

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 86/2

2671 SLC HB 4 (FILE 2) - (FILE 3)

TYEE POWER COSTS

The following table shows projected wholesale power costs for the Tyee project from FY 85 to FY 90.

PROJECTED TYEE WHOLESALE POWER COSTS (Cents per Kilowatt Hour)						
Fiscal Year	1985	1986	1987	1988	1989	1990
Power Cost	12.8	16.5	16.7	15.8	17.0	17.2
Power Sales (Millions of KWH)	32.0	32.8	33.6	34.5	35.3	36.2

Source: Alaska Power Authority for FY 85-86, adjusted by House Research Agency for FY 87-90 for 4 percent annual increase in debt service cap, 3 percent average annual load growth for all APA projects, and 5 percent annual inflation in operation and maintenance costs. Debt service calculations based on 35-year revenue bonds at 11 percent interest, with a 1.1 coverage level.

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Again, these projections are preliminary, and more accurate figures will be available within a week. These projected rates are probably on the high side because they do not account for the interest earned on debt reserve funds or the lower-than-expected cost of the interim financing for the project. The Power Authority's financial advisors are now working to incorporate these and other adjustments to arrive at more accurate rate projections. One uncertainty in these rates is that they assume the Wrangell sawmill will buy about 7 million KWH per year -- about 20 percent of total project's power sales from the project. The sawmill was shut down for over a month this winter and could be an uncertain buyer of Tyee power.

The Tyee project is scheduled to be completed in early 1984, and may be on line as soon as October 1983 if work continues at its current pace. When the project begins generating power, the initial rate will be set to cover only operation and maintenance costs (4-5 cents/KWH) until the start of the 1985 fiscal year, when the rate will increase to cover the costs of long-term financing for Tyee and the Swan Lake project. The power rate will increase again in FY 86 to reflect the cost of

revenue bonds issued for the Terror Lake project. After 1986, the Tye power rate will probably increase by about two percent per year.\*

#### PROJECT FINANCING

The completed cost of the Tye project is now estimated at \$115 to \$125 million. Construction of the project has been financed by \$82 million in appropriations from the legislature and \$50 million in interim financing. This interim financing will have to be repaid in the spring of 1984 through the issuance of revenue bonds, additional State appropriations, or a combination of the two. The Swan Lake project also has \$50 million in interim financing which will be repaid at about the same time. Terror Lake has \$100 million in short-term debt which will be due in 1985.

#### HB 9 RATE STRUCTURE

The financing and power costs for Tye are tied to those of other Power Authority hydro projects under legislation enacted in 1982 (CCSHB 9 -- Chapter 155). This statute requires each hydro project to pay its "proportionate share" of the total debt service costs for all projects, as determined under a formula in the statute. Basically, the statute means that if the construction cost of Tye is 25 percent of the total cost of all projects in the system, Tye must pay 25 percent of the total debt service costs for all projects. The wholesale power rate for each project is then determined by adding operation and maintenance expenses to debt service costs and dividing this sum by the expected power sales for each project.

The HB 9 rate structure replaced the "postage stamp" or single statewide rate formula which was enacted in 1981 by SB 25. The major purpose for the change in the rate structure was to increase the incentive for building cost-effective and properly sized projects, by linking power costs more directly with project construction costs.

When the conference committee on HB 9 reviewed rate projections for the four power projects, there was concern that the rates for the Tye and Swan Lake projects would be excessive under the HB 9 rate structure. As a result, the committee included in the legislation a limit or cap on the debt service cost for each project. Under this cap, no project must pay more than the average debt service cost for all Power Authority

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\* The rate calculation is complex, but the three main factors that affect the project rates after 1986 are: inflation in O&M costs, the rate of growth in power sales, and the 4 percent annual increase in the HB 9 debt service cap. The addition of the Bradley Lake project or other projects could also affect Tye rates substantially.

projects, plus a certain percentage which increases each year (8 percent in FY 85, 12 percent in FY 86, and so on). Although this debt service limit reduces the power rate for Tye substantially, it does not reduce the rate to a marketable level.

Because the debt service costs are pooled for all projects in the system, an appropriation to Tye or any other project would reduce the power costs for all projects by an equal percentage.

#### PETERSBURG AND WRANGELL POWER COSTS

##### Current Costs

Exact power costs for Wrangell and Petersburg were not readily available at this writing. However, the busbar generation cost (equivalent to the wholesale power cost from Tye) for both communities is approximately 12 cents per KWH. Wrangell generates all of its electricity from diesels, while Petersburg obtains about half its power from the Crystal Lake hydro project, which was built many years ago. The Petersburg utility apparently has a higher level of debt than the Wrangell utility, which offsets the lower cost of power from the hydro facility.

While most of the recent publicity concerning the Tye project has focused on the city of Petersburg, the Power Authority staff maintains that Wrangell would face a larger rate increase if Tye power were purchased at current projected rates than would Petersburg. According to Mike Yerkes, who is negotiating the Tye contracts for the Power Authority, this is because Wrangell would convert entirely from diesel generation to Tye power, while Petersburg would continue to generate about half its power from the low-cost Crystal Lake hydro project, which was built decades ago.

##### Future Costs

The rate of increase in future generation costs for Petersburg and Wrangell is one of the basic questions to consider in determining what approach the State might take to the Tye situation. The cost of diesel fuel is the largest expense component for these utilities, averaging about 9-10 cents per KWH generated over the past year. As you know, the future of world oil prices is highly uncertain and the range of forecasts is considerable. However, the most recent Department of Revenue forecast projects a 28 percent cumulative decrease in the real price of oil through FY 87. In nominal terms, oil prices in FY 88 are forecast to be about the same as today.

If this projection is accurate, it may be the early to mid-1990s before diesel generation costs would increase to the level of Tye

costs. However, an additional consideration is that Wrangell and Petersburg may have deferred expansion of their generation facilities in expectation of receiving Tyee power. Therefore, new generators might have to be added to meet increases in load growth during the 80s, which would increase power rates.

#### Retail Power Rates

Part of the publicity over the Tyee project centered on claims by Petersburg officials that they would have to add about 9 cents per KWH to the wholesale cost of power from Tyee for distribution and overhead costs, thus doubling the retail power costs from current levels. The Power Authority staff believe this figure is highly inflated and does not account for savings in diesel maintenance costs which would occur when Tyee comes on line. The staff is preparing documented estimates of what they feel are more realistic distribution and overhead costs.

#### Other Concerns

It is important to note that the cost of power from current projects is not the only concern of Petersburg, Wrangell, and other cities or utilities to be served by Power Authority projects. These groups are also concerned that under the current rate structure, their power rates could increase substantially as additional projects are added to the system. Whether this would occur depends on the level of State funding for the additional projects. If the ratio of State funding to bonded costs for new projects is lower than the average for current projects, the rates for current projects would rise.

The "Susitna Blackmail Clause" [AS 44.83.398(b)(2)] is an additional source of concern for municipalities and utilities, as the clause could dramatically increase power rates if not repealed. This clause would increase power rates by requiring a 10 percent annual return on investment to the State if \$5 billion has not been appropriated for power projects by 1986.

### POSSIBLE APPROACHES TO THE TYEE RATE PROBLEM

There are several possible approaches to the Tyee rate problem, as summarized earlier. The choice among them is complex and depends on basic policy issues relating to the power development program. Some of the more important factors to consider are discussed below.

#### Lump Sum Appropriation

This approach would be the most expensive; preliminary calculations indicate that \$70-80 million would be necessary to lower the Tyee power rates to the cost of diesel generation.\* Although the outstanding debt on the Tyee project is only \$50 million, the pooling of debt service among all projects under the APA rate structure requires a larger appropriation to reduce Tyee rates sufficiently. A lump sum appropriation would also lower the power rates for Solomon Gulch, Swan Lake, and Terror Lake by an equal percentage (about 40 percent). This raises two questions.

First, is it necessary or desirable to reduce the power rates for other projects that already have reasonably price power? Second, what effect would lowering the rates for all projects now on line or under construction have on future projects? Lowering the average power rate would reduce the debt/equity ratio for current projects and require a higher level of State appropriations for future projects unless power rates were to be increased for all projects.

#### Special Tyee Legislation

If special legislation were passed so that a one-time appropriation would be used to reduce only Tyee power rates, roughly \$20 million would be required to provide the necessary rate reduction. However, this approach could be viewed as creating a precedent for "bailing out" high-cost projects which might result in similar problems for future projects.

#### Annual Appropriation

In lieu of a one-time appropriation, the legislature could make annual appropriations of about \$2.4 million to cover the debt service shortfall that will result if power is sold at 12 cents rather than 16.5 cents per KWH. These appropriations would continue and eventually diminish

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\* I have not included these calculations here for the sake of brevity, but can provide them if desired.

to zero as the cost of diesel generation increased to match the cost of Tye power or the cost of Tye power fell. Although it is uncertain how long these annual appropriations would be required, depending on fuel escalation rates and other factors, the total cost would probably be half or less the cost of a lump sum appropriation.

The Petersburg and Wrangell utilities would be eligible for rate relief under the power cost assistance program, but only for the portion of retail rates above 16 cents in FY 86. This floor increases by one cent each fiscal year. Also, cost assistance is available only for the first 600 KWH per month sold to each customer. Therefore, a separate appropriation specifically for Tye debt service might be required each year in order to reduce power rates sufficiently.

#### Modification of Rate Structure

It would be technically possible to modify the statutory rate structure to reallocate at least part of the Tye debt service to other lower cost projects, primarily Solomon Gulch and Terror Lake. The communities served by these projects would probably strongly oppose this change. In addition, the bond markets could view this juggling of the rate structure with some concern.

#### Restructure Project Debt

It may be possible to reduce the debt service costs for the first few years of operation of the Tye project by borrowing additional funds with which to pay part of the interest on the bonds for several years. According to Sterling Gallager of John Nuveen and Associates, it is legally possible to have this type of arrangement for five years without violating federal arbitrage regulations. However, the financial viability of this approach is uncertain and would require additional research.

Another possibility would be to use a geometric financing approach, in which the debt service schedule would be shifted so that debt service costs would be lower in the early years and increase gradually as the project power sales increased. This approach has been used in a few utility bond issues, but it is uncommon and would also require more investigation to determine its viability for the Tye situation.

#### IMPLICATIONS FOR OTHER POWER PROJECTS

A number of legislators and other observers have expressed concern about the possibility of the Tye marketing problem occurring with Susitna or other hydro projects. This is a controversial issue with numerous points of view, but a few observations may be helpful in understanding the problem.

It is important to recognize the distinction between the economic feasibility of a hydroelectric project and the marketing feasibility of the same project. Although the economic feasibility of the Tye project is an issue itself, the point is that even a clearly feasible hydro project will usually require some sort of grant or low-cost financing to lower power rates to marketable levels in its early years of operation. After a period of years, increasing power sales and higher fuel costs for the alternative generation source should result in a break-even point, after which the hydro power becomes less expensive. The initial subsidy to the project can then be repaid, if necessary.

In the case of the Tye project, the continually increasing cost estimates for the project made it difficult to determine how much State money was required to achieve marketable power rates. The power marketing problem for Tye is also accentuated by the fact that Tye has the largest excess generation capacity of the four projects now on line or under construction -- only about 25-30 percent of the project's capacity will be used in the first years of operation. This lower level of utilization means that a higher proportion of State funds is necessary to obtain reasonable power rates.

A major element of the Tye problem appears to be that neither the legislature nor the Power Authority placed sufficient emphasis until recently on the marketing of power from the projects under construction. Part of the reason for this apparent oversight is that in 1980 and 1981, State revenues were increasing rapidly and it was expected that most of the project costs would be funded through direct appropriations or low-cost loans, rather than by revenue bonds. With this expectation, power marketing was not an issue because of the low power costs. The sharp decline in State revenues has resulted in more reliance on debt financing, causing higher power rates and the marketing problem demonstrated by the Tye project.

With respect to the Power Authority, an additional problem was the lack of staff with experience in marketing and rate issues. It was only about 10 months ago that the Power Authority hired someone with rate setting and utility experience. Until then, the focus of the staff

Representative Clocksin

February 11, 1983

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was more on the feasibility, design, engineering and financing aspects of power development.

A final contributing factor to the Tye situation was that the revisions to the Power Authority rate structure enacted in 1982 by HB 9 were not based on a full assesment of the effect of these rate revisions on the marketability of power from Tye and the other projects.

The likelihood of the Tye rate problem occurring with other power projects is difficult to assess. The Power Authority appears to have made good progress in dealing with the marketing issue. Several measures have been taken to avoid the recurrence of the Tye cost escalation problem, and a number of recent bids for construction of the Terror Lake and Anchorage-Fairbanks projects have been substantially lower than engineering estimates.

In addition, the Authority has proposed changing its procedures to require power sales contracts to be signed before project construction begins, and this was done for the Terror Lake project. In the past it has been difficult to obtain contracts because it was uncertain how much funding would be provided by the legislature, and there is a natural incentive for communities to lobby the legislature for additional funds to reduce their power rates. It may also be difficult to obtain pre-construction power sales agreements for the Susitna project because of the long lead time of the project.

The chances of the Tye power marketing problem occurring with future power projects would be reduced if the legislature made certain it had sound estimates of the maximum appropriation necessary for power marketing purposes before approving construction of a project, and committed itself to the appropriation of the necessary amount. Any changes in the rate structure should also be made only after detailed evaluation of the impact on project power rates and marketability.

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I hope this information is useful. If you have any questions or would like additional information, please don't hesitate to call.

JK

Attachment

# ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641  
(907) 276-0001

February 9, 1983

Mr. Jack Kreinheder  
House Research Agency  
Pouch Y  
Juneau, Alaska 99811

Subject: Tye Hydroelectric Project-Summary of Estimated Total Costs

Dear Jack:

As per your request, following is a brief summary on the sequence of events on the Tye hydropower project primarily relating to cost. The summary of Board actions was extracted from our corporate minutes. Most of the actions taken by the Board were based on advice from myself and my staff.

On December 19, 1979, the Alaska Power Authority submitted a revised application to the Federal Energy Regulatory Commission (FERC) for the construction of the Tye Hydroelectric Project in the vicinity of Wrangell and Petersburg, Alaska. Our engineers, R.W. Rutherford Associates/International Engineering Company (IECO) estimated the total cost of the project at that time at \$39,590,000 (1980\$'s). With an allowance for inflation and interest during construction the estimated total capital investment at that time came to \$53,333,000.

In September 1980, IECO submitted a revised cost estimate of \$50,976,000 (August 1980\$'s).

Early in 1981, the Power Authority retained EBASCO Services, Inc., to prepare an independent cost estimate. EBASCO subsequently estimated the total project cost at \$96,693,000 (May 1981\$'s). Escalated to the midpoint of construction, this would represent a completed cost of approximately \$110 million. After reviewing the EBASCO estimate, IECO conceded that its previous estimates were low and IECO raised its estimate to \$87,069,000 (June 1981\$'s). EBASCO refuted this revised estimate.

Procurement of long-lead-time turbines began in July 1981 in anticipation of a FERC license. The Board of Directors was realigned by Statute in the latter part of July 1981. The FERC issued a license on August 5, 1981 and the award of several additional procurement and one construction contract followed almost immediately thereafter.

IECO continued to make monthly reports on the status of the project, including estimated total project costs. It is important to note that by the end of March 1982, IECO had increased its project estimate to \$97,072,000,

including engineering costs prior to construction. In the March report the overhead transmission line was estimated to cost \$12,840,000 plus a \$6,000,000 contingency. Less than two months later, during the bid opening for that contract, IECO provided an engineer's estimate of \$23,280,827.00--an estimate that is 24 percent above any previous estimate, including contingency funds. The actual low bid was even higher at \$24,901,466.

Starting with the IECO estimate from the March 1982, report, adjusting for the actual low bid on the transmission line, and adding the estimated cost for a proposed separate substation construction contract, the estimated total project cost was increased by IECO to \$110,133,000 (May 1982). This did not include approximately \$5 million for owner provided insurance. During the months that followed, the total project cost has decreased and increased, slightly, as adjustments have been made for actual bids on relatively small procurement contracts..

In December 1982, and again in January 1983, senior staff of IECO and IECO's parent company, Morrison Knudsen (M-K), met with representatives of the Power Authority to discuss construction management of the project, including total project costs. The latest information from IECO is that the total project cost will not exceed \$124,836,100. The Power Authority has asked the parent company, M-K, to completely review this estimate. A report from the M-K staff is anticipated the second week of March 1983.

A summary of Board actions, as extracted from our corporate minutes, is as follows:

October 4, 1978 Board receives report on Tye Project indicating that, according to the reconnaissance study by Robert W. Retherford Associates, (RWR) the Project looks favorable and that Thomas Bay Power Commission (TBPC) will soon enter into contract with RWR for Federal Energy Regulatory Commission (FERC) work and that TBPC may request the Alaska Power Authority to take over the project.

November 18, 1978 APA Board voted to make \$120,000 loan to TBPC for Tye FERC work and this would supplement the \$300,000 available from the Water Resources Revolving Loan Fund (WRRLF) in order to cover the \$475,000 contract with RWR.

June 21, 1979 Board makes a loan to TBPC of \$60,000 for Tye Project. TBPC and Representative E.J. Haugen request the APA take over Tye. The Board directed staff to bring information back at next Board meeting for Project take-over.

September 27, 1979 Tye Letter of Understanding with TBPC adopted by Board.

November 2, 1979 Board authorized Executive Director to submit FERC license application. Also passed "stop-the-clock" resolution needed for bonding.

February 7, 1980 Board agreed to extend contract for advanced Engineering

and Design to IECO for Tye but it was later decided with legal council to seek competitive proposals.

April 18, 1980 Board selects IECO for the Engineering and Design from among three proposals.

October 23, 1980 Board informed that costs have increased from \$39,000,000 to \$51,000,000 IECO explain to Board.

April 20, 1981 Board selects consultant panel as required by FERC.

May 14, 1981 Board opens Bids for Turbines.

July 6, 1981 Board considered awarding contract for Steel Towers and Conductors but defers "notice to proceed" until after opening of major Civil Contract so that the Board could get a better fix on the true cost of the Project.

August 18, 1981 FERC license has been received. Bids for Civil construction were reviewed as were the economics of the Project based on new cost estimates. Notice-to-proceed was given on Towers and Conductors. The Board was informed that existing funds were insufficient and that interim financing would be necessary. Board deferred action until the next meeting.

September 10, 1981 Board awards Civil Works contract to Southeast Harrison Western (SEHW) after lengthy debate.

October 2, 1981 Board informed on legal actions against Tye construction contracts. Need for interim financing was discussed and indicated a proposal would be presented to the Board in December, 1981. Risk Management's desire to use "Wrap-up Insurance" on Tye Project was discussed and actions that would be taken to effectuate such a program.

December 15, 1981 A Finance Plan was presented to the Board. It was recommended that the Board appoint a subcommittee to review the feasibility of the Tye Project based on present knowledge of the costs. Commissioners Ward and Mueller and Dr. Weeden were appointed to the subcommittee. The Board moved that final financing documents for financing be prepared. The economics of the Project was reviewed.

January 22, 1982 Senator Dankworth and Representative Haugen addressed the Board and recommended proceeding with interim financing. Board authorized securing of \$50,000,000 in interim financing. Board awarded a contract for Underwater Cables.

May 25, 1982 The Board awarded the Overhead Transmission Line contingent upon the Legislature not passing a piece of legislation that was being considered but that subsequently was not passed. Thus on June 3, 1982 the Executive Director informed the Board of his intent to issue the award for Transmission Tower construction.

Mr. Jack Kreinheder

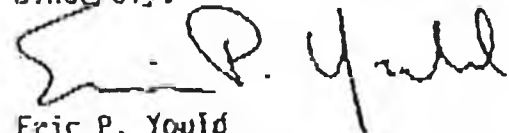
Page #4

February 9, 1983

October 22, 1982 The Board awarded contract for Transformers.

I trust this information is of assistance to you. If there is any further information you need, please call on me.

Sincerely,



Eric P. Yould  
Executive Director

CC:

C. Conway

Comm. D. Lyon

APPENDIX A

SCHEDULE OF APA CONTRACTS WITH  
AND PAYMENTS TO BROKERS  
As of June 15, 1982

<u>Contract Encumbrance Number</u>	<u>Description</u>	<u>Contract Amount</u>	<u>Payments at 06/15/82</u>
CC082307	Alaska Power Construction Program (APCOP) - Tyee Lake, Phase I	\$1,790,000	\$540,000 <sup>2</sup>
CC082304	APA Contract Insurance Review	\$ 40,000	\$ 20,000

1 To date, no provisions for Tyee Lake - Phases II-III have been appended to the APCOP contract. These phases were bid net of insurance, but how and through whom APA will provide insurance has not been finalized.

2 Scheduled payments are:

10/01/81	\$ 640,000	
Less Premium Discount	<u>(100,000)</u>	
		\$ 540,000
08/01/82		580,000
02/01/83		<u>570,000</u>
		<u>\$1,690,000</u>

APPENDIX B

TYEE LAKE LOSSES AND PAYMENTS  
As of May 31, 1982

<u>Loss Type</u>	<u>Estimated Loss Incurred</u>	<u>Loss Payments</u>
Workers' Compensation <sup>1</sup>	\$111,846	\$33,108
Property	<u>20,000</u>	<u>-0-</u>
	<u>\$131,846</u>	<u>\$33,108</u>

- 1 As of May 31, 1982, 14 Workers' Compensation claims had been submitted for adjustment. Largest estimated loss for a single claim was \$25,000.

**DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE COMMISSIONER

POUCH C

JUNEAU, ALASKA 99811

August 2, 1982

Mr. Gerald Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit  
Legislative Budget and Audit Committee  
Pouch W  
Juneau, AK 99811

RECEIVED  
AUG 02 1982  
LEGISLATIVE  
AUDIT

Re: Response to a Special Review of the Alaska Power Authority Insurance Programs Administered Through the Alaska Power Authority and the Department of Administration, Division of Risk Management, Dated June 29, 1982

The decision to recommend the Wrap-up program to the Alaska Power Authority (APA) was completely the responsibility of the Division of Risk Management. Wrap-up insurance has been the normal way to cover large construction projects for the last 30 years. This is not to imply that wrap-ups are not controversial because they are. This controversy, however, does not deter from the cost effective nature of wrap-ups. There are three valid reasons for not considering wrap-up insurance:

1. The construction project is not large enough (50 million or greater);
2. The Risk Management Program of the owner or contractor is not sophisticated enough to adequately coordinate the required services.
3. The political considerations which have resulted in several states passing restrictive legislation prohibiting wrap-ups.

Prior to recommending wrap-up to the APA, meetings were held between Risk Management and the Division of Insurance. Even though wrap-ups are acceptable in Alaska, the Division of Insurance is responsible for setting up guidelines and if required, adopting regulations. After reviewing the guidelines and discussing Risk Management's program, the Division of Insurance decided to not adopt regulations. Most of the questions regarding wrap-ups had been answered

several years ago when Alyeska Pipeline Co. was given approval to provide an owner wrap-up for the Taps Construction.

Before answering the individual recommendations, we would like to make two observations: First, the atmosphere surrounding the initiation of this audit was inflammatory in that there were a considerable number of rancorous accusations made against the Division of Risk Management, APA and the APCOP brokers. We believe that the auditors were able to cut through the periphery issues and produce a professional report which is notable for its objectivity.

Second, many of the legal issues on closer examination did not have substance. In order to completely counteract the questions, we had legal research done on several of these legal questions and they were not found to be meritorious.

The conclusion that there were no improprieties are concurred with. The decision to use the State's recently appointed brokers for the first wrap-up program is justified from a Risk Management standpoint and the brokers who participated in the RFF understood it to be for Risk Management services over a three to five year period.

The \$40,000 contract review program has received more publicity than it warrants. This contract review had two facets: 1. To determine what existing liabilities were outstanding, and to provide coverage if needed. Since the State's brokers were responsible for providing the coverage ex commission, there was no logical way to select another contractor. Also, there was a sense of urgency due to the pending acquisition of the Solomon Gulch and Swan Lake projects and the need to become immediately involved in the contract negotiations between the APA and the project attorneys.

#### Recommendations

1. The Divisions of Risk Management, Insurance, and Workers' Compensation should discuss, in a formal setting if necessary, the Workers' Compensation and other insurance questions that have been raised. Using a State-funded loss reserve for non-State employees is clearly a divisive and unresolved issue. It is incumbent on these agencies to clarify what is a very gray area.

Agreed. Attached is a memo (Appendix I) which has been sent to both the Division of Insurance and the Workers' Compensation Board which should resolve the problem. If not, we are prepared to meet with appropriate personnel to answer any questions.

2. APA and Risk Management should monitor and evaluate the Tye Lake wrap-up program in order that some comparative data be available for future

projects. This would entail audits and actuarial reviews of payments and loss reserves, as well as an independent evaluation of owner vs. contractor provided insurance.

Agreed. This recommendation is an excellent one and one in which Risk Management is quite interested in pursuing. We believe that the Tye Program will prove to be extremely cost effective and will also have a considerably better safety record than similar projects of this type. In addition, we believe that we are using a maximum of Alaska Risk Management contractors on the Program and that we are making it available for the smaller Alaska contractor to participate by furnishing raw coverage insurance that the smaller contractor might not be able to purchase on its own. See Appendix II and III for allocation of costs.

3. APA should decide whether or not to utilize owner provided insurance far enough in advance to incorporate this into the contractor RFP. For example, contractors could submit bids with insurance, without insurance, or both with and without insurance and then be measured against some pre-determined criteria.

In addition, sufficient time should be allowed to go through a broker selection process on construction projects where APA opts for owner provided insurance.

Agreed. Risk Management was limited by the decision process that the APA and its board of directors were operating under. There is no question but that the insurance language should be incorporated prior to the bids being put out. In addition, we would recommend that all insurance specifications include the owner wrap-up language and that after the bid is let that the contractor's firm be given the option of proposing its price to write the coverage. In this way a direct comparison of advantages of owner or contractor wrap-up could be made and a decision made at that time.

4. APA and Risk Management should clarify their respective responsibilities over APA projects, whether under construction or completed. In December, 1981, the two agencies signed a memorandum of understanding outlining the role each played in providing risk management services for APA. However, this "understanding" has become somewhat strained. For example, brokers have been given conflicting signals over certain coverages, and APA is even considering employing its own risk manager.

We would hope that APA's decision will be based on economics and need, and will consider all those issues inherent to wrap-up regardless of who

August 2, 1982

administers it. In any event, until and unless APA establishes its own risk management program, the existing memorandum of understanding should be followed to ensure comprehensive and continuous coverage on APA projects.

Agreed. There have been meetings with the APA and Risk Management since the pressure of the legislative activity has been reduce. The result of the last meeting was that Risk Management would take over the administration of the contract between the APA and the APCOP brokers. In this way the APA would not be responsible for understanding and administering a Risk Management Program but instead, will pass this responsibility to Risk Management pending any decision to set up their own program. In this regard there is presently a Request for Proposal (RFP) for a Risk Management consultant to study the whole wrap-up insurance question for the APA.

Although it is difficult to quantify the exact savings to the State, a Federal government study has verified savings of 30-40 percent of conventional insurance costs. This relates to two percent of construction costs. In addition, since the State holds on to the loss reserves, an additional one per cent of costs is realized through investment earnings. If the present construction schedule of the APA is realized, the savings would amount to \$192,600,000.

It is important that the controversy surrounding this program not obscure the potential savings to the State, which would be lost if the program were terminated.

Sincerely,

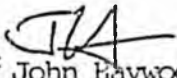
  
Carole J. Burger  
Commissioner

CB/JH/jbh  
3/0802-02/RM2

## MEMORANDUM

State of Alaska

TO: Ms. Jackie McClintock  
Director  
Division of Workers' Compensation  
Department of Labor

FROM:   
John Raywood  
Director  
Division of Risk Management  
Department of Administration

DATE: August 2, 1982

FILE NO:

TELEPHONE NO: 465-2180

SUBJECT: Tyee Lake Wrap-up  
Program Insurance

There have been several questions raised as to the details of the Workers' Compensation Insurance for the Tyee Lake Wrap-up Program. There are many ways in which large accounts structure their workers' compensation programs and some are more controversial than others.

Due to the unusual level of interest in this program, it was Risk Management's decision with the concurrence of Marsh and McLennan and Pacific Marine Insurance Company to provide one of the conventional forms of coverage.

Consequently, we have negotiated a Retrospective Rating Plan "D" combined Workers' Compensation and General Liability. This is an incurred loss retro program which puts it in the mainstream of insurance programs.

JH/je  
5/0802-06/RM1

APPENDIX II  
TYEE PREMIUM ALLOCATION

TOTALS	I - Tunnel & Powerhouse	=	\$1,690,000
	II - Submarine Cable	=	598,000
	III - Transmission Line	=	1,496,602
	TOTAL		<u>\$3,784,602</u>

PHASE I - Powerhouse & Tunnel Contract - \$1,690,000 - Total Premium

1. General Liability & Workers' Compensation - 2 yrs	=	974,000
2. Inland & Marine Cargo	=	303,000
3. Non-owned Aviation	=	61,000
4. C.O.C. - Builders Risk	=	181,000
5. Excess Insurance	=	171,000
		<u>\$1,690,000</u>

PHASE II - Submarine Cable Contract - \$598,000 - Total Premium

1. General Liability & Workers' Compensation	=	179,400
2. Non-owned Aviations	=	32,500
3. C.O.C. - Builders Risk	=	29,900
4. Excess Insurance	=	63,980
5. Marine Insurance	=	292,220
		<u>\$ 598,000</u>

PHASE III - Transmission Line Contract - \$1,496,602 - Total Premium

1. General Liability & Workers' Compensation	=	1,174,327
2. C.O.C. - Builders Risk	=	162,100
3. Excess Insurance	=	160,130
		<u>\$1,496,602</u>

APPENDIX III  
 TYEE WRAP-UP BUDGET  
 August 22, 1982

PHASE	I	-	1,690,000
	II	-	598,000
	III	-	1,496,602
TOTAL		-	3,784,602

PREMIUM	1,242,000
RETENTION	1,894,000
ADMIN. EXP.	82,000
BROKER FEE	119,000
EXTRAORDINARY TRAVEL/LEGAL	40,000
SAFETY	78,000
CLAIMS ADJ	60,000
ATTORNEYS	15,000
CONTINGENCY	207,602
PRESS RELEASE	5,000
INSURANCE LIASON	20,000
CPA/ACTUARIAL	10,000
CLAIMS MANAGEMENT	12,000
TOTAL	3,784,602

3/0802-02/RM2

# ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641  
(907) 276-0001

August  
**RECEIVED**  
AUG 09 1982  
LEGISLATIVE  
AUDIT

Mr. Gerald Wilkerson, CPA  
Budget and Audit Committee  
Legislative Auditor  
Division of Legislative Audit  
Pouch W  
State Office Building  
Juneau, Alaska 99811

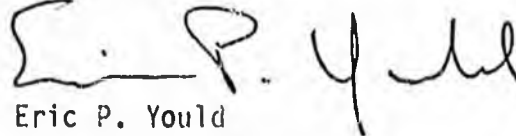
Subject: Response to Preliminary Audit Report  
Alaska Power Authority Insurance Programs

Dear Mr. Wilkerson:

Attached is our response to the Preliminary Audit of June 29, 1982. Mr. Conway requested that I respond to you directly. The Alaska Power Authority has expressed its agreement with each of the Audit Report Recommendations and has initiated action to implement the recommendations.

The Power Authority is currently selecting an Insurance Consultant to provide professional services on insurance matters. This action will increase our expertise and management of insurance related issues and thereby mitigate the administrative concerns addressed in the Legislative audit.

Sincerely,



Eric P. Yould  
Executive Director

Attachment: as stated

# ALASKA POWER AUTHORITY

## RECOMMENDATION ONE:

1. The Divisions of Risk Management, Insurance, and Workers' Compensation should discuss, in a formal setting if necessary, the Workers' Compensation and other insurance questions that have been raised. Using a State-funded loss reserve for non-State employees is clearly a divisive and unresolved issue. It is incumbent on these agencies what is a very gray area.

## POWER AUTHORITY RESPONSE:

This recommendation is not addressed to the Alaska Power Authority.

## RECOMMENDATION TWO:

2. Power Authority and Risk Management should monitor and evaluate the Tye Lake wrap-up program in order that some comparative data be available for future projects. This would entail audits and actuarial reviews of payments and loss reserves, as well as an independent evaluation of owner vs. contractor provided insurance.

## POWER AUTHORITY RESPONSE:

The first part of this recommendation addresses the monitoring and evaluation of the Tye Lake wrap-up program and refers to an audit program. The Power Authority agrees that this is a necessary and beneficial action since the Tye wrap-up program is the Power Authority's first owner's provided insurance program.

In order to implement this recommendation, the Power Authority has issued an RFP for an Insurance Consultant. An evaluation of the Tye wrap-up will be a primary task of the Consultant.

The Insurance Consultant will, if appropriate, define an audit scope and follow through with an audit program.

Secondly, the Power Authority Insurance Consultant will conduct an independent evaluation of owner vs. contractor provided insurance.

## RECOMMENDATION THREE:

3. Power Authority should decide whether or not to utilize owner provided insurance far enough in advance to incorporate this into the contractor RFP. For example,

contractors could submit bids with insurance, without insurance, or both with and without insurance and then be measured against some pre-determined criteria.

In addition, sufficient time should be allowed to go through a broker selection process on construction projects where Power Authority ops for owner provided insurance.

POWER AUTHORITY RESPONSE:

Power Authority agrees that should the review of the Insurance Consultant indicate that owner-provided insurance is cost effective and in the best interest of the Power Authority and provided that the Power Authority staff concur with the Consultant's opinion, any owner-provided insurance programs will be incorporated in the contract issuance process.

Power Authority will take steps to insure that sufficient time is allowed to properly select a qualified broker.

RECOMMENDATION FOUR:

4. Power Authority and Risk Management should clarify their respective responsibilities over Power Authority projects, whether under construction or completed. In December, 1981, the two agencies signed a memorandum of understanding outlining the role each played in providing risk management services for Power Authority. However, this "understanding" has become somewhat strained. For example, brokers have been given conflicting signals over certain coverages, and Power Authority is even considering employing its own risk manager.

We would hope that Power Authority's decision will be based on economics and need, and will consider all those issues inherent to wrap-up regardless of who administers it. In any event, until and unless Power Authority establishes its own risk management program, the existing memorandum of understanding should be followed to ensure comprehensive and continuous coverage on Power Authority projects.

POWER AUTHORITY RESPONSE:

The Power Authority agrees with this recommendation and as such the Power Authority and the Division of Risk Management have mutually agreed that the day-to-day administration and monitoring of Tye "wrap-up" insurance program should be the responsibility of Risk Management. The Power Authority Tye insurance contracts are in the process of being assumed by Risk Management. The Power Authority believes that the existing memorandum of understanding has been clarified for both parties.

The Power Authority will approve insurance premium payments prior to Risk Management making payment. Payment will be made on the basis of insurance premium invoiced cost and in accordance with the terms specified by the Power Authority's transmitted RSA.

The existing memorandum of understanding applies only to the Tyee "wrap-up" insurance program. The Power Authority will rely on the advise of its Insurance Consultant in evaluating future project insurance requirements.

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811

January 11, 1983

Members of the  
Legislative Budget and Audit Committee:

Re: Alaska Power Authority "Wrap-Up" Insurance on Tye Lake

On June 29, 1982, we completed a review of Alaska Power Authority (APA) insurance programs administered through APA and the Department of Administration, Division of Risk Management (RM). In follow-up to that review we were requested by the Legislative Budget and Audit Committee to obtain or develop an estimate of the costs that would be incurred if the State cancelled its current brokerage contract and "wrap-up" insurance program on the Tye Lake hydroelectric project. This letter constitutes our response.

Cost Estimate Developed By Division of  
Risk Management, Brokers

At our request, the brokers currently administering the Tye Lake insurance program (Marsh & McLennon, Inc.) and the Division of Risk Management developed a cost estimate of cancelling the Tye Lake wrap-up insurance program now in place. They estimate that cancelling the program approximately halfway through the project would cost the State an additional \$2.25 million over the \$3.82 million currently projected for insurance costs. This is illustrated in the following schedule:

COST ESTIMATE - CANCELLATION OF  
CURRENT TYEE LAKE INSURANCE PROGRAM

	<u>Full Term Wrap-Up (in millions)</u>	<u>Cancelled Wrap-Up (in millions)</u>
wrap-up costs already incurred or projected (Note 1)	\$3.82	\$ 1.91
10% "short note" penalty (Note 2)	-0-	.38
Non-controlled program costs (Note 3)	-0-	3.38
Gross costs excluding invest- ment income	<u>\$3.82</u>	<u>5.67</u> <u>(3.82)</u>
Excess of Cancelled Wrap-Up over Full Term Wrap-Up		<u>1.85</u>
Add: Unrealized investment income (Note 4)		<u>.40</u>
<u>Total excess cost of cancel- ling Wrap-Up insurance on Tyee Lake</u>		<u>\$ 2.25</u>

Note 1

Insurance program costs calculated at 4.25% of total project cost. Using estimated project cost of \$90 million, projected wrap-up cost = \$90 million X 4.25% or \$3.82 million. Since project approximately 50% complete, wrap-up cost already incurred = \$3.82 million X 50% or \$1.91 million.

Note 2

Penalty for early cancellation, calculated at 10% of full-term wrap-up cost.

Note 3

RII and brokers originally estimated that a contractor or "non-controlled" insurance program would have run 6.25% of total project cost (2% higher than 4.25% applied under wrap-up program). In addition, they estimate that contractors and underwriters would increase this rate by an additional 20% (6.25% X 20% = 1.25%) surcharge for mid-term replacement. It is their estimate, then, that "non-controlled" insurance costs for the remainder of the project would be applied at a rate of 7.5% (6.25% + 1.25%). This rate applied to remaining project costs of \$45 million = \$3.38 million.

Note 4

Assuming approximately 12% rate of return over the remaining life of the project.

Comments on Cost Estimate

The Division of Risk Management and Marsh & McLennon, Inc. acknowledge that the above cost estimate is very rough, but state that it is, if anything, too low. They point out, for example, that the State would be in a poor bargaining position to force contractors and their underwriters to be cost-effective in developing alternative insurance programs. The State has already agreed to provide insurance; it cannot now dictate that the contractors provide their own insurance and that they do so on the State's terms.

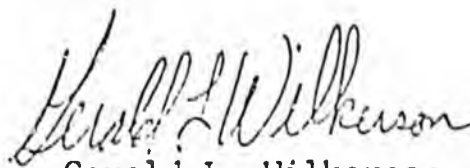
On the other hand, the independent consultant hired by APA to review, among other things, the insurance program for Tye Lake believes the RM/Marsh & McLennon, Inc. cost estimate for cancelling the current insurance program to be too high. In particular, he cites the 7.5% rate estimate for a "non-controlled" program (see Note 3) as being inflated, particularly since no survey was made of contractors and their underwriters to get their input. He does not believe, however, that the current Tye Lake insurance program should be cancelled, and agrees that if the program were cancelled the State would ultimately incur higher costs.

The APA had no comments on the cost estimate per se, but expressed its concern that no additional cost be incurred on Tye Lake since this would in turn result in increased electricity rates for consumers.

Summary and Auditor's Comments

The cost estimate prepared by the Division of Risk Management and Marsh & McLennon, Inc. is presented here because it is the best information readily available to us. As noted above, some of the factors used in this estimate are very subjective and the actual costs of cancelling the current wrap-up insurance program in place for Tye Lake could vary considerably from the quoted \$2.25 million. There does appear to be a general agreement, however, that cancellation would result in increased costs and would therefore not be in the best economic interests of the State. We concur with this assessment.

Sincerely,



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

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# ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641  
(907) 276-0001

February 16, 1983

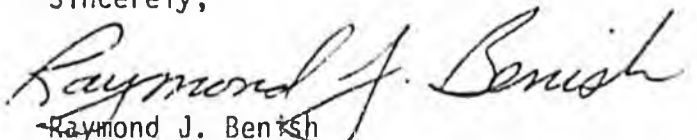
Honorable Richard I. Eliason  
Senator  
State Capitol  
Pouch V  
Juneau, Alaska 99811

Dear Senator Eliason:

Per your request, I am enclosing a draft copy of a preliminary report on Tye Project Wrap Up Insurance Program by our Risk Management Consultant, Mr. Dan McCarthy. We had a meeting with the State Risk Manager, Mr. John Haywood and the State's Broker, Mr. Dave Carlson to request additional information. Since this meeting, we have not as yet, received any additional information and, therefore cannot complete our report.

Also, enclosed is a short report on the pros and cons of insurance in general. I specifically requested our risk manager consultant to be as brief as possible.

Sincerely,

  
Raymond J. Benish  
Director of Finance

Enclosures: as stated

RJS/lj

cc: Commissioner Dick Lyon

JAN 03 1983

ALASKA POWER AUTHORITY

DRAFT

Report the Wrap-up Insurance Program for the Tyee Lake Project.

(Item 3 of Assignment II)

This report will analyze the various components of this Wrap-up Insurance Program and attempt to comment on its value in terms of its components and in financial terms.

A separate comment regarding cancellation of the Program will be made, as well as a suggested audit system.

The components include:


- 1.- Analysis of the various Pac Mar insurance policies.
- 2.- Analysis of the "rating" plans for Workers' Compensation and General Liability.
- 3.- Comment on the various contracts with the broker, the carrier and related fees.
- 4.- Comment on the system of separate service contracts for safety, loss reporting and claims handling and claims supervision.
- 5.- Comment on the selection of carrier and its reinsurance for this project; comment on the choice of Pac Mar as the carrier, dealing primarily with the class of business in which it is engaged, its domicile and the services rendered the Project.

General Comment:

The contract with Scott Wetzel Services for safety engineering and loss reporting and the contract with Shepard & Associates for claims supervision of loss adjusting by Pac Mar have now been made available. Let me hasten to add that I had not specifically requested these, believing they would be made available along with the other materials specifically requested to aid in this effort.

Also, not available at this time is the specific request of Pac Mar for the contractor payroll reporting system and the periodic calculations of contractor and over-all lost ratios. Copies of several invoices were provided. (These are forthcoming per Dave Carlson's letter of December 10, 1982, but not yet received).

DRAFT



As I understand matters, the genesis of this wrap-up program is the agreement between State Risk Management and the Alaska Power Authority.

Risk Management in turn arranged for broker services employing the joint venture of Marsh & McLennand and Corroon & Black / Dawson, in a contract between the joint venture and the Alaska Power Authority, contract number CC08-2307.

These brokers were engaged in the premise that State Risk Management had recently undergone a "broker selection process" resulting in the selection of these brokers, not only for other State insurance matters, but also for the Tyee Project Wrap-up Program.

*M+Mc/C+B*  
The joint venture adopted the acronym (APCOP) meaning Alaska Power Construction Program.

Item 1 - Analysis of Worker's Compensation Insurance Policies (W/C). Issued by Pacific Marine Insurance Company of Alaska

Separate Standard W/C Policies have been issued to each contractor and subcontractor performing work at the site and contracted all necessary extensions of coverage including "offshore" exposures and a three year Retrospective Rating Plan "D". (This will be discussed under item-2, following.)

Four W/C Policies have been provided for review as representative of all such policies issued. These are:

Harrison Western Corporation/Southeast Drilling Co.  
Mitsui and Co. (U.S.A.), Inc. and D.W. Close Company, Inc.  
Power City Construction, Inc. & Power Constructors, Inc., Power Two.  
Alaska Power Authority. This policy was subsequently cancelled "flat", ie without a premium charge.

At this time there were 21 W/C Policies issued, with 17 remaining in force. Each policy is numbered sequentially.

In addition to the policy written for APA, one other was cancelled "flat" for an unknown reason. Two policies were written for a "short term", ie to completion of the contractor's work.

All policies appropriately provide for each insured's own appropriate work classifications and experience rating modification to be used in premium calculations. Final, total premium for insured is based upon audited payroll for this project.

The three policies received for review provide statutory W/C limits and a \$100,000 limit for Employer's Liability. The Maritime limit provided is \$500,000.

Item 1 - (Continued)

Depending upon each insured's operations/exposures, these limits may be inadequate. It is possible that the Excess General Liability Insurance provides protection excess these limits. A review of the evidence of insurance for "Subscription Policy" number SOAMC-1982-APA-1 does not confirm this possibility. This evidence indicates that a \$35,000,000 limit is provided including Worker's Compensation Insurance; however, there is no evidence in this form that Employer's Liability and Maritime Insurance is included.

This task could have been made easier if a complete schedule and description of insurance was provided showing primary and excess layers. Copies of various materials were voluntarily provided by Mr. Haywood, others were specifically requested; most were received.

It was my belief that upon receipt of these policies, systems, agreements, etc., that I could properly analyze them for this report. But I find that certain assumptions must be made at this time in order to complete this assignment on any kind of timely basis.

I shall make additional inquiries of Dave Carlson regarding these assumptions and supplement this report at a later date.

Worker's Compensation is a straight forward kind of insurance. The review of the sample policies found no inadequacies except for the possible rather low limit of liability for Employer's Liability and Maritime Coverages which will be investigated further.

Does this  
put State  
in  
vulnerable  
position?

Item 1 (a) - Analysis of General Liability Insurance,  
Issued by Pacific Marine Insurance Company  
of Alaska.

The named insureds for this protection is State of Alaska/Alaska Power Authority and Prime Contractors and their Subcontractors of all tiers.

This approach is proper and can and should be done for liability insurance for wrap-up projects.

The limit of liability is \$500,000 Combined Single Limit for Bodily Injury and Property Damage. The limit is per "occurrence" and in the "aggregate". There is a \$5,000 deductible applied to Property Damage classes.

Premium is based upon audited payroll for the project for insured contractors and subcontractors. Advance premium of \$35,000 is required.

Policy provisions include:

Broad Form General Liability Extension, which provides improved Contractual Liability protection; Personal Injury and Advertising, Incidental Medical Malpractice Insurance among other broadening features such as Premises Medical Payments Coverage. As with the W/C Policies, final premium is subject to the Retrospective Rating Plan 'D' provision.

Although this policy can be considered adequate, there is nothing special concerning it. It could have been broadened in several additional ways, but probably thought to be unnecessary following exposure analysis.

There is a Subscription Policy in affect providing \$35,000,000 per occurrence of protection for both Bodily Injury and Property Damage Liability. The subscribing companies are not known. The Evidence of Insurance made available does not indicate if the coverage afforded is "Following Form" or otherwise. It does indicate that it provides W/C Coverages, but it does not indicate that it provides Employer's Liability or Maritime protection.

Item 1. (a) - (Continued)

I am unable to provide Bests Key Ratings because the subscribing companies are not listed in the "Evidence" provided. However, there is a Broker's Warranty indicating that there are insurances in affect in insurance companies totally the indicated limit. <sup>ing</sup>

Item 1 (b) - Other Insurance:

Inland and Marine Cargo

Subscription Policy (companies unknown)  
providing Inland and Ocean Marine Cargo Insurance

Limit is \$5,000,000 any one vessel (and presumably any one land conveyance), subject to a \$5,000 deductible.

The insureds include State of Alaska/Alaska Power Authority, Prime Contractors and their Subcontractors of all tiers.

Coverage analysis is impossible in view of receipt of the "Evidence" only.

Premium determination is impossible due to lack of information.

As with the W/C, Subscription General Liability inquiry will be made of Dave Carlson of this Subscription Policy for detail to permit adequate analysis.

Broker's Warranty is provided.

Builder's Risk/Course of Construction Insurance.

Subscription Policy (companies unknown) providing property insurance for the construction at Tye Lake Hydroelectric Project.

Limit is \$45,000,000. Phase I - Power Tunnel and Powerhouse. There is no deductible indicated in the "Evidence" provided, although it would be most unusual if there were not one.

The insureds include State of Alaska/Alaska Power Authority, Prime Contractors and their Subcontractors of all tiers.



Item 1 (b) - (Continued)

Coverage analysis is impossible in view of receipt of the "Evidence" only.

Premium is based on value of material on site and constructed value prior to completion. The rate is \$.06/\$100 of referenced value on an annual basis.

As with the W/C, Subscription General Liability and Subscription Inland & Marine Cargo Policies, inquiry will be made of Dave Carlson for details to provide an analysis of this Subscription Policy.

Broker's Warranty is provided.

Item 2 - Analysis of Retrospective Rating Plan D  
for Worker's Compensation & General Liability  
Insurance.

The standard three year "Rating Plan" has been revised to meet the needs of the Project in terms of the length of time the Project is expected to be completed.

Plan Expense Factors

The Plan has been further modified in terms of the applicable Rating Plan factors. These are improvements in factors as follows:

- Loss conversion factor (LCF) is 1.0, ie no loss adjustment charge is made in the plan. This is arranged so as to accomodate a separate loss adjustment agreement between APCOP and Pac Mar, wherein charges for loss adjustment are provided. This contract will be disoussed later in this report.

Normally a LCF in Plan 'D' agreements are a function of the minimum and maximum premium and basic premium factors among other considerations; they can range from a low of about 1.08 to a high of about 1.40 times incurred losses.

State premium taxes are charged under the plan as follows: W/C 1.037 and G/L 1.03 times the developed ratio premium of Basic Premium + (Losses x LCF) x taxes of 1.037 & 1.03.

Losses

The Plan provides for a maximum chargeable loss of \$300,000, any one occurrence, combined W/C and G/L. A single W/C loss of \$300,000 is chargeable if they are separate and distinct occurrences.



Item 2 - (Continued)

Basic, Standard, Minimum & Maximum Premiums

The Standard Premium is the premium generated for each insured contractor/subcontractor, ie their payroll times their applicable W/C and G/L rates.

The Basic Premium is established at \$150,000.

The Minimum Premium is established at the Basic Premium of \$150,000 x the state tax multiplier of 1.037 or 1.03.

The maximum premium is \$150,000 plus incurred losses.

This plan, as most Retrospective Rating Plans, provides for severe penalties in the event the Plan is cancelled prior to the completion of the Tye Project.

The Plan also provides for agreement for final computation of premium following the completion of the Project.

General Comment:

All the major wrap-up programs with which I have any familiarity utilize a retrospective rating of some kind. The size of the project and therefore the amount of premium along with the broker's ability to negotiate determines the favorable or unfavorable plan factors.

The Tye Plan factors are generally acceptable. But one must realize that Pac Mar is essentially issuing insurance policies and are compensated per terms of its agreement with APCOP as well as for certain plan costs and receive a premium.

*How does  
payment  
work?*

Item 2 - (Continued)

The Tyee Plan contains severe cancellation penalties as well as what amounts to an open maximum premium in that the maximum premium is established at \$150,000 plus incurred losses.

While the plan provides for final premium following completion of the Project, it also is conceivable that large amounts of money could be due and payable if severe incurred losses are outstanding at completion of the Project.

The normal maximum premium protection is <sup>prevented</sup> obviated by this Plan's maximum and final premium provisions.

Item 3 -

Comments regarding various contracts/agreements for Services for Tyee Project Wrap-up Program.

The first agreement to be analyzed is Standard Agreement Forms For Professional Services Contract between Alaska Power Authority and the Joint Venture of Marsh & McLennan, Inc./Carroon and Black/Dawson & Co., Inc. (APCOP) - number CC08-2307. All other service agreements for the Tyee Project flow from this Agreement.

These are:

- . The purchase of various insurances referenced above.
- . Agreement with Pacific Marine Insurance Company of Alaska (Pac Mar)
- . Agreement with Scott Wetzel Services.
- . Professional Services Contract with Pac Mar for claims adjusting.
- . Claims Consulting Contract with Shepard and Associates.
- . Agreement with Lewison & Associates for technical services.
- . Agreement for Data Processing Services No. 210273C with Manus Services Corporation.

APCOP agreement No. CC08-2307

The effective date of this contract is October 1, 1981. There have been three amendments to the contract, since its inception.

The basic contract requires the <sup>APCOP</sup> Contractor to provide 18 separate services. Some worthy of note in this analysis are items 8, 9, 10 and 15.

Item 8 states that Contractor will provide Project contractors with complete premium and loss summaries on a quarterly basis.

*BUT* ( If this is being done for contractors, it most certainly should be done for APA as part of an accounting and audit program. For the APA, the APCOP should summarize the separate reporting for Project contractors.

Item 3 - (Continued)

Item 9 requires the Contractor to provide a safety incentive formula for Project contractors which will include a safety dividend for them. This dividend is due six months following contract expiration.

what is this??

This formula necessarily ties-in with the retro agreement with Pac Mar and would be affected should the Wrap-up Program be cancelled. It should include the contractors own loss experience but should also be related to over-all Project experience.

Care must be taken in developing such a formula and a preliminary draft should be undertaken as soon as possible for APA's review and approval. This draft should be as precise as possible in terms of the definitions contained in it.

Item 10 relates, implicitly to the entire wrap-up program and particularly to items 8 and 9. Also implicit in this item is the proper selection of insurance companies providing protection to the Project.

Financial integrity also implies that APA be prepared to pay various premiums per Pac Mar contract and the retrospective plan in effect for the Project.

Item 15 of this contract delineates the services which may be subcontracted and include those referenced above; ie, safety, claims adjustment, insurance company selection, etc.

Appendix E of this contract is the appointment of the Brokers as Brokers of Record, allowing them to effectuate the insurances provided in the Tyee Wrap-up.

There is no specific reference to the fees or other compensation to be paid the joint venture under this contract, The APCOP budget prepared for the Tyee Project does not contain a provision for fees or other compensation to the joint venture. The budget for the project provides for total insurance expenditures of \$3,784,602, plus certain project related expenses, such as travel expense incurred by Risk Management.

Amendment No. 3 does provide for a payment of \$50,000 to Carroon & Black/Dawson for services rendered to August 31, 1982 plus a flat fee of \$151,000 to Marsh & McLennan for its services for the term of the Project.

Item 3 - (Continued)

Following execution of its contract, APCOP entered into the various contracts/agreements referenced above.

APCOP also entered into an agreement with Pac Mar setting forth the fees to be paid Pac Mar, certain of its expenses and the establishment of a Trust Account. This will be discussed in the analysis of the Pac Mar agreement following. At this point, I would like merely to raise the question of fees and/or commissions to be earned by APCOP.

It is my understanding from Amendment No. 3 that APCOP receives \$151,000 as its fee for services rendered its contract for the term of the Project.

Further I am told APCOP received a brokerage commission (amount unknown) for placement of Pac Mar's (reinsurance) for this Project.

The various W/C Policies are stamped 0% commission. No such stamp appears on the G/L Policy. Nor does the subscription form policies for Inland & Marine Cargo and Builders Risk contain this note.

The budget for the Project provides for reimbursement for certain expenses incurred by the providers of services to the Project.

These questions of fees, commissions and expenses should be fully disclosed in an on-going format. Further the budget should be sufficiently detailed to identify all Project costs and provide for comparison of budget to actual expense incurred. This reporting should be provided at least quarterly and should contain premium and losses by contractor with all applicable expenses relating to insurance cost clearly identified.

Agreement with Pac Mar

This is a most important agreement. I shall attempt to accurately relate the agreement to the retro agreement in detail, particularly in financial terms. This agreement and the retro agreement require payments to Pac Mar for services to be performed by it on behalf of insured contractor and A.P.A.

It provides for certain fees to be paid Pac Mar in addition to certain expenses listed below. It must be considered in conjunction with the retro rating plan discussed earlier. One must have had a complete understanding of the role of Pac Mar in the Project, including what was intended by insurance of this agreement and the retro agreement.

The agreement is dated and effective September 17, 1982 by and between APCOP and Pac Mar.

Before listing payments Pac Mar required under this agreement, one should recall that the retro agreement requires payments to Pac Mar of a Basic Premium of \$150,000; also requires payment of premium taxes. It also provides for a minimum and maximum premium.

Payments required under this agreement are:

\$100,000 - purpose not identified - but is assumed to be a service fee for engaging in the Tye Wrap-up Program - PLUS Boards, Bureaus and Commissions Taxes; involvency/Guaranty Funds; assigned risk plan funds.

Normally these fees are charged in the insurance premiums or within the Basic Premium Charge in a Retrospective Plan as an excess loss charges. I find it difficult to understand why Pac Mar chooses to pay these charges under this agreement. It is possible that duplicate charges are invoiced, once in the insurance policy and retro agreement and again under this agreement.

These are questions that should be addressed in the proposed audit procedure to be developed.

Agreement with Pac Mar (continued)

It should be noted that Pac Mar is compensated separately for its loss adjustment services.

It should be noted, that per terms of this agreement that Pac Mar receives the investment income on \$150,000 required by this agreement to form a Trust Account. The purpose of this account is to pay claims liabilities. Contributions to this account, however, are based on "incurred" claims.

The agreement provides for a "run-off" claims on a 6, 18 and 30 month basis following completion of the Project or July, 1984. Thereafter Pac Mar requires a letter of credit equal to the difference between \$150,000 and estimated determined amount of claims to be paid. This done again at 12 months following the first determination and the second and third determinations. Any excess funds in the Trust account, following the third determination are returned to APCOP.

At this important time, Pac Mar assumes all claims liabilities for its own account following agreement amount it, APCOP and insured representative as to the estimated amount needed to pay these possible future liabilities.

The following two aspects of this agreement puzzles me. First, the agreement provides for payment of investment income by Pac Mar to APCOP on amounts in excess \$150,000 in the Trust Account. These payments are \$20,000 due July 1, 1983 and \$20,000 due January 4, 1984. These payments are made in lieu of broker commissions, according to the agreement.

APCOP told me it was to receive \$151,000 in fees from the Project, plus broker commission for placement of Pac Mar's Project insurance. Nothing else.

At best, this arrangement encourages a build-up of funds in the Trust account.

Secondly, according to paragraph 6(a) Pac Mar turns funds over to APCOP which are in excess of \$150,000. What happens to the funds, if any, is an unanswered question.

I recommend a meeting with APCOP and APA to pursue a better understanding of this agreement, following which understandings should be reduced to writing.

BUT

Agreement with Scott Wetzel Services (SWS)

The agreement is dated June 14, 1982 by and between SWS and APCOP; it became effective, as to work, December 1, 1981.

This is a straightforward agreement providing safety and fire protection engineering services to the Project.


Phase I fees are	\$ 46,000
Phase II fees are	12,500
Phase III fees are	<u>19,500</u>
Total fees	\$ 78,000

These fees are set forth in amendment to the original contract. The amendment also establishes an expiration date to agreement - November 30, 1984. The copy of the amendment provided was not signed by APCOP.

The safety engineering portion of this contract is often provided by the W/C insurance company. Apparently APCOP believed these services would best be provided by an outside qualified technical organization. Also, apparently Pac Mar may feel its interests are best served by a firm such as S.W.S., although a reference to this effect is absent in the various policies, retro agreements, other documents I have reviewed. This absence of reference may be detrimental to Pac Mar in view of the requirement that W/C carriers are to provide safety engineering services to their insureds. Other arrangements, such as the S.W.S. agreement are acceptable when documented.

But this does make one wonder about the order of magnitude of the fees charged by Pac Mar in its retro and separate agreement with APCOP. Essentially these fees are for the issuance of policies and the providing of a Trust Account and issuance of claims drafts.

Although the agreement references a calendar of visits to the Site, it was not attached to the copy provided me. Assuming a reasonable frequency of site visits and acknowledging S.W.S. technical and practical expertise, the fees appear to be reasonable. A rough estimate of charges for these services, if provided by the W/C insurance company could range from 1/2 of 1% to 1% of total standard premium. This range would approximate S.W.S. fees and I believe S.W.S. services would be superior.



Agreement with Scott Wetzel Services (SWS)  
(Continued)

There exists a separate agreement providing data processing services. However, I believe SWS provided at least one loss run. Such a run was given to me during my visit to Marsh & McLennan offices in November.

Professional Services Contract Between Pac Mar and APCOP.

1982/21 (1983)?  
The agreement is dated July 6, 1982, and expires June 30, 1982. It is by and between APCOP and Pac Mar for loss adjusting services. I understand that there was a separate agreement with another loss adjusting firm prior to this contract.

This is a straight forward claims adjusting contract providing needed services in the adjustment of Workers' Compensation and General Liability claims.

The fees are:

Bodily Injury Liability per claim	\$310.00
Property Damage Liability per claim	\$150.00
W/C Lost Time, including maritime	\$310.00
W/C Medical only, including maritime	\$ 60.00

The contract also provides for reimbursement of airfare and receipted expenses for lodging, etc.

Settlement authority is \$10,000 to be paid from yet another Trust Fund to be established in the amount of \$25,000. by the client APCOP.

A question immediately arises concerning the excess funds, if any, paid by A.P.A. per the schedule of payments to APCOP or risk management. Who holds these funds? For whose account are they invested if indeed they are invested?

According to the schedule of payments the following have been paid:

Payments	12/81	\$ 540,000.
	7/82	\$ 580,000.
	9/82	\$ 570,000.
	?	<u>\$ 180,000.</u>

Total paid today 10/29/82 \$1,860,000.

There remains a balance to be paid of \$1,914,602 if the estimate of premiums for the Project is correct.

If A.P.A. has already paid \$1,870,000 an audit should be undertaken to determine when and where (to whom) premiums have been paid and/or expenses have been incurred.

At this point we have learned that: Pac Mar should have \$150,000 in a Trust account per retro agreement. Pac Mar should have \$25,000 in a claims Trust account.

Some premiums have been paid to insurance companies providing:

- Excess Liability Insurance
- Non-owned Aviation Insurance
- Inland & Marine Cargo Insurance
- Builders Risk Insurance

*Plus*

Additionally Pac Mar's estimated premiums for work to date presumably have been paid. But according to the various contracts/agreements reviewed only limited funds are required to date.

Certain claims have been paid. But according to a loss run (provided by S.W.S.) for the period July 1, 1982, to September 30, 1982, the following is recorded:

- Worker's Compensation - total incurred	\$125,614.
- State Property ?? -	\$ 43,500.
	\$169,114

Of this amount \$15,666 has been <sup>?</sup>(recovered) leaving a net incurred of \$153,448.

One can assume that some earned fees have been paid from funds provided by A.P.A. But the questions arise:

- Which premiums due insurance companies have been paid?
- What total losses have been paid?
- What fees and to whom have been paid?

If we start with \$1,870,000 paid by A.P.A., what deductions should be made? What is the remaining balance and when will additional funds (\$1,914,602) be due and payable.

The fee schedule, in my opinion, is a liberal schedule. Other schedules have been at about a 1/3 less rate per claim.

For the period reported, i.e. July 1, 1982 to September 30, 1982, there were a total of 23 worker's compensation claims reported. If Pac Mar adjusts all of these claims the fee totals:

Estimated lost time accidents	
20 x \$310.00	\$6,200.00
Estimated medical only accidents	
3 x \$60.00	180.00
Total fee	\$6,380.00

*Pac Mar*



It is most difficult to estimate the loss conversion factor that could have been negotiated had Pac Mar provided a "conventional" retro program. A conservative LCF however would be 1.10. Charges for claims adjusting would be made 6 months following the term of the Project. A conservative estimate of reserve to paid claims would be 60% of incurred or about \$75,400.  $1.10 = \$82,940$ .

The present plan costs for these would be \$81,780. In the very short term, therefore, the present arrangement is slightly (\$1,160.) more favorable.

Certain expenses, travel, lodging, etc. would be absorbed by the insurance company as a cost of doing business.

Recovery of allocated claims expense would be about the same under a conventional retro plan.

On balance, I feel that total costs under this arrangement will be greater than could otherwise have been negotiated.



## Claims Consulting Contract

The agreement is dated August 5, 1982 by and between Shepard and Associates and APCOP. It is a continuous contract, until completion of the Project; it may be cancelled upon 90 days notice.

This is a straight forward claims supervision consulting contract relating to claims in excess of \$50,000.

The retainer fee is \$10,000 for the life of the contract, subject to additional fees for "extraordinary" services which may be required.

It would appear that "normal and prudent expenses" are reimbursable.

Appendix A provides for two (2) trips to Alaska, among other services.

**MEC**

Agreement Regarding Technical Assistance to APCOP.

The agreement is dated November 1, 1982, by and between Lewison and Associates and expires on November 1, 1983.

The essential services to be provided under this contract are:

- "Review of monthly progress reports prepared by construction managers.
- Preparation of reports shall include major construction activity, status of the project and contract costs.
- Provide technical assistance as requested by APCOP services."

The fee is \$30.00/hour, plus expenses mutually agreed upon.

The agreement does not spell out what constitutes "technical assistance" other than indicated above.

I have no idea what this amounts to or of its value to APCOP. Information regarding these items could be acquired otherwise through a proper system of communication with the Project.

There is no total value shown in the contract.

Agreement for Data Processing Services

The agreement is dated October 12, 1982, for Manus and October 22, 1982, for APCOP, by and between Manus Services Corporation and APCOP. The term is for 1 year with cancellation provisions of 90 day notice. Automatic 1 year extensions are provided for.

This agreement provides for an EDP system for what appears to be an accounting system.

Exhibit I contains the schedule of services and fees. This exhibit appears to be a boiler plate type of schedule and the agreement does not specifically indicate what services are provided. The headings are for an accounting system and include such items as journal entries, budgets, chart of accounts trial balances, balance sheet, etc.

The monthly fee could range from a low of \$35.00 to a high of \$195.00 depending upon APCOP's needs.

As with the technical services contract, I find it difficult to understand the need for this contract. It appears APCOP's fee of \$151,000 is for that of a general manager and all ancillary services provided through it are on a service by service fee basis.



Item 4 - Comment on the System of Separate Services Contracts.

A wrap-up program can be organized in several ways. Its organization is pretty much a function of its organizer's ingenuity.

There is value in engaging experts in a given discipline under separate contract from the insurance contract, although some insurance companies have highly qualified and experienced people in disciplines such as safety and loss control.

It is my opinion that Pacific Marine Insurance Company probably lacks expertise in certain areas of normally provided services. Hence APCOP entered into the several contracts for services needed for the Tye wrap-up. There are three observations on this:

- First, the selection of the insurance company.  
If APCOP had chosen another carrier some of the separate service contracts could have been avoided.
- Secondly, the fees allowed in all cases appear to be extremely liberal increasing costs and results to A.P.A. in APCOP's role being that of a general manager and not a servicing broker for its \$151,000 fee.
- Thirdly, this approach results in a very cumbersome program and difficult to understand and in some cases duplicative contract arrangement, again resulting in increased costs to A.P.A.

The Pac Mar insurance retro policy and trust agreements are of particular concern to me for the following reasons:

- For its two separate fees, \$150,000 Basic premium and \$100,000 Trust fees, Pac Mar essentially issues two pieces of paper, i.e. a policy and a trust agreement.
- Pac Mar earns interest on both accounts for its own account.
- According to the agreement between APCOP and Pac Mar, APCOP is paid a fee or investment income on the trust account on funds excess \$150,000. (Dave Carlson denies this).
- APCOP placed specific reinsurance for Pac Mar for this wrap-up program, indicating its capacity limitations. According to Dave Carlson, APCOP received a commission for this placement.



Apart from the above, another concern surfaces, that is the concern for accounting for \$1,870,000 referenced earlier in this report. Based on my meager understanding of this program, resulting from reading various documents, there exists the possibility that A.P.A. may have over paid actual incurred premiums and expenses. If this possibility has merit, the question arises, "who holds these funds and for what purpose"? Are they invested? If so, for whose account?

As suggested earlier in this report a meeting should be held to explore all aspects of this program and require full disclosure of all financial aspects of it.



Item 5 - Comment on the Selection of Pacific Marine Insurance Company of Alaska for the Tyee Wrap-up Program.

Presumably Pac Mar was selected as the insurance company for the basic Worker's Compensation and General Liability Insurance because it is an Alaska company. Its headquarters, however, are in Seattle.

The company is a relatively recently formed company having incorporated in August of 1979 and licensed in December 1979.

Paid-in capital was \$2,500,000 and surplus was established at \$2,500,000, resulting in total capital and surplus of \$5,000,000.

It has had exceptional growth in the short time it has been in business. In 1981 it had "net" premium writings of just over \$19,000,000 with a loss ratio of 84% and underwriting expense of 19% of net premium income. This combined ratio of 1.03% can be considered exceptional compared to most companies in the casualty business today.

As of December 31, 1981, Pac Mar had total assets of \$33,644,677; incurred liabilities amounted \$24,658,505. This according to its audit firm of Pete, Marwick, Mitchell & Co. The 1981 Annual Statement to Insurance Departments reports current assets of \$28,345,468 on a statutory basis and total liabilities of \$22,584,802. Paid-in capital is unchanged; surplus is \$5,023,631 as of December 31, 1981.

The company will be eligible for Bests Key Ratings in 1985.

Its principal business writings are maritime workers' compensation and ocean marine insurance. It is licensed in Alaska. Its "net" line of risk is \$100,000 with a gross line of \$5,000,000 indicating a prudent amount of reinsurance and a nominal "in-house" retention. It cedes and assumes reinsurance from foreign insurance companies.

Insuring construction projects appears to be unusual for Pac Mar, at least prior to insuring the Tyee Lake Project. Insuring such projects requires more than usual engineering and claims adjusting services.



Pac Mar, one might say, is "in the risk" business as compared to being in both risk and service business, as compared to major casualty insurance companies. These other companies have full time experienced staff in construction safety engineering. Their "net line" retention is far in excess of that of Pac Mar, thus providing in-house capacity and expertise without the need to engage in contracted service for safety engineering, loss adjustment supervision, usable data processing.

According to Bests Guide, premium income in Alaska is second only to California, i.e. approximately \$4,700,000. to \$7,030,000. This may be because Pac Mar underwrites both maritime and ocean marine risks in greater amounts than other risks.

It would appear, except for the desire to utilize Alaska companies, that another qualified and adequately staffed insurance company could have been chosen to insure this major construction risk.



Comment and Evaluate Possible Cancellation of Tye Wrap-up Program.

Pac Mar's retro plan provides for severe cancellation penalties i.e. "Short Rate" penalties are applied to "Standard Premium" extended to the estimated completion of the Project.

The retro plan was modified to provide for the terms of the Plan to extend to completion of the Project. Originally the plan was a Three Year Plan "D".

What this means is that the "Standard Premium" becomes the "Minimum Premium" with "Short Rate" penalties applied to this premium.

If the Project required less than three years to complete and the Retro Plan and policy were terminated, there would be no "Short Rate" penalties applied to the "Earned Premium".

If losses were such as to develop a Retro Premium greater than the Standard Premium, the premium would be extended pro rata to the nominal term with Short Rate penalties then applied to that developed premium. Only if the "Maximum Premium" were earned, due to incurred losses, would there not be these penalties applied.

To quantify this in terms of dollars at this time is most difficult if not impossible because audited payroll and premium development is not available; nor are current losses. Additionally there is that separate agreement with Pac Mar establishing a trust fund from which losses are paid.

This latter agreement is silent as respects penalties if cancellations were affected prior to completion of the Project. It only provides for what is known as a "Paid Loss Retro" following completion of the Project.

During the November 8 meeting in Marsh & McLennan's offices, Mr. Jim Helm of that office made available his estimates of the costs to A.P.A. should the program be cancelled.

In a telephone conversation with a member of the Legislative Audit Committee, I reported that I could not agree or disagree with these estimates. I still cannot, although I disagree with the percentage of construction costs used in those estimates.



Mr. Helm suggests that wrap-up insurance costs are 4.25% of construction costs; that if contractors replaced the wrap-up program the percentage of construction costs would increase to 6.5%.

He also estimated total wrap-up insurance costs at \$3,820,000 and if the program were cancelled a 10% penalty would be applied, increasing costs by \$382,000.

The estimate of 4.25% of construction costs is about double the wrap-up costs in the lower 48 States. In the lower 48, these costs are usually less than 2%.

I just can't agree that this estimate is accurate. Estimated cost of the Project is \$130,000,000; 4.25% x this cost is \$5,525,000.; yet according to APCOP budgets the wrap-up insurance costs are estimated \$3,784,602. This figure represents approximately 2.91% of construction costs. The 10% penalty and estimated dollar amount of \$382,000 is reasonable and probably correct as far as it goes. But if all phases of the Project are not now under way, I believe the penalty would be less.

All other services contracts/agreements I reviewed do not provide for short rate penalties.

As to the estimate of 6.5% should contractors provide the insurance I believe is unrealistic. First because majority of the premium is in the Worker's Compensation coverages for which the going-in premiums would be the same. The ending premium is a function of losses and developed retro premium for the Project which could be less or equal contractor premiums. It is true that A.P.A. would probably not benefit from a contractor's retro plan refund, if this were not negotiated into the various contracts.

It appears that as of November 3, a survey of participating contractors relative to this matter was not undertaken. Therefore, it is pure conjecture that additional penalties would be invoked by contractors' insurance companies, particularly in the current market.

Conclusionary Comment.

Although I cannot agree with APCOP in these assumptions and estimates, I believe the wrap-up program should remain in affect until completion of the Project. I hasten to add, however, that extensions of the program should not be made under present conditions.

Does this mean info on wrap-up insurance invalid

BUT

MO

A new undertaking should be made from start to finish should A.P.A. decide to continue with the wrap-up approach. This includes broker and carrier selection process; a policy of purpose and administration of the program; contract preparation; safety programs; insurance manual; claims handling/processing; medical facilities and services among others required for the proper undertaking and administration of a wrap-up program.

Separate wrap-up programs for separate construction projects is not feasible.

This program lacks proper communication systems, reporting systems; it has a multitude of service contracts. It just isn't meeting the needs of A.P.A. in these terms, but I cannot recommend its termination at this time.

I feel strongly that the audit system to be developed be implemented and the meeting I suggested be held. Among other reasons, the construction contracts should be reviewed; an understanding of how S.W.S. conducts its inspections and contractor contracts should be made. This may be the time also to set minimum safety standards to be in total compliance with all Federal and State Safety Regulations.

Perhaps following this meeting and audit and the establishment of a communication and reporting system all involved will be more comfortable with the Tye Wrap-up Insurance Program.

AMENDMENT NO. 1

Professional Services Contract  
82-0815 CC08-2307

APR - 7 1982

The contract between the ALASKA POWER AUTHORITY and MARSH & McLENNAN INCORPORATED and CORROON and BLACK/DAWSON & COMPANY INCORPORATED, dated 22 December 1981 is amended as follows:

APPENDIX C Exhibit A, Article 4

Consideration:

Change total contractor premium from \$1,790,000.00 to \$1,690,000.00 premium discount \$100,000.00.

All other terms and conditions remain unchanged.

Executed this 22<sup>ND</sup> day of MARCH, 1982.

FOR CONTRACTOR:

MARSH & McLENNAN and  
CORROON & BLACK/DAWSON & CO. INC.

By: [Signature]

Date: March 22, 1982

OWNER:

ALASKA POWER AUTHORITY

By: [Signature]  
Executive Director

Date: [Redacted]

DEPARTMENT OF COMMERCE AND  
ECONOMIC DEVELOPMENT

By: [Signature]

Date: [Signature]

APPROVED:

By: [Signature]  
Department of Administration

Date: APR 01 1982

FOR THE CONTRACT ADMINISTRATION COMMITTEE

Original Contract  
Amendment #1 Premium Discount  
New Contract Total

\$1,790,000.00  
-(100,000.00)  
\$1,690,000.00

ATN 82-0815  
CC 08-2307

AMENDMENT NO. 2

The contract between the ALASKA POWER AUTHORITY and MARSH & MCLENNAN, INC. and CORROON & BLACK/DAWSON & COMPANY INCORPORATED dated December 22, 1981 is hereby amended and agreed to:

APPENDIX C, Article 4 - Delete and substitute the following:

Insurance payments for services provided under this contract shall be specified in written exhibits attached to and made a part of this contract upon agreement of all parties to this contract. Exhibit A (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tye project, between the Alaska Power Authority and Southeast-Harrison Western. Exhibit B (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tye project, between the Alaska Power Authority and Mitsui & Company USA Inc. & D. W. Close, Company, Inc. J. V. Exhibit C (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tye Project, between the Alaska Power Authority and Power City Construction, Inc./Power Constructors, Inc., J. V., dba Power Two.

Subsequent exhibits may be appended to this contract from time to time as required for services provided under this contract associated with subsequent construction contracts or change orders connected with the Lake Tye Project.

All outstanding insurance payments represented in Exhibits A, B and C will be transferred from the Alaska Power Authority to the Department of Administration, Division of Risk Management through a Reimbursable Services Agreement (RSA). Risk Management will be responsible for administration of this contract including but not limited to payments to the Contractor.

When billing Risk Management, the Contractor shall refer to the contract number and send billing to:

John Haywood  
Director  
Department of Administration  
Division of Risk Management  
Pouch C (MS 0218)  
Juneau, AK 99811

APPENDIX C Exhibit A  
Article 4 - Consideration

Item 3 is deleted.

APPENDIX C Exhibit B

Article 4 - Consideration

1. The State shall pay the Contractor premium in the amount of \$598,000. Said premium payments shall constitute full satisfaction and payment for all services performed pursuant to this contract associated with the major civil construction contract for the Lake Tye Project, between Alaska Power Authority and Mitsui & Company (USA), Inc. and D. W. Close Company, Inc.; A Joint Venture.
2. Schedule of Premium Payments:

\$598,000.00            March 1, 1983.

APPENDIX C Exhibit C

Article 4 - Consideration

1. The State shall pay the Contractor premium in the amount of \$1,496,602. Said premium payment shall constitute full satisfaction and payment for all services performed pursuant to this contract associated with the major civil construction contract for the Lake Tye Project between Alaska Power Authority and Power City Construction, Inc./Power Constructors, Inc. A Joint Venture, dba Power Two.

2. Schedule of Premium Payments:

\$750,000 August 4, 1982  
\$746,602 January 1, 1983

FOR CONTRACTOR

MARSH & MCLENNAN AND  
CORROON & BLACK/DAWSON & CO., INC.

By: *David D. Carlson*  
Marsh & McLennan, Inc.

By: \_\_\_\_\_  
Corroon & Black/Dawson & Co., Inc.

Date: August 6, 1982

Original Contract	\$1,790,000
Amendment No. 1 Discount	- 100,000
Sub Total	<u>\$1,690,000</u>
Amendment No. 2	2,094,602
New Contract Total	<u>\$3,784,602</u>

ALASKA POWER AUTHORITY

By: *Eric P. Yule*  
Executive Director

Date: August 11, 1982

APPROVED: *Richard Smith*  
By: \_\_\_\_\_  
Department of Administration

Date: 8/12/82

FOR THE CONTRACT REVIEW COMMITTEE AUG 12 1982  
*Henry Master*

CERTIFIED MAIL NO. P 272 201 215

December 20, 1982

Mr. John McCadam  
Vice President  
Special Client Division  
Corroon & Black/Dawson & Company  
P.O. Box C-34201  
Seattle, WA 98124

AND

Mr. David Carlson  
Vice President  
Marsh and McLennan, Inc.  
Norton Building  
Seattle, WA 98104

Dear John and Dave:

Re: State of Alaska  
Professional Services Contract  
#CC 08-2304

This letter of agreement is in lieu of proposed Amendment No. 3 to the Tye Lake Professional Services Contract.

In consideration of a flat fee of \$50,000.00 it is agreed that Corroon & Black's responsibility for services under the referenced professional services contract are limited after December 15, 1982 to marketing broker only, as defined in separate agreement between Corroon and Black and Marsh and McLennan, Inc., as respects course of construction policy number PRP-ST-U-AL-F82 (APA) and aviation non-ownership policy number SOAAV-F82- A (APA).

Corroon & Black is hereby authorized to receive payment up to \$50,000.00 less any amount previously received for period ending December 15, 1982. Special assignments outside of the original marketing responsibilities shall be individually negotiated between State of Alaska, Division of Risk Management, Marsh and McLennan, Incorporated and Corroon and Black.

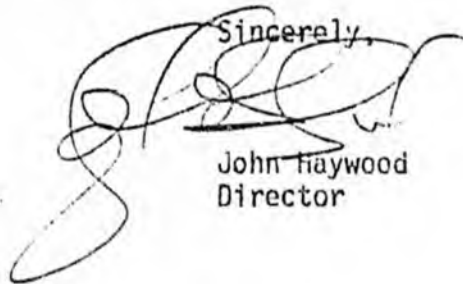
December 20, 1982

It is agreed that, pursuant to the scope of services under the referenced contract, Marsh and McLennan, Incorporated will assume full responsibility effective December 15, 1982, with the exception of marketing broker service responsibilities as defined in a separate agreement between Marsh and McLennan, Incorporated and Corroon and Black.

As the consideration for performing your proportionate share of services prior to the close of business December 15, 1982 and for services after that date, Marsh and McLennan, Incorporated shall receive a flat fee of \$151,000.00 and additional commission income up to \$40,000.00.

Marsh and McLennan is hereby authorized to receive payment, subject to the following schedule: November 23, 1982 - \$121,000.00; January 1, 1983 - \$15,000.00; April 1, 1983 - \$15,000.00; July 1, 1983 - \$20,000.00; and January 1, 1984 - \$20,000.00. The two payments of \$20,000.00 are subject to the terms and conditions of the contract between Marsh and McLennan, Incorporated and Pacific Marine Insurance Company dated December 17, 1982.

Sincerely,



John Haywood  
Director

JH/je  
5/1217-02/RM1

PS Form 3811, Dec. 1970

● **SENDER:** Complete items 1, 2, 3, and 4.  
Add your address in the "RETURN TO" space on reverse.

**(CONSULT POSTMASTER FOR FEES)**

1. The following service is requested (check one).  
 Show to whom and date delivered ..... —c  
 Show to whom, date, and address of delivery.. —s  
 2.  **RESTRICTED DELIVERY** ..... —6  
*(The restricted delivery fee is charged in addition to the return receipt fee.)*

TOTAL \$ \_\_\_\_\_

3. **ARTICLE ADDRESSED TO:**  
*Mr. David Carlson  
 Marsh & McLennan  
 Norton Building  
 Seattle, Wa. 98104*

4. **TYPE OF SERVICE:** ARTICLE NUMBER  
 REGISTERED  INSURED # 272-201-215  
 CERTIFIED  COD  
 EXPRESS MAIL

**(Always obtain signature of addressee or agent)**

I have received the article described above.  
**SIGNATURE**  Addressee  Authorized agent  
*[Signature]*

5. **DATE OF DELIVERY** POSTMARK  
 DEC 22 1982 1982

6. **ADDRESSEE'S ADDRESS (Only if requested)**

7. **REASON FOR NON-DELIVERY** 8. **EMPLOYEE'S INITIALS**

RETURN RECEIPT, REGISTERED, INSURED

ATN 82-0815  
CC 08-2307

AMENDMENT NO. 2

The contract between the ALASKA POWER AUTHORITY and MARSH & MCLENNAN, INC. and CORROON & BLACK/DAWSON & COMPANY INCORPORATED dated December 22, 1981 is hereby amended and agreed to:

APPENDIX C, Article 4 - Delete and substitute the following:

Insurance payments for services provided under this contract shall be specified in written exhibits attached to and made a part of this contract upon agreement of all parties to this contract. Exhibit A (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tyee project, between the Alaska Power Authority and Southeast-Harrison Western. Exhibit B (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tyee project, between the Alaska Power Authority and Mitsui & Company USA Inc. & D. W. Close, Company, Inc. J. V. Exhibit C (attached) represents consideration for services associated with the major civil construction contract, for the Lake Tyee Project, between the Alaska Power Authority and Power City Construction, Inc./Power Constructors, Inc., J. V., dba Power Two.

Subsequent exhibits may be appended to this contract from time to time as required for services provided under this contract associated with subsequent construction contracts or change orders connected with the Lake Tyee Project.

All outstanding insurance payments represented in Exhibits A, B and C will be transferred from the Alaska Power Authority to the Department of Administration, Division of Risk Management through a Reimbursable Services Agreement (RSA). Risk Management will be responsible for administration of this contract including but not limited to payments to the Contractor.

When billing Risk Management, the Contractor shall refer to the contract number and send billing to:

John Haywood  
Director  
Department of Administration  
Division of Risk Management  
Pouch C (MS 0218)  
Juneau, AK 99811

APPENDIX C Exhibit A

Article 4 - Consideration

Item 3 is deleted.

APPENDIX C Exhibit B

Article 4 - Consideration

1. The State shall pay the Contractor premium in the amount of \$598,000. Said premium payments shall constitute full satisfaction and payment for all services performed pursuant to this contract associated with the major civil construction contract for the Lake Tye Project, between Alaska Power Authority and Mitsui & Company (USA), Inc. and D. W. Close Company, Inc.; A Joint Venture.
2. Schedule of Premium Payments:

\$598,000.00            March 1, 1983.

APPENDIX C Exhibit C

Article 4 - Consideration

1. The State shall pay the Contractor premium in the amount of \$1,496,602. Said premium payment shall constitute full satisfaction and payment for all services performed pursuant to this contract associated with the major civil construction contract for the Lake Tye Project between Alaska Power Authority and Power City Construction, Inc./Power Constructors, Inc. A Joint Venture, dba Power Two.



CERTIFIED MAIL NO. P 272 201 215

December 20, 1982

Mr. John McCadam  
Vice President  
Special Client Division  
Corroon & Black/Dawson & Company  
P.O. Box C-34201  
Seattle, WA 98124

AND

Mr. David Carlson  
Vice President  
Marsh and McLennan, Inc.  
Norton Building  
Seattle, WA 98104

Dear John and Dave:

Re: State of Alaska  
Professional Services Contract  
#CC 08-2304

This letter of agreement is in lieu of proposed Amendment No. 3 to the Tyee Lake Professional Services Contract.

In consideration of a flat fee of \$50,000.00 it is agreed that Corroon & Black's responsibility for services under the referenced professional services contract are limited after December 15, 1982 to marketing broker only, as defined in separate agreement between Corroon and Black and Marsh and McLennan, Inc., as respects course of construction policy number PRP-ST-U-AL-F82 (APA) and aviation non-ownership policy number SOAAV-F82- A (APA).

Corroon & Black is hereby authorized to receive payment up to \$50,000.00 less any amount previously received for period ending December 15, 1982. Special assignments outside of the original marketing responsibilities shall be individually negotiated between State of Alaska, Division of Risk Management, Marsh and McLennan, Incorporated and Corroon and Black.

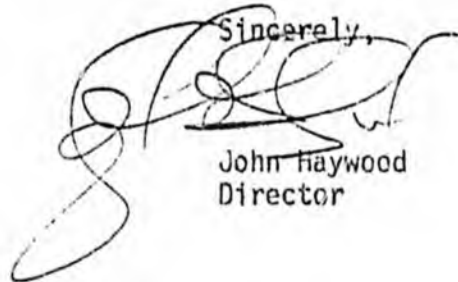
December 20, 1982

It is agreed that, pursuant to the scope of services under the referenced contract, Marsh and McLennan, Incorporated will assume full responsibility effective December 15, 1982, with the exception of marketing broker service responsibilities as defined in a separate agreement between Marsh and McLennan, Incorporated and Corroon and Black.

As the consideration for performing your proportionate share of services prior to the close of business December 15, 1982 and for services after that date, Marsh and McLennan, Incorporated shall receive a flat fee of \$151,000.00 and additional commission income up to \$40,000.00.

Marsh and McLennan is hereby authorized to receive payment, subject to the following schedule: November 23, 1982 - \$121,000.00; January 1, 1983 - \$15,000.00; April 1, 1983 - \$15,000.00; July 1, 1983 - \$20,000.00; and January 1, 1984 - \$20,000.00. The two payments of \$20,000.00 are subject to the terms and conditions of the contract between Marsh and McLennan, Incorporated and Pacific Marine Insurance Company dated December 17, 1982.

Sincerely,



John Haywood  
Director

JH/je  
5/1217-02/RM1

PS Form 3811, Dec. 15, 80

SENDER: Complete items 1, 2, 3, and 4.  
Add your address in the "RETURN TO" space  
on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
- Show to whom and date delivered ..... —C
  - Show to whom, date, and address of delivery.. —C
2.  RESTRICTED DELIVERY —C  
(The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL \$ \_\_\_\_\_

3. ARTICLE ADDRESSED TO:  
*Mr. David Carlson  
Marsh & McLennan  
Norton Building  
Seattle, Wa. 98104*

4. TYPE OF SERVICE:      ARTICLE NUMBER

- REGISTERED       INSURED
- CERTIFIED       COD
- EXPRESS MAIL

*P272-201-215*

(Always obtain signature of addressee or agent)

I have received the article described above.  
SIGNATURE  Addressee       Authorized agent

5. DATE OF DELIVERY *DEC 22 1982*      POSTMARK

6. ADDRESSEE'S ADDRESS (Only if requested)

TO DELIVER BECAUSE:      EMPLOYEE'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED A



AMENDMENT NO. 1

Professional Services Contract  
82-0815 CC08-2307

APR - 7 1982

ALASKA POWER AUTHORITY

The contract between the ALASKA POWER AUTHORITY and MARSH & McLENNAN INCORPORATED and CORROON and BLACK/DAWSON & COMPANY INCORPORATED, dated 22 December 1981 is amended as follows:

APPENDIX C Exhibit A, Article 4

Consideration:

Change total contractor premium from \$1,790,000.00 to \$1,690,000.00 premium discount \$100,000.00.

All other terms and conditions remain unchanged.

Executed this 22<sup>nd</sup> day of MARCH, 1982.

FOR CONTRACTOR:

MARSH & McLENNAN and  
CORROON & BLACK/DAWSON & CO. INC.

By: [Signature]

Date: March 22, 1982

OWNER:

ALASKA POWER AUTHORITY

By: [Signature]  
Executive Director

Date: [Redacted]

DEPARTMENT OF COMMERCE AND  
ECONOMIC DEVELOPMENT

By: \_\_\_\_\_

Date: \_\_\_\_\_

APPROVED:

By: [Signature]  
Department of Administration

Date: APR 01 1982

FOR THE CONTRACT REVIEW COMMITTEE

Original Contract  
Amendment #1 Premium Discount  
New Contract Total

\$1,790,000.00  
-(100,000.00)  
\$1,690,000.00



#### Article 6. Disputes.

4.1. Any dispute concerning a question of fact arising under this contract which is not disposed of by mutual agreement shall be decided without bias by the Director of the Department's Division of Administrative Services (or if none, the Department's Administrative Officer), who shall reduce his decision to writing and mail or otherwise furnish a copy of it to the Contractor. The decision of the Director is final and conclusive unless, within 30 days from the date of receipt of that copy, the Contractor mails or otherwise furnishes to the Certifying Officer a written appeal addressed to the Commissioner of the Department. The Commissioner shall appoint a three-person board from the Department to hear the appeal, none of whom may be from the Division of Administrative Services. The decision of the board is final and conclusive, unless it is frivolous or not supported by substantial evidence. In any proceeding under this article, the Contractor has a right to be heard by an unbiased panel and to offer evidence in support of his appeal. Pending final decision of a dispute, the Contractor shall proceed diligently with the performance of the contract and in accordance with the Director of the Division of Administrative Services decision.

4.2. This disputes article does not preclude consideration of questions of law in connection with decisions provided for in paragraph 4.1 above. However, this article does not make the decision of any administrative officer, representative or board on a question of law final or conclusive.

#### Article 5. Equal Employment Opportunity.

5.1. The Contractor may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, or marital status, change in marital status, pregnancy or parenthood when the reasonable demands of the position do not require distinction on the basis of age, physical handicap, sex, or marital status, changes in marital status, pregnancy, or parenthood. The Contractor shall take affirmative action to insure that the applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, ancestry, age, sex, or marital status. This action must include, but need not be limited to, the following: employment, upgrading, promotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. The Contractor shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this paragraph.

5.2. The Contractor shall state, in all solicitations or advertisements for employees to work on State of Alaska contract jobs, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, or marital status.

5.3. The Contractor shall send to each labor union or representative of workers with which the Contractor has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' representative of the Contractor's commitments under this article and post copies of the notice in conspicuous places available to all employees and applicants for employment.

5.4. The Contractor shall include the provisions of this article in every contract, and shall require the inclusion of these provisions in every contract entered into by any of its subcontractors, so that those provisions will be binding upon each subcontractor. For the purpose of including those provisions in any construction, maintenance, or service contract or subcontract, as required by this contract, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.

5.5. The Contractor shall cooperate fully with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful discrimination, and with all other State efforts to guarantee fair employment practices under this contract, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.

5.6. Full cooperation in paragraph 5.5 includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of the Contractor to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings, submitting periodic reports on the equal employment aspects of present and future employment, assisting in inspection of the Contractor's facilities; and promptly complying with all state directives considered essential by any office or agency of the State of Alaska to insure compliance with all federal and state laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.

5.7. Failure to perform under this article constitutes a material breach of the contract.

#### Article 6. Termination.

The Certifying Officer, by written notice, may terminate this contract, in whole or in part, when it is in the best interest of the State. The State is liable only for payment in accordance with the payment provisions of this contract for services rendered before the effective date of termination.

#### Article 7. No Assignment or Delegation

This contract is personal and the Contractor may not assign or delegate this contract, or any part of it, or any right to any of the money to be paid under it, except with the written consent of the Certifying Officer.

#### Article 8. No Additional Work or Material

No claim for additional services, not specifically provided in this contract, performed or furnished by the Contractor, will be allowed, nor may the Contractor do any work or furnish any material covered by the contract unless the work or material is ordered in writing by the Certifying Officer and approved by the Department of Administration.

#### Article 9. Independent Contractor.

The Contractor and any agents and employees of the Contractor act in an independent capacity and are not officers or employees or agents of the State in the performance of this contract.

#### Article 10. Payment of Taxes.

As a condition of performance of this contract, the Contractor shall pay all federal, state, and local taxes incurred by the Contractor and shall require their payment by any subcontractor or any other persons in the performance of this contract. Satisfactory performance of this paragraph is a condition precedent to payment by the State under this contract.

#### Article 11. Workmen's Compensation Insurance.

During the life of this contract, the Contractor shall provide and maintain, for all employees of the Contractor engaged in work under the contract, workmen's compensation insurance as required by AS 23.30. The Contractor shall require any subcontractor to provide and maintain for its employees workmen's compensation insurance as required by AS 23.30. That coverage must remain in force from the day services begin under this contract and shall provide for written notice to the Certifying Officer at least 30 days before cancellation or non-renewal. Failure to furnish satisfactory evidence of insurance or lapse of the policy is a material breach and grounds for termination of the Contractor's services. Before performing under this contract, the Contractor shall furnish the Certifying Officer with certificates of insurance as proof of compliance with this article. The certificates of insurance must include an All States Broad Form Endorsement.

#### Article 12. Insurance.

Before this contract may be approved, the Contractor shall furnish a certificate of liability insurance evidencing coverage satisfactory to the Risk Manager of the Department of Administration.

#### Article 13. Ownership of Documents.

All designs, drawings, specifications, notes, and other work developed in the performance of this agreement are and remain the sole property of the State of Alaska and may be used by the State for any other purpose without additional compensation to the Contractor. The Contractor agrees not to assert any rights and not to establish any claim under the design patent or copyright laws. The Contractor, for a period of three years after final payment under this contract, agrees to furnish and provide access to all retained materials at the request of the Certifying Officer. Unless otherwise directed by the Certifying Officer, the Contractor may retain copies of all the materials.

#### Article 14. Governing Law.

This contract is governed by the laws of the State of Alaska.

#### Article 15. Officials not to Benefit.

No member of or delegate to Congress, United States Commissioner, or officials of the state or federal government may be admitted to any share or part of this contract or to any benefit to arise therefrom.

#### Article 16. Covenant Against Contingent Fees.

The Contractor warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, contingent fee, or brokerage except employees or agencies maintained by the Contractor for the purpose of securing business. For the breach or violation of this warranty, the State may terminate this contract without liability or in its discretion deduct from the contract price or consideration the full amount of the commission, percentage, brokerage, or contingent fee.

APPENDIX A

3. State Saved Harmless

The Contractor shall indemnify and hold and save the State, its officers, agents and employees harmless from liability of any nature or kind, including costs and expenses, for or on account of any and all legal actions or claims of any character whatsoever resulting from injuries or damages sustained by any person or persons or property arising from its performance of this contract in any way whatsoever.

APPENDIX B  
SCOPE OF SERVICES

The Alaska Power Authority acting as owner, sponsor and general contractor for major hydro-electric projects is responsible for managing the projects in a cost effective manner. As part of this responsibility, it is necessary to provide a safe and secure work environment at the job sites to control the magnitude and frequency of injuries and resulting claims and to secure broad catastrophic insurance coverage to provide protection for both the state and its prime contractors.

The Alaska Power Authority (APA) will use the State Risk Management Division as a consultant for Risk Management Services which will meet its objectives. Risk Management has assisted in the selection of the contractors to administer the Alaska Power Construction Program (APCOP):

MMc+CB

The contractor shall provide the following services by project which may be subcontracted as needed to carry out the provisions of this contract:

1. Provide Risk Management and insurance programs for the Alaska Power Authority and prime contractors.
  
2. Structure services which will maximize the use of Alaska based insurance contractors and companies.

3. Provide a companion program which will permit local Alaska construction companies and their insurance brokers the opportunity to participate in the APCOP program. *how?*
4. Provide administration of Alaska Power Construction Program (APCOP).
5. Will cooperate and coordinate with State Division of Risk Management and its brokers to properly integrate Alaska Power Construction Program with the State Risk Management Program.
6. Will use the combined purchasing power of the State and the prime contractors to maximize cost effectiveness of the program.
7. Will provide to Alaska Power Authority and prime contractors a cost of Risk Management by project.
8. Will provide Alaska Power Authority and *Have they?* prime contractors with complete premium and loss summaries on a quarterly basis.
9. Will provide Alaska Power Authority and the prime contractors with safety incentive formula prior to contract inception and an estimate of the amount of the safety dividend due the prime contractor at contract expiration with a final adjustment six months after contract expiration.

10. Monitor all insurance as respects cost, coverage and financial integrity.
11. Furnish other special services as may be periodically required by Alaska Power Authority or State Division of Risk Management, subject to agreement by all parties.
12. Provide Alaska Power Authority a certificate of professional liability insurance prior to any service pursuant to agreement on behalf of the State.
13. See that qualified individuals are available for consultation on a daily basis in carrying out the obligations under this agreement.
14. Be responsible for continuing risk identification and analysis and make appropriate recommendations to the Alaska Power Authority.
15. May subcontract for services which include but are not limited to:
  - a. Claims Adjusting.
  - b. Loss Control Engineering.
  - c. Claims Audit.

- d. Premium Audit.
- e. Actuarial Services.
- f. Financial Audit.
- g. Insurance Marketing.
- h. Computer Services.
- i. Legal Services.
- j. Other insurance company services as required.

16. Special projects which are outside the scope of this agreement will be submitted to Alaska Power Authority for approval prior to incurring costs on behalf of the State.

17. Alaska Power Authority (APA) shall:

- 1. Receive State appropriations to cover APCOP Risk Management costs.
- 2. Support an active contractor safety incentive program.
- 3. Maintain required funds within Alaska Power Authority appropriations to pay APCOP costs.

4. Cooperate and exchange required information with contractors administering APCOP.

18. The contract may be cancelled by either party at any time upon 90 days advance, written notice delivered or mailed to the other party. If the contract is cancelled, the contractor shall be entitled to pro rata allocation of the annual fee. This provision shall be operative in lieu of Appendix A, Article 6, which shall have no force or effect.