

Tesla: A Serious Potential New Risk

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Tesla: A Serious Potential New Risk

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By: RSA

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

As some of you may know, I have written four previous articles on Tesla (TSLA). In the first three articles, I took no position about the stock, instead using the intellect and analysis of the co-operative board in further analyzing and learning about the prospects of the company and the stock. In the fourth article, I took a short position primarily as a result of coming to the conclusion that the two fires from road debris represented serious ongoing problems for the company and its stock price. I have since profitably covered the short and have no position at this time.

This will be a short article about one serious concern for Tesla that I have not seen mentioned anywhere yet.

Tesla decided not to do a voluntary recall after the fires. I think that was the better of the two bad alternatives available. It's a little better because it saves a little money. It's a lot better because it allows Tesla to continue to take the position that this is not a design flaw. And the fact that Tesla updated the software for the model S to make it ride higher at highway speeds also helps. It supports the argument that if it was a design flaw, it was that design flaw and that has been fully corrected with minimal damage having resulted. The other viewpoint of the design flaw is that the battery pack extends too far forward and is insufficiently armored is not so easily fixed. That would necessitate a recall and a drastic change in design. Whether the same 265 mile range could be achieved with such a design change is an open question. So we have a resolution from Tesla's perspective. Change the car's clearance at highway speeds and don't touch the car physically. That means continue building cars with battery packs under the car extending as far to the front as they do and armored with quarter inch aluminum. Some kind of aluminum - perhaps an alloy.

But I don't think this alternative works either.

The problem is insurance.

I don't mean the insurance that Tesla owners carry to protect against damage to their car. That may go up some because of the fires but, if so, it won't be material. It may not even go up at all since Tesla is warranting the car against fire damage.

I mean Tesla's corporate liability insurance.

The insurance companies use actuaries to assess risk when they have enough data for statistical significance. They do if Tesla is an automobile company selling cars like the other automobile companies which sell cars. But now the insurance companies know that is not so. Tesla sells cars that have large battery packs which can catch fire when they hit some type of road debris, the configurations of which are as yet unknown. Apparently this totals the car. There is not enough data to make any reliable statistical profiles of what else it does.

But now we have a report of a Tesla catching fire while charging in a single family home. This seriously changes Tesla's insurance risk profile. Many Tesla owners charge their cars overnight in their garage. It's convenient and the utility's night-time rates are cheaper.

Now let's try to think like an insurance underwriter.

My job is to assess risk. There is a risk that the fire was the fault of the charger. The Orange County fire department said so. Look here and here. Tesla says absolutely no way. Look at the same reports. Could be either. But if the fire department is right and the charger caused the fire, houses are going to burn down and people are going to die. If the battery pack is mis-designed and misplaced and too lightly armored other bad things are going to happen. But that's not so bad since it will mostly be only a car or two. Not a house with kids in it. The house with kids in it could cost Tesla a whole lot of money. And that's a liability my company will have to pay for.

So Tesla's liability insurance rates are going to go up. Maybe a lot. If there are any more fires in private home garages, Tesla's liability insurance may be canceled. And Tesla will have a hard time finding another insurance company to take on the risk. Once one of them cancels you, the others generally won't talk to you. The exception is Lloyd's of London. But they may charge so much that a model S will have to go way up in price.

The risk is there. The potential is unknown.