

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672

2669 SLC HB 4 (FILE 1) - (FILE 2)

2669

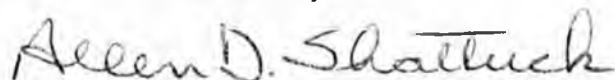
Senator Richard Eliason  
February 23, 1983  
Page Two

Finally, the Committee may be interested in one additional piece of information regarding safety which was not available to us prior to the Committee hearing. We have now been able to review documents from the Department of Labor generated as a result of D.O.S.H. inspections on the various hydro electric projects. A review of the inspections on Tyee Lake, Green Lake, Solomon Gulch, Swan Lake and Terror Lake reveals that the Tyee Lake Project (which is the only project using wrap-up insurance) appears to have the best safety record and is the only one that has had no "serious violations."

If the Committee has any questions or would like us to provide documentation on the various aspects of wrap-up insurance, please let me know. Thank you in advance for your consideration of my comments.

Sincerely,

SHATTUCK & GRUMMETT, INC.



Allen D. Shattuck

ADS/ce

cc: Senator Bob Mulcahy

TESTIMONY ON HOUSE BILL 4  
PRESENTED TO THE SENATE LABOR AND COMMERCE COMMITTEE  
FEBRUARY 23, 1983

My name is Allen Shattuck and I am President of Shattuck & Grummett Insurance here in Juneau. Our firm has contracted to serve as local insurance liaison on the Tye Lake Hydro Project. Our duties include administrative functions and working with the contractors and Pacific Marine Insurance Company on a daily basis. One of our functions is to obtain the payroll reports from the contractors which are then forwarded to Pacific Marine Insurance Company for providing required statistical data to the National Council on Compensation Insurance.

Unfortunately, House Bill 4 has become a very emotional issue. Certain proponents of the legislation have repeated several "myths" on a regular basis to the extent that these "myths" are accepted in some circles as gospel. My purpose here today is to attempt to dispel these myths and provide you with some facts.

Myth #1 - Wrap-up insurance does not allow contractors the benefit and competitive bidding advantage of experience modifications on their workers' compensation coverage which has been earned through good safety practices. These savings would then be passed on to the State.

Fact - Many of the bidders on the major hydro electric projects are newly formed joint ventures. Newly formed joint ventures do not qualify for an experience modification and the experience modification factor which is applied to their premium is therefore 1.00.

Fact - On several of the projects where the low bidder was not a joint venture, specifically Swan Lake and Green Lake, the low bidder has a 1.22 experience modification. In other words, their workers' compensation premiums are surcharged 22% as a result of past adverse loss experience.

Myth #2 - There is no safety incentive to the contractors when wrap-up insurance is utilized since losses on the project do not affect their experience modification.

Fact - The payroll and accident statistics are being reported to the National Council on Compensation Insurance in accordance with their requirements and also as required by the Division of Insurance. The net result is that a poor safety record on the Tye Lake Project will indeed affect their future experience modifications.

Myth #3 - Wrap-up insurance programs do not provide cost savings.

Fact - We have prepared estimates of "manual" insurance premiums for the Tyee Lake Project based on estimated project cost of \$100,000,000 and arrived at estimated premiums of just under \$7.9 million. The "go in" rate on the Tyee Project is 4.25% which using the same project base would develop a premium of \$4.25 million. With the project approximately 40% complete and based on losses to date, we are now projecting that the net ultimate cost of insurance on the Tyee Lake Project will be approximately 3% or \$3,000,000 again using the \$100,000,000 project base. From the above, you can readily see that there is a projected savings of approximately \$4.9 million or nearly 5% of the total project cost.

In closing, I would like to comment that the legislation which you are considering today is a very complex, highly emotional issue. House Bill 4 in its present form is extremely dangerous special interest legislation since it would take away the State's option to use a proven management tool which can result in very substantial savings. You just heard me mention that projected savings on the Tyee Project are approximately 5% of project cost and it becomes readily apparent that on a project the size of Susitna, we could be talking savings of hundreds of millions of dollars. It would therefore appear only prudent that the State at least have the option of considering the use of wrap-up insurance on future projects.



## Alaska Timber Insurance Exchange

111 Stedman St., Suite 201  
Ketchikan, Alaska 99901  
(907) 225-9451

December 15, 1982

Honorable Robert Ziegler  
Alaska State Senator  
307 Bawden Street  
Ketchikan, Alaska 99901

Dear Senator Ziegler:

Is it possible for you to request an audit of the workmen's comp program established by the Alaska Power Authority and the Division of Risk Management, Department of Administration. The reasons for this request are outlined in the following recitations.

Several years ago, the Seattle newspaper reported Marsh McLennan was suing Corroon & Black/Dawson & Company for hiring several members of their staff. The next thing I heard on the subject was in January of this year when I learned that the hydro projects were going to require contractors to carry workmen's comp insurance as part of their contract with the Alaska Power Authority. This program was put together by Corroon & Black/Dawson & Company, Marsh McLennan, the Division of Risk Management, and the Alaska Power Authority. This program, referred to by Representative Terry Martin as the Red Cabbage Bunch, is probably the reason Marsh & McLennan dropped its law suit against Corroon & Black/Dawson & Company.

In 1980 the Alaska Loggers Association started a Reciprocal Insurance Company, the Alaska Timber Insurance Exchange. This company is a workmen's comp carrier and insures only its members who are domiciled in Alaska. It is truly an Alaska owned and operated company.

In September 1981, the Tye Lake Hydro Project was awarded. The contractor named was Southeast Harrison Western of Ketchikan and Denver. This was a small drilling company, Southeast Drilling, owned by Warren Olson of Ketchikan, who had fronted for Harrison

Alaska Timber Insurance Exchange

Senator Robert Ziegler  
December 15, 1982  
Page 2

Western of Denver and thus obtained the prime contract. They continued their membership in ALA, joined our radio network, and were interested in our workmen's comp program until they realized they were required to participate in the Division of Risk Management Program.

Erickson Sky Crane, who did the helicopter logging on the Tyee job, joined Alaska Loggers Association in May 1982, obtained a sub contract from a sub contractor, Spring Valley owned by Chuck Oliver also of Petersburg. To obtain the job the mill employees had to go on Spring Valley's payroll. Spring Valley is not a member of ALA. This resulted in the mill dropping out of the ALA workmen's comp program for the period. In addition the mill provided health and welfare and pension coverage for their employees. The employees lost their pension credits and could have lost the continuity of health and welfare coverage; however, we elected to place them on a self pay basis for the period.

Seley, Inc., has been a member of ALA since he went in business as Seley Float Construction in 1976. This year he obtained a sub contract to do some right-of-way logging on the Tyee Hydro job. At the time he signed the contract, he was unable to obtain any proof of insurance so he elected to retain his coverage through Alaska Timber Insurance Exchange. He paid his premium, we have paid the claims which were submitted, and of course plan to pay any others which may develop. He has now contacted the ATIE and wants a refund of his premium on a large payroll.

It is our opinion, the State Legislators and the Governor would like to know how this happened, how much Corroon Black/Dawson and Company, Marsh McLennan and Company, and all the other companies are making on this State sponsored program.

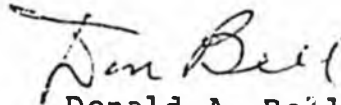
In closing, I am submitting a copy of a letter from the Department of Labor which shows the rate for workmen's comp insurance that the Alaska Power Authority is required to charge. This is considerably higher than the rate of Alaska Timber Insurance

Alaska Timber Insurance Exchange

Senator Robert Ziegler  
December 15, 1982  
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Exchange, which was developed by 25 years of experience in the logger's workmen's comp program. How can the Alaska Power Authority require our members to pay a higher rate as outlined in Don Koch's letter which outlines the established rate by the Department of Labor? If they are not paying the established rate, are they breaking the law?

Sincerely,



Donald A. Bell  
President

ALASKA TIMBER MANAGEMENT CORPORATION

DAB/mjh

cc: Governor Bill Sheffield  
Senator Richard Eliason  
Representative Terry Martin  
ATIE Board of Governors  
ALA Directors  
Mike Thomas  
Dick Mattei

November 15, 1982

Mr. Donald A. Bell  
President  
Alaska Timber Exchange  
Management Corporation  
111 Stedman St., Ste. 201  
Ketchikan, Alaska 99901

Dear Mr. Bell:

Re: Worker's Compensation - Tye  
Hydroelectric Project

Thank you for your letter dated November 3, 1982.

Sorry for the delay in response. I have been out of the office with travel and illness. We do not have a deviation filing from Pacific Marine on the Alaska Power Authority program for the Tye Hydroelectric project. This means that Pacific Marine must adhere to the rules, rates and rating plans of the National Council on Compensation Insurance (NCCI).

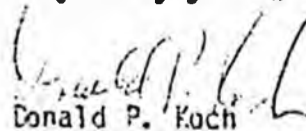
The current NCCI rate for Code 2702 is \$39.22 per \$100.00 of payroll. Aside from the Alaska Timber Exchange, only two carriers have specifically filed logging deviations. Alaska National Insurance Company has filed a 40% reduction and Industrial Indemnity of Alaska has filed a 23.75% reduction. The carriers may view these particular filings as obsolete in view of the filing dates but no withdrawal has been filed.

Three carriers have recently filed an across the board downward rate deviation of 15% which will also apply to Classification Code 2702 on policies written after the effective date. This gives these companies an effective rate for 2702 of \$33.34 per \$100.00 of payroll after the effective date noted below. These companies are:

Argonaut Insurance Company, effective August 15, 1982.  
Pacific Marine Insurance Company, effective October 15, 1982.  
Motor Vehicle Insurance Company, effective November 6, 1982.

The fact that Pacific Marine has filed an across the board deviation would not impact the hydroelectric project rates until the policies are renewed. They must continue to use the National Council rate on those policies issued before the effective date of their new deviation. If you have any additional questions, please let me know.

Very truly yours,

  
Donald P. Koch

Chief of Market Surveillance

mattei-webber, inc.

November 23, 1982

Mr. Donald A. Bell, President  
Alaska Timber Insurance Exchange  
111 Stedman Street  
Ketchikan, Alaska 99901

Re: Tyee Hydroelectric Project  
Workers' Compensation

Dear Don:

This is in response to your request of November 19, 1982 regarding 2702 rates.

What Don Koch is saying is that Pacific Marine must charge a rate of \$39.22 for classification 2702 on all policies issued prior to October 15, 1982, and \$33.34 on all policies that are either effective or renew after October 15, 1982.

If a policy was issued prior to October 15, 1982, the full NCCI rate of \$39.22 must apply until that policy's expiration.

Since Pacific Marine's policy for Tyee has an effective date prior to October 15, 1982, they must use the rate of \$39.22 until the policy(ies) expire(s).

Also, Pacific Marine must charge full rates on all other classifications on this policy, until it renews.

The ATIE's 2702 rate for the same period is \$20.14 or about 49% off of the full rate and 15% off full rates on all other classifications.

Regards,

Richard F. Mattei

PACIFIC MARINE

PAC MAR

RFM/sek

ATIE  
ALASKA Timber Insurance Exchange

CODE  
2702

BEFORE  
10-15-82

39.22

20.14

AFTER  
10-15-82

33.34

20.14

AFTER  
1-1-83

\$18.10



## Alaska Timber Insurance Exchange

111 Stedman St., Suite 201  
Ketchikan, Alaska 99901  
(907) 225-9451

February 1, 1983

Honorable Bill Sheffield  
Governor State of Alaska  
Pouch A State Capitol Building  
Juneau, Alaska 99811

Dear Governor Sheffield:

It is reported that House Bill Number 4, an act relating to insurance requirements in State construction projects, is approved by the House Labor and Commerce Committee and is expected to pass the House without much difficulty.

You are requested to put the Administration's stamp of approval on this legislation and to aid in its passage by the Alaska State Senate.

This will take the Division of Risk Management and Alaska Power Authority out of the private insurance business.

Sincerely,

Donald A. Beil  
President

ALASKA TIMBER MANAGEMENT CORPORATION

DAB/mjh

cc: Directors of ALA  
Board of Governors, ATIE  
Senator Bob Ziegler  
Senator Dick Eliason  
Al Anderson

Sithe 12-30-82

Dear Dick:

Enclosed are the two pieces I told you about this morning on phone. One is copy of speech by Rep. Terry Martin & other is copy of letter Don Koch to Don Bell. The penciled in rates at top of Koch's letter is ATIE rates for members 82. ATIE will pay back in Feb, refunds on \$ ~~pay~~ paid in, between 19 & 21%, using 20%. The true cost to members is the RA rate. I object for two reasons, one, this group is pulling some of ATIE members out of AHHA <sup>see Bell to Fiegley letter</sup> & the people of Alaska <sup>are</sup> ~~to~~ getting screwed over by the Red Cabbage Bunch.

Don Brown

# STATE OF ALASKA

JAY S. HARRISON, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

FOUCH D  
JUNEAU, ALASKA 99811  
PHONE: 465-2515

November 15, 1982

Mr. Donald A. Bell  
President  
Alaska Timber Exchange  
Management Corporation  
181 S. Edman St., Ste. 201  
Fairbanks, Alaska 99901

2702 Logging	20.30	16.24	20%
2703 Mechanic	6.60	5.28	
5507 Road Const	11.74	9.39	
7047 Workboat	17.88	14.30	
8810 Clerical	.71		
9078			
2710 Sawmill	14.93	11.94	
7421 Aircraft	13.62	10.89	

Dear Mr. Bell:

Re: Worker's Compensation - Tye  
Hydroelectric Project

Thank you for your letter dated November 3, 1982.

Sorry for the delay in response. I have been out of the office with travel and illness. We do not have a deviation filing from Pacific Marine on the Alaska Power Authority program for the Tye Hydroelectric project. This means that Pacific Marine must adhere to the rules, rates and rating plans of the National Council on Compensation Insurance (NCCI).

11/15/82 20.30

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Three carriers have recently filed an across the board downward rate deviation of 15% which will also apply to Classification Code 2702 on policies written after the effective date. This gives these companies an effective rate for 2702 of \$33.34 per \$100.00 of payroll after the effective date noted below. These companies are:

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other rates also

Very truly yours,

Donald P. Koch  
Chief of Market Surveillance

May 4, 1982

Juneau Republican Club Luncheon

Speech by Representative Terry Martin

*very important when  
considering CSSB 831*

*File: APA/Risk Mgt  
Audit*

2ND ANNUAL "WHO'S KIDDING WHOM" AWARD

Good afternoon and welcome to the second annual "Who's kidding whom?" award banquet. Last year when I was privileged to speak before you, I, in jest, suggested a certain unit of the University of Alaska should receive a special award for their imagination and innovation by increasing their "student head count" so as to justify larger requested appropriations. After studying the situation in more detail it became obvious that they truly deserved special recognition. Consequently, two months later the Tanana Valley Community College became the first recipient of the "Who's Kidding Whom?" award.

This year there are many deserving State Entities. It is really hard to single one out for the reward that so many rightly deserve. During the current session, friends and acquaintances have suggested various government agencies, special interest groups and even private entities that, surely, should, at least, be nominated for this coveted award. Before announcing the finalists, it is my pleasure to make a special "Charley Brown Wishy-Washy Commemorative" to the Silver Anniversary Commission for their definite action, rescind action, action, rescind action, Who's on first?, handling of the Alaska 1984 Contract controversy.

The nominees for the coveted and cherished "Who's Kidding Whom?" award are: (1) The Department of Transportation and Public Facilities for its great sensitivity, common sense, and concern for the morale and well being of their loyal employees by dumping 51 of them as a publicity stunt during the budget process. (2) The House Minority ranks high for their consistent and perpetual inconsistency. Even though they work diligently to stall and delay every piece of legislation. They condemn the Majority for both not doing anything and for actually doing something over their parliamentary tricks.

(3) Another group that received a nomination are those individuals who most often seem to misuse the good intention of our workers compensation program. This group is recognizable as being male, age 21-26, less than 4 months on the job and 44% of whom claim lower back pain. (4) Alaska 84 birthday party planners rate high for this award. Need I say more? And number (5). How about LaTouche Island for its progress in ~~meeting~~ the basic needs of its residents?

This year's winner is--- A surprise entry from the private sector--THE RED CABBAGE BUNCH and their front organizations, the Alaska Power Authority and the Division of Risk Management, Department of Administration, State of Alaska. Every agency, entity or organization should take note of them. The Seattle based Red Cabbage Bunch and their affiliated Alaskan group, The Corsair Connection, have secured the absolute greatest, most magnificent, stupendous sole source, sweetheart contract of all time. A conservative estimate of the worth of this little sole source gem is \$700,000,000. Peanuts, you say. I don't, but the Red Cabbage Bunch does, because their plans for expanding this small contract make the \$700,000,000 insignificant when compared to what they have planned for additions, modifications and extensions to their little sweetheart.

Where, I'm sure you're wondering, could anyone find \$700,000,000 or so just lying around begging to be wrapped up into a nice little sole source contract? THAT'S IT! With the true inspiration and foresight reminiscent of the great robber barons of yesteryear they created a quasi-"wrap up" insurance program for all construction administered by the Alaska Power Authority. Do you have any idea how much the insurance premiums for the Contractors building the 8 billion or so dollars of hydro-electric projects comes to? I don't know for sure, but it is a megabuck or two. Wouldn't you love to have a monopoly which would guarantee you every cent of those premiums? I would, but, alas, we're too late. The Red Cabbage Bunch gobbled it all up.

So what if construction Contractors don't like it. Does it really matter that no public interest is being served by this alleged "wrap

up"? Who cares if the cost of the electricity goes up substantially? How about the insurance companies who would have provided real insurance at a much lower cost? Crybabies, that's all they are. If they had any imagination at all they would have joined the bunch, at the State of Alaska's expense, to plan all of this at the Red Cabbage Restuarant, Marion at Western, in downtown Seattle. Incredible?

You disbelieve? Let me quote from an internal document of the group, dated December 14, 1981, so you can understand a little of what is going on. I would appreciate if all of the previous nominees would take careful notes if they wish to mount a serious challenge in the future. QUOTE "Last month our brokerage appointment for the State of Alaska was extended...to the Alaska Power Authority. This newly formed division of the state is responsible for \$8,000,000,000 of hydro-electric construction during the next ten years." "We...have been notified that the existing arrangement will continue for some time, as the state perceives this arrangement as politically advantageous as well as workable professionally." Now it starts getting interesting. "We have already secured one contract to review documents, and are faced with the possibility of billing another \$100,000 on a fee basis for a preliminary consultation on this program."

Anybody want to bet who they recommended and what they recommended for a program? QUOTE "...the State of Alaska is particularly sensitive to the issue of using "outside firms." "...we are still viewed, or should I perhaps say suspected, as being "outsiders." In arranging this construction program the legislature has specifically instructed the Alaska Power Authority that preference be given to Alaskan firms. We have therefore been instructed to utilize Alaskan insurance companies with whom we have negotiated a fronting arrangement which we back by reinsurance." For those of you unfamiliar with this type of arrangement, it merely means, what you give with the right hand, you quickly take back with the left. To further quote; "We have also been asked to develop a presence in Alaska under the trade style of APCOP, an acronym for the Alaska Power Construction Project. THE INTENT OF THIS TRADE NAME AND ALASKA PRESENCE IS TO ALLOW THE ALASKA POWER AUTHORITY TO

PROMOTE THE PROGRAM AS AN ALASKA VENTURE." Doesn't it warm the cockles of your heart to know the Alaska Power Authority goes to such great lengths and such pains to deceive you while they disregard the law?

Actually, as the truth unfolds and is beginning to be known, the Alaska Power Authority is nothing more than a dupe of the Risk Management Division of the Department of Administration. Risk Management has arranged for this wonderful scam to be foisted on the unsuspecting public. Of course, the public would not be deceived by such an obvious ruse and the sheer magnitude of the scheme would, obviously, bring those stalwart guardians of the public, our Alaska press corps, to expose this wonderful "wrap up" to the full light of day. They would never be taken in by such a clumsy scheme and obvious "trade style."

Unfortunately, they have. Allow me to digress a moment for a special presentation to the Alaska press corps and all of its investigative reporters. For excellence, perseverance and in-depth investigative reporting, the Alaska press corps is hereby awarded the first annual "We've Been Had" award. To demonstrate how much they truly deserve this award, let me quote a few headlines and articles. QUOTE, from The Frontiersman, Wasilla, November 19, 1981; "ALASKA FIRMS TO HANDLE HYDRO PROJECT INSURANCE, RISK SERVICES". The Alaska Business Newsletter of November 20, 1981; "ALASKAN COMPANIES WILL PROVIDE HYDRO PROJECT'S INSURANCE." Alaska from the Inside, November 18, 1981; "NEW INSURANCE PROGRAM TO PROVIDE IN-STATE SERVICES TO HYDRO PROJECTS." Not only does the list go on and on, the articles themselves would appear to have been written by the Public Relations firm hired by "the Alaska Power Authority to promote the program as an Alaska venture."

In conclusion, to say that this group broke a few laws, circumvented numerous rules and/or regulations, completely ignored competitive bidding procedures would be an understatement. It is also accurate to include the fact that they made a mockery out of Alaska hire and preference laws, destroyed the ability of Alaskan Contractors to use their good experience ratings in bidding on these projects, almost

guaranteed that all of the contracts would be given to outside companies, which, unfortunately, means that very few Alaskans would ever be allowed to work on one of the projects. All I can say is that the Executive Director of Risk Management and the Red Cabbage Bunch of Seattle, Washington have really gone to extremes to win the 2nd annual "who's Kidding Whom" award.

shattuck & grummett, inc.

ESTABLISHED 1894

insurance · bonds

301 SEWARD STREET

JUNEAU, ALASKA 99801

CURTIS G. SHATTUCK

MELN D. SHATTUCK

RONALD R. SHATTUCK, C.E.C.U.

MICHAEL A. GRUMMETT

ROBERT GRUMMETT

NANCY L. HUNTS

May 4, 1983

Shelia Peterson  
Administrative Aide  
c/o Senator Richard Elison  
Chairman  
Senate Labor & Commerce Committee  
Pouch V  
Juneau, Alaska 99811

Re: House Bill 4

Dear Shelia:

Since I will be out of town during the hearings on May 10 on the captioned bill, I would appreciate your reading this letter into the record.

I would like to suggest that the committee delay action on this bill until the next session of the legislature since the Tye Lake Project should be completed by then and the final wrap-up insurance costs can therefore be determined fairly accurately. There are not any projects which will be commencing during the interim that would be logical candidates for a wrap-up insurance program so there does not appear to be any urgency for passage of House Bill 4.

The key question as pertains to House Bill 4 is whether or not wrap-up insurance programs can in fact provide a savings for the State of Alaska. You will probably recall that my testimony before the committee on February 22 indicated that we had prepared estimates of "conventional" insurance premiums for the Tye Lake Project based on estimated project cost of \$100,000,000 and arrived at estimated

Shelia Peterson  
May 4, 1983  
Page Two

premiums of just under 7.9 million dollars. The "go in" rate on the Tye Project for the wrap-up insurance is 4.25% which using the same project cost would develop a premium of 4.25 million dollars. The project is now over 50% complete and based on losses to date, we are currently projecting that the net ultimate cost of insurance on the Tye Lake wrap-up project will be substantially less than the 4.25% go in rate and that a substantial return will be made to the Alaska Power Authority. In other words, it appears at this time that in fact the wrap-up insurance will produce a substantial savings.

It therefore seems prudent to delay any decision that would eliminate the States option to use wrap-up insurance techniques until the next session when the costs of the Tye Program can be more accurately determined and a factual comparison made as to the potential savings which can be obtained from the wrap-up concept.

Also, as per the earlier request of Senator Mulcahy, attached is a copy of my February 22 testimony for your reference.

Thank you in advance for your consideration of my comments.

Sincerely,

SHATTUCK & GRUMMETT, INC.



Allen D. Shattuck

ADS/ce

TESTIMONY ON HOUSE BILL 4  
PRESENTED TO THE SENATE LABOR AND COMMERCE COMMITTEE  
FEBRUARY 23, 1983

My name is Allen Shattuck and I am President of Shattuck & Grummett Insurance here in Juneau. Our firm has contracted to serve as local insurance liaison on the Tye Lake Hydro Project. Our duties include administrative functions and working with the contractors and Pacific Marine Insurance Company on a daily basis. One of our functions is to obtain the payroll reports from the contractors which are then forwarded to Pacific Marine Insurance Company for providing required statistical data to the National Council on Compensation Insurance.

Unfortunately, House Bill 4 has become a very emotional issue. Certain proponents of the legislation have repeated several "myths" on a regular basis to the extent that these "myths" are accepted in some circles as gospel. My purpose here today is to attempt to dispel these myths and provide you with some facts.

Myth #1 - Wrap-up insurance does not allow contractors the benefit and competitive bidding advantage of experience modifications on their workers' compensation coverage which has been earned through good safety practices. These savings would then be passed on to the State.

Fact - Many of the bidders on the major hydro electric projects are newly formed joint ventures. Newly formed joint ventures do not qualify for an experience modification and the experience modification factor which is applied to their premium is therefore 1.00.

Fact - On several of the projects where the low bidder was not a joint venture, specifically Swan Lake and Green Lake, the low bidder has a 1.22 experience modification. In other words, their workers' compensation premiums are surcharged 22% as a result of past adverse loss experience.

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Fact - The payroll and accident statistics are being reported to the National Council on Compensation Insurance in accordance with their requirements and also as required by the Division of Insurance. The net result is that a poor safety record on the Tye Lake Project will indeed affect their future experience modifications.

Myth #3 - Wrap-up insurance programs do not provide cost savings.

Fact - We have prepared estimates of "manual" insurance premiums for the Tye Lake Project based on estimated project cost of \$100,000,000 and arrived at estimated premiums of just under \$7.9 million. The "go in" rate on the Tye Project is 4.25% which using the same project base would develop a premium of \$4.25 million. With the project approximately 40% complete and based on losses to date, we are now projecting that the net ultimate cost of insurance on the Tye Lake Project will be approximately 3% or \$3,000,000 again using the \$100,000,000 project base. From the above, you can readily see that there is a projected savings of approximately \$4.9 million or nearly 5% of the total project cost.

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## Alaska Timber Insurance Exchange

111 Stedman St., Suite 201  
Ketchikan, Alaska 99901  
(907) 225-9451

February 16, 1983

Honorable Richard Eliason  
Alaska State Senator  
Pouch V State Capitol Building  
Juneau, Alaska 99811

Dear Senator Eliason:

Thank you for inviting representatives of Alaska Loggers Association and Alaska Timber Insurance Exchange to express their opinions on House Bill #4 or similar legislation.

Background information on this subject, as we understand it, is the Alaska Power Authority, Division of Risk Management, Carroon & Black/Dawson and Company, and Marsh McLennan put together this package program reportedly to save the State money on the hydro power projects. It is interesting to note that prior to this alliance the Seattle newspaper reported that Carroon & Black/Dawson & Company was being sued by Marsh & McLennan because they had hired several key employees from Marsh McLennan who in turn brought customer information with them. The suit was dropped about the time this deal was put together.

In 1980 the Alaska Loggers Association started a reciprocal insurance company, the Alaska Timber Insurance Exchange. This company is a workmen's comp carrier and insures only its members who are domiciled in Alaska. It is truly an Alaska owned and operated company.

In September 1981, the Tye Lake Hydro Project was awarded. The contractor named was Southeast Harrison Western of Ketchikan and Denver. This was a small drilling company, Southeast Drilling, owned by Warren Olson of Ketchikan, who had fronted for Harrison Western of Denver and thus obtained the prime contract. They continued their membership in ALA, joined our radio network, and were interested in our workmen's comp program until they realized they were required to participate in the Division of Risk Management Program.

## Alaska Timber Insurance Exchange

Honorable Richard Eliason  
February 16, 1983  
Page 2

Erickson Sky Crane, who did the helicopter logging on the Tye job, joined Alaska Loggers Association in May 1982. They expressed an interest in the Alaska Timber Insurance Exchange until they were informed their bid included workmen's comp insurance and they were required to participate in the State program.

An operator in Petersburg, Spring Valley, obtained a small subcontract on the Tye project. He needed employees for this short term job, 3 months, so he hired the complete crew of The Mill, a member of Alaska Loggers in Petersburg who participated in the ALA workmen's comp, pension, and group insurance programs. When The Mill people went on Spring Valley payroll they discontinued their workmen's comp premiums, this disqualified the eligible employees to participate in the ALA pension, and health and welfare programs.

Seley, Inc., has been a member of ALA since he went in business as Seley Float Construction in 1976. This year he obtained a subcontract to do some right-of-way logging on the Tye Hydro job. At the time he signed the contract, he was unable to obtain any proof of insurance so he elected to retain his coverage through Alaska Timber Insurance Exchange. He paid his premium; we have paid the claims which were submitted, and of course plan to pay any others which may develop. He has now contacted the ATIE and wants a refund of his premium on a large payroll.

It would be interesting to know how this happened. How much Corroon & Black/Dawson & Company, Marsh McLennan and Company, and the other carriers involved in this program are making. It would also be interesting to know how the insurance carriers involved were selected.

We are informed by Donald P. Koch, Chief of Market Surveillance for the State of Alaska Department of Commerce & Economic Development, the current NCCI rate for Code 2702 (the logging rate) is \$39.22 per hundred dollars of payroll. It would seem the insurance carriers covering these hydro projects would be required to pay the rate established by the governing department. At the same time, Alaska Timber Insurance Exchange, because of its affiliation with Alaska Loggers Association on their 25 years

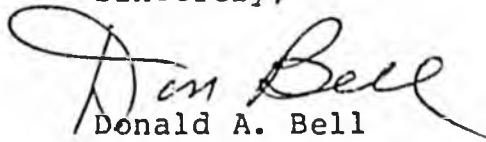
Alaska Timber Insurance Exchange

Honorable Richard Eliason  
February 16, 1983  
Page 3

experience with workmen's comp insurance for loggers, had established a rate of \$20.30. We wonder what rate is actually being charged for coverage in this Alaska Power Authority and Division of Risk Program.

It is our opinion the State of Alaska should stay out of the private insurance business.

Sincerely,



Donald A. Bell  
President

ALASKA TIMBER MANAGEMENT CORPORATION

DAB/mjh

cc: Senator Ziegler

HARTIG, RHODES, NORMAN, MAHONEY & EDWARDS

A PROFESSIONAL CORPORATION

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FEB 4 1983

January 26, 1982

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L. ANDREW ROBINSON

REPLY TO:

The Honorable Joe L. Hayes, Speaker  
Alaska House of Representatives  
P.O. Box 1821  
Anchorage, Alaska 99510

RE: Alaska Power Authority  
Wrap-up Insurance  
Contract  
Our File: 4306-2

Dear Mr. Speaker:

Our office has completed its review and evaluation of the materials furnished us by the House Labor and Commerce Committee relating to the Alaska Power Authority's "wrap-up" insurance contract with Marsh and McLennan-Corroon & Black/Dawson & Co. as insurance brokers for the Alaska Power Authority and Pacific Marine as workers' compensation insurers. For reasons more fully explained below, it is our belief that a legislative lawsuit on the matter does not appear advisable at this time, even though one could argue that several state laws may have been violated.

Before explaining the basis of our opinion, a brief description of the process through which our analysis evolved is in order. In April of last year, we were given an oral briefing by Mr. Jeff Barry, Legislative Assistant for Representative Terry Martin, Chairman of the House, Labor and Commerce Committee. Mr. Barry brought with him a few basic documents which we reviewed. Legislative subpoenas were then issued by you, as Speaker of the House, to Marsh and McLennan-Corroon & Black/Dawson & Co. who had contracted to broker the wrap-up insurance and provide risk management services for the Alaska Power Authority. You also issued a legislative subpoena to Pacific Marine the insurance carrier selected by Marsh and McLennan-Corroon & Black/Dawson & Co. to provide workers' compensation insurance for the Alaska Power Authority projects. In May, we completed some basic research in the area of public finance, competitive bidding, monopoly and restraint of trade, and the general scope of powers of the Alaska Power Authority. We

also collected some background information concerning problems encountered with the Alaska Pipeline wrap-up insurance program.

It was determined that we should await receipt of the subpoenaed information before continuing further. This information was brought to us on July 19, 1982 by Mr. Barry. It consisted of four large boxes of documents which were not organized in any fashion and had not been indexed in any way. As a consequence, we had to review, sort and index the material and it proved to be very time consuming process. A summary of the contents of the boxes and the files in which they are now organized is set forth in the attached memorandum of August 26, 1982 by Mr. Wey Shea of our office together with two related memoranda of September 9, 1982. After reviewing the documents and categorizing them according to their importance, a brief summary of major documents and points was compiled. The legal authority cited by counsel for both the Alaska Power Authority and Insurance Brokers was studied and analyzed as were the legal briefs and memoranda surrounding the Alaska Pipeline decision issued by the Director of Insurance in April 1970. A summary of some of the select documents and a brief background summary was then prepared. A copy of the memorandum of October 6, 1982 with exhibits is attached for your perusal. An "Indemnity Agreement", Exhibit "F", to this memorandum is particularly disturbing since it appears to require the State of Alaska to indemnify APCOP (Marsh and McLennan-Corroon & Black/Dawson & Co.) for its own negligence. The problem is compounded since the agreement is unsigned and in draft form. It was one of hundreds of documents received pursuant to your legislative subpoenas which we examined.

Upon learning that legislative audit had compiled a report addressing the Alaska Power Authority wrap-up insurance program, we refrained from issuing our opinion until a copy of that report could be obtained and studied. The report was not delivered to us until November 10, 1982. After reviewing the report and documents subpoenaed, it would appear the problems identified and the questions raised in this matter would best be addressed through dealing directly with the executive branch or holding legislative hearings and adoption of remedial legislation.

This approach is especially applicable in light of the numerous factual, legislative and administrative changes since the initial wrap-up issue was addressed by us last April. Perhaps most important is the decision by the Alaska Power Authority to limit the wrap-up insurance brokerage by Marsh and McLennan-Corroon & Black/Dawson & Co. to the Tyee Lake construction. Initially Marsh and McLennan-Corroon & Black/Dawson & Co. had an open-ended contract with the Alaska Power Authority. Secondly, the recent Superior Court ruling in Barnes v. Palmer, et al., holding that the legislature and taxpayers lack

standing to challenge violations of the Alaska competitive bidding statutes. Thirdly, the revision of the competitive bidding statutes by the legislature effective last July. Finally, the election of Bill Sheffield as Governor and your success in dealing with the executive branch in Barnes. All of the foregoing affected our analysis and influenced our conclusion regarding the superiority of informal administrative remedies to judicial alternatives.

In addition to the standing problem in the Barnes ruling, the nebulous complex areas of the law that surround the Alaska Power Authority wrap-up insurance program are neither clear-cut nor easily determined. They overlap each other in various shades of gray rather than black or white definitive areas. Illustrative of this problem is that despite the overwhelming volume of material supplied, we find that a few of the possible legal violations could not be adequately analyzed due to a lack of relevant information; these issues included the questions of possible:

1. Fictitious group insurance violations.
2. Worker's Compensation insurance violations.
3. Anti-trust violations.

The key issue of lack of competitive bidding in contracting the wrap-up insurance brokerage with Marsh and McLennan-Corroon & Black/-Dawson & Co. is illustrative of the myriad of legal arguments which can be raised on both sides of this entire matter without arriving at a clear cut conclusion. The following analysis of competitive bidding is also illustrative of the complexity of the legal issues surrounding the Alaska Power Authority wrap-up insurance program.

The contracting provisions of AS 37.05, the Fiscal Procedures Act, were until July 22, 1982 applicable to only state agencies and departments which were defined in AS 37.05.320(2) to mean:

...department, officer, institution, board, commission, bureau, division, or other administrative unit forming the state government and includes the Alaska Pioneer's Home and the University of Alaska.... (emphasis added)

AS 44.83.020 declares the Alaska Power Authority:

...is a public corporation of the State in the Department of Commerce and Economic Development but with separate and independent legal existence. (emphasis added)

Further insight into the legal significance of the Alaska Power Authority is provided by the following citation in AS 44.83.010(3):

...establishing and operating power projects in the state will be accelerated and facilitated by the creation of an instrumentality of the state with power to construct, acquire, finance and operate power projects. (emphasis added)

Since the University of Alaska is also a public corporation like the Alaska Power Authority with separate and independent legal existence, one could argue that the specific listing of the Pioneer's Home and the University of Alaska in the definition section of AS 37.05.320(2) exhibits legislative intent to exclude all other public corporations having separate and independent legal existence. This conclusion would be based upon the statutory construction doctrine of "expressio unius est exclusio alterius" (the express mention of one thing implies exclusion of all other of similar nature). If the intent had been to make the University of Alaska only an example of the type of public corporations included within the definition it should have been phrased: "including all statutorially created public corporations such as the University of Alaska."

Despite the above, one could readily argue on the other hand that by being an "instrumentality of the State" the Alaska Power Authority is an "administrative unit forming state government". The addition of the word "authority" to the definition of a state agency in AS 36.98.080(5) effective July 22, 1982, made applicable to Title 37 by virtue of AS 37.05.230(10), makes a slightly stronger case for the applicability of competitive bidding laws to the Alaska Power Authority. However, it certainly does not totally negate the applicability of the expressio unius doctrine mentioned above.

Even if one were to assume the applicability of Title 37 to the Alaska Power Authority, it does not necessarily follow that any provision of that title has been violated since there are two very broad exclusions to the competitive bid requirements. It is provided in AS 37.05.230(1) that the competitive bids need not be required for "professional services" and the department may negotiate directly if it finds pursuant to AS 37.05.230(2) that it is in the "best interests of the state".

Unfortunately at the time of the brokerage contract between the Alaska Power Authority and Marsh and McLennan-Corroon & Black/Dawson & Co. when the wrap-up insurance program in question arose, the statutes were not explicit as to what constituted "professional services". The phrase was not defined in Title 37. However, some insight may be

definition from the definition set forth in the Alaska Corporation Act in AS 10.45.250(1), wherein it is stated that:

'Professional Services' means a type of highly skilled, technical, and specialized personal service rendered to the public by persons licensed by the state.

Insurance brokers are required to be licensed by virtue of AS 21.27.040. This fact, creates an argument that the insurance expertise provided by Marsh and McLennan-Corroon & Black/Dawson & Co., falls into the professional service exclusion of AS 37.05.230(1) and, was not subject to the competitive bidding requirements until the enactment of the "Professional Service Contract" statutes in Title 36 effective July 22, 1982, which provide in AS 36.98.080(2):

'Professional Services' means professional, technical, or consultant services that are predominantly intellectual in character and that

- (a) include analysis, evaluation, prediction, planning or recommendation; and
- (b) result in the production of a report of the completion of a task.

AS 36.98.030 effective July 22, 1982 specifically governs the procedure for "Solicitation of Proposals". However, irrespective of the enactment of Chapter 98 of Title 36 governing "Professional Service Contracts", a serious question still exists as to whether under any statutory definition of "professional services", the legislature intended to include the activities engaged in by insurance brokers Marsh and McLennan-Corroon & Black/Dawson & Co. on behalf of the Alaska Power Authority. It appears the activities in which the brokers have engaged are much broader in scope than the mere giving of "analysis and recommendations" or the "production of a report or task" as set forth in AS 36.98.080(2), *supra*. The insurance brokers have entered into contracts for everything from public safety to legal services to public relations on behalf of the Alaska Power Authority project at Tyee Lake. Thus, while their insurance brokerage services to Alaska Power Authority, may fit within the professional services exclusion, it is arguable whether the legislature intended or even envisioned insurance brokers entering such a broad range of contracts on behalf of the state.

The intended scope and meaning of the "best interests" exception of AS 37.05.230(2) adds even greater uncertainty to the competitive bid issue. The State has only issued guidelines concerning the use of

this exception and has not transformed these guidelines into actual regulations. The guidelines require:

The Commissioner of Administration or his designee may consider waiving the requirement of issuing invitations to bid when it can be substantiated by the requested department and confirmed by the department of administration that such action would be in the best interest of the State. To be considered, a request for waiver must be fully justified on an individual basis. A previously approved waiver will not be justification for additional purchases of the same item. Request for waiver may not be approved, regardless of the situation where it is apparent that poor or no planning was exercised or as a routine expediting service. (Emphasis added) (Department of Administration, Purchasing Regulations, Chapter 3, Section 6)

As near as we could determine from the documents provided us, the Alaska Power Authority did not comply with the requirements of the above-cited guidelines. However, there is no judicial precedent in Alaska for determining whether such failure negated the availability of such exemption. While a line of case authority can be found mandating the presentation of objective criteria on which to base such a finding there does appear to be data of record from which the State arguably could conclude that it was in the "best interests" of the State (Alaska Power Authority) to follow the procedure in question. This argument centers around the fact that Marsh and McLennan-Corroon & Black/Dawson & Co. have been providing insurance coverage to the State of Alaska and that it was therefore logical to have those insurance brokers handle the Alaska Power Authority wrap-up insurance program. While we would not reach a similar conclusion, we cannot say with any degree of certainty that a court would concur in our belief.

Given the nature of the argument that can be raised on both sides of the issue and the inordinate amount of time required for judicial litigation, it would seem that executive or legislative action would be a much speedier remedy. While such remedies may not change the Tyee Lake contract, the availability and practicality of judicial remedies for the Tyee Lake contract is quite questionable. In fact, given the Superior Court's ruling in the case of Barnes concerning the lack of legislative and taxpayer's standing to challenge State violation of the competitive bidding laws, one cannot even be certain that a court would decide the issues in question unless they were raised by one of the aggrieved bidders on the Tyee Lake project.

The other issues identified on page 3 of this letter, certainly warrant further scrutiny and the involvement of the Director of Insurance since we have been advised by Mr. Barry that no filings had been made with the Director of Insurance as required by statute. The report of the legislative audit tends to indicate certain filings were made. Various arguments and issues relevant to the fictitious group and workers' compensation insurance violations are set forth in the memorandum of November 22, 1982 attached hereto. Another memorandum relating to the issue of anti-trust violations dated November 22, 1982 is also attached for your perusal. Both of these memoranda have been synopsisized for purposes of this letter. While we are inclined to think that the likelihood of violations of the above referenced areas are quite possible we feel that since a new administration is in power, it would be prudent for discussions to ensue with the Director of Insurance, Department of Administration, and Department of Law as to each of the various questions.

The Insurance Director's office should be able to handle the insurance issues concerning fictitious group insurance and worker's compensation. The Department of Administration could review the competitive bid waiver authorizations and perhaps revoke those which still are prospective in effect. The Department of Law could address the "Indemnity Agreement" problem as well as the anti-trust issues. The state liability arising from its potential exposure from its "Indemnity Agreement" with Marsh and McLennan-Corroon & Black/Dawson & Co. might very well justify filing a judicial action to have the agreement declared void on any one or more of the grounds mentioned in this letter and attached memoranda. On the other hand, the State may prefer to wait until actual demand is made on the State for payment under the "Indemnity Agreement" before challenging its legality so as to avoid the expense of litigation without knowing whether the loss experienced from the Tyee Lake project will ever be high enough to bring the "Indemnity Agreement" into play. If more information is needed, or if the Legislature is desirous of pursuing its own investigation of these matters it could do so through the Legislative hearing process. This approach appears more appropriate now that Alaska Power Authority has amended its brokerage contract with Marsh and McLennan-Corroon & Black/Dawson & Co. so that it is no longer open-ended, but instead is restricted only to the Tyee Lake project.

As you might well appreciate, the volume of factual data and the various nuances of each major legal issue is quite considerable. Thus, not all of them could be readily summarized in this letter when combined with the changing facts, administrations and statutory authority. Accordingly, if you have any questions, please do not hesitate to contact us. This letter and attached memoranda constitute work completed pursuant to the attorney-client relationship and

Hon. Joe L. Hayes, Speaker  
Alaska House of Representatives  
Ref: File No: 4306-2  
January 26, 1983 Page -8-

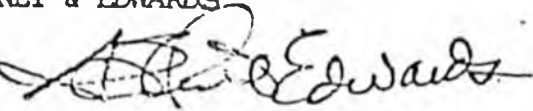
attorney work-product. Dissemination of this letter and attachments may waive the related privileges and we would request that you contact us prior to making the letter and attachments available to others. In the meantime, we will await your further instructions as to whatever action, if any, you wish us to pursue in this matter.

Please let us know if you need the subpoenaed documents we have retained. If litigation is desired we stand ready to undertake it. If assistance is desired for structuring of legislative hearing inquiries or contacts with the various executive branch we will be happy to assist you in any way you see fit.

Sincerely,

HARTIG, RHODES, NORMAN,  
MAHONEY & EDWARDS

BY:



G. Kent Edwards

GKE:WWS:ndv  
Enclosures

2/4/83 - Empire

# Tyee costs to be studied

By MARK BAUMGARTNER  
Empire Staff Reporter

State Rep. Ron Wendte, D-Ketchikan, this week asked the House Labor and Commerce Committee to review actions by the Alaska Power Authority to see if it can learn what caused huge cost overruns on the Tyee Hydroelectric Project.

Three factors went into Wendte's decision to seek the review, he said Thursday. His interest in APA's handling of Tyee was kindled at the first Labor and Commerce Committee hearing of the session when "allegations" of improprieties by APA in the award of contracts for the project were made, he said.

Later, he heard Sen. Arliss Sturgulewski, R-Anchorage, describe Tyee's financial situation as "out of hand," because the project is expected to cost about three times the original \$40 million estimate, he said.

More recently, Wendte said, he learned of the Petersburg city council's decision

not to buy Tyee power at the price APA said it might cost. The council said at the rates APA is offering the power, Tyee would double Petersburg's electric rates.

Wendte hopes the committee, chaired by Rep. Walt Furnace, R-Anchorage, will review "how APA handled its role" as developer of the project.

Tyee is scheduled to be producing electricity by early 1984.

Wendte said his interest in the matter is twofold. First, the Tyee project is in his district, and the project's financing affects the electric bills of his constituents.

He's also concerned, he said, of the implications APA's management of Tyee has on the proposed Susitna dams.

"If this happens on a \$100 million project I think we ought to look at a project for \$4.5 billion, or whatever," he said of Susitna.

The Senate is also expected to take a close look at APA later this month. Sen. Vic Fischer's State Affairs Committee has

scheduled hearings starting Feb. 24 on the Susitna project in relation to what has happened with Tyee, according to a Fischer aide.

Wendte said he expects legislation to be introduced in the House of Representatives and in the Senate to appropriate money to complete Tyee. The state has spent \$82 million to date, but needs an estimated \$30-50 million before the project is producing electricity.

APA has recommended raising that money through bond sales. If that's done, consumers of Tyee's power will pay off that debt through their rates. Based on the assumption bonds would be sold to complete the project APA estimated it would cost Petersburg and Wrangell utilities about 17.5 cents per kilowatt hour to buy Tyee power.

Petersburg's utility estimates another 10 cents per kwh would have to be added to that to cover administrative and distribution costs.

H B

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2. Contractor and Safety Comments
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4. Veto Statements Re: Last Session Wrap-Up Bill
5. Consultant Comments Re: Tunneling Exposure
6. Conclusions Re: Mass Transit Studies

Provide to  
Sen. L+C cmte  
in support of  
HB 7

TA

COMPILATION OF WRAP-UP ADVANTAGES FROM  
RISK MANAGERS,  
PUBLIC AUTHORITY ADMINISTRATORS,  
INSURANCE BROKER/CONSULTANTS,  
RISK MANAGEMENT CONSULTANTS,  
MANAGEMENT CONSULTANTS AND EDUCATORS

VIA WUI+  
DEPT ADM JNU  
+  
DEPT ADM JNU  
+  
DEPT ADM JNU  
RIMS/EXEC./82-242

TO: JOHN HAYWOOD

THIS IS TO INFORM YOU CUR CORPORATION HAS DESIGNED AND MARKETED AN OWNER CONTROLLED WRAP UP PROGRAM SINCE MAY OF 1974, SHORTLY AFTER OUR 13.4 BILLION DOLLAR PROJECT WAS LAUNCHED. WE WILL COMPLETE CONSTRUCTION IN 1985.

I AM ACTING AS DIRECTOR OF RISK MANAGEMENT AND INSURANCE SINCE NOVEMBER OF 1973 AND I AM VERY SATISFIED WITH THE RESULTS. WE ARE ABLE TO DIRECT THE MARKETING AND THE PLACEMENT OF THE INSURANCE FOR ALL PARTIES INVOLVED.

I STRONGLY RECOMMEND USE OF WRAP UPS IN SIMILAR PROJECTS.

MARC DARBY

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# The James Bay Project: A Symbol of Engineering and Risk Management Expertise

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by Marc Darby

**I**t began in 1971, when a Quebec government law created the Société d'énergie de la Baie James (SEBJ) and mandated the construction and exploitation of the hydroelectric resources of an immense, nearly inaccessible and practically uninhabited territory in northern Quebec. La Grande Complex, as it has come to be known, is almost 110,000 square miles in area, 450 miles from east to west and 400 from north to south. It forms an enormous jigsaw puzzle—the pieces of which are all essential. When work was at its peak in 1978 and 1979, 18,000 workers braved isolation, solitude and extreme cold to double Quebec's hydroelectric power.

## Evolution of the La Grande Complex

The La Grande Complex is being constructed around the La Grande River, which is Quebec's third largest major watercourse. The river has a drainage basin of approximately 55,000 square miles and an average flow of 5,500 cubic feet per second. The La Grande, the main tributary of James Bay, flows over 497 miles, with a drop in elevation of 1,235 feet.

Construction was divided into two phases. The first of which included construction of three power stations on the La Grande River: LG 2, LG 3 and LG

4, each with its large forebay.

To increase the potential of the La Grande River, the La Grande Complex also involves the diversion of two other rivers—the Eastmain to the south and the Caniapiscan to the east—resulting in the formation of two immense reservoirs. However, to hold the waters of the forebays and reservoirs, the construction of 203 dikes and eight dams was necessary. The longest of these structures is nearly 2.5 miles and the highest is approximately 525 feet. All are constructed of natural materials found in the area, including moraine, sand, gravel and rockfill.

By January 1982, construction was 77 percent completed. With its 37 generating units, Phase 1 of the La Grande Complex has an installed capacity of 10,282 megawatts, and its annual production will reach 62 billion kilowatt-hours. The La Grande Complex will enable the province of Quebec to increase its installed capacity by 61 percent and its generation of electricity by about 70 percent.

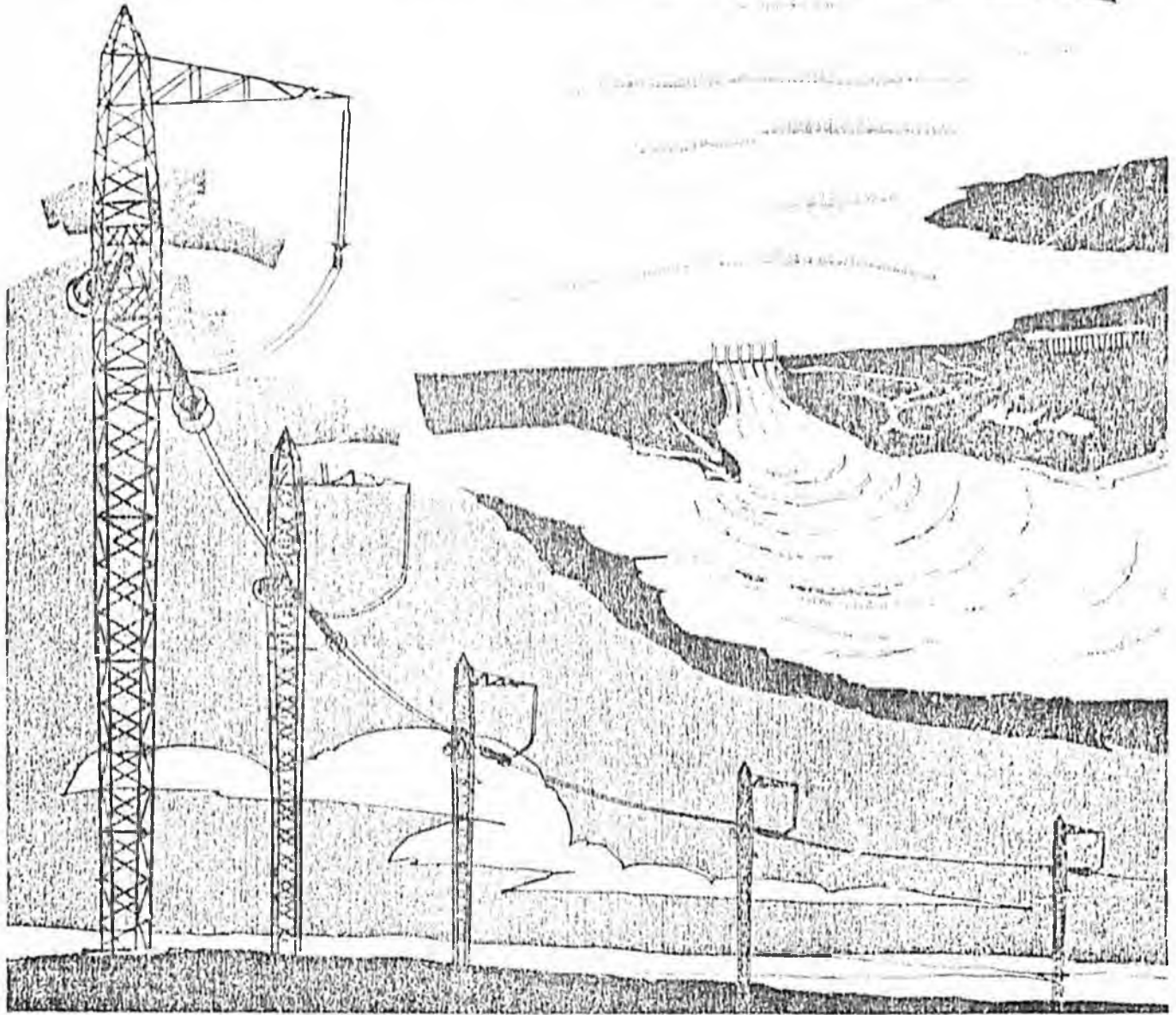
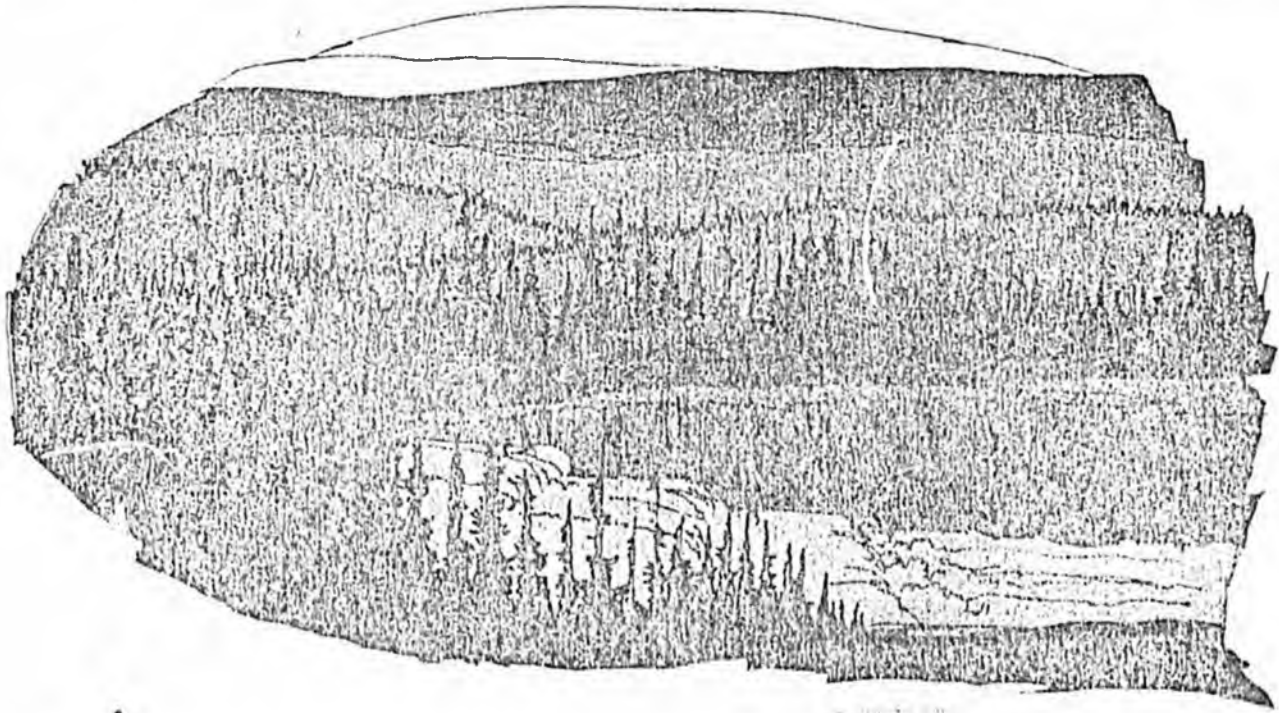
## Converting Water to Power

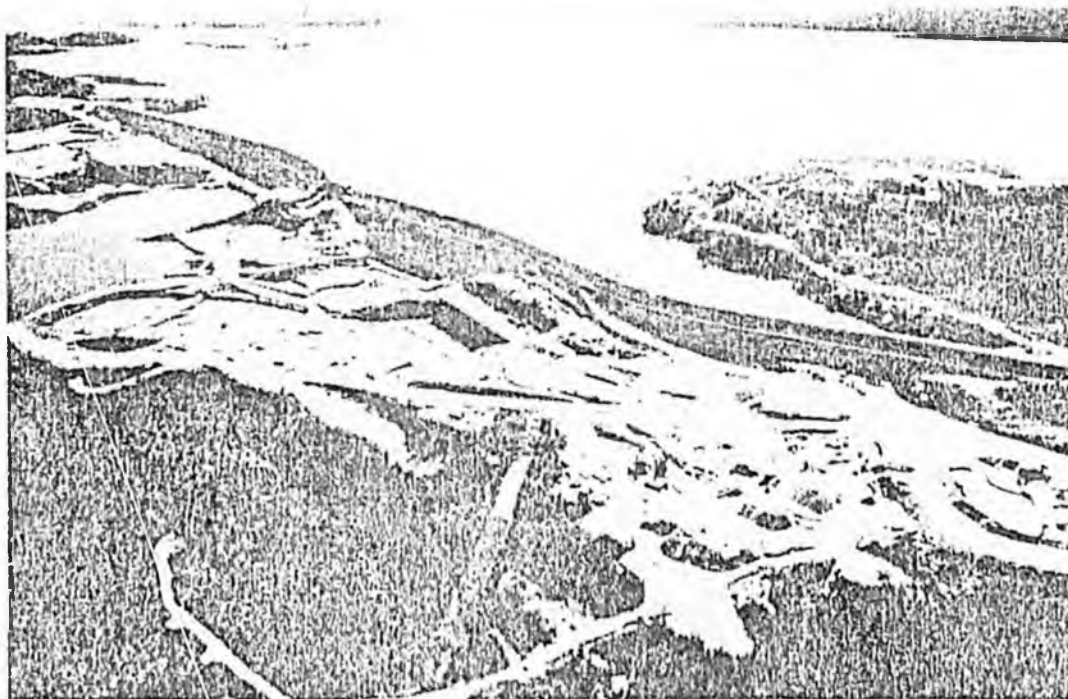
Located about 70 miles from the mouth of the La Grande River, LG 2 is the largest of the three generating stations of the La Grande Hydroelectric Complex Phase I, and, in fact, is the largest underground powerhouse in the world. Its 16 generating units, each with a capacity of 333 kilowatts, have already been delivered to Hydro-Québec for operation. With its total installed capacity of 5,328 mega-

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*Marc Darby is director of risk management and insurance for La Société d'énergie de la Baie James, Montreal. Mr. Darby has served as president of the RIMS Quebec Chapter, has been a member of the Society's board since 1977 and is currently the first vice president of RIMS.*

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*The LG 3 reservoir as it looks when it is partially filled: the main dam, spillway and powerhouse.*

walls, LG 2 can generate 35.8 billion kilowatt-hours annually. The site also features an impressive spillway where water cascades down what looks like a gigantic stairway. This structure can discharge up to 53,411 cubic feet of water per second.

LG 3 is the site of the longest dam of the La Grande Complex. Engineers chose a location where an island once divided the river. This island, because of its rockbed, was also chosen to be the seat of the spillway that appears to divide the dam into two sections. The LG 3 powerhouse was built on the southern bank of the river in a deep trench excavated just below the downstream toe of the dam. It houses 12 generating units that will generate 12.3 billion kilowatt-hours annually, and its installed capacity is 2,304 megawatts. The first generating unit became operative in June, 1982.

The LG 4 powerhouse, which is planned to be commissioned in February, 1984, is also a surface structure. With its installed capacity of 2,650 megawatts, it will become the second most powerful power station in Quebec after LG 2. Annual uninterrupted energy from the nine generating units to be installed there will reach approximately 14.1 billion kilowatt-hours.

### Harnessing River Power

About 93 miles south of the La Grande River, the Eastmain and its tributaries, the Opinaca and Petite Opinaca, have been diverted into the LG 2 forebay. This additional inflow increases the generating capacity of LG 2 by 25 percent.

Located at the northeast end of the territory, the Caniapiscan River used to flow north into Ungava Bay. Engineers, however, cut it off and directed the

water flow towards La Grande river resulting in the formation of a reservoir more than 2,485 square miles, the largest surface of water in Quebec. Its usable storage of 124 billion cubic feet contributes 35 percent of all the electricity generated by the three powerhouses.

The energy transmission system, which brings the electricity to the consumption centers, required the construction of five 735-kilovolt lines in three separate corridors. These lines, 3,200 miles long, required 11,650 towers.

The overall cost of the La Grande Complex, including the energy transmission system and interest, will finally be \$14.6 billion (Can.).

### Infrastructures and Living Conditions

The rivers of the James Bay territory were not uncharted. Between 1965 and 1971, Hydro-Quebec had sponsored several exploration campaigns and, when it was decided to develop the potential of the La Grande River, SEBJ inherited this data. SEBJ then conducted further exploration work.

The first task was to build a road to the sites of the future hydroelectric projects. In 1971, an army of men and machines went to work to build the road linking LG 2 and the town of Matagami. This road, approximately 450 miles long, was built in 450 days at a cost of \$350 million (Can.). While construction of this north-south road was being completed, SEBJ began construction of an east-west axis which led to the other job sites of the La Grande Complex. A total of 932 miles of roads was required to be constructed during this stage of the project. A fleet of planes was also acquired. And, when work was at its peak, SEBJ's six Convair 580 aircraft transported more

than 100,000 workers annually. Between 1972 and 1980, SEBJ used its own Hercules aircraft to transport freight.

Coinciding with road construction activities, preparations were made for the arrival of the thousands of project workers. This hardy lot would be living in isolated and remote areas, far from their families, in an inhospitable environment and harsh climate. In order to offer workers as many of the comforts of modern life as possible, SEBJ resolved to devote special attention to living conditions.

Major resources were invested so that every large campsite (a minimum of 1,000 residents for three years or more) could be favorably compared to an average town. Besides municipal services, a whole range of community services, including a hospital, laundry, administrative center and chapel, were provided. Equally significant investments were spent on recreation, to provide pleasant forms of relaxation for the workers. To direct these activities, SEBJ hired recreation and sports specialists. Even in the early years, a satellite and microwave communications system was in place, so that workers could receive radio and television programs and communicate with their families by telephone. Major daily newspapers are also available on the sites only a few hours after publication.

Obviously, construction of the La Grande Complex has been an immense logistical problem. A fine example: 110,000 tons of food will be consumed between 1972 and 1985. In 1978, the 18,000 workers breakfasted on some 80,000 eggs and a ton of bacon!

#### SEBJ—A Project Management Company

SEBJ acts as the project management company on behalf of Hydro-Quebec, Quebec's state-owned monopoly electrical utility. Its role consists of supervising all activities, from exploration to the delivery



An overview of project's various construction sites.

of the powerhouses and supporting structures to Hydro-Quebec, and assuring that budgets and schedules are respected.

The first challenge faced by SEBJ in building the La Grande Complex was the formation of an appropriate administrative structure. This structure had to be flexible and dynamic, because of the limited duration of the construction and the fluctuations in the size of the work force.

SEBJ decided to fill its manpower needs with available Hydro-Quebec resources and two outside firms: Lalonde, Valois, Lamarre, Valois et Associés, Inc. and Bechtel Quebec Ltd.

The construction of the first phase of the La Grande Complex, which is now nearing completion, has had a major economic impact. Of the overall cost of \$14.6 billion (Can.), actual construction will take some \$10.75 billion (Can.), \$3.7 billion in wages and \$7.0 billion for the purchase of goods and services. Since SEBJ entrusts all work to outside firms, Quebec contractors and manufacturers have greatly benefited from the development of the La Grande River. Companies located outside Quebec Province have also benefited from the project. For instance, purchases of goods and services outside Canada have amounted to nearly \$1.72 billion (Can.).

Phase I of the La Grande Complex is only the first of the hydroelectric projects to be built by SEBJ. During the next 10 years, whenever requested by Hydro-Quebec, the company will undertake construction of three other hydroelectric projects: Phase II of the La Grande Complex, the Grande Baleine project and the Nottaway-Broadback-Rupert (NBR) project. These three projects will require investments of at least three times those required to build Phase I.

#### The Risk Management Program

The risk management mechanisms that must be developed when starting a project of the scope and nature of the James Bay project are as varied as they are complex. Since SEBJ was ordered to build this "megaproject" according to a budget approved in 1971, it was essential to cushion the financial losses a disaster might entail, in order to minimize the risks of exceeding this budget's parameters. It was decided that insurance would be one of the major financial tools. Thus, the mechanisms to cover potential risks were progressively instituted shortly after the creation of SEBJ.

In early 1972, an Insurance Committee was formed and given the mandate to take the steps necessary to protect the company against risks resulting from expanding activities. The committee's

## Wrapping Up Big Construction Projects\*

Wrap-up insurance, an idea that first was popular in the late 1940s and early 1950s, is again proving attractive to owners of some of today's most imposing construction ventures.

Hospitals, synfuel projects, shopping malls, office towers, industrial facilities—even gambling casinos—have all found "wrap-up" ideal for their purposes.

Wrap-up insurance combines key units of construction coverage, such as workers compensation, general liability and builder's risk, into a single package placed and financed by the project owner. The general contractor and subcontractors are thus relieved of the necessity to buy required insurances for that particular project.

When first developed, wrap-up insurance appealed to owners because they realized they were paying for contractors' coverages in any case (since these costs were part of the construction companies' bids). The idea of marketing a coordinated program to a single underwriter made practical sense.

Because of the larger dollars involved, the owners obtained reduced premium rates and better coverages and the underwriter, who got more dollars to work with, could afford to give the owner more services.

Wrap-up insurance hit a lull in the early 1970s when construction activity declined and underwriters became indifferent to the coverage due to economic conditions.

In 1974, however, many states passed enabling legislation that revitalized the wrap-up concept. These laws allowed the combination of several construction premiums to be viewed as a group premium for discount and retrospective rating purposes. Prior to this, each premium had been viewed individually.

Ensuing activity in office construction, trade centers and other large projects caused "wrap-up" to return in style. Owners of those projects valued at a construction cost of \$25 million (minimum) in suburban areas, and \$50 million (minimum) in urban centers were the first buyers.

The owners achieve five key benefits:

- *A coordinated loss control and claims handling program that applies to all work at the site.* Each party in the construction project is thoroughly familiarized with the loss control program and agrees to support it. With the owner's

\*This article appeared in the Spring 1982 edition of *Private Opinion*, published quarterly by Johnson & Higgins, and is reprinted with its permission.

unqualified support, the single, well-structured safety program usually reduces the ultimate project cost. The coordinated claims program allows a uniform approach to claims handling. This, in turn, reduces intercompany insurance disputes and costly subrogation, and results in rapid and satisfactory claim settlements. Uniformity and reduced claims costs also contribute to sound relationships among all parties to the project.

- *Concurrent and uniform coverage for the owner, contractor and all subcontractors.* The greatly reduced administrative requirements of the insurance program also cuts costs.
- *Improved public image.* The owner, who will be identified with the site for many years, is seen by the public as the one responsible for prevention of serious injury or damages. The contractor or subcontractor is less visible. The combination of an effective safety program and a responsive claims procedure that yields fair and equitable settlements avoids adverse publicity. Centralized communication with media by one insurance company in case of an incident avoids the problem of several underwriters seeking to lay financial responsibility on each other.
- *Contractor involvement.* Since wrap-up makes insurance available to all approved contractors, those who might not otherwise be able to secure insurance are covered automatically. This helps promote the use of minority contractors on major projects.
- *Reduced cost.* Mass buying from one underwriter gives the owner leverage with insurance companies. A combination of safety, claims control and mass buying often produces significantly lower costs.

Keys to the cost efficiency of wrap-up insurance are both the safety program and the rating plan developed by the insurance broker and accepted by the underwriter. Because there is a substantial premium to be placed with one underwriter, the broker can design a variety of premium funding mechanisms.

Wrap-up insurance is a time-tested construction coverage concept. It is having a well-deserved revival, not only for its convenience and efficiencies, but also for its broader advantages—building protection for human life and keeping the owner's image at its brightest.

first task was to arrange for the selection of the broker(s) best able to provide adequate services to insure property under construction. The insurance of other risks was relegated to relatively minor status.

In order to obtain a versatile "talent", it was

decided to innovate and, instead of selecting a single broker, a consortium of brokers was formed. In May 1972, the brokerage firms of Dupuis, Parizeau Tremblay, Inc., Gerard Parizeau Ltée. and Stewa Smith (Canada) Ltée. were selected to form Le Co

sortium des Courtiers d'assurances de la Société d'énergie de la Baie James. This brokerage group became known as the Consortium.

Working in close collaboration, the Insurance Committee and the Consortium were responsible for:

- evaluating the potential risks as construction progressed;
- drafting the texts of insurance policies for builder's risks and public liability that were adapted to the project; and
- underwriting and renewing various other insurance policies necessary for protection against incipient risks.

Meanwhile, a risk management and insurance consultant was hired to evaluate this approach, make a risk evaluation of the projected construction activities and submit any recommendation to cope with the corporation's eventual risk management exposure.

The consultant confirmed that most of risk treatment measures, taken to that point, were satisfactory, and further recommended the appointment of an insurance coordinator. The title of this position, filled on November 5, 1973, has since been changed to Director of Risk Management and Insurance to more accurately reflect the department's activities.

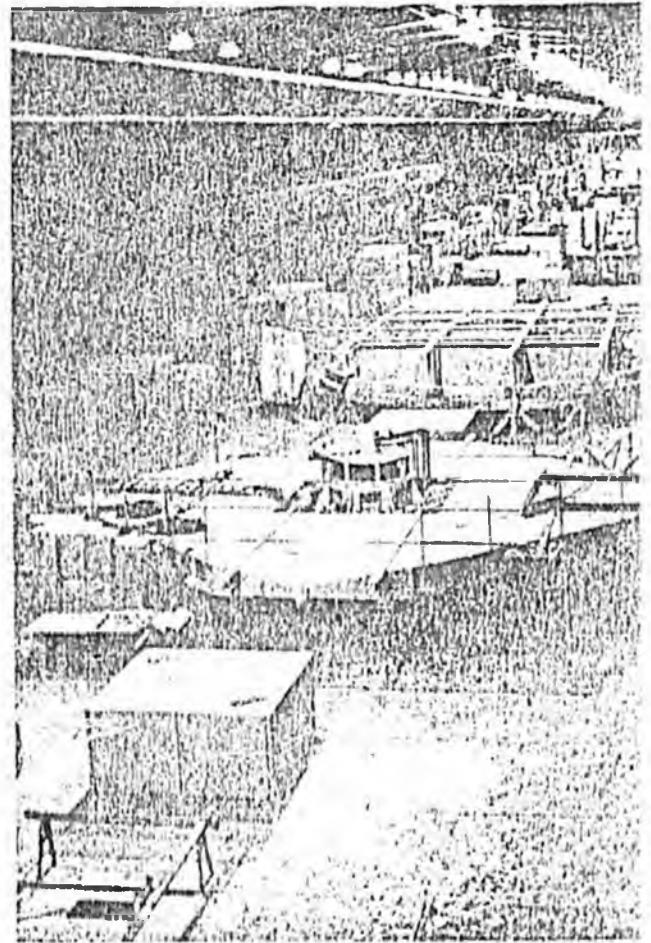
By the end of 1973, the texts of the policies, as well as the negotiations with the numerous insurers, were nearing completion. In fact, the policies were underwritten on May 1, 1974.

#### Underwriting the Builder's Risk and CGL Policies

The eventual adjudication of numerous contracts to consulting engineers, contractors and various suppliers presented a situation of a special nature.

In order to avoid a situation wherein each company under contract underwrites its own policy, each with its different conditions, and to prevent the premiums split among many insurers, the two policies were designed to insure each and every company—engineers, contractors and suppliers—under contract with SEBJ.

The errors or omissions of consulting engineers or architects entering into contract with SEBJ presented a different and specific problem. Since most of these contracts were long-term, SEBJ wanted to avoid that a claim be publicly discussed in a court of law. Therefore, the Builder's Risk policy was drafted with a section insuring SEBJ against damages resulting from the error or omission of an engineer without having to prove the legal liability of the engineer or the architect.



*A view of the underground power house in LG 2.*

Since the Builder's Risk policy insured the properties of all those working on the project site, the Comprehensive General Liability (CGL) policy was designed to exclude the indemnification of damage to goods or properties owned by any of the insured. Thus, a substantial reduction of the CGL premium was obtained. The CGL was to indemnify only for damages to residents of the territory, to visitors or, in case of damages, to any person not insured under the Builder's Risk policy.

The two policies contained, among others, the following conditions:

- wrap-up form, insuring the SEBJ, its constituent corporations and any engineer-architect, contractor or supplier to perform on the territory;
- specific waiver of subrogation by the insured against any insured person or legal entity; and
- designation of SEBJ as agent of all other insurers for any negotiation relative to the policies.

The underwriting of the policies coincided with the start of construction. The policy limits, therefore

had to reflect the possible maximum loss to which the properties were to be exposed over the next two or three years. All parties concerned were cognizant of the fact that a revision of said limits was possible and, in fact, probable.

The Builder's Risk policy was underwritten with an original limit of \$15 million (Can.) with a sub-limit of \$30 million (Can.) for damages caused by an engineer or architect error or omission. Since works were to be performed in a remote area and most of the properties were insured by the Builder's Risk policy, the limit of the CGL policy was chosen to be \$25 million (Can.).

The projected annual investments of the corporation (approx. \$1.25 billion), the premium credits for different levels of deductibles and SEBJ's capacity to assume losses were some of the considerations that led to the selection of a \$1 million (Can.) deductible

under the Builder's Risk policy and \$100,000 (Can.) under the CGL policy.

#### Disseminating Information to Insureds

Since these policies were underwritten by SEBJ to its benefit and that of others insured, it became necessary to fully inform all other insureds. This was accomplished by supplying them with excerpts of the policies. Since then, extracts of the policies are supplied to all bidders by means of a section of the call for tender document. This insurance section eventually becomes part of the contract between SEBJ, its engineers, contractors or suppliers. This section also describes the obligations of SEBJ and that of other insureds in insurance matters (quotashare, loss reporting procedures, etc.).

With policy deductible levels too high to be fully absorbed by any of the other insureds, it became necessary to set a lower quota-share for them. However, the level of this different deductible had to be high enough to keep the other insureds aware of the necessity for them to install adequate safety measures. At the same time, the deductible had to be at a level such that the other insureds would not look to insurance to cover the financial losses and thus defeat the advantages of the wrap-up program. The self-assumed or imposed deductibles to other insureds was set at \$5,000 (Can.). The bid document imposes such obligations on all parties to the contract.

On July 1, 1977, SEBJ underwrote a new CGL policy to replace the one in force since 1974. Certain insurers, experiencing reinsurance difficulties, withdrew. The new policy carried a \$1,000,000 (Can.) deductible as opposed to the previous \$100,000 (Can.).

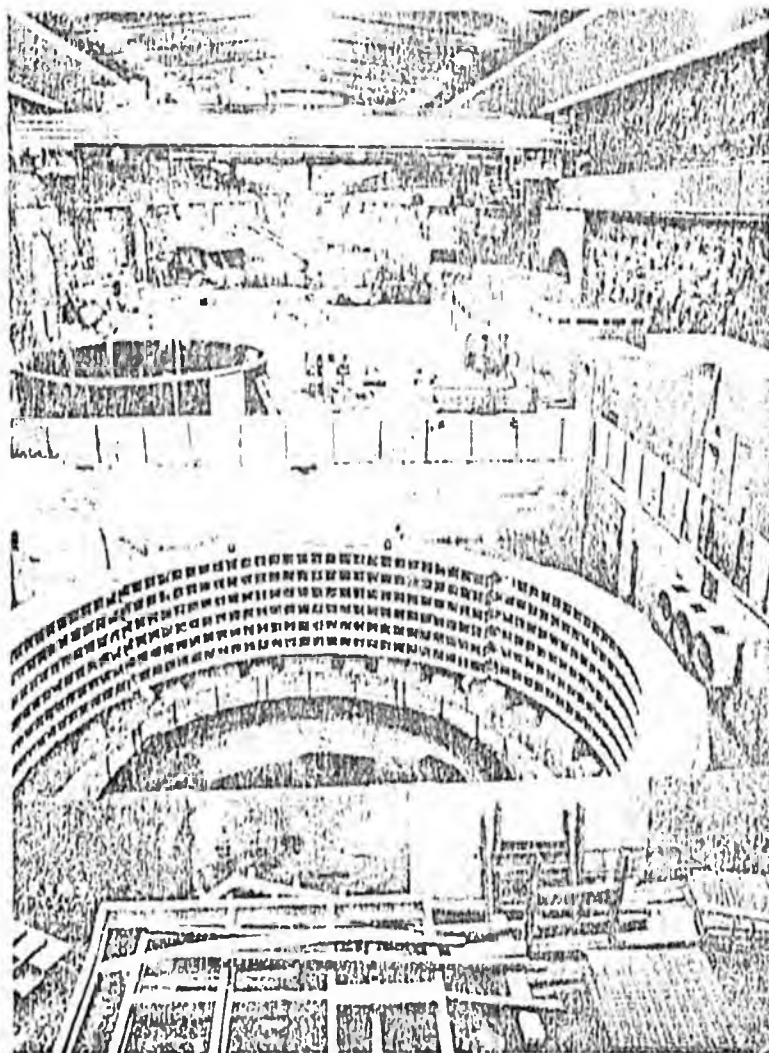
#### Major Insurance Revisions in 1981

The aforementioned insurance program remained in full force until the end of 1981 when a major revision of the loss financing tools was undertaken.

During the course of the project, SEBJ became a wholly owned subsidiary of Hydro-Quebec, and the Crown Corporation was mandated to generate and distribute electricity to the residents of Quebec Province. Furthermore, the approaching completion of the first powerhouse (LG 2) and its transfer to Hydro-Quebec was changing the whole context.

Considering the above factors, plus the fact that the loss experience was uniquely good, it was decided to:

- terminate the underwriting of the errors or omissions insurance;
- increase the levels of the self-assumed retention



*The underground powerhouse in LG 2 is shown with its partially assembled unit in the foreground.*



*An aerial view of the LG-4 main dam. The power house is in the center, with the spillway to the right.*

- look for increased policy limits commensurate with the possible maximum loss.

The levels of deductible or self-insured retention for damages to properties under construction have been set at \$10 million (Can.) and at \$30 million (Can.) for damages to fully operative completed properties. The quotations received from the underwriters, as well as their reaction, seemed satisfactory. They were to participate only to losses above the levels of operation type of losses. At the same time, these self-assumed levels could be safely assumed by SEBJ and/or Hydro-Quebec. A new policy wording, a technical report and a projected investment schedule were prepared and presented to different insurers. And, much to SEBJ's satisfaction, two policies, one primary with a limit of \$300 million (Can.) in excess of the self-assumed retention, the other with a \$700 million (Can.) limit in excess of the primary, were underwritten on January 1, 1982. In addition, the higher self-assumed retention levels, plus the fact that the errors or omissions insurance was not needed anymore, considerably reduced the insurance premium volume.

Thus, an additional retention of \$9 million (Can.) meant a premium saving of \$22.6 million (Can.) over the next five years. Based on the same investments, the premium for the program cancelled on January 1, 1982, would have been \$30.4 million (Can.) while the projected cost of the new program is \$7.8 million (Can.).

Good loss experience, the safest construction methods selected and the confidence in the expertise of SEBJ's designers and managers allowed such high levels of self retention.

#### Satisfactory Loss Experience

The losses incurred previously, considering the scope of the works and related activities, are most satisfactory.

As of May 1, 1982, 5,066 incidents have been reported. They represent all kinds of losses, from accidents to damages to permanent structures; from fires in dormitory to the cost of forest fire fighting expenses. The net total expenditures, plus reserve for losses that have not yet been paid for, total \$9,171,208 (Can.).

In most cases, contractors or suppliers are responsible for the first \$5,000 (Can.) of damage caused, and such recoveries are deducted from the totals of damages caused. Thus, as mentioned above, there is approximately \$9 million (Can.) left for disbursements.

With that commendable loss experience, coupled with the success of the construction project, it can now be safely said that SEBJ's policy on safety is bringing its dividends. Electricity has been generated some six months ahead of the original schedule, and the company now assumes a greater self retention.

The good loss record, as well as insurance coverage above a known self-assumed level, provide all SEBJ managers their "quiet night's sleep".

Received 10:12 AM 2-8-83

\*  
DEPT ADM JNU  
D+  
DEPT ADM JNU  
WWLPYTHZ  
TRI MET PTL  
2/8/83  
JOHN HAYWOOD, RISK MGR  
STATE OF ALASKA

TO CONFIRM OUR TELEPHONE CONVERSATION OF 2/7/83 RE DESIRABILITY OF WRAP UP INSURANCE PROGRAMS FOR LARGE CONSTRUCTION PROJECTS.

THE PUBLIC INTEREST IS WELL SERVED IN THAT CENTRALIZED CLAIMS ADMINISTRATION PROVIDES ONE FACILITY TO FILE CLAIMS, REDUCING THE FRUSTRATION OF TRYING TO IDENTIFY THE PROPER CONTRACTOR OR SUBCONTRACTOR WHO (-ALLEGEDLY) COVERED THE CLAIMS. PREMIUM SAVINGS WILL BE REALIZED IN ALL AREAS OF INSURANCE DUE TO VOLUME DISCOUNTS. PROJECTION OF A 2 PERCENT SAVINGS IN PREMIUM FOR PROJECT TERM IS NOT OUT OF LINE.

VIRGIL WELLBORN, MGR  
INSURANCE/CLAIMSW+  
DEPT ADM JNU  
V



# BOARD OF COUNTY COMMISSIONERS

PINELLAS COUNTY, FLORIDA

315 COURT STREET

CLEARWATER, FLORIDA 33510

## COMMISSIONERS

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ERUCE TYNDALL

February 7, 1983

Mr. John Hayward  
Director of Risk Management  
State of Alaska

Dear Mr. Hayward:

Pinellas County, Florida instituted an investigation of a wrap-up concept after presentation of a conventional quotation for an \$80 million resource recover plant was received at approximately \$4.7 million premium. The original insurer submitted a revised quotation of \$2.55 million with the wrap-up being quoted at a total cost of \$2.25 million. The following day the original conventional quotation was revised from \$2.55 million to \$1.85 million.

The contractor's insurance company provided the conventional quotes and Pinellas County's agent of record developed the builder's risk quotes.

Sincerely,

Robert J. Ellis  
Risk Manager

sc

2:15 Pm  
C.H.

DEPT ADM JNU  
DE2-7-83 5:00

F S JAMES AGTN

JOHN HAYWOOD  
JUNEAU ALASKA  
TELEX NO 899 46-308

STATEMENT OF JAMES M MURPHY, CEO  
OF WASHINGTON D C OFFICE OF FRED S JAMES & CO

SINCE 1964, FRED S JAMES & CO HAS DESIGNED AND ADMINISTERED COORDINATED INSURANCE PROGRAMS (WRAP UP) FOR SIX OF THE EIGHT HEAVY RAIL RAPID TRANSIT CONSTRUCTION PROJECTS IN THE UNITED STATES:

1. BART - SAN FRANCISCO CALIF
2. MARTA - ATLANTA GEORGIA
3. MTA - BALTIMORE MARYLAND
4. METRO DADE COUNTY MIAMI FLA
5. TRI MET PORTLAND OREGON
6. PAT TRANSIT PITTSBURGH PENNA

THE RESULTS OF THE WRAP UP PROGRAMS HAVE RETURNED SIGNIFICANT SAVINGS TO THE OWNER-SPONSORS OF THE RESPECTIVE PROJECTS

EXAMPLES:

MTA PROJECT, BALTIMORE, MD - THE STATE OF MARYLAND HAS PAID A PREMIUM FROM 12/1/76 TO 7/1/81 OF \$21,000,000. FOR WORKERS COMPENSATION AND PRIMARY LIABILITY. THE RETURN DIVIDEND TO THE STATE FOR FAVORABLE LOSS EXPERIENCE FOR THE SAME PERIOD HAS BEEN IN EXCESS OF \$4,300,000.

THE DADE COUNTY PROJECT HAS GENERATED A PREMIUM LEVEL OF \$1,312,413 IN A POLICY PERIOD FROM 9/21/79 TO 9/24/81 AND THE DIVIDEND DUE TO FAVORABLE EXPERIENCE HAS BEEN \$564,444.

NOT ONLY HAVE THE OWNERS ACHIEVED THE ECONOMIC BENEFITS OF THE WRAP UP CONCEPT BUT THE PROGRAM HAS RESPONDED TO THE SOCIAL RESPONSIBILITY IN CLAIM ADMINISTRATION WITHIN THE URBAN ENVIRONMENT.

ONE OF THE MAJOR CONSIDERATIONS OF GOING WRAP UP IS SAFETY AND LOSS CONTROL CAN BE EASILY ADMINISTERED WHEN A SINGLE PHILOSOPHY IS ADOPTED TOWARD ACCIDENT PREVENTION ON MAJOR CONSTRUCTION PROJECTS.

J M MURPHY  
EXECUTIVE VICE PRESIDENT  
F S JAMES ARL VA  
TELEX 899473

DEPT ADM JNU

+  
DEPT ADM JNU

UTINTERNAT AUS

+  
DEPT ADM JNU  
/3080 2-7-83 UTINTERNAT AUS  
INT MR. IRA PEER  
RISK MANAGER  
STATE OF ALASKA

/RE: WRAP-UP INSURANCE

BASED ON DETAILED RISK ANALYSIS OF THREE RAPID-TRANSIT PROJECTS  
(BUFFALO, LOS ANGELES AND ORANGE COUNTY - TOTAL VALUE OVER \$3 BILLION)  
I BELIEVE THE OPTION OF USING WRAP-UP INSURANCE IS ABSOLUTELY  
NECESSARY.

SUPPORT:

PROJECT	\$ SAVING FROM WRAP-UP	SAVING AS / OF CONSTRUCTION
BUFFALO	6 MILLION	2.0
L.A.	63.5 MILLION	3.2
ORANGE COUNTY	5.3 MILLION	1.4

WORKERS' COMPENSATION SAVINGS ON AVERAGE ARE 43% OF TOTAL SAVINGS.

WORKERS COMPENSATION WAS 58% (ON AVERAGE) OF TOTAL INSURANCE COST  
(EXCLUDING ENGINEER'S E & O).

THREE DETAILED REPORTS ENROUTE.

DAVID B. ASHLEY  
ASSOCIATE PROFESSOR  
THE UNIVERSITY OF TEXAS AT AUSTIN

910-874-1305//+  
DEPT ADM JNU

UTINTERNAT AUS

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DEPT ADM JNU

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# Tucson Electric Power Company

220 West Sixth Street, Post Office Box 711  
Tucson Arizona 85702

February 7, 1983

Area Code 602  
Telephone 622-6661

Mr. John Hancock  
Risk Manager  
State of Alaska  
Teletype No. 907-465-2563

Re: Insurance Savings in Wrap-Up Programs

Dear Mr. Hancock:

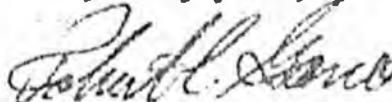
It is very difficult to quantify savings attributable to a wrap-up vs. a convention program, however, savings of 2% of total project cost are certainly within reason.

This Company presently has two wrap-ups. The first has been in place for about two years and the other just started. Attached is a summary of standard workers' compensation and general liability premiums of about \$13 million through 1987. What is not reflected is a "manual standard premium." Due to the mass purchasing power we were able to negotiate basic premium and loss conversion factors significantly lower than manual rates.

We have substantial additional savings in the cash flow. We pay 40% of standard premium monthly with a 90-day delay, about \$5 million for the project. The consolidated site safety program is currently holding losses to 10%. The estimated loss ratio for the project is about 20% which will mean about a \$1 million retro return or a net cost of \$4 million.

This Company's experience has demonstrated that the mass buyer power and the elimination of duplicate services in a wrap-up allows the owner to minimize its insurance costs in a major project.

Very truly yours,



Robert C. Garin  
Risk Manager

RCG:fc  
Enc.



McCARTHY & ASSOCIATES, INC.  
RISK PREPAREDNESS CONSULTANTS  
4108 Monet Avenue  
Woodland Hills, California 91364

(213) 738-9973  
(213) 348-6005

Daniel R. McCarthy  
President

February 4, 1983 - 4:26 P.M.

John Hayward  
(907) 465-2563

In response to your telecopy re: wrap-up insurance for construction projects.

Our estimates of premium savings by use of a wrap-up are fair, if not conservative. Potential savings in Alaska are probably greater in view of the higher WC benefits and rates in Alaska. WC premium is probably 70% of wrap-up premium. If savings on construction cost and dividend savings of additional 1% are valid estimates.

Our study for our R.P.D. indicates the following potential savings:

WC 51%  
CR 12%  
CD 26%

D. R. McCarthy

From: Don Heim

Re: Wrap-Up Savings

As part of Corroon & Black's proposal preparations for wrap-up programs, we are often asked to quantify the anticipated savings associated with the implementation of a wrap-up insurance program. Our experience has shown that savings have averaged 30-50% of the project's normal standard insurance premium. This converts to 2-3% of the project's construction costs.

This estimated savings is calculated by first determining the normal insurance cost associated with the project. For worker's compensation, the information needed is the current premium rates per \$100 of payroll and the percentage of the project's cost which is labor/payroll.

Our experience indicates that labor costs normally represent 30-50% of the project costs. With Alaska's workers compensation rates for construction workers ranging from \$10-20 per \$100 of payroll, workers compensation premiums alone can represent 4-7% of the project's costs.

Savings from a wrap-up come from three sources:

- (1) Reduced Administrative Expenses. Economics of scale reduce certain fixed costs of insurance, i.e., acquisition expense, claim handling, engineering, and auditing.
- (2) Loss Experience Credits. Wrap-ups are normally structured so that effective loss control will result in substantial premium savings. This retrospectively-rated premium approach allows the State rather than the contractors to receive premium reductions for good loss experience.
- (3) Cashflow Savings. By self-insuring or structuring the wrap-up in a cashflow sensitive manner, the State can retain use of the premium dollars otherwise held by the insurance carrier. Depending on the current interest rate and the payment schedule of losses in the wrap-up, cashflow savings can reduce the cost of the program by 15-25%.

John, I trust the above information clearly outlines the potential savings to be realized by the State from a wrap-up program. Please let me know if I can provide any additional assistance.

DKH:kb

cc: John McCadem  
Lynn Burgess

VIA WUI+  
DEPT ADM JNU

FEBRUARY 7, 1983

ATTN: IRA PEER  
DEPUTY RISK MANAGER  
STATE OF ALASKA

IN REPLY TO YOUR INQUIRY, THE FOLLOWING INFORMATION IS FOR YOUR USE:

GULF STATES UTILITIES ESTIMATED U.S. DLRS. 7.8 MILLION SAVINGS ON OWNER-CONTROLLED CONSTRUCTION PROGRAM. BASED ON PROJECTIONS ON WHAT INSURANCE PLACED BY CONTRACTORS COULD HAVE COST, GULF STATES ESTIMATED SAVINGS OF U.S. DLRS. 6 MILLION FROM 9/74 - 3/80 AND AN ADDITIONAL U.S. DLRS. 1.8 MILLION FROM 3/8 - 5/81. OWNER-CONTROLLED PROGRAM SAVINGS WERE FROM THREE MAJOR CONSTRUCTION PROJECTS IN LOUISIANA WORTH U.S. DLRS. 3 MILLION.

NEBRASKA PUBLIC POWER DISTRICT ESTIMATED U.S. DLRS. 2,249,465 FROM OWNER-CONTROLLED CONSTRUCTION PROGRAM. THIS FIGURE BROKEN DOWN:

U.S. DLRS. 121,312 PERFORMANCE BONDS  
U.S. DLRS. 139,913 GENERAL LIABILITY  
U.S. DLRS. 1,988,240 WORKERS' COMPENSATION

OWNER-CONTROLLED PROGRAM SAVINGS WERE FROM CONSTRUCTION OF GEROLD GENTLEMEN GENERATING STATION. NO IDEA OF VALUE OF PLANT, BUT PAYROLL WAS APPROXIMATELY U.S. DLRS. 76 MILLION.

IF I CAN BE OF FURTHER ASSISTANCE, PLEASE CALL.

REGARDS,  
T. BRICIN

WYINTSF677035

\*  
DEPT ADM JNU  
MMMMMV

**EBASCO RISK MANAGEMENT CONSULTANTS, INC.**

A Subsidiary of EBASCO SERVICES, INCORPORATED



Two World Trade Center New York, N.Y. 10048

F. F. Abdoo  
Vice President

February 4, 1983

Mr. Ira Peer, Deputy Risk Manager  
State of Alaska  
Dept. of Administration  
Division of Risk Management  
Juneau, Alaska 99811

Dear Ira:

Ebasco has been involved in an advisory capacity with many wrap-up programs especially in the utility industry in the construction of large power plants. All have produced savings in premiums and large savings in administrative expenses.

There have also been non-utility wrap-ups which are probably more meaningful to you. The Port Authority of NY & NJ uses a wrap-up on all their large projects and have had dramatic savings.

The Lincoln Tunnel project would have normally cost about \$20,000,000 in premiums. The final wrap-up cost was closer to \$13,000,000. The Bus Terminal Project which is just being completed should save about 2-1/2 million dollars on an estimated standard premium of 8 million.

The World Trade Center itself was under a wrap-up and produced savings of close to \$10,000,000 on an estimated cost of \$25,000,000.

These savings do not reflect the addition savings that accrue from a more efficient and simpler administration.

Sincerely,

FPA:1b

**EMASCO RISK MANAGEMENT CONSULTANTS, INC.**

A Subsidiary of EMASCO SERVICES CORPORATION

Two World Trade Center, New York, N.Y. 10048

**EMASCO**

F. F. Abdoo  
Vice President

February 7, 1983

Mr. John Hayward  
Division of Risk Management  
State of Alaska  
Juneau, Alaska 99811

Dear Mr. Hayward:

We have reviewed your memo of February 4th concerning the savings that a wrap-up can provide especially in workers' compensation costs.

While we have not based the savings on construction costs in our calculations, we do feel that your estimates are conservative and that the minimum amount to be saved would be 2% of total construction cost.

Our experience has not been in Alaska but the benefits and premiums in Alaska are higher and therefore should generate larger savings.

Sincerely,

FFA:lb

CORROON HOU /

7 FEB 83

FOR JOHN HAYWOOD  
RISK MANAGER  
STATE OF ALASKA

ACKNOWLEDGING YOUR PHONE CALL AND INQUIRY ABOUT CONSTRUCTION PROJECT OWNER CONTROLLED OR WRAP-UP PROGRAMS. IN OUR INVESTIGATION OF THE LATEST PROJECT WE ARE INVOLVED IN, A 1.2 BILLION, 8 YEAR CONSTRUCTION PROJECT CONSISTING OF PHASE ONE OF FOUR PHASES, WE FIND:

- 1) WORKERS COMPENSATION PREMIUMS ARE APPROXIMATELY 61 PCT. OF TOTAL PREMIUMS PER OTHER SIMILAR PROJECTS IN ATLANTA 56 PCT., BALTIMORE 51 PCT., SAN FRANCISCO 47 PCT. AND WASHINGTON D.C. 66 PCT.
- 2) INSURANCE SAVINGS IN HOUSTON PROJECT SEEM TO BE APPROXIMATELY 1.9 PCT. OF THE TOTAL PROJECT COST. OTHER SIMILAR PROJECTS WERE STATED AS ATLANTA 2.8 PCT., BALTIMORE 3.75 PCT., SAN FRANCISCO 1.6 PCT. AND WASHINGTON D.C. 1.0 PCT.

3) OVERALL ESTIMATED CONSTRUCTION COSTS AND TIME PERIODS WERE:

ATLANTA	750 MILLION	7 YEARS
BALTIMORE	506 MILLION	5 YEARS
SAN FRANCISCO	990 MILLION	10 YEARS
WASHINGTON	4.76 BILLION	8 YEARS
HOUSTON	1.2 BILLION	8 YEARS

4) INSURANCE SAVINGS ONLY SMALL PART OF REASON FOR WRAP-UP. WE CONSIDER FOLLOWING EQUALLY IMPORTANT.

AVAILABILITY OF HIGH LIMITS AND CONSISTENT FORMS.  
PROFESSIONAL LIABILITY INSURANCE FIRST AND THIRD PARTY.  
EFFECTIVE SAFETY PROGRAM TO REDUCE ACCIDENTS.  
ELIMINATES DUPLICATION OF INSURANCE COSTS.  
AVOIDS INTERCOMPANY LITIGATION BETWEEN INSURANCE COMPANIES.

YOUR 2 PCT. WOULD SEEM TO TRACK.

C. M. BURTON  
CHAIRMAN  
CORROON AND BLACK, HOUSTON

CC MR. JOHN DREW  
PRESIDENT  
CORROON AND BLACK HOUSTON

MR. T. W. MOHLE, JR.  
EXECUTIVE VICE PRESIDENT  
CORROON AND BLACK HOUSTON

\*  
DEPT ADM JNU

CORROON HOU

Warren, McVeigh & Griffin, Inc.  
Risk Management Consultants

February 7, 1983

Mr. John Haywood  
Director of Risk Management  
State of Alaska  
Department of Administration  
Division of Risk Management  
Pouch "C"  
Juneau, Alaska 99811

OWNER-CONTROLLED WRAP-UP INSURANCE PROGRAM

Dear Mr. Haywood:

This letter is in response to your Telex of February 4, 1982.

In our opinion your wrap-up insurance cost savings of 1% of construction costs plus 1% in dividends is conservative. The majority of available literature on the subject quote a range of 2%-4% total cost savings.

Based on our considerable past experience and additional research, we can estimate the insurance costs and savings of the wrap-up vs. conventional contractor-supplied insurance. The various components of the insurance premium consist of the following percentages (approximate) of total insurance cost:

<u>Coverage</u>	<u>% of Total</u>
Workers' Compensation	70%
Comprehensive General Liability	20%
Builders' Risk	<u>10%</u>
	100%

The following reductions in premium can be expected utilizing a wrap-up program:

Workers' Compensation

<u>Factor</u>	<u>Change</u>
Elimination of the contractor mark-up insurance premiums	- 8%
Reduction in insurance company expense loading	- 6%
Reduction in loss ratio via an improved safety program	-15%
Total Change	-27%

Comprehensive General Liability

<u>Factor</u>	<u>Change</u>
Elimination of the contractor mark-up on insurance premiums	- 7%
Premium savings arising from the volume purchase	-15%
Differential effects of market conditions on premiums by combining with workers' compensation	-10%
Potential effect of safety program on premiums and absorbed losses	-12%
Reduction in insurance company expense	-10%
Total Change	-54%

Builders' Risk

<u>Factor</u>	<u>Change</u>
Elimination of the contractor mark-up on insurance premiums	- 5%
Premium savings arising from the volume purchase	-10%
Differential effects of market conditions on premiums by combining with workers' compensation and liability	- 6%
Reduction in insurance company expenses	-15%
Total Change	-36%

February 7, 1933

Total Package

	<u>% of Total</u>	<u>% Change</u>	<u>% Change of Total</u>
Workers' Compensation	70%	-27%	-18.9%
Comprehensive General Liability	20%	-54%	-10.8%
Builders' Risk	10%	-38%	- 3.6%
Total Wrap-Up Savings			-33.3%

Based on the assumption that a conventional insurance program cost represents 6% of total construction costs we can quantify wrap-up program savings on a \$100 million project as follows:

Conventional Program

<u>Coverage</u>	<u>% of Total</u>	<u>Premium</u>
Workers' Compensation	70%	\$4,200,000
Comprehensive General Liability	20%	1,200,000
Builders' Risk	10%	600,000
	100%	\$6,000,000

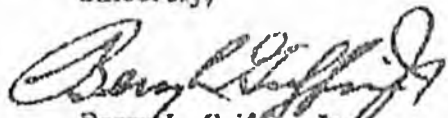
Wrap-Up Program

<u>Coverage</u>	<u>Conventional Program Premium</u>	<u>Wrap-up Savings (%)</u>	<u>Dollar Savings</u>
Workers' Compensation	\$4,200,000	27.0%	\$1,134,000
Comprehensive General Liability	1,200,000	54.0%	648,000
Builders' Risk	600,000	36.0%	216,000
	\$6,000,000	33.3%	\$1,998,000

The \$1.998 million savings outlined above compares favorably with the 2% savings you have projected. However, it does not include cash-flow advantages or investment income, which will increase the wrap-up savings substantially.

Please call me if you have any questions or if we can be of further service.

Sincerely,

  
Berry L. Griffin, Jr.  
Senior Consultant

Arizona Public Service Company

P.O. BOX 24024 • PHOENIX, ARIZONA 85026

February 7, 1983

T E L E C O P Y

Mr. John Haywood  
Risk Manager  
State of Alaska  
Juneau Alaska

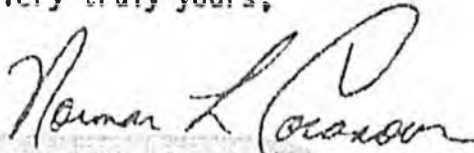
Dear Mr. Haywood:

RE OWNER CONTROLLED INSURANCE PROGRAMS

Arizona Public Service Company has and is using Owner Controlled Insurance Programs (OCP) on several major projects over the last ten years. The use of wrap-up programs have been exceedingly successful and cost beneficial to APS and our customers in reducing the capital cost of the project.

An OCP requires careful administration and auditing, as well as the control of the overall safety and loss prevention effort for a successful construction project. A program properly designed and addressed in the contractual agreements will return 30 to 50 percent of the insurance premium to the project owner. That return in addition to the cash flow benefits available under such a unified insurance approach makes an OCP a very viable option on all major construction projects.

Very truly yours,



Norman L. Cocanour  
Manager, Risk  
Management Services

/dd

cc: J. Mullen

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ICS IPMMTZZ CSP  
2158361400 TDMT PHILADELPHIA PA 176 02-07 0530P EST  
PMS STATE OF ALASKA, TLX 09946308  
ATTN IRA J PEER  
DEPUTY RISK MANAGER  
JUNEAU AK

INSURANCE PREMIUMS AND RELATED MANAGEMENT SERVICES TYPICALLY RUN 8 TO 10 PERCENT OF TOTAL CONSTRUCTION PROJECT COSTS IF CONVENTIONAL PROGRAMS ARE USED. WRAP UP COSTS ARE IN FOUR TO SIX PERCENT RANGE ON THESE PROJECTS. WORKER COMPENSATION USUALLY MAKES UP 50 TO 60 PERCENT OF TOTAL PROGRAM COST. ASSUMPTION THAT NET SAVINGS BECAUSE OF WRAP UP USE WILL EQUAL TWO PERCENT OF OVERALL PROJECT SEEMS TO BE VERY CONSERVATIVE. BALTIMORE MTA SAVING IS 6 PERCENT.

PROPOSED ALASKIAN HYDRO-ELECTRIC PROJECTS INVOLVING ROCK TUNNELING, UNDERWATER WORK, AND COMPRESSED AIR CONSTRUCTION CONDITIONS WILL BE RATED SAME AS TRANSIT PROJECTS BY INSURANCE COMPANIES. ARGUMENT THAT THIS IS DIFFERENT FROM TRANSIT IS NOT ACCEPTED BY INSURANCE UNDERWRITERS. THEY DON'T CARE WHETHER TUNNEL IS TO CARRY WATER, POWERLINES, SEWERAGE, AUTOS OR TRANSIT CARS. IT IS THE SAME SET OF CONSTRUCTION HAZARDS FOR ALL.

HERE ARE SPECIFICS ON FOUR RECENT MAJOR PUBLIC CONSTRUCTION PROJECTS, ALL INVOLVING HEAVY UNDERGROUND WORK.

PROJECT	CONVENT'L	WRAP UP	SAVINGS O/O
SAN FRANCISCO	46.3	29.8	35.6
WASHINGTON	98.4	62.2	60.0
ATLANTA	61.3	39.9	34.9
BALTIMORE	46.0	27.5	40.2

( \$ MILLIONS )

JIM BARRETT  
CRESHEIM  
PHILADELPHIA

1751 EST

IPMAFUB AHG

#305P

DEPT ADM JNU

224 South 108th Avenue  
Post Office Box 3330  
Omaha, Nebraska 68103  
Telephone (402) 691-2100



# Northern Border Pipeline Company

New Natural Gas for America

February 10, 1983

Mr. Ira Peer  
Deputy Director  
Division of Risk Management  
Pouch "C" State Office Building  
Juno, Alaska 99811

Dear Ira:

We are telecopying you the information you requested on April 9, 1983. Hopefully, it will provide you with enough information that will be helpful in support of the Owner Controlled Insurance concept.

I found our conversation to be extremely interesting, and if I can provide any further assistance, please let me know.

Sincerely,

NORTHERN BORDER PIPELINE COMPANY

*Dick C. E. Davis*  
Dick C. E. Davis, Manager  
General Services/Insurance Department

bkp  
attachment

Northern Border Pipeline Company  
Owner Controlled Insurance Program (OCIP)  
Fact Sheet

The Northern Border Pipeline is the eastern U. S. leg of the Alaska Natural Gas Transportation System. The 42-inch diameter pipeline was recently completed, extending across five (5) north central states -- from Port of Morgan, Montana to Ventura, Iowa. One of the largest pipeline construction projects in U. S. history is now in operation.

The insurance coverage on the 823-mile, \$1.3 billion Northern Border Pipeline included over 5,000 employees, 40 contractors and subcontractors, nine different construction spreads, three major river crossings, and all the related support facilities.

Northern Plains is the managing partner for Northern Border. The Northern Plains Insurance Department has been responsible for developing and managing the OCIP for the Northern Border construction project. Northern Plains has assembled an insurance staff where present and past experience has been involved in the proposal development, broker services, and/or management services for five major OCIPs including power plants, pipeline, and building construction. All projects have been financially successful to date and represents over \$3.5 billion in total project costs. Northern Border results are present below:

- \$1.3 billion -- (total project cost)

Pre-construction, construction, and procurement costs are included in the total project cost. Specific construction-related costs are not yet available. However, it is estimated that construction-related costs are approximately 25% of the total.

- \$0.4 million -- (contractor's insurance cost)

Northern Border provided contract language that enabled cost analysis prior to the awarding of contracts.

- \$5.4 million -- (Northern Border initial cost)

North Dakota has a state workers' compensation fund which is included in this initial cost. A state fund is a guaranteed insurance cost that does not allow the owner to participate in the savings from a safety program.

- \$3.8 million -- (Northern Border OCIP cost)

This dollar figure excludes North Dakota premium and represents a maximum amount that could be returned to the owner for a good safety program.

- \$1.4 million -- (Northern Border safety returns)

Northern Border's pipeline construction had an approximate 50% reduction of the national average for lost workday cases. The pipeline construction (including water and sewer lines) average incidence rate of lost workday cases (frequency) according to the National Safety Council statistics in 1981 was 5.61 while Northern Border's is currently 2.93.

The Northern Border OCIP basically provides three types of insurance: Workers' Compensation, which provides coverage for medical, temporary and/or permanent disability and death benefits to survivors; Comprehensive General Liability (CGL), which is protection against third party claims for bodily injury and property damage; and Longshoreman's Insurance, which is protection for employees that work on navigable waters that are subject to the Longshoreman's Act (a federal act which provides for worker's benefits). The Longshoreman's Insurance is needed during river crossing construction.

COMMENTS FROM THE OWNERS AND THEIR INSURANCE COMPANIES

RE: ALYESKA PIPELINE WRAP UP



THE STANDARD OIL COMPANY

MIDLAND BUILDING, CLEVELAND, OHIO 44115

PLEASE TELECOPY THE FOLLOWING

TELEPHONE: (216) 575-4141

TELECOPY NUMBER 907-465-2563

February 9, 1983

Mr. Ira Peer  
Deputy Risk Manager  
State of Alaska  
Juneau, Alaska

Dear Mr. Peer:

This is in response to your request that I submit my comments and opinion concerning the use of an Owner Controlled (wrap up) Insurance Program for the construction phase of the Trans Alaska Pipeline System (TAPS).

As explained to you, I am firmly convinced that the decision to implement an Owner Controlled Insurance Program (O.C.I.P.) for the construction phase of the TAPS project was a correct one. The O.C.I.P. involved three types of risks - Workers' Compensation, General Liability, and Builders Risk. My comments here are directed to the Workers' Compensation program. The decision to control workers' compensation costs through an O.C.I.P. was a sound one for the following reasons:

1. All construction contracts were on a "cost plus" basis. If an O.C.I.P. had not been used the thousands of contractors working on the project would have had to arrange for their own workers' compensation coverage and the TAPS owners through Alyeska would have had to separately monitor and audit each contractors' coverage and claims. This would have created a completely unmanageable situation.
2. It is extremely doubtful that all of the individual contractors working on the project would have been able to arrange workers' compensation insurance because of the high benefits in Alaska and the unwillingness of insurers to underwrite guaranteed cost coverage at the then existing Alaska manual rates for a project the size of the TAPS project.
3. Although the workers' compensation claims costs generated from the construction phase were quite high, I am satisfied that these costs would have been dramatically higher if the contractors had arranged their own insurance (assuming that they would have been able to do so). The retro plan employed in the O.C.I.P. had a very low basic premium factor to cover the insurer's expenses and small profit. No individual insurer for a contractor would have been willing to offer a comparable plan.

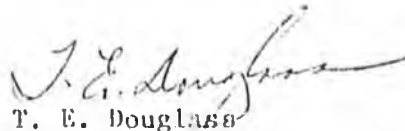
THE STANDARD OIL COMPANY

Mr. Ira Peer  
February 9, 1983  
Page Two

4. The control of the contractor employees' claims by Alyeska and the single insurer was also of critical importance. Had multiple insurers been involved in the claims handling, there would have been no continuity in the claims handling procedures, and the ultimate costs would have been substantially higher.
5. During the course of construction of TAPS, Alyeska had a number of common law suits filed against it by injured contractor's employees. The fact that Alyeska was controlling both workers' compensation and the first \$1 million of liability risks for all contractors under an O.C.I.P. was significant in minimizing Alyeska's liability claims costs.

In summary, the use of an Owner Controlled Insurance Program for any major construction project is essential in order to minimize insurance and claims costs, and maximize control of claims and losses.

Very truly yours,



T. E. Douglas  
Director, Insurance & Risk Management

TED:ams  
1815I

+  
DEPT ADM JNU

ARCO PLAZA LSA

MSG NBR 017

02-10-83

1210 HRS

MR. IRA PEER  
DEPUTY INSURANCE MANAGER  
STATE OF ALASKA  
ANCHORAGE, ALASKA

CC: DAVID F. HARPOUR  
GOVERNMENT RELATIONS  
ATLANTIC RICHFIELD COMPANY  
ANCHORAGE, ALASKA (ANQ-1003)

IN CONFIRMATION OF YESTERDAY'S TELEPHONE CONVERSATION, I WISH TO AFFIRM THAT ATLANTIC RICHFIELD COMPANY WAS VERY PLEASED WITH THE OWNER PROVIDED INSURANCE PROGRAM COVERING THE CONSTRUCTION OF TRANS ALASKA PIPELINE SYSTEM. SOME OF THE BUSINESS'S BENEFITS ARE AS FOLLOWS:

1. PRIOR TO CONSTRUCTION THERE WERE MANY UNKNOWNNS, THEREFORE LIMITED MARKET CAPACITY.
2. WE WERE ABLE TO CONTROL INSURANCE COST. IF EACH CONTRACTOR PROVIDED HIS OWN INSURANCE, WE WOULD HAVE BEEN SUBJECT TO RATE DEBIT MODIFIERS EXISTING AT THE TIME. WE ALSO HAD THE BENEFIT OF BULK PURCHASING.
3. WE WERE ABLE TO STANDARDIZE THE AMOUNT OF INSURANCE IN FORCE, OTHERWISE IT WOULD HAVE BEEN UNWIELDY.
4. WE ELIMINATED CROSS LITIGATION AMONG CONTRACTORS.
5. WE WERE ABLE TO GET INVOLVED IN THE SAFETY PROGRAMS OF THE

09946 308+  
DEPT ADM JNU

FEBRUARY 9, 1983

TELEX TO: IRA PEER  
RISK MANAGEMENT DEPT.  
STATE OF ALASKA  
JUNEAU, ALASKA

RETELECON ON WRAP-UPS, THE INA GROUP OF COMPANIES FEELS STRONGLY THAT WRAP-UPS ARE A DESIRABLE CASUALTY INSURANCE OPTION ON MAJOR MULTI-CONTRACTOR PROJECTS. TO SUBSTANTIATE THAT POSITION WE CALL ATTENTION TO THE ALEYESKA PROJECT WRAP-UP WHICH WAS A VERY EFFECTIVE AND EFFICIENT MEANS OF INSURING THAT EXTREMELY COMPLICATED OPERATION. I AM SURE THE JOINT OWNERS WOULD SUPPORT THAT POSITION.

JOHN C. MORRISON  
INA

INACORPNY NYK  
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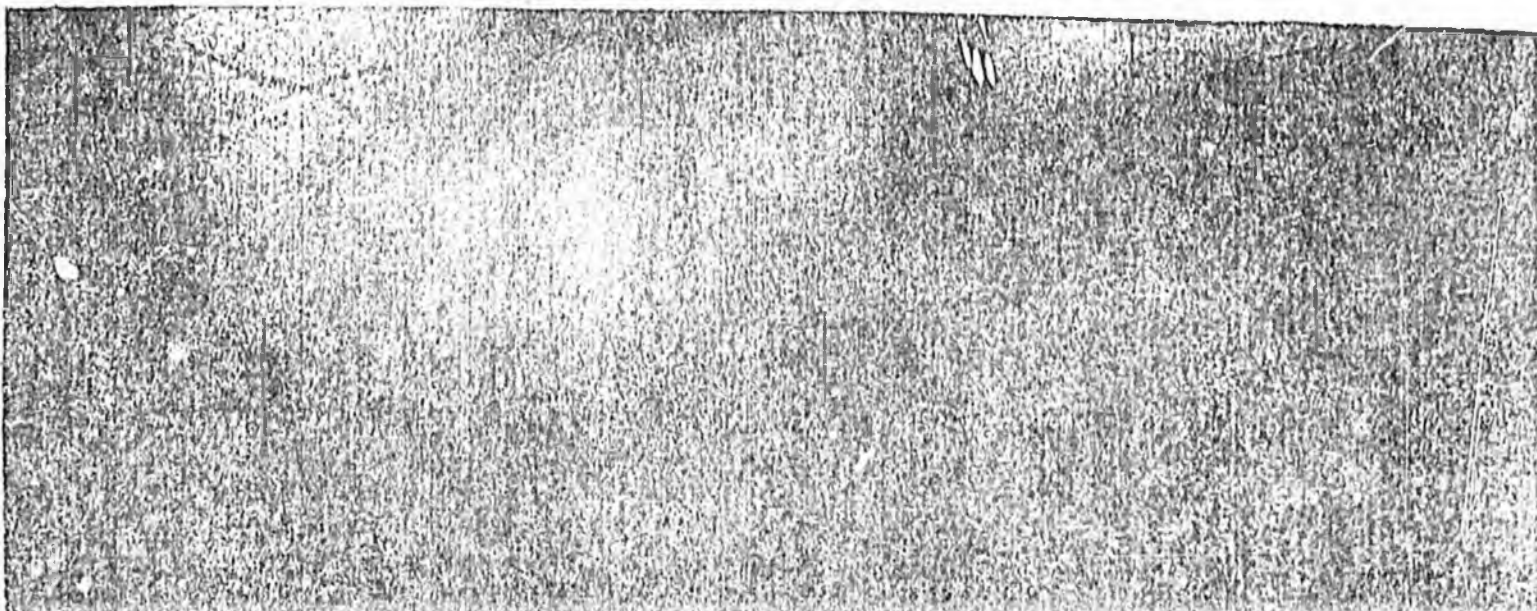
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2-8-83 10-50

ATTN JOHN HAYWOOD  
FROM MEMORY THERE WERE IN EXCESS OF 17000 WC CLAIMS OPENED DURING  
PROJECT LIFE. AS OF DEC. 79 ONLY APPROX 600 WERE STILL OPEN.  
THIS COULD NOT HAVE BEEN ACCOMPLISHED WITH MULTIPLE EMPLOYER  
CONDITIONS. ALSO THE PROJECT INCLUDED BI/PD AS WELL AS WC AND  
AUTO. IT WOULD HAVE BEEN AN INDUSTRY NIGHTMARE ON CONVENTIONAL  
CONCEPT.

JOHN H. HALE  
PACIFIC MARINE INSURANCE COMPANY

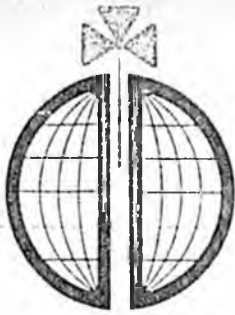
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JH

COMPILATION OF  
CONTRACTOR AND SAFETY ENGINEER  
STATEMENTS ON WRAP-UP ADVANTAGES



CONTRACTORS • ENGINEERS

# HARRISON WESTERN CORPORATION

1208 QUAIL STREET • DENVER, COLORADO 80215 • TELEPHONE (303) 234-0273 • TELEX 45887

April 6, 1982

Mr. John Haywood  
Risk Manager - Division of  
Risk Management  
State of Alaska  
Pouch C  
Juneau, Alaska 99811

Re: Tyee Lake Project - Owner Wrap-Up  
Insurance Program

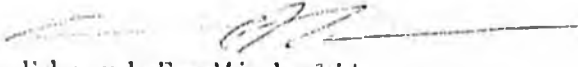
Dear John:

I just wanted to write you to let you know that we consider the transition to the Wrap-up Insurance Program on the Tyee Lake Project to have been accomplished in a very professional manner. As you are aware, I expressed some concern at making this transition at the time it was suggested. My concerns with respect to the adequacy of coverages and other potential difficulties proved to be unfounded which I attribute to the effectiveness of your office.

We look forward to working with you on this project in the future and are certain that your decision to provide the Wrap-up Insurance on this project will prove financially rewarding for the State of Alaska.

Yours very truly,

HARRISON WESTERN CORPORATION

  
Edward F. Michalik  
Vice President

EFM:cs



Washington Metropolitan Area Transit Authority

600 Fifth Street, N.W., Washington, D.C. 20001  
(202) 637-1234



August 28, 1981

Mr. John Haywood  
Division of Risk Management  
Department of Administration  
State of Alaska  
Pouch C  
Juneau, AK 99811

Re: Safety Awareness Program

Dear Mr. Haywood:

I am enclosing copies of our "Safety Awareness Program" and supportive information as discussed in our telephone conversation of August 26, 1981.

Our insurance coverage is a loss responsive wrap-up policy and we are able to confirm the contractors reporting documentation by review of our loss runs at the close of the contract.

For the program to be effective a base incidence rate must be established for each type of construction. Thru July our contractors have worked a total of 83,329,296 man - hours, we break down the man - hours to type of construction and accident experience, then establish an incidence rate for each new contract.

To date our program has assisted with a sizeable reduction in our lost workday cases and insurance costs.

If I can be of further assistance, please contact me.

Sincerely,

Donald M. Lahr  
Safety Engineer

Office of Design and Construction

COMMENTS BY THOMAS J. LASKOWSKI

In coordinated insurance programs (wrap-ups) a safety program attempts to establish a consistent, system-wide approach. Usually the consolidation of premium dollars in a large program provides the needed budget for a broad, effective program.

My experience with this type of program extends back approximately 30 years on many large, multi-million dollar projects, i.e., New York State Power Authority Construction Program, New York; The Bay Area Transit System, California; The Oroville Dam, California; and the ARMCO Republic Steel, iron ore project in Minnesota. Some of these projects were owner-sponsored; others were prime contractor-sponsored. Each project was successful from a safety standpoint. Most finished ahead of schedule and, for the most part, labor relations were above par with no work stoppage due to safety-oriented problems.

Thomas J. Laskowski, Safety Consultant

JH/je  
5/0207-02/RM1

## 'Wrap-Up' Insurance Offers Advantages for Construction

During the past 20 years, most construction insurance has been purchased by the owner, to cover the owner, the general contractor, and all subcontractors. This insurance plan assumes that the owner, more than the various contractors and subcontractors, has the greatest interest in the costs of insurance premiums, the orderly processing of claims, safe working conditions and accident prevention, and public relations as affected by claims and safety on the project.

Under this plan, the general contractor and all subcontractors are required to bid without requirements for purchasing certain specific insurance coverages. However, the owner's safety requirements must be spelled out in the bidding documents so that safety compliance and safety management can be influenced. By bringing to a single insurance company all the workers' compensation and liability premiums on a particular project, the purchasing power of the owner is greatly enhanced.

When separate insurance policies are underwritten by different insurance companies, the total premium for higher limits of liability coverage is fragmented. Where large limits are required, combining premiums with one insurance company achieves substantial reduction in premium costs.

An additional advantage is the greater safety services which can be obtained from a single insurance company handling all insurance for the

entire project. When the entire project is in the hands of one insurance company, a regular claim and investigation procedure can be inaugurated at the outset and followed throughout the job, with one or two people becoming familiar with the work and the claim assignments.

The same thing is true of safety engineering. In many instances the premium generated by some of the smaller subcontractors will not be sufficient to promote much engineering interest on the part of each insurance company. Where the insurances are combined with one company, the owner's insurance representative can make certain that there is an orderly safety program that has the owner's unqualified support, and that is applicable to all work at the site. Under these circumstances, one safety and loss engineer would be assigned to the project and would be required to give it as much time as necessary.

The owner's vital interest in the public relations aspects of job safety is perhaps best dramatized by the collapse of one of the concrete floors at New York's Coliseum when it was under construction several years ago.

Everyone remembers this catastrophe at the Coliseum, yet hardly anyone can remember the name of the contractors.

The insurance and safety program should be effected by the owner, in cooperation with the general contractor, for the benefit of the owner and all personnel engaged in the work.

Although the insurance coverage premiums under a wrap-up program are paid directly by the owner, this in no way relieves a contractor from accident experience responsibility. The contractor's accident experience on the project will still be reflected in his Experience Modification Factor (EMF) for the state in which the project takes place. The EMF will be used to determine his worker's compensation insurance premiums for that state on future projects for a period of of three years. His liability accident experience is also reviewed by his own insurance company in determining future premium rates. It is therefore still in the contractor's best interests to effectively contribute to and cooperate with the project's safety program efforts.

—Stephen J. Perren  
Johnson and Higgins  
New York, N.Y.

### Industrial Division Sets Meetings

The Industrial Division of the National Safety Council has scheduled two meetings in Chicago for the balance of 1982. The Division will meet on May 11-13 at the Palmer House Hotel, and on October 16-18 at the Conrad Hilton Hotel. The 13 standing committees will meet at these times.

Members of the Industrial Division will receive further information by mail. ■

### Safety Cost Problem: What's Your Answer?

The president of your company, ABC Construction Co., returns your safety statistics and asks, "How do our injury costs compare with XYZ Construction Co. and with the OSHA industrial average?" What is your answer?

Here are your data.

	Rates per 200,000 Work Hours		
	ABC	XYZ	U.S. Average
Fatality Cases	.03	.01	.008
Lost Workdays (Away) Cases	6.5	.4	3.7
Lost Workdays (Restricted) Cases	1	1.0	3
More Than First Aid Cases	9.1	5.0	4.7
<b>Total Recordable Cases</b>	<b>15.7</b>	<b>6.4</b>	<b>8.7</b>
Number of Lost Workdays (Away)	110	15	56
Number of Lost Workdays (Restricted)	5	40	9

Your answers should cover the costs of injuries as a percentage of the U.S. average for both ABC Co. and XYZ Co., assuming the U.S. average is 100%. You should also indicate the total cost of injuries, expressed as a dollar figure per 200,000 work hours.

Send your answers to the newsletter editor at the address in the box on page 2. We will publish your answers and credit the source as you wish.

—George Youskr,  
Newsletter Editor



**MILLION DOLLAR CHECK**—Leland J. Hoagland, insurance director for Transit Insurance Administrators; William M. Reedy, vice president of BART; and Thomas J. Laskowski, safety and claims supervisor for TIA assemble (left to right) for the presentation of a \$1,302,420 check presented recently to BART by Fireman's Fund American Insurance Companies and Argonaut Insurance Company. Holding the check are Lynn Broucarel, left, of Fireman's Fund, and Carol Burket of BART. Transit Insurance Administrators manages BART's insurance and safety programs.

5/6

WRAP-UP GENERAL -  
ADVANTAGES &  
DISADVANTAGES

## INSURANCE PROGRAM QUESTIONS AND ANSWERS

QUESTION: Why did the State provide insurance for both the State and the contractors on the Tyee Lake Hydroelectric Project?

ANSWER: The main reason was the savings to the State in a period of time in which decreased revenue projections and increased costs of running government are becoming a greater problem. The Tyee Insurance Program cost 4.25 percent of construction costs and if the losses are managed properly will return a portion of that to the State after the completion of construction.

QUESTION: Who has the greatest interest in the project?

ANSWER: The owner rather than the various contractors has the greatest interest in costs; safe working conditions; claims processing; certainty and uniformity of insurance protection to cover inherent hazards of the project; and adverse public relations from poor claims and safety services.

QUESTION: Are these owner controlled programs legal?

ANSWER: Insurance owner controlled programs are approved in 46 states, including D.C., and only four states make a distinction between public and private owners. There have been no successful legal challenges to an owner providing insurance for both the owner and contractor however there have been some states that have passed prohibitive legislation such as the State of Washington. Some of the problems of the Washington Public Power Supply System in contracting within budgets could be traced to the inability to write an owner controlled program.

QUESTION: If the State were prohibited from writing insurance to protect both itself and the contractors on these very large projects who would benefit?

ANSWER: There would be absolutely no benefit to the State as its costs would increase by two to three percent over that needed to properly protect the project. Most of the Alaska agents and brokers and members of the Alaska General Contractors would also derive no benefit since the large contractor or joint venture would provide their own contractor controlled insurance. The only clear benefits would be to the Board of Directors of the six or eight large outside construction companies who would be the general contractors and also provide the insurance.

QUESTION: Doesn't the owner controlled program expose the State to more liabilities than if the contractor carried insurance?

ANSWER: No. The projects themselves create the liability exposure. The State and Alaska Power Authority are best protected by providing a Risk Management program which guarantees that the insurance coverage is sufficient to protect the owner and contractors.

QUESTION: How does the State save money?

ANSWER:

1. Lower insurance premiums
2. Reduced legal expenses
3. Earnings on reserve funds
4. Reduced accidents through central safety programs
5. Reduced cost of change orders

QUESTION: Isn't it unusual for the owner to provide insurance to protect the owner and the contractor?

ANSWER: No. Since World War II most of the large (over 50 million) construction projects have been handled by owner controlled programs.

QUESTION: Why do owner controlled programs give better protection?

ANSWER: One insurance program provides blanket coverage for losses whether caused by the architect, the engineer, the contractor, or the owner's representative. There is no requirement to sue the other party to obtain insurance coverage.

QUESTION: Why don't you have the contractor provide insurance coverage?

ANSWER: The owner cannot guarantee that the proper coverage is maintained with financially responsible insurers during the construction period. If a loss occurs 2, 3, or 5 years after construction, the owner has no way to make sure contractor completed operations coverage is in place. To make things more difficult, neither the contractor or his insurance company has any incentive to resolve the loss.

QUESTION: Won't the Alaska contractor be penalized for having a good safety record?

ANSWER: No. The centralized safety program should reduce lost-time accidents which would enhance the contractor's experience modification for all jobs.

QUESTION: Doesn't this program discriminate against the Alaska contractor?

ANSWER: Not at all. Many smaller Alaska contractors simply could not obtain the broad coverage and high limits required. This program permits them to participate.

QUESTION: Have there been any studies of the benefits of owner controlled insurance and why it works?

ANSWER: The Federal Government in a report for the U.S. Department of Transportation in June, 1979 studied four major transit authority owner controlled programs. They referred to the programs as coordinated insurance programs or CIP. The following statements are from that report:

\*Projects larger than the fifty to sixty million dollar range should be handled through CIP because of the human and financial cost savings.

\*In considering savings with one CIP about 60 percent was due to purchasing power and 40 percent to eliminating tiers of acquisition expense (commissions) and administrative costs.

\*Owners interviewed noted that with conventional insurance, contractors put the estimated premium into their bid price and then mark it up 20 percent.

\*In comparing claims handling the quick comparative answer on conventional versus CIP programs is that CIP's are better.

\*The main distinction from conventional insurance is cost. Dramatic cost savings have been achieved and are anticipated by use of CIP.

\*The numbers tell a very convincing story. For large transportation construction projects, coordinated insurance programs are the way to go.

## Wrapping Up Big Construction Projects\*

Wrap-up insurance, an idea that first was popular in the late 1940s and early 1950s, is again proving attractive to owners of some of today's most imposing construction ventures.

Hospitals, synfuel projects, shopping malls, office towers, industrial facilities—even gambling casinos—have all found "wrap-up" ideal for their purposes.

Wrap-up insurance combines key units of construction coverage, such as workers' compensation, general liability and builder's risk, into a single package placed and financed by the project owner. The general contractor and subcontractors are thus relieved of the necessity to buy required insurances for that particular project.

When first developed, wrap-up insurance appealed to owners because they realized they were paying for contractors' coverages in any case (since these costs were part of the construction companies' bids). The idea of marketing a coordinated program to a single underwriter made practical sense.

Because of the larger dollars involved, the owners obtained reduced premium rates and better coverages and the underwriter, who got more dollars to work with, could afford to give the owner more services.

Wrap-up insurance hit a lull in the early 1970s when construction activity declined and underwriters became indifferent to the coverage due to economic conditions.

In 1974, however, many states passed enabling legislation that revitalized the wrap-up concept. These laws allowed the combination of several construction premiums to be viewed as a group premium for discount and retrospective rating purposes. Prior to this, each premium had been viewed individually.

Ensuing activity in office construction, trade centers and other large projects caused "wrap-up" to return in style. Owners of those projects valued at a construction cost of \$25 million (minimum) in suburban areas, and \$50 million (minimum) in urban centers were the first buyers.

The owners achieve five key benefits:

- *A coordinated loss control and claims handling program that applies to all work at the site.*

Each party in the construction project is thoroughly familiarized with the loss control program and agrees to support it. With the owner's

unqualified support, the single, well-structured safety program usually reduces the ultimate project cost. The coordinated claims program allows a uniform approach to claims handling. This, in turn, reduces intercompany insurance disputes and costly subrogation, and results in rapid and satisfactory claim settlements. Uniformity and reduced claims costs also contribute to sound relationships among all parties to the project.

- *Concurrent and uniform coverage for the owner, contractor and all subcontractors.* The greatly reduced administrative requirements of the insurance program also cuts costs.
- *Improved public image.* The owner, who will be identified with the site for many years, is seen by the public as the one responsible for prevention of serious injury or damages. The contractor or subcontractor is less visible. The combination of an effective safety program and a responsive claims procedure that yields fair and equitable settlements avoids adverse publicity. Centralized communication with media by one insurance company in case of an incident avoids the problem of several underwriters seeking to lay financial responsibility on each other.
- *Contractor involvement.* Since wrap-up makes insurance available to all approved contractors, those who might not otherwise be able to secure insurance are covered automatically. This helps promote the use of minority contractors on major projects.
- *Reduced cost.* Mass buying from one underwriter gives the owner leverage with insurance companies. A combination of safety, claims control and mass buying often produces significantly lower costs.

Keys to the cost efficiency of wrap-up insurance are both the safety program and the rating plan developed by the insurance broker and accepted by the underwriter. Because there is a substantial premium to be placed with one underwriter, the broker can design a variety of premium funding mechanisms.

Wrap-up insurance is a time-tested construction coverage concept. It is having a well-deserved revival, not only for its convenience and efficiencies, but also for its broader advantages—building protection for human life and keeping the owner's name at its brightest.

\*This article appeared in the Spring 1982 edition of *Private Opinion*, published quarterly by Johnson & Higgins, and is reprinted with its permission.

EXTRACTS FROM 1972 ADDRESS TO ATLANTA TRANSIT AUTHORITY BOARD  
PURSUANT TO DECISION TO WRAP-UP PROJECT

ADVANTAGES OF WRAP-UP INSURANCE

Wrap-up insurance produces lesser premium costs than traditional insurance. Savings of 50% or more can be realized. There are many reasons why wrap-up produces lower cost. Let me enumerate a few, and not necessarily in the order of importance.

1. Fewer accidents and safer place to work from one central program and one insurance company.
2. More realistic claims awards from prompt investigation and payment.
3. Elimination of coverage disputes which reduces litigation between parties.
4. Broader coverage and uniform protection of all parties.
5. Catastrophe limits to protect both owner and contractor.
6. Lower insurance costs from pooling of buying power.
7. Reduced administrative costs from one negotiated fee for central program.
8. Financial stability of insurers by owner selection.

DISADVANTAGES OF WRAP-UP INSURANCE

When discussing disadvantages, in fact you are talking about objections to wrap-up. Over the years, objections have been voiced primarily by the construction and the insurance industry.

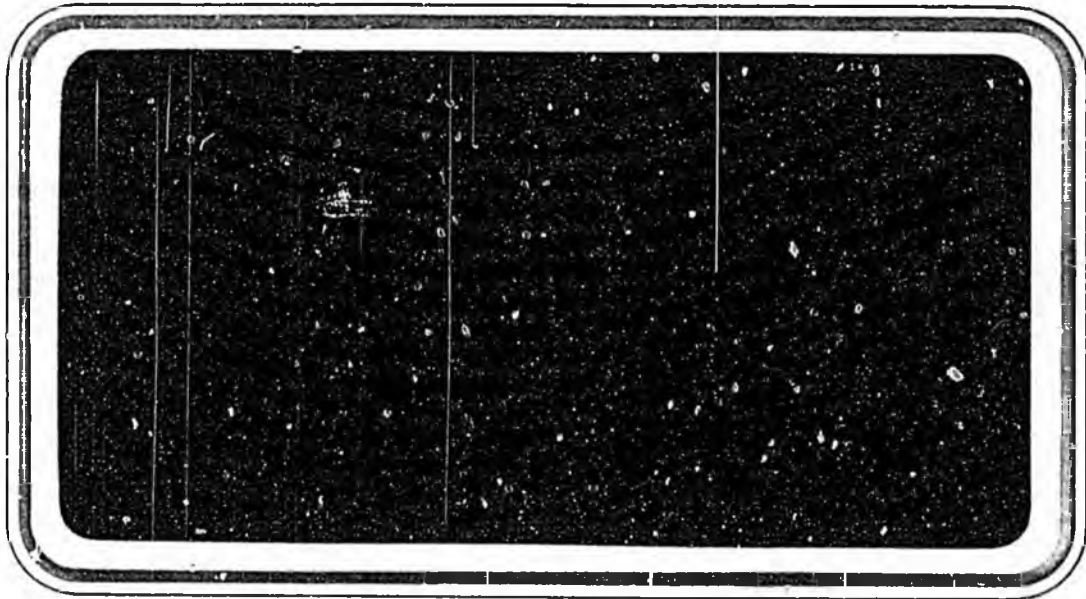
1. Insurance brokers object because they are deprived of some of their income from their clients who are involved in wrap-up.
2. The contractor objects principally because dividends and refunds on the insurance redound to the benefit of the owner.
3. A contractor will contend that he has a lesser interest in safety; exactly the opposite has proven to be true. A soundly-conceived safety program under a wrap-up plan will minimize the number and severity of accidents.
4. The contractor will object because he will lose the benefit of his good experience. In fact, a safe job should improve his workmens' compensation experience, which would apply to other work as well.

5. The contractor will contend that he loses his right to select his own insurer. This is not peculiar to wrap-ups. Owners usually specify the forms and amount of insurance and reserve the right to approve the insurance company.

Leland Hoagland, Insurance Director  
BART

JH/je  
5/0207-01/RM1

# Southern California Rapid Transit District **METRO RAIL PROJECT**



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**RTD**



INSURANCE ALTERNATIVES ANALYSIS  
FOR THE CONSTRUCTION OF THE SOUTHERN  
CALIFORNIA RAPID TRANSIT DISTRICT'S  
METRO RAIL PROJECT

Final Report

David B. Ashley

January 4, 1982

14 Manchester Road  
Winchester, MA 01890  
February 5, 1982

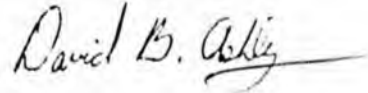
Mr. Richard Gallagher  
Manager/Chief Engineer  
Metro Rail Project  
6th Floor  
Southern California Rapid  
Transit District  
425 South Main Street  
Los Angeles, CA 90013

Dear Mr. Gallagher:

It is a pleasure to provide you with the final report, "Insurance Alternatives Analysis for Southern California Rapid Transit District's Metro Rail Project Construction," as the deliverable under your audit number 2349. I have incorporated comments from you, your staff, Mr. Pollack and Dr. Dyer.

I believe that the value and applicability of this analysis has been greatly enhanced by your contributions and interaction. I thank you for the opportunity of preparing this insurance study; it has been my pleasure to consult for the Metro Rail Project.

Sincerely yours,



David B. Ashley

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