business owner is concerned that he will lose his entire investment if he cannot get financing to replace equipment damaged by the power outage.

Nearly two-thirds of the businesses had losses that exceeded \$7000. Many of those with lower losses had damages that are not considered reimbursable by Con Edison. In fact, only one business indicated that the \$7,000 offered by Con Edison would cover their losses. Except for that one, all of the businesses surveyed had losses that were not due to spoilage caused by lack of refrigeration.

Many business owners who deal in food report that they are concerned their losses will continue beyond the period of the power outage. They believe that they will have to win back public trust in the freshness of the products they are selling.

Several businesses report that the power outage caused their equipment to short out. For these businesses, it is not enough to have power restored if their equipment is no longer

operational. One business, Cold Stone Creamery, reports that its freezer and air conditioning units shorted out. The owner advises that it will cost roughly \$45,000 to replace the equipment. At present, the owner has been unsuccessful in persuading his insurance company to cover the damage to the equipment and, as stated previously, the City's low interest loans are insufficient to cover the cost.

Finally, there have been sporadic outages following the restoration of power. Many businesses report that they are concerned that any fresh food they purchase will wind up spoiling.

### ***Insurance Coverage***

Most of the companies did not have insurance coverage for the losses they incurred as a result of the blackout.

Only 17 companies (27%) reported that they had insurance that might be applicable to the power outage, and many of those had already been advised that their insurance companies would not cover their damages. Ten businesses (16%) had business interruption insurance. Some reported caps on their coverage that have been exceeded or criteria that made the insurance inapplicable to the current situation. Nine businesses (14%) reported having some other form of insurance<sup>1</sup>; however, some of these business indicated that they did not believe the insurance would cover this situation. One business indicated that the insurance would cover a small portion of his equipment losses.

46 businesses or 73% reported having no insurance to cover the losses resulting from the power outage. Losses for these uninsured businesses range as high as \$70,000 and average \$12,300.

Many of the insured businesses reported having made an attempt to collect from their insurers. Several were told that the policies did not require the insurance company to pay unless Con Edison tells them the cause of the power outage. Some insurance companies are claiming that this is an act of God for which they are not responsible. When asked, Con Edison declined to provide a contact to whom the Congresswoman's office could refer businesses with insurance questions.

Finally, some businesses express concern that if they try to collect from their insurance companies, their insurance companies will increase their premiums to unaffordable levels.

### **How the Survey Was Conducted**

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<sup>1</sup>Two businesses reported having both businesses interruption insurance and other insurance that would cover at least some of their costs.

In order to ascertain the severity of the impact of the power outage, Congresswoman Carolyn B. Maloney (D-NY) conducted a survey of businesses in Western Queens. For three days, beginning on July 26<sup>th</sup> (a time when some businesses were still without power), members of Congresswoman Maloney's staff visited and telephoned local businesses. All of these businesses lost power as a result of the blackout.

The survey consisted of 9 basic questions, plus identifying information. Businesses were asked:

How many days were you without power?

Has your power been fully restored?

Did you call Con Edison to report the power outage? If so, what were you told?

Did you call the City to report the power outage? If so, what were you told?

Do you have a back up generator? Was a generator made available to you?

What is your estimate of monetary loss due to the power outages?

Does the \$7000 compensation that is being provided by Con Edison cover your losses?

Do you have Business Interruption Insurance?

Do you have any other kind of insurance that would cover your losses?

A total of 63 businesses were contacted. An effort was made to reach out to both large and small businesses. Some are sole proprietorships, others are major corporations with scores of employees. A particular effort was made to contact businesses that rely on refrigeration. Accordingly, the survey participants tend to be grocery stores, restaurants, bakeries, flower shops, liquor stores and food distributors or food packers.

Not every business that was contacted was willing to respond to the survey. Many businesses are still cleaning up and assessing their damages. Others are working too hard to restore their businesses to take time out to respond to a survey. Nonetheless, we believe that the survey is a representative sample of businesses in Western Queens.

Businesses were questioned about having business interruption insurance because a representative of Con Edison advised Congresswoman Maloney's office that the tariff between Con Edison and the State of New York) only required Con Edison to reimburse businesses for up to \$7000 worth of losses due to lack of refrigeration. When the representative was asked what was being done for businesses with losses exceeding \$7000, he advised that business interruption insurance should cover the remaining losses.

### **Conclusion**

While some businesses experienced relatively minor losses, a significant number have been devastated by the blackout. For businesses in the food industry with serious losses, Con Edison's \$7,000 reimbursement will not come close to covering their damages. Even those with moderate losses report being hard hit by the power outage. Very few of the businesses in the area report having insurance that would be applicable to this situation, and many of those believe that their insurance companies will deny liability.

There needs to be a better way for Con Edison to identify power outages than anecdotal reports and visual sightings. Because businesses did not know they needed to contact Con Ed, only a small portion did. It is hard to know whether or not Con Edison would or could have restored power more quickly if they had contacted Con Edison; however, once Con Edison recognized a problem, it should have been more pro-active in reaching out to businesses. Finally, generators would have made a significant difference during the power outage. Greater attention should have been given by both Con Edison and the City to making sure that these businesses had access to generators. Nonetheless, generators would not have been a solution to all of the problems – some businesses report that their equipment cannot be powered by generators.