

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 86/2

2672 SLC HB 4 (FILE 3)

2672

APPENDIX C

4.0

Before commencing work under this agreement, the Consultant and any subcontractors employed by it must submit evidence acceptable to the Authority that they have provided and shall maintain insurance for the duration of the agreement as required by law, including a provision for a thirty-day advance notification to the Authority in the event of cancellation or any material change in the coverage of the insurance. The coverage shall in no case be less than the following limits:

Required Coverages:

I. Workers' Compensation Insurance

- a. Statutory coverage for states in which employees are engaging in work.
- b. Employers liability protection in the amount of \$10,000,000 per person/\$10,000,000 per occurrence.
- c. Broad Form All States Endorsement.
- d. U.S.L. & H. Endorsement. (U.S. Longshoremen & Harbor Workers).

II. Comprehensive General Liability Coverage Limits (\$10,000,000 per occurrence).

- a. Premises Operations.
- b. Independent Contractors.

- c. Products/Completed Operations.
- d. Blanket Contractual.
- e. Broad Form: Property Damage.
- f. Personal Injury.

III. Professional Liability Limits (\$10,000,000 per occurrence).

- a. Coverage for all errors or omissions which the contractor, employees, or the subcontractors may make which produce financial loss to the State of Alaska.

IV. Comprehensive Automobile Liability Limits (\$10,000,000 per occurrence).

- a. All Owned Vehicles.
- b. All Hired Vehicles.
- c. All Non-owned Vehicles

APPENDIX C

ARTICLE 4

CONSIDERATION

Insurance premiums or 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. Subsequent exhibits will be appended to this contract from time to time as required for services provided under this contract associated with subsequent construction contracts and/or projects.

EXHIBIT A TO APPENDIX C

ARTICLE 4

CONSIDERATION

1. The State shall pay the Contractor premium in the amount of \$1,790,000.00. Said premium payment shall constitute full satisfaction and payment for all services performed pursuant to this contract.

2. Schedule of Premium Payments:

October 1, 1981 - \$640,000.00

August 1, 1982 - \$580,000.00

February 1, 1983 - \$570,000.00

\$1,790,000.00

3. When billing Alaska Power Authority, the Contractor shall refer to the Contract Number and send the billing to:

Mr. Terry J. McGuire

Director of Finance

Alaska Power Authority

333 West 4th Avenue, Suite 31

APPENDIX D

PROFESSIONAL SERVICES CONTRACT

ALASKA POWER AUTHORITY

ARTICLE 5. ADDITIONAL CONTRACT PROVISIONS.

Appendix D attached hereto and made a part hereof, sets forth additional general contract provisions of this contract.

ARTICLE 6. CHANGES.

Appendix E and Appendix F attached hereto and made a part hereof, sets forth any changes or additions that were made in this contract prior to its execution. (If Appendix E and F are not attached hereto, there have been no such changes or additions.)

APPENDIX E

Marsh & McLennan, Incorporated and Corroon and Black/Dawson & Co., Inc. have been appointed Broker of Record for the Alaska Power Authority Construction Program known as (APCOP) on the following areas of insurance effective October 1, 1981:

- A. Personal Injury Liability, Property Damage Liability, Errors and Omissions and Workers' Compensation, including Air Workers' Compensation.
- B. Non-Owned Marine Hull and Liabilities
- C. Multi-Line Excess of Aggregate Insurance
- D. Transit and Marine Cargo Insurance
- E. Non-Owned Aviation Insurance
- F. Property including Builders' Risk Insurance

January 11, 1983

SAFETY STATUS REPORT TYEE LAKE HYDROELECTRIC PROJECT

The following provides a general overview of the status of the project safety programs, and a review of the efforts of the contractors in providing and ensuring a safe and healthy work environment.

Safety on any construction job is a highly emotional subject about which there are many strong opinions. The day to day pressure to maintain production, hold down costs and run a safe job, is borne largely by contractor project people. Most established contractors make a genuine effort to run safe jobs. Good safety can and does produce positive, tangible results.

PHASE I TUNNEL & POWERHOUSE

During the course of driving the tunnel, the safety was above average with minimal accident frequency. Tunnel operations were, in most cases, ahead of schedule.

On April 9, 1982, the State of Alaska Department of Labor, Division of Occupational Safety and Health conducted an inspection of the project and issued 5 citations of a minor nature (no fines). The overall report was complimentary to the safety efforts of all concerned.

In mid summer of 1982, the Safety coordinator was promoted to a superintendent position and the coordination of the safety program was divided between two project engineers. This developed into a letdown in safety oriented activities. Working with the project management, i.e., the contractor, the Engineer and the Power Authority, we were able to work out the problems and assist the two Safety Coordinators to get the program back on track.

During our last visit to the project, 12/2-3/82, we noted continued interest in the program, however, there is increase of injuries coming from the powerhouse construction, due primarily to increase in employees, manhours and the weather. Tunnel safety appeared to be an orderly, professionalized process with every employee taking an active part. It should be noted that the contractor has corrected all deficiencies brought to his attention. As of 12/1/82, the accident rate for the project (Phase I) is 60 incidents, 16 lost time, .46 lost days, 43 medical cases and 1 fatality. This compares favorably with other states and national averages.

On 10/27/82, an explosion took place at the project. At 5:45 AM, four magazines holding about 70,000 lbs. of explosives blew up causing the death of the powder man. The cause of the blast is under investigation at the present time. The Department of Labor, Division of Occupational Safety and Health, investigated the accident and issued no citations to the contractor.

This project (Phase I) overall, has tracked well with the concept of owner controlled programs.

Cooperation has been above average, though the project is far from finished. We look to continued contractor cooperation and interest in safety. We will continue to visit the project based on need and the time and action calendar developed.

PHASE III TRANSMISSION LINES

Cooperation with construction management has been above average. It is apparent that they will continue to provide the necessary leadership to ensure that all areas of operation are safe places in which to work.

Since the project started, clearing, logging, footing installations, etc., accidents have been minimal. Regular safety meetings have been held, and helicopter operations are above average. Care is taken to assure that each employee is aware of the danger involved in the operations. Floating and base camps are kept in a clean and orderly manner. To date there have been 15 incidents, 7 lost time, the rest medical.

The project (Phase III) is compatible with the concept of the Alaska Power Construction Program.

(NOTE: Phase II - The Sub-Marine Cable - is not yet under construction)

Thomas J. Laskowski, P.E.
Safety Management Consultant
Scott Wetzel Services, Inc.



STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
STANDARD AGREEMENT FORM
FOR PROFESSIONAL SERVICES CONTRACT

cc 08-2307

82-081-1

This contract, which is effective only if it is approved by the Department of Administration, is between the State of Alaska,

Department of Commerce & Economic Development - Alaska Power Authority	hereinafter, The State, and
Contractor Marsh & McLennan, Inc. and Corroon and Black/Dawson & Co., Inc.	hereinafter, the Contractor
City Seattle, Washington	State Washington
Alaska Business License Number 37.05.230(I)(c)(VI)	Internal Revenue Service Number

This is a contract for professional services. AS _____ authorizes the State to make this contract. The parties to the contract agree as follows:

- ARTICLE 1. Appendices. Appendices referred to in this contract and attached to it are considered part of it.
- ARTICLE 2. Performance of Services.
- 2.1 Appendix A, Articles 1 through 16, governs the performance of services under this contract.
 - 2.2 Appendix B sets forth the services to be performed by the contractor.
- ARTICLE 3. Period of Performance. The period of performance under this contract begins October 1, 19 81, and ends until cancelled, 19____. Performance may be extended for additional periods by the written agreement of the parties.
- ARTICLE 4. Consideration.
- 4.1 In full consideration of the Contractor's performance under this contract, the State shall pay the Contractor in accordance with the provisions of Appendix C.
 - 4.2 When billing the State, the Contractor shall refer to the State Contract Number and send the billing to:

Department of Commerce & Economic Development	Agency Division of Alaska Power Authority
Address 333 West 4th Avenue, Suite 31, Anchorage, Alaska 99501	
CONTRACTOR	STATE
Name of Firm Marsh & McLennan, Inc. Corroon and Black/Dawson & Co., Inc.	Department or Agency Alaska Power Authority, Dept. of Commerce & Economic Development
Signature of Authorized Representative <i>David D. Carlson</i>	Signature of Certifying Officer <i>Eric P. Yould</i>
Typed or Printed Name of Authorized Representative David D. Carlson	Typed or Printed Name of Certifying Officer ERIC P YOULD
Title Vice President Marsh & McLennan	Title Executive Director Corroon & Black/Dawson Deputy Commissioner

APPROVAL BY THE DEPARTMENT OF ADMINISTRATION

NOTICE! This contract has no effect except as an offer by the Contractor until it is approved by the Department of Administration.

Signature of Authorized Official of the Department of Administration <i>Henry Masterson</i>	Date DEC 22 1981
Typed or Printed Name of Authorizing Official HENRY MASTERSON	

FOR THE CONTRACT REVIEW COMMITTEE

APPENDIX A

Article 1. Definitions.

- 1.1. In this contract and appendices, "Certifying Officer" means the person who signs this contract on behalf of the Department and includes a successor or authorized representative.
- 1.2. "Department" means the agency for which this contract is to be performed and for which the Certifying Officer acted in signing this contract.

Article 2. Inspection and Reports.

- 2.1 The Department may inspect, in the manner and at reasonable times it considers appropriate, all the Contractor's facilities and activities under this contract.
- 2.2 The Contractor shall make progress and other reports in the manner and at the times the Department reasonably requires.

ARTICLE 3. SIGNATURES

THIS CONTRACT IS SUBJECT TO THE STANDARD AGREEMENT FORM FOR PROFESSIONAL SERVICES CONTRACTS AND APPENDICES THEREON, WHICH ARE AVAILABLE FROM THE DEPARTMENT OF ADMINISTRATION, 1000 EAST BROADWAY, ANCHORAGE, ALASKA 99501.

(OVER)

Article 3. 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 fraudulent 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 a 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 official, 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, changes 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, demotion, 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 this 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 the 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 the 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 Commission, 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 save the State, its officers, agents and employees 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):

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.
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 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.

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- F. Property including Builders' Risk Insurance

DEPT ADM JNU
4-046715S038 02/07/83
ICS IPMMTZZ CSP
2158361400 TDMT PHILADELPHIA PA 176 02-07 0530P EST
PMS STATE OF ALASKA, TLX 09946308
ATTN IRA J PEER
DEPUTY RISK MANAGER
JUNEAU AK

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

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

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

PROJECT	CONVENT'L	WRAP UP	SAVINGS O/O
SAN FRANCISCO	46.3	29.8	35.6
WASHINGTON	93.4	62.2	60.0
ATLANTA	61.3	39.9	34.9
BALTIMORE	46.0	27.5	40.2

(SMILLIONS)

JIM BARRETT
CRESHEIM
PHILADELPHIA

1751 EST

IPMAFUR AHG

#305P

DEPT ADM JNU

James E. Barrett



A career consultant since 1962, and president of Cresheim Company since 1968, he has worked with more than 140 corporate, public and private clients in North America, Europe, Latin America and the Far East. Some client relationships extend for fifteen years.

MANAGEMENT CONSULTING. Projects involve questions of organization, business strategy, corporate development and planning for manufacturers, process industry firms, and service businesses.

MANAGEMENT DEVELOPMENT. Widely known in executive and management development circles, he conducts workshops in business negotiating, problem-solving and decision-making, market planning, and individual productivity for corporations, public agencies and trade associations.

VENTURE MANAGEMENT. He participates in Cresheim's venture work, managing service industry projects, and is a veteran of 26 startups. These range from computers to early learning, food distribution, insurance, microfilm, optical scanning, printing, retail distribution, training and wine making.

CLOSELY HELD CORPORATIONS. Mr. Barrett also is well known in the independent business sector of the United States and Canada for his work on family business continuity, development of young executives in independent firms, and organization and ownership problems of partnerships and private firms.

MARKETING CONSULTING. Projects involve market plans, implementation of new approaches, sales force size and productivity, customer services, sales systems, market share, pricing, competition, and growth options.

DEALERS, DISTRIBUTORS AND AGENTS. A by-product of his management development work, and long experience with independent businesses has been requests by major corporations to help in development of their dealers, distributors and agents. Some of this work involves workshops; some is consulting.

INTERNATIONAL WORK. Projects with multinational corporations made him a frequent world traveler in the late Sixties and he continues this work with several overseas trips each year. His experience includes periods of extended residence in England and Germany while managing startups in 1966 and 1967.

SPONSORED RESEARCH. A continuing activity is management of multidisciplinary research projects of a predominantly economic nature. Recent examples which led to publicly available results include, in 1976, *Tunneling; The State of the Industry* (with R.S. Mayo and R.J. Jenny) and, in 1977, *Insurance for Urban Transportation Construction*.

PRIVATE RESEARCH AND WRITING. Current research interests are in joint ventures, continuing development for senior executives, and advanced negotiating tactics. Mr. Barrett's published papers have appeared in the *AMA Management Review*, *American Archivist*, *Boardroom Reports*, *Business Horizons*, *Cresheim Comment*, *Sales Management*, and *Training*. He is the author of three books: *Managing Problems* (1970), *Improving Negotiating Skills* (1971), and *Managing Action* (1972, co-authored).

CMC DESIGNATION. He is a Certified Management Consultant, having met the demanding requirements of the Institute of Management Consultants, the profession's certifying body.

UNIVERSITY FACULTY AFFILIATIONS. He was an assistant professor at Harvard College and a visiting lecturer at the State University of Iowa; the University of Michigan; and the Air Command and Staff College.

EARLY EXPERIENCE. From 1951, he served in the United States and Korea with the Air Force; taught at Harvard College (1954-58); was a systems analyst, records management specialist and systems and procedures manager for Raytheon Company; and general manager of a beverage wholesaling firm, before entering consulting.

VOLUNTEER ACTIVITIES. Active in alumni, community and professional affairs, he serves as president of the Wyndmoor Community Association, as president of the Philadelphia Chapter of the American Association of Small Research Companies, and on AASRC's committee for the 1980 White House Conference on Small Business.

PERSONAL BACKGROUND. He and his wife, Dorothy, have four children. Both New Englanders, they have lived in Philadelphia since 1968. He was born in December, 1929, in Lowell, Massachusetts, graduated from Harvard in economics, from the USAF's Command and Staff College, and did graduate work at Washington University in St. Louis.

	-----FY92-----		--FY93 TO 12/31--	
	NUMBER	AMOUNT	NUMBER	AMOUNT
***** 1.1 TREND ANALYSIS BY COVERAGE *****				
WORKERS COMPENSATION	24	264,416	64	245,867
STATE PROPERTY	1	43,500	1	115,000
TOTAL	25	307,916	65	360,867

***** 1.2 TREND ANALYSIS BY NEXT ORGANIZATIONAL LEVEL *****				
UNKNOWN APA				
MISC KNOWN APA				
ADMINISTRATION				
TYPE PROJECT	25	307,916	65	360,867
TOTAL	25	307,916	65	360,867

***** 1.3 TREND ANALYSIS BY CIRCUMSTANCE RELEVANT TO PREVENTION *****				
FALLS & SLIPS	1	71,385	9	41,348
HAND TOOLS	4	448	3	25,485
HANDL MATERIAL HDLG	3	590	9	48,793
MOTOR VEHICLE	1	3,040		
FIRE OR EXPLOSION			1	115,000
ILLNESS	1	2,429	2	6,893
OTHER	15	230,025	41	123,348
TOTAL	25	307,917	65	360,867

The above losses have not had a trending or development factor applied to them. Therefore, these losses will increase when the trending analysis is performed.

CLAIMANT CLAIM NUMBER	ACC DATE	TOTAL INCURRED	STATUS	ORGANIZATION	DESCRIPTION OF THE CLAIM
***** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE PERIOD October-December *****					
***** WORKERS COMPENSATION *****					
BASKETT JAMES P0318323	12/05/82	300.00	OPEN	TYEE PROJECT	MECHANIC BRADFIELD CANAL FELL FROM LADDER ON CRANE/L-SHOULDER CONTUSION
BENOIT GREG C P0318320	11/30/82	650.00	OPEN	TYEE PROJECT	TUNNEL MINER/BRADFIELD STRUCK BY FALLING ROCK/R/EAR LACERATION
BOON DANIEL R P0318312	10/28/82	6,791.00	OPEN	TYEE PROJECT	IRON WORKER/BRADFIELD C OPRTNG AIR DRILL-LEFT CARPAL TUNNEL SYNDROME
BROOKS TOM E P0318316	11/23/82	400.00	OPEN	TYEE PROJECT	TUNNEL MECHANIC/BRADFIELD LIFTING 8' LENGTHS OF ANGLE IRON-MUSCLE STRAIN
CZARNECKI CLYDE A P0318315	11/26/82	672.00	OPEN	TYEE PROJECT	CIVIL LABORER/BRADFIELD STRUCK BY CHAIN-LACERATION-R/INDEX FINGER
DAUENHAUER MICHAEL L P03018309	11/19/82	4,881.00	OPEN	TYEE PROJECT	CHASER/TYEE TRANSMISSIO SLPD/FELL-ICE COVERED RD/L/EYE LACERATION
DE GRANDT ALONSO P0318319	11/18/82	450.00	OPEN	TYEE PROJECT	SERVICE OILER/BRADFIELD UNPLNG CEMENT AUGER WHEN CEMENT FLEW INTO L/EYE
DIGGLES LEONARD G P0318317	11/19/82	500.00	OPEN	TYEE PROJECT	TUNNEL MINER-BRADFIELD SLIPPED/FELL WHILE LOADING STEEL-L/KNEE SPRAIN
DUCIC JONNIE R P03018306	11/03/82	350.00	OPEN	TYEE PROJECT	CIVIL ENGINEER/BRADFIELD JUMPED OFF OF RAMP/LUMBAR STRAIN
DUKES ARNITH ANNE P0303024	12/12/82	20,950.00	OPEN	TYEE PROJECT	COOK/BRADFIELD CANAL AL SLPD-WET SPOT-FLR/FELL-TORE LIGAMENTS R/KNEE
HERRERA EFRAIN R P0303513	10/11/82	130.00	CLOSED	TYEE PROJECT	RIGGER/TYEE TRANSMISSIO BUMPED BY SAW BAR/FOREHEAD LACERATION
HURD BEN P0303370	07/21/82	98.07	CLOSED	TYEE PROJECT	MINER/BRADFIELD CANAL DROPPED TOW LINE-L/FOOT CONTUSION
HURD BENNY H P0303398	08/12/82	37,135.00	OPEN	TYEE PROJECT	MINER/BRADFIELD CANAL STRUCK BY FALLING ROCK-SEVERE LACERATION-L/HAND
HURD BENNY H P0303512	10/20/82	300.00	OPEN	TYEE PROJECT	MINER/BRADFIELD CANAL JUMPED OFF MUCKER/RANGED KNEE/CONTUSION-L/KNEE
JONES GERALD E P0303377	07/28/82	301.92	CLOSED	TYEE PROJECT	ELECTRICIAN/BRADFIELD C PINNED BY RR TIES/COMPRESSION INJURY R/LEG
KIEDROWSKI RONALD C P0303514	10/27/82	21,000.00	OPEN	TYEE PROJECT	POWDERMAN EXPLOSION/FATALITY RESULTED

AS OF: 12/31/82

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3.0 LISTING OF CLAIMS

CLAIMANT CLAIM NUMBER	ACC DATE	TOTAL INCURRED	STATUS	ORGANIZATION
-----DESCRIPTION OF THE CLAIM-----				
***** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE PERIOD October-December *****				
KUEPPER RICHARD J P0318314	11/15/82	500.00	OPEN	TYEE PROJECT
SHOP FOREMAN/BRADFIELD S. TIPPED/FELL WHILE CARRYING IRON/LUMBAR STRAIN				
MACLAY PHILLIP P0303385	07/30/82	65.21	CLOSED	TYEE PROJECT
ELECTRICIAN/BRADFIELD C FOREIGN BODY R EYE				
HARQUETTE LEE A P03018305	09/25/82	200.00	OPEN	TYEE PROJECT
CHAIN SAW OPERATOR TYEE STRUCK IN EYE WITH STICK WHILE CLEARING BRUSH				
MASSIE CLYDE A P03018303	10/30/82	900.00	OPEN	TYEE PROJECT
MECHANIC/TYEE TRANSMISS GAS FUMES EXPLODED WHL SLORNG RATRY TERMINALS				
MC DONALD GREG H P0318322	10/27/82	500.00	OPEN	TYEE PROJECT
CIVIL LABORER/BRADFIELD STRUCK BY BROKEN JACK LEG-L/WRIST CONTUSION				
MC LEAN LEROY P0303386	08/02/82	238.65	CLOSED	TYEE PROJECT
MECHANIC/BRADFIELD CANA HIT BY ROCK/SCALP LACERATION				
OCHNER FRED S P0318310	11/25/82	12,802.00	OPEN	TYEE PROJECT
IRON WORKER/BRADFIELD C FELL FROM REBAR-APPROX 15'-FRACTURED RIBS				
OCHSNER FRED S P0303523	10/26/82	250.00	OPEN	TYEE PROJECT
IRON WORKER/BRADFIELD C POKED BY TEE WIRE/LACERATION R/ARM				
PARK HUNT P0303384	08/01/82	28.15	CLOSED	TYEE PROJECT
GENERAL LABORER/TYEE LA SWUNG SPINE HAMMER TO HARD/UPPER BACK STRAIN				
PARK HUNT P0318318	11/17/82	1,432.00	OPEN	TYEE PROJECT
GENERAL LABORER/BRADFIELD TWSTD NECK WHL WLRNG UP STEPS/CERVICAL STRAIN				
PETERS JON S P0303522	10/11/82	101.90	CLOSED	TYEE PROJECT
CARPENTER/BRADFIELD CAN KNEELING ON CONCRETE/FOLLICULITIS OF THE KNEES				
PETERS JON S P0318313	11/14/82	170.50	CLOSED	TYEE PROJECT
CARPENTER/BRADFIELD CAN WATER DRIPPED INTO EYE/FOREIGN BODY R/EYE				
PETTICREW ETHAN P0303382	08/02/82	179.80	CLOSED	TYEE PROJECT
TUNNEL LABORER/BRADFIELD STRUCK BY ROCK/SCALP LACERATION				
READ KENNETH E P0303391	08/03/82	88.25	CLOSED	TYEE PROJECT
SAWYER/TYEE LAKE PROJEC BUCKING TREE/RIGHT HIP CONTUSION				
SHERMAN MARK S P0303521	10/26/82	680.00	CLOSED	TYEE PROJECT
APPRENTICE LINEMAN/TYEE USING BLOW PIPE/FOREIGN BODY R/EYE				
SINGSTAD LEIF G P0118311	11/20/82	800.00	OPEN	TYEE PROJECT
CAMP MAINTENANCE/BRADFI SLIPPED FROM LAUDER/GRADE II L/ANKLE SPRAIN				
WHITE TIM M P0303375	07/28/82	41,750.00	OPEN	TYEE PROJECT
AIR TRACK DRILLER/TYEE TWSTD BACK WHILE LIFTNG RR TIE/ACUTE BACK INJURY				

84-131	TYPE LINE	10/27/82	115,000.00	OPEN	TYPE PROJECT	EXPLSN-MAGAZINES COMPLISHED/ONLY REPORTED
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**** STATE PROPERTY ****

03018301	SHAW DRIVER/BRANDFIELD C	11/03/82	300.00	OPEN	TYPE PROJECT	SMASHED FINNER TIRE WHILE LOADING BRILL STEEL
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**** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE TRION REPORT-8230301 ****

CLAIM NUMBER	DESCRIPTION OF THE CLAIM	STATUS	CLAIM INCREASED	ACC DATE	ORGANIZATION
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3.0 LISTING OF CLAIMS
AS OF: 12/31/82

LOSS CONTROL QUARTERLY REPORT

ALASKA POWER

ALASKA POWER AUTHORITY
ALASKA POWER CONSTRUCTION PROGRAM (APCP)
MARKETING CONCEPTS

1. Use State forms with separate Alaska fronting company and reinsurance with State's current underwriters. \$10,000,000 limit with a \$5,000 deductible on front policy. Current State S.I.R.'s.
2. Paid Loss Retro on Workers' Compensation portion fronted by a seperate Alaska company.
3. Seperate combined Workers' Compensation and Casualty placement scheduled under State excess of \$10,000,000.
4. \$1,800,000 backed out "Premium" - Deposit premium = \$1,200,000.
 - Including SIR loss fund
 - Including safety incentive program
 - Excess premiums
 - Fronting fees
5. Look for loss control and claims handling incentives, etc.
6. Cut construction contract amendment.
7. Letter to Harrison-Western with wrap-up (APCP) specs.
8. Cut Broker of Record letter.

MicEnnan

Date: December 14, 1981

From: Lawrence L. Drake

To: John C. Day

Alaska Power Authority - APCOP

Last month our brokerage appointment for the State of Alaska was extended along with Corroon & Black to the Alaska Power Authority. This newly formed division of the state is responsible for \$8,000,000 of hydro-electric construction during the next ten years. '80

As you know, we have jointly brokered the State of Alaska business for the past nine years with Corroon & Black, and have been notified that the existing arrangement will continue for some time, as the state perceives this arrangement as politically advantageous as well as workable professionally.

We have ^{now} proposed initially to extend the state programs to the Alaska Power Authority, using them to back up a series of owners wrapup projects. As we are responsible for the marine transit, liability and workers compensation, the majority of the fee billings will accrue to our benefit. We estimate that the total brokerage income over the ten year period will exceed \$5,000,000, and therefore this represents a major prospect for us. We have already secured one contract to review documents, and are faced with the possibility of billing another \$100,000 on a fee basis for a preliminary consultation on this program.

While there is nothing unusual in working on a co-brokerage basis with Corroon & Black, the State of Alaska is particularly sensitive to the issue of using "outside firms." The Corroon & Black operation has over ninety people in Alaska and is perceived as being located in the state, while we are still viewed, or should I perhaps say suspected, as being "outsiders." In arranging this construction program the legislature has specifically instructed the Alaska Power Authority that preference be given to Alaskan firms. We have therefore been instructed to utilize Alaskan insurance companies with whom we have negotiated a fronting arrangement which we back

D.C.
12-15-81

Page 2
John C. Day
December 14, 1981

ACKNYM
by reinsurance. We have also been asked to develop a presence in Alaska under the trade style of APCOP, a ~~synonym~~ for the Alaska Power Construction Project. The intent of this trade name and Alaska presence is to allow the Alaska Power Authority to promote the program as an Alaska venture.

2
I have contacted Barry Furst and provided him with preliminary documents as to how we can utilize this trade style while at the same time maintaining an existing conventional joint brokerage arrangement. Barry and I are working on the actual details of this, as well as considering special production because of the nature of the working relationship with Corroon & Black. For one instance I believe it advisable to secure an errors and omissions policy for this particular project, simply because of its nature and the trade style of APCOP increasing the possibility of a Marsh & McLennan errors and omissions claim, which could be triggered by Corroon & Black.

While this project poses substantial revenue potential at favorable project margins, I felt that its nature required your specific approval. We have already signed the aforementioned contract for contract review with the state and will have an opportunity to execute several other larger contracts in the near future. The peculiar nature of the relationship with Corroon & Black suggests that we have an agreement spelling out the duties and responsibilities as well as having a mutual hold harmless.

The actual billings of the state will go under the name of APCOP - Marsh & McLennan, as we must use that trade style to establish the necessary Alaskan identity. From my initial conversations with Barry Furst, and the primary research we have done, we can work out this agreement and protect Marsh & McLennan while complying with the instructions to use the trade style and to work jointly with Corroon & Black.



Item 4 of Assignment II is the preparation of a report on the PROS and CONS of a wrap-up or Owner controller insurance program (OCIP).

The response to this assignment follows; however, what is not contained in the PROS and CONS of such a program are other matters which I perceive to be of utmost importance before a discussion of the assignment is undertaken. These are:

- 1.- The single most important consideration of such a program is the proper preparation of all contracts relating to the Project: procure, procure and construct and construct only contracts. The proper risk management and owner controlled contract language must be prepared before the OCIP is undertaken.
- 2.- These provisions must be communicated thoroughly to all bidding contractors.
- 3.- A project insurance and safety manual is a necessity. The contractors should know what is expected of them in terms of life safety and property loss control including their participation in a fire brigade. This manual should contain a requirement for on-site verification of certified payroll, claims procedures and the method by which safety matters will be communicated.
- 4.- The "project" should be one of an on-going nature which is of sufficient size and duration in terms of values, payrolls, etc. to make possible the successful use of an OCIP. One project of relatively short duration and low values does not meet this test.
- 5.- Proper manuscripting of insurance policies is needed to meet the obligations undertaken in the project contracts and to protect all facts of the project, the owners and contractors.
- 6.- This report may be academic if the Alaska Legislature passes legislation prohibiting the OCIP approach for construction projects.

PROS

- 1) More control over quality of insurance program through centralization of authority.

A major advantage in the Owner or Wrap-up controlled insurance program (OCIE) is the ability of the owner to control the quality of the insurance program. The owner can choose the approach to insurance needs, and a company that will fulfill the needs of the program.

The centralization that such a program provides can benefit the owner in many areas. Such as loss control, claims settlement, public relations, etc. Centralization also has the potential to provide cost benefits to the owner through less duplication of efforts, resulting in reduced administrative cost, and better bargaining power with brokers and insurance companies because of the size of the program. These areas are discussed separately in this report.

- 2) Likely reduction of premiums because of large size of project.

A major advantage of the owner controlled insurance is the opportunity to reduce construction insurance premiums. This is simply a result of the competition that is generated for a project with high premium volume for Casualty Insurance. A large number of smaller individual contractors and subcontractors policies do not have the attraction of those with premiums in the millions of dollars.

The size of the premiums allow the owner bargaining power which can benefit the project not only in the cost, but in timing of premium payments, size of deposits etc.

This latter reference is especially the case with respect to course of construction insurance. If separate builders risk or course of construction insurance were purchased by each contractor and subcontractor, the owner would experience an increase in total cost of construction due to the pyramiding of these premiums. These premiums are a function of values at risk; as each succeeding contractor becomes involved, the value of risk increases and consequently the cost of insurance.

- 3) Potential for saving money as a result of controlled administrative costs.

Consolidation of Project's insurance coverage can result in savings in administrative costs because paperwork is reduced. The owner does not have to renew all the contractors and subcontractors insurance programs to assure their compliance limits, in coverage, choice of insurers, etc. There can be a reduction of files, correspondence and meetings concerning renewals and cancellation of contractors insurance programs. The owner-controlled program can avoid expensive and time-consuming delays and shutdowns that can result from non-bonding or non-compliance to standards of insurance by contractors.

- 4) Improvement in loss control and safety coordination through project-wide program.

A large construction project contains many potential hazards, and an effective safety and loss control program can result in great savings in money, time, and injuries. An owner-controlled program of insurance allows standardization of loss control and safety procedures, which would not be possible with the numbers of parties that would be involved in insuring each contractor and subcontractor individually. This standardization can benefit the project by eliminating unnecessary duplication of engineering by the individual parties involved in overlapping areas and also by increasing the authority of enforcement of loss prevention standards. In addition, because of the size of the insurer's stake in such a project, the insurer is more likely to involve itself in an effective loss control program.

The program can also be planned under the loss control philosophy of the owner and is not involved with many conflicting methods of reaching the same goal.

The owner of the program receives any dividends from favorable Workers Compensation experience. Effective loss control and safety engineering programs can result in this direct saving.

- 5) Reduction of litigation in claims from accidents that involve questions of liability because of unity of insurance interests.

An OCIP can reduce litigation in claims from accidents that involve questions of liability because it unifies the insurance interests of different contractors or subcontractors that might be involved.

It eliminates the need for subrogation by insurers of each party in disputes involving liability for accidents and thus saves money and time required for litigation. There is also less litigation over grey areas of coverage or questions of which carrier is liable or which subcontractor is responsible.

A wrap-up plan is especially useful in states that have "safe place to work" statutes because many suits of this type can be avoided by use of this type of plan.

- 6) Standardization of claims settlements because of centralized loss control.

An OCIP can provide better investigation of claims because the same adjusters who are familiar with project handle all claims. Standardized handling of claims can result in more equitable settlements and the process can be less expensive. When a question of Worker's Compensation and/or liability coverage arises, the claims adjuster could work with both aspects of the claim. Fewer insurers to work with should result in more efficient and less expensive claims settlement procedures.

- 7) Safeguard of good public relations with community.

A project requiring a wrap-up plan of insurance will be a large one which will require several years to complete, and once completed, the owner will probably be associated with the location for a longer period. For this reason, public relations are important on large projects and an owner-controlled insurance plan will allow the owner to conduct his project to result in the best possible relations with the community.

Any large construction project will be met with a certain amount of resistance from the area because of inconvenience, but if a project involves relocation of peoples homes, hazardous materials, explosives, or other especially sensitive issues it behooves the owner to plan a careful campaign of public relations to make the community aware that the owner is doing everything possible to minimize accidents, eliminate health hazards and protect the environment.

When accidents occur at a site, the publicity usually falls on the owner rather than the particular contractor or subcontractor who employs the injured worker. Since the owner will probably get the blame, it makes sense for him to exercise as much control over the situation as possible.

Handling of claims from accidents requires the awareness that an economically advantageous settlement for the owner may cost a lot in public relations. These can be weighed by the owner in a OCIP in a way not possible if a contractor or subcontractor is settling claims against him.

An OCIP gives the owner the opportunity to coordinate a positive public relations plan and gives the owner the maximum control over community relations.

CONS

The OCIP holds few disadvantages for the owner of the project. The owner must be careful to assure himself that the wrap-up program really is more cost-effective than individual insurance of contractors and subcontractors. This is not always easy to determine because the information is not always readily available for comparison. The bids of the contractors with and without insurance which are necessary to make this decision could lead the owner to inadvertently overlook the lowest bidder, so care must be taken in the investigation of the implementation of the program.

There has been some discussion that the OCIP restrains trade by placing the contractors and subcontractors insurance with unknown carriers without giving them any choice or input. Agents of contractors may feel that the wrap-up program takes their business unfairly. The size of the wrap-up program gives the owner an unfair advantage by giving "group" rates when the risk is the same but would cost more to individual parties. These criticisms are not really disadvantages to the owner, but are brought out in the literature and could become important.

The major disadvantage to the owner is the opposition of contractors and subcontractors to OCIP programs. Some of their criticisms include the interference of the wrap-up in their regular insurance programs, the addition of administrative expenses for which they are not compensated, the lack of individual consideration which could result in coverage that is not really appropriate for a specific party involved, and the possible deterioration of a contractor's experience modification because of the carelessness of others in the program. For these and other reasons, many contractors do not favor OCIPs, and this may cause conflict with the owner that would be to the owner's disadvantage.

Cost Comparison for OCIPs

Although other savings may accrue through use of an OCIP, the basis for a decision on whether or not to use such a program is a comparison of estimated premiums for all parties insured individually versus those of the OCIP.

A formula to assist in this comparison is:

$$\left(\sum_{i=1}^n \text{PV of } B_i - \sum_{i=1}^n \text{PV of } B'_i \right) > \left(\text{PV of } P_w - \text{PV of } P_o \right)^1$$

B_i is the amount bid on construction contract i by the contractor(s) who wins the job when insurance is paid for by the contractor(s).

B'_i is the amount bid on construction contract i by the contractor(s) who wins the job when insurance is paid for by the owner.

$\sum_{i=1}^n$ is the summation of the elements in the series, i.e. cost of bid of contractor A + bid of contractor B, etc.

PV is the present value with each amount discounted at a specific rate of interest from the time of future payment to the present.

P_w is the premiums the owner would pay for the wrap-up.

P_o is the premiums the owner would pay to cover his interest if there was no wrap-up.

For a wrap-up plan to be feasible the left side of the equation should be significantly larger than the right side unless there are other factors that make a wrap-up plan especially desirable. If the right side is larger, then money would be lost rather than saved by use of such a plan.

¹Whitford, George W. "Wrap-Up of Insurance Programs," Issues in Insurance Vol. II. (Malvern, Pa. : American Institute for Property and Liability Underwriters, 1978), p. 315.

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

by Marc Darby

It began in 1971, when a Quebec government law created the Société d'énergie de la Baie James (SEBJ) and mandated the construction and exploitation of the hydroelectric resources of an immense, nearly inaccessible and practically uninhabited territory in northern Quebec. La Grande Complex, as it has come to be known, is almost 110,000 square miles in area, 450 miles from east to west and 400 from north to south. It forms an enormous jigsaw puzzle—the pieces of which are all essential. When work was at its peak in 1978 and 1979, 18,000 workers braved isolation, solitude and extreme cold to double Quebec's hydroelectric power.

Evolution of the La Grande Complex

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

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

4, each with its large forebay.

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

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

Converting Water to Power

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

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



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

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

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

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

Harnessing River Power

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

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

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

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

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

Infrastructures and Living Conditions

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

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

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

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

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

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

SEBJ--A Project Management Company

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



An overview of project's various construction sites.

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

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

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

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

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

The Risk Management Program

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

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

Wrapping Up Big Construction Projects*

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

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

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

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

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

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

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

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

The owners achieve five key benefits:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

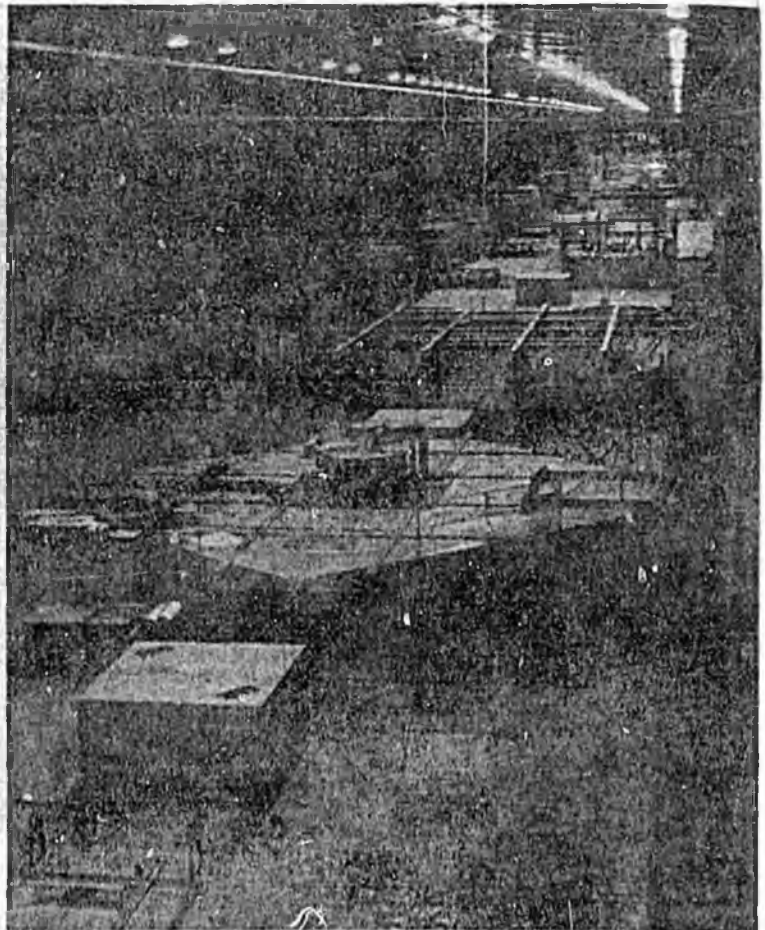
By the end of 1973, the texts of the policies, as well as the negotiations with the numerous insurers, were nearing completion. In fact, the policies were underwritten on May 1, 1974.

Underwriting the Builder's Risk and CGL Policies

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

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

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



A view of the underground power house in LG 2.

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

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

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

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

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

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

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

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

Disseminating Information to Insureds

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

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

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

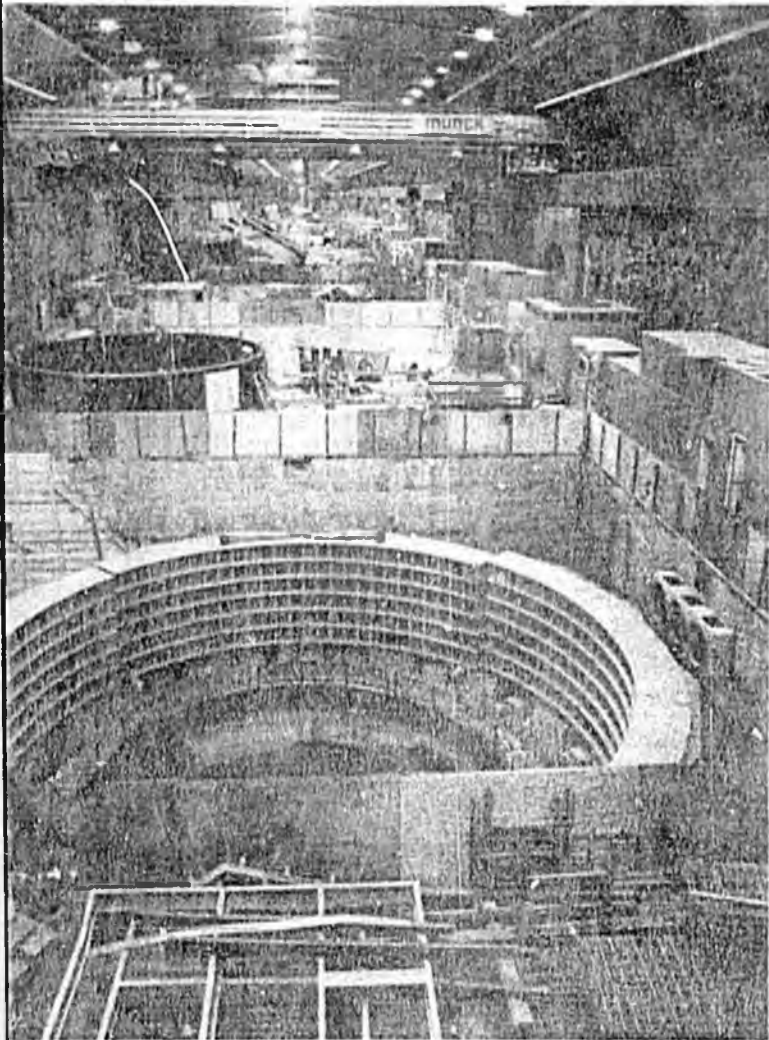
Major Insurance Revisions in 1981

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

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

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

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



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



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

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

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

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

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

Satisfactory Loss Experience

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

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

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

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

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

RM

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

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

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

PROJECT	CONVENT'L	WRAP UP	SAVINGS 0/0
SAN FRANCISCO	45.3	29.8	35.6
WASHINGTON	98.4	62.2	60.0
ATLANTA	61.3	39.9	34.9
BALTIMORE	46.0	27.5	40.2

(SMILLIONS)

JIM BARRETT
CRESHEIM
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DEPT ADM JNU

James E. Barrett



A career consultant since 1962, and president of Cresheim Company since 1968, he has worked with more than 140 corporate, public and private clients in North America, Europe, Latin America and the Far East. Some client relationships extend for fifteen years.

MANAGEMENT CONSULTING. Projects involve questions of organization, business strategy, corporate development and planning for manufacturers, process industry firms, and service businesses.

MANAGEMENT DEVELOPMENT. Widely known in executive and management development circles, he conducts workshops in business negotiating, problem-solving and decision-making, market planning, and individual productivity for corporations, public agencies and trade associations.

VENTURE MANAGEMENT. He participates in Cresheim's venture work, managing service industry projects, and is a veteran of 26 startups. These range from computers to early learning, food distribution, insurance, microfilm, optical scanning, printing, retail distribution, training and wine making.

CLOSELY HELD CORPORATIONS. Mr. Barrett also is well known in the independent business sector of the United States and Canada for his work on family business continuity, development of young executives in independent firms, and organization and ownership problems of partnerships and private firms.

MARKETING CONSULTING. Projects involve market plans, implementation of new approaches, sales force size and productivity, customer services, sales systems, market share, pricing, competition, and growth options.

DEALERS, DISTRIBUTORS AND AGENTS. A by-product of his management development work, and long experience with independent businesses has been requests by major corporations to help in development of their dealers, distributors and agents. Some of this work involves workshops; some is consulting.

INTERNATIONAL WORK. Projects with multinational corporations made him a frequent world traveler in the late Sixties and he continues this work with several overseas trips each year. His experience includes periods of extended residence in England and Germany while managing startups in 1968 and 1967.

SPONSORED RESEARCH. A continuing activity is management of multidisciplinary research projects of a predominantly economic nature. Recent examples which led to publicly available results include, in 1976, *Tunneling; The State of the Industry* (with R.S. Mayo and R.J. Jenny) and, in 1977, *Insurance for Urban Transportation Construction*.

PRIVATE RESEARCH AND WRITING. Current research interests are in joint ventures, continuing development for senior executives, and advanced negotiating tactics. Mr. Barrett's published papers have appeared in the *AMA Management Review*, *American Archivist*, *Boardroom Reports*, *Business Horizons*, *Cresheim Comment*, *Sales Management*, and *Training*. He is the author of three books: *Managing Problems* (1970), *Improving Negotiating Skills* (1971), and *Managing Action* (1972, co-authored).

CMC DESIGNATION. He is a Certified Management Consultant, having met the demanding requirements of the Institute of Management Consultants, the profession's certifying body.

UNIVERSITY FACULTY AFFILIATIONS. He was an assistant professor at Harvard College and a visiting lecturer at the State University of Iowa; the University of Michigan; and the Air Command and Staff College.

EARLY EXPERIENCE. From 1951, he served in the United States and Korea with the Air Force; taught at Harvard College (1954-58); was a systems analyst, records management specialist and systems and procedures manager for Raytheon Company; and general manager of a beverage wholesaling firm, before entering consulting.

VOLUNTEER ACTIVITIES. Active in alumni, community and professional affairs, he serves as president of the Wyndmoor Community Association, as president of the Philadelphia Chapter of the American Association of Small Research Companies, and on AASRC's committee for the 1980 White House Conference on Small Business.

PERSONAL BACKGROUND. He and his wife, Dorothy, have four children. Both New Englanders, they have lived in Philadelphia since 1968. He was born in December, 1929, in Lowell, Massachusetts, graduated from Harvard in economics, from the USAF's Command and Staff College, and did graduate work at Washington University in St. Louis.

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(714) 455-5350

March 15, 1982

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

Dear John:

OWNER-CONTROLLED INSURANCE PROGRAMS

During my experience of approximately 10 years as a Risk Management Consultant and several years prior to that as a Safety Engineer with a major insurance company, I have been familiar with a number of owner-controlled (wrap up) insurance programs on various construction projects. In all of these cases, the programs have been successful in terms of meeting the two basic objectives of this type of program. These are:

1. To reduce the pain and suffering as a result of injuries to workers and members of the general public.
2. To reduce the cost of the project.

These objectives are mutually supportive in that if the injuries are reduced, costs are reduced and if costs are reduced, it is only through a reduction in injuries. It is only through effective control over the workplace that injuries can be reduced. This control is achieved principally as a result of the interest of the owner and the general contractor in the overall safety program and claim control efforts on the construction site.

The improved loss control and claim management programs which are developed as part of an owner-controlled insurance program create benefits for all participants.

1. First, the owner receives the direct monetary benefit of dividends and return premiums as a result of the low-loss ratios.

2. The general contractor and the subcontractors obtain a lower experience modification factor for their workers' compensation programs as a result of the improved loss ratios and these lower modification factors can then be utilized by them in offering lower bids on future projects.
3. The employee benefits through a safer place to work with less time off and economic suffering as a result of on-the-job injuries.

In a recently completed coal fired electrical generating plant, the total premium paid for general liability, workers' compensation and builders' risk coverage was \$15,846,464. As a result of a 23% loss ratio during the course of this project, dividends were returned to the owner in the amount of \$6,185,954. In another project, a nuclear generating station, the subcontractors are all insured in the general contractors policy and their combined loss ratio has stayed at a level of 14%. A total premium of 1.3 million dollars has been paid for the workers' compensation and general liability coverages for these subcontractors and \$664,000 has been returned to the owner through the general contractor as a result of this combined insurance program. At this same project, the general contractor's loss ratio has been at the 40% level.

The advantages of an owner-controlled (wrap up) insurance program can be listed as follows:

1. Lower insurance costs through concentration and coordination of the buying effort to take full advantage of premium size discounts, combined rating plans and the elimination of overlapping and pyramiding coverages and charges.
2. Adequate, uniform policy limits and coverages with generally rather broad provisions for all on-site contractors regardless of size and scope of participation.
3. Centralize safety program through the use of one insurer to coordinate all loss-control efforts on a full-time, on-site basis.
4. Centralize on-site medical treatment and claims handling facilities through a single insurer eliminating differing interpretations of coverage, costs, and jurisdictions.
5. Hold harmless and waiver of subrogation requirements are minimized, reducing litigation among subcontractors over subrogation rights.
6. Owner has stronger position to control claims and public and employee relations' problems as they arise.
7. Reduced administrative costs and functions through standardization of forms, coverages, reporting procedures.

8. Insurance brokerage and agency commissions are reduced due to a single brokerage placement.
9. Possible tax advantages in that premiums may be treated as an expense rather than a part of a capital value.
10. All premium discounts and dividends are returned to the owner as purchaser of the wrap up, instead of to the subcontractors.

The disadvantages of an owner-controlled insurance program are several and can be very important depending on the perspective. They are:

1. Dilution and disruption of subcontractors' insurance programs through their participation in a wrap up, which diminishes their leverage with their own insurance carriers and brokers.

Comment: While this is true, the lower loss ratios which have historically been developed as part of a wrap up will lower the experience modification factor for the subcontractor so that his future insurance costs will be lower.

2. Wrap-up coverages may not be as broad as the coverage maintained by the contractors and may require that supplemental coverages or excess limits be maintained or purchased with the costs buried in their contract prices.

Comment: In most cases, the purchasing power of the wrap up will enable the owner to obtain extremely broad coverage eliminating the need for any supplemental coverages. Also, high liability limits are ordinarily a part of a wrap-up program and are much higher than that maintained by individual contractors. A wrap-up program will also provide a cross liability endorsement and an adequate annual aggregate property damage liability limit.

3. All premium discounts and dividends are returned to the owner.
4. Additional time and expenses are required to initiate, administer and audit each contractor's participation in a wrap-up plan and this will be charged back to the owner in the overall job costs.

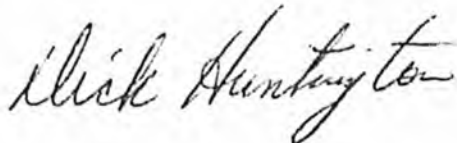
Comment: This time and expense is relatively insignificant compared to the potential savings under the wrap-up program.

5. Subrogation actions are not necessarily eliminated by a wrap up as prudent contractors may attempt to protect their workers' compensation experience rating modification by attempting to shift a compensation claim to the project wrap-up liability insurer where contributory or sole negligence of other contractors or the owner are involved.

Comment: A few of these situations may arise under the wrap up but will be substantially less than the number of situations under a program with individual insurance coverages.

For any major construction project with a total cost of \$100,000,000 or more, we recommend to our clients that they seriously consider the advantages of an owner-controlled insurance program for general liability, workers' compensation and builders' risk insurance coverage. In most cases, the direct cost comparison will favor the owner-controlled program and when the difficult to define costs are included in the considerations, the owner-controlled program becomes the obvious choice.

Respectfully submitted,

A handwritten signature in cursive script that reads "Richard R. Huntington".

Richard R. Huntington, CPCU
Manager, Western Operations
Risk Management Services

RRH:cf

Warren, McVeigh & Griffin, Inc.

Risk Management Consultants

March 15, 1982

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

OWNER-CONTROLLED WRAP-UP INSURANCE PROGRAM

This report is in response to your telephone inquiry of March 8, 1982 and supplements our report on the same subject, dated March 2, 1982. You have requested that we: (1) research our library and survey personnel who have been actually involved in wrap-up insurance programs and (2) report to you their actual experience with wrap-ups and their reasons for having chosen a wrap-up insurance program.

A. TELEPHONE CONTACT

The following quotations were received from interviewed parties:

1. Virgil A. Wellborn -- Tri-County Metropolitan Transportation, District of Oregon.

"We have selected a wrap-up insurance program for the Banfield Light Rail Project for a number of reasons, the most important being:

- a. Estimated savings of 30%-40% on insurance premiums.
- b. Contractor employee's, our employee's and the general public deserve the coordinated safety program which the wrap-up provides.
- c. As a public agency we must constantly strive to wisely use our revenues. To do less can only invite suits against our public officials."

2. Norman Cocanour -- Arizona Public Service.

"Fantastic way to involve an owner in the safety, claims and cost control aspects of the project. From a quality control standpoint, (a wrap-up) not only helps assure a safe jobsite but also a safe operating facility after construction.

". . . I can document premium savings of 30% to 50%."

3. William Hughes -- Southern California Edison.

"I can demonstrate savings of 30% on workers' compensation premium equating to several million dollars annually. General liability rates are running 25% below the market rates -- even considering the present soft market.

"Much easier coordination of safety at the jobsite, comprehensive safety engineering provided by the wrap-up insurer. Safety record among the best for utility construction projects in the U.S.

"From the risk manager's viewpoint, much better to have wrap-up, because you know all contractors are properly insured once they arrive at the jobsite."

4. William P. Noone -- Pacific Gas & Electric.

"We have used wrap-ups on every major construction project for over 20 years. We're completely satisfied with the results and will continue to use wrap-ups in the future."

5. Marc Darby -- Director, Risk Management & Insurance Societe d'energie de la Baie James, Montreal, Quebec.

"Our wrap-up program has served us very well. We have saved many millions of dollars in premiums while running a very safe jobsite.

"I have recently remarketed my insurance coverage resulting in an additional \$22 million in premium savings to the project."

6. David Ashbey -- Department of Civil Engineering, Massachusetts Institute of Technology.

"I have been a consultant to the Department of Transportation as well as a number of other clients . . . convinced that a wrap-up insurance program makes sense for any major construction project."

7. Russell McFarland -- Southern California Rapid Transit District, Los Angeles, California.

"While I was at the DOT in Washington, D.C., I had the opportunity to see a number of wrap-up insurance programs in operation for various projects which involved DOT funds. Without exception these programs saved the taxpayers millions of dollars.

"The Southern California Rapid Transit System contemplates using a wrap-up insurance program on our major construction projects."

B. WRITTEN COMMENTS

Written comments include the following:

1. Roy A. Westram, "Advantages of Wrap-Up Plans" The Annals of Chartered Property and Casualty Underwriters, Vol. 18, No. 4 (Winter, 1965) pp. 317-338.

"Why are owners' representatives and managers of insurance for large construction companies becoming increasingly interested in the wrap-up approach to construction insurance and construction contracts? The survey indicated that possibly the major reasons, in addition to savings, for this trend result from (1) the concern for good relations with the public residing in the immediate area of the project and (2) their responsibilities to employees as well as those of all contractors on the project. The advantages of wrap-up coverage from the viewpoint of production of the corporate image produce both direct and indirect benefits."

2. Ralph E. Becker and Herbert S. Denenberg, "Wrap-Up of the Wrap-Up" The Annals of the Society of Chartered Property and Casualty Underwriters, No. 3 (September, 1967), pp. 197-217.

"The authors conducted a survey among owners who had used the wrap-up and found that all but one of sixteen contacted endorsed the wrap-up approach enthusiastically . . . The group generally was convinced that most of the claimed advantages of the wrap-up were realized. Further, those that were engaged in continuous building programs stayed with the wrap-up, and their enthusiasm waxed rather than waned over time . . . an intelligently designed wrap-up can do the job which its proponents claim. In a nutshell, that job is the best insurance at the lowest price."

3. Long & Gregg, "Property & Liability Insurance Handbook," p. 505.

"Mixed and sometimes quite strong viewpoints both pro and con exist within the insurance community as to the propriety, or even legality, of combining under one set of policies protection for the diverse interests of a project owner, the general contractor, and various subcontractors. However, the weight of logic seems clearly to rest with those supporting the wrap-up concept."

4. Charles F. Levinson, Business Insurance, June 28, 1968, p. 20.

"At the (New York) Port Authority we are firmly convinced that on a large project a considerable savings can be made for the owner. In addition, it simplifies the insurance certificate handling procedures, eliminating the need for checking into the insurance program of each contractor before they are allowed to start work on your behalf. I doubt that it would be possible for any contractor to buy, individually, as broad a coverage as the property owner could purchase by putting all his eggs into one basket."

5. Robert W. Self, The National Insurance Buyer, November, 1966, p. 26.

"It goes almost without saying that there are mixed and sometimes quite strong viewpoints on the pros and cons of a "Wrap-Up" both within the confines of the insurance community and within the construction industry. It is also evident, however, that the plan does work to the benefit of the owner when properly established. If these were not so, the whole concept would disappear from the insurance scene."



Washington Metropolitan Area Transit Authority

600 Fifth Street, N.W., Washington, D.C. 20001

(202) 637-1234



August 26, 1981

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

Re: Safety Awareness Program

Dear Mr. Haywood:

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

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

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

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

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

Sincerely,

Donald M. Lahr
Safety Engineer
Office of Design and Construction

	-----FY82-----		--FY83 TO 12/31--	
	NUMBER	AMOUNT	NUMBER	AMOUNT
	-----	-----	-----	-----
***** 1.1 TREND ANALYSIS BY COVERAGE *****				
WORKERS COMPENSATION	24	264,416	64	245,867
STATE PROPERTY	1	43,500	1	115,000
TOTAL	25	307,916	65	360,867
***** 1.2 TREND ANALYSIS BY NEXT ORGANIZATIONAL LEVEL *****				
UNKNOWN AFA				
MISC KNOWN AFA				
ADMINISTRATION				
DEE PROJECT	25	307,916	65	360,867
TOTAL	25	307,916	65	360,867
***** 1.3 TREND ANALYSIS BY CIRCUMSTANCE RELEVANT TO PREVENTION *****				
FALLS & SLIPS	1	71,385	9	41,348
HAND TOOLS	1	448	3	25,435
HANDL MATERIAL HDLG	3	590	9	48,793
MOTOR VEHICLE	1	3,040		
FIRE OR EXPLOSION			1	115,000
ILLNESS	1	9,129	2	6,893
OTHER	15	230,025	41	123,348
TOTAL	25	307,917	65	360,867

The above losses have not had a trending or development factor applied to them. Therefore, these losses will increase when the trending analysis is performed.

CLAIMANT CLAIM NUMBER	ACC DATE	TOTAL INCURRED	STATUS	ORGANIZATION
-----DESCRIPTION OF THE CLAIM-----				
***** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE PERIOD October-December *****				
***** WORKERS COMPENSATION *****				
BASKETT JAMES P0318323	12/05/82 MECHANIC BRADFIELD CANAL	300.00	OPEN	TYEE PROJECT FELL FROM LADDER ON CRANE/L-SHOULDER CONTUSION
BENOIT GREG C P0318320	11/30/82 TUNNEL MINER/BRADFIELD	650.00	OPEN	TYEE PROJECT STRUCK BY FALLING ROCK/RT/EAR LACERATION
BOON DANIEL R P0318312	10/28/82 IRON WORKER/BRADFIELD C	6,791.00	OPEN	TYEE PROJECT OPRTNG AIR DRILL-LEFT CARPAL TUNNEL SYNGROME
BROOKS TOM E P0318316	11/23/82 TUNNEL MECHANIC/BRADFIELD	400.00	OPEN	TYEE PROJECT LIFTING 8' LENGTHS OF ANGLE IRON-MUSCLE STRAIN
CZARNECKI CLYDE A P0318315	11/26/82 CIVIL LABORER/BRADFIELD	672.00	OPEN	TYEE PROJECT STRUCK BY CHAIN-LACERATION-R/INDEX FINGER
DAUENHAUER MICHAEL L P03018309	11/19/82 CHASER/TYEE TRANSMISSIO	4,881.00	OPEN	TYEE PROJECT SLPD/FELL-ICE COVERED RD/L/EYE LACERATION
DE GRANDE ALONSO P0318319	11/18/82 SERVICE OILER/BRADFIELD	450.00	OPEN	TYEE PROJECT UNPLNG CEMENT AUGER WHN CEMENT FLEW INTO L/EYE
DIGGLES LEONARD G P0318317	11/19/82 TUNNEL MINER-BRADFIELD	500.00	OPEN	TYEE PROJECT SLIPPED/FELL WHILE LOADING STEEL-L/KNEE SPRAIN
DUIC JONNIE R P03018306	11/03/82 CIVIL ENGINEER/BRADFIELD	350.00	OPEN	TYEE PROJECT JUMPED OFF OF RAMP/LUMBAR STRAIN
DUKES ARDITH W P0303024	12/12/82 COOK/BRADFIELD CANAL AL	20,950.00	OPEN	TYEE PROJECT SLPD-WET SPOT-FLR/FELL-TORE LIGAMENTS R/KNEE
HERRERA EFRAIN R P0303513	10/11/82 RIGGER/TYEE TRANSMISSIO	130.00	CLOSED	TYEE PROJECT BUMPED BY SAW BAR/FOREHEAD LACERATION
HURD BEN P0303370	07/21/82 MINER/BRADFIELD CANAL	98.07	CLOSED	TYEE PROJECT DROPPED TOW LINE-L/FOOT CONTUSION
HURD BENNY H P0303398	08/12/82 MINER/BRADFIELD CANAL	37,135.00	OPEN	TYEE PROJECT STRUCK BY FALLING ROCK-SEVERE LACERATION-L/HAND
HURD BENNY H P0303512	10/30/82 MINER/BRADFIELD CANAL	300.00	OPEN	TYEE PROJECT JUMPED OFF HUCKER/BANGED KNEE/CONTUSION-L/KNEE
JONES GERALD E P0303377	07/28/82 ELECTRICIAN/BRADFIELD C	301.92	CLOSED	TYEE PROJECT PINNED BY RR TIES/COMPRESSION INJURY R/LEG
KIEDROWSKI DONALD C P0303514	10/27/82 POWDERMAN	21,000.00	OPEN	TYEE PROJECT EXPLOSION/FATALITY RESULTED

CLAIMANT CLAIM NUMBER	ACC DATE	TOTAL INCURRED	STATUS	ORGANIZATION
-----DESCRIPTION OF THE CLAIM-----				

***** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE PERIOD October-December *****

KUEPPER RICHARD J P0318314	11/15/82 SHOP FOREMAN/BRADFIELD	500.00	OPEN	TYEE PROJECT SLIPPED/FELL WHILE CARRYING IRON/LUMBAR STRAIN
HACIAY PHILLIP P0303385	07/30/82 ELECTRICIAN/BRADFIELD C	65.21	CLOSED	TYEE PROJECT FOREIGN BODY R EYE
MARQUETTE LEE A P03018305	09/25/82 CHAIN SAW OPERATOR TYEE	200.00	OPEN	TYEE PROJECT STRUCK IN EYE WITH STICK WHILE CLEARING BRUSH
MASSIE CLYDE A P03018303	10/30/82 MECHANIC/TYEE TRANSMISS	900.00	OPEN	TYEE PROJECT GAS FUMES EXPLODED WHL SLOWING BATTERY TERMINALS
MC DONALD GREG H P0318322	10/27/82 CIVIL LABORER/BRADFIELD	500.00	OPEN	TYEE PROJECT STRUCK BY BROKEN JACK LEG-L/WRIST CONTUSION
MC LEAN LEROY P0303386	08/02/82 MECHANIC/BRADFIELD CANA	238.65	CLOSED	TYEE PROJECT HIT BY ROCK/SCALP LACERATION
OCHNER FRED S P0318310	11/25/82 IRON WORKER/BRADFIELD C	12,802.00	OPEN	TYEE PROJECT FELL FROM REEL - APPROX 15' - FRACTURED RIBS
OCHNER FRED S P0303523	10/26/82 IRON WORKER/BRADFIELD C	250.00	OPEN	TYEE PROJECT POKE BY TIE WIRE/LACERATION R/ARM
PARK HUNT P0303384	09/01/82 GENERAL LABORER/TYEE LA	28.15	CLOSED	TYEE PROJECT SWUNG SPIKE HAMMER TO HARD/UPPER BACK STRAIN
PARK HUNT P0318313	11/17/82 GENERAL LABORER/BRADFIELD	1,632.00	OPEN	TYEE PROJECT TWISTED NECK WHL WLRNG UP STEPS/CERVICAL STRAIN
PETERS JOHN S P0303522	10/21/82 CARPENTER/BRADFIELD CAN	101.20	CLOSED	TYEE PROJECT KNEELING ON CONCRETE/FOLLICULITIS OF THE KNEES
PETERS JOHN S P0318313	11/14/82 CARPENTER/BRADFIELD CAN	170.50	CLOSED	TYEE PROJECT WATER DRIPPED INTO EYE/FOREIGN BODY R/EYE
PETTICREW ETHAN P0303382	09/02/82 TUNNEL LABORER/BRADFIELD	179.80	CLOSED	TYEE PROJECT STRUCK BY ROCK/SCALP LACERATION
READ KENNETH E P0303391	09/03/82 SAWYER/TYEE LAKE PROJECT	88.25	CLOSED	TYEE PROJECT BUCKING TREE/RIGHT HIP CONTUSION
SHERMAN MARK S P0303521	10/26/82 APPRENTICE LINEMAN/TYEE	630.00	CLOSED	TYEE PROJECT USING BLOW PIPE/FOREIGN BODY R/EYE
SINGSTAD LEIF G P0318311	11/20/82 CAMP MAINTENANCE/BRADFIELD	800.00	OPEN	TYEE PROJECT SLIPPED FROM LAUDER/GRADE II L/ANKLE SPRAIN
WHITE TIM M P0303375	07/28/82 AIR TRACK DRILLER/TYEE	11,750.00	OPEN	TYEE PROJECT TWISTED BACK WHILE LIFTING RR TIE/ACUTE BACK INJURY

CLAIMANT CLAIM NUMBER	ACC DATE	TOTAL INCURRED	STATUS	ORGANIZATION
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-----DESCRIPTION OF THE CLAIM-----

***** LISTING OF CLAIMS BY COVERAGE - REPORTED IN THE PERIOD October-December *****

WITHINGTON THOMAS D FG3018301	11/02/82 SHAG DRIVER/BRADFIELD C	300.00	OPEN	TYEE PROJECT SMASHED FINGER TIPS WHILE LOADING DRILL STEEL
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***** STATE PROPERTY *****

S.E. HARRISON WESTERN SA-131	10/27/82 TYEE LAKE	115,000.00	OPEN	TYEE PROJECT EXPLSN-MAGAZINES CONTAINED IN/NEAR VICINITY VAPORIZED
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process of paying Anchorage lawyer Bill Cook about \$20,000 to conduct an "intensive investigation of Gorsuch. Asked his reaction to this

among other things, the lawmaker's allegations that Gorsuch

Anchorage Daily News 3/15/83 (B-1)

Dam insurance costs called questionable

By RICHARD FINEBERG
Daily News correspondent

JUNEAU — A controversial method of providing insurance coverage for the \$125 million Tyee Lake hydroelectric project may have resulted in unnecessary expense to the state, an Alaska Power Authority consultant says in a draft report.

A legislative audit conducted last year and the study in progress by power authority consultant Dan McCarthy of Los Angeles question the way in which the state put together the \$3.8 million insurance package for the project.

However, the company that took the lead in arranging the insurance program, Marsh & McLennan of Seattle, called McCarthy's draft report "totally erroneous."

The hydropower project is under construction in Southeast Alaska near Petersburg. McCarthy says his on-going

review of documents related to the insurance plan does not give him a clear understanding of all expenditures in the complicated insurance package.

Among the arrangements McCarthy questioned are two \$20,000 payments of investment income and \$78,000 designated for a safety program.

McCarthy's draft report does not make it clear whether he believes the funds were mismanaged, or simply buried in an unnecessarily complicated bookkeeping system. He is still studying the issue.

The Tyee insurance package uses a form of coverage called wrap-up insurance. Under a wrap-up, the owner acquires the insurance. On other construction projects, contractors provide their own insurance.

Using the wrap-up insurance method can save the

See Page B-2, INSURANCE

Insurance package for Southeastern

Continued from Page B-1

owner millions of dollars on large projects, says John Haywood, director of the state's Risk Management Division.

On a wrap-up, Haywood says, the state can use the leverage gained by the large size of the insurance package to secure a custom-designed program, and thereby save money.

Haywood recommended the wrap-up program for Tyee and helped the Alaska Power Authority put it together. He is convinced the state will save at least \$3 million on Tyee insurance costs, and that Tyee will have a safety program as good — or better — than standard insurance would provide.

"The final chapter on Tyee is going to be there for everybody to see," he says.

But the advantages of wrap-up insurance coverage are not universally accepted.

Wrap-up insurance is opposed by some segments of the insurance industry, unions and general contractors because it interferes with

their normal business practices. Last year the legislature passed a bill prohibiting wrap-ups, but the governor vetoed the measure.

For the Tyee wrap-up, McCarthy, the power authority's California-based insurance consultant, is having difficulty tracing expenditures for the \$3.8 million insurance program.

In November, McCarthy met with Haywood and representatives of the primary insurance companies handling the Tyee program for the state — Marsh & McLennan, Corroon-Black/Dawson and Pacific Marine Insurance. Then he examined documents on the complex insurance program.

"Based on my meager understanding of this program," McCarthy wrote in a Jan. 3 draft report to the power authority, "... there exists the possibility that APA may have overpaid ... premiums and expenses."

"The Tyee package," McCarthy wrote is "very cumbersome ... difficult to understand and in some cases

duplicative." When he wrote his report, McCarthy noted, he still lacked important information. He received some of that information late last week at his home in California, but he has not yet had time to evaluate it.

"There are still unanswered questions that require further analysis," McCarthy said Monday. "I'm not sure whether it's impropriety, or the rather unusual structure of the program and its cumbersome reporting system."

Wrap-up programs typically involve many layers of insurance with separate insurance policies.

The finance director of the power authority, Ray Benish, says he is troubled by the lack of clear accounting for insurance expenditures on Tyee to date. In view of past investigations of the program, he said, it is particularly surprising that the documentation for the Tyee insurance contracts still raises questions.

"If we spent X dollars, we should be able to account for them all," Benish says. At the moment, power authority consultant McCarthy is telling Benish he still can't do that.

McCarthy's questions have drawn an angry response from Marsh & McLennan vice president David Carlson, who wrote McCarthy March 2 that he has provided all of the information McCarthy requested and stands ready to provide more.

hydroelectric project questioned by state official

"Your draft report makes implications and innuendoes that are totally erroneous and based apparently (to quote from your report) 'on your meager understanding of this program,'" Carlson wrote.

McCarthy was in Juneau Monday to look through four boxes of documents the House Labor and Commerce Committee obtained last year from the insurance companies and the Risk Management Division.

The industry documents were obtained through a rare use of a legislative subpoena, issued by the House Labor and Commerce Committee.

Billy Berrier, director of legal services for the legislature, says subpoenas are drafted from time to time at legislative request, but are rarely issued.

A recommendation by legislative auditors in 1982 launched the power authority's internal investigation. The 1982 legislative audit "found the allegations that APA, Risk Management, or brokers/agents acted improperly to be unsubstantiated." But the audit also identified

problems and unanswered questions concerning the complicated insurance program.

According to the legislative audit, the power authority "acted hastily in its decision to employ owner-provided (wrap-up) insurance for Tyee."

In his Jan. 3 draft report this year, McCarthy said APA officials should examine in greater detail payments by Marsh & McLennan and Corroon-Black/Dawson, who manage the program for the power authority, to principal insurer Pacific Marine.

The Fund for Investigative Journalism provided financial support for the research on this article.

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

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

April 29, 1983

Senator Richard Eliason
c/o Sheila Peterson
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

Pursuant to your request, enclosed is the draft report from our insurance consultant, Mr. Dan McCarthy, regarding the Tyee Wrap Up Insurance Program. Again, this is a draft report for discussion purposes only.

Sincerely,



Raymond J. Benish
Director of Finance

RJB:kjs

Encl. as stated

cc: Eric P. Yould, APA
Commissioner Dick Lyon, Chairman
APA Board of Directors

SENT BY DHL 4/29/83



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

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

Daniel R. McCarthy
President

April 27th, 1983

Mr. Raymond J. Benish
Director of Finance
The Alaska Power Authority
334 West 5th Avenue
Anchorage, Alaska 99501

DRAFT
for discussion purposes only

Dear Ray:

Here is the report on the Tye Wrap-up Insurance Program.

It utilizes the prior draft report where the portions of that report did not change. This report expands the draft and analyzes the insurance protection afforded. It also contains recommendations in certain areas to bring the wrap-up insurance to a position of uniformity and clarification.

Perhaps not properly includable in the report is an observation relative to communications. This comes about as a result of the meeting I attended in Seattle on March 31, 1983 at Mitsui's offices.

I came away from that meeting with the feeling that the contractors in attendance at the meeting believed they were not listened to in regard to their concerns for the insurances provided them.

Since that meeting I have had a telephone conversation with one broker and a letter from another. A copy of the letter had also been sent to APCOP. I reported the contents of the telephone conversation to Dave Carlson. I was promised that the immediately doable concerns would be met and that a quotation for the changes in the Builders risk and/or marine insurance would be available to me, today, before I depart for Anchorage. I hope this will be fact.

The point is that immediate communication by and between all parties involved in a wrap-up program is paramount. The goodwill and trust of contractors is essential to the successful administration of a wrap-up program.



The feeling I have is that this hasn't been the case for the Tyee wrap-up.

In an effort, however, to be responsible to Phase II contractors, Dave Carlson informed me that he had cooperated with the contractors involved in terms of letters, copies of policies, etc. provided contractors as long ago as approximately a year.

The need to communicate and to be responsible to contractor concerns is self evident. For the remainder of time involved at Tyee, therefore, I recommend a system of communication and responses to concerns be instituted and followed.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Dan R. McCarthy'.

Dan R. McCarthy

DRM/gbh

E.L.L.



TYEE LAKE HYDROELECTRIC WRAP-UP INSURANCE PROGRAM

This report has analyzed the various components of this Wrap-up Insurance Program and comments on its value in terms of its components and in financial terms.

The components include:

- 1.- Analysis of the various insurance policies, coverages and related supporting documents.
- 2.- Analysis of the "rating" plans for Workers' Compensation and General Liability.
- 3.- Analysis of the various contracts with the broker, the carrier, other entities 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.

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 co-broker arrangement of Marsh & McLennan and Corroon & Black/Dawson, in a contract between the co-broker 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.

The co-broker adopted the acronym (APCOP) meaning Alaska Power Construction Program.

Item 1: Analysis of the various insurance policies, coverage, limits and related documents.

A.- General Liability/Workers' Compensation

The "Alaska Power Authority Insurance Information Manual and Coordination Procedure for Alaska Power Construction Program (APCOP)" prepared by APCOP Services Marsh & McLennan, Incorporated shows the following for each project phase:

Phase I - Power House and Tunnel

Comprehensive General Liability Insurance (excluding Automobile Liability and Physical Damage) subject to the following limits of liability:

\$35,000,000 Bodily Injury/Each Occurrence per Contractor
 \$35,000,000 Property Damage/Each Occurrence per Contractor

and affording insurance for Premises - Operations; Owners/Contractors Protective; Independent Contractors; Products/Completed Operation (continued in force two years after the date of final acceptance of the work by owner); Blanket Contractual Liability; Broad Form Property Damage; Personal Injury Liability; Explosion, Collapse and Underground (XCU); Incidental Malpractice, Incidental Errors and Omissions; and Railroad Protective.

Phase II - Submarine Cable

Comprehensive General Liability Insurance (excluding Automobile Liability and Physical Damage) subject to the following limits of liability:

\$10,000,000 Bodily Injury/Each Occurrence per Contractor
 \$10,000,000 Property Damage/Each Occurrence per Contractor

and affording insurance for premises - Operations; Owners/Contractors Protective; Independent Contractors; Products/Completed Operations (continued in force two years after the date of final acceptance of the work by owner); Blanket Contractual Liability; Broad Form Property Damage; Personal Injury Liability; Explosion, Collapse and Underground (XCU); Incidental Malpractice; Incidental Errors and Omissions; and Railroad Protective.

Phase III - Transmission System Construction

Comprehensive General Liability Insurance (excluding Automobile Liability and Physical Damage) subject to the following limits of liability:

\$50,000,000 Combined Single Limit/each Occurrence

and affording insurance for Premises-Operations; Owners/Contractors' Protective; Independent Contractors; Products/Completed Operations (continued in force three years after the date of final acceptance of the work by owner); Blanket Contractual Liability; Broad Form Property Damage; Personal Injury Liability; Explosion, Collapse and Underground (XCU); Incidental Malpractice, Incidental Errors and Omissions; and Railroad Protective.

The Pac-Mar Liability Policy clearly shows a limit of \$500,000 each occurrence for all insureds covered under this policy.

The Subscription Excess Liability Policy SOAMC - 1982 - APA - 1 shows a limit of \$35,000,000 Bodily Injury Liability, per occurrence/\$35,000,000 Property Damage Liability, per occurrence.

The APA schedule of Insurance indicates a limit of \$55,000,000 excess the Pac Mar limit of \$500,000. The excess limits apply on a "per occurrence" basis, not on the basis of "per insured, per occurrence."

The contract documents and the APCOP Insurance Manual prepared by Marsh & McLennan specify limits of \$35,000,000 Bodily Injury (BI) per occurrence, per contractor and \$35,000,000 Property Damage (PD) per occurrence, per contractor.

The insurance program as evidenced by the Pac Mar policy and the excess subscription policy is grossly inadequate. For example if in Phase I there is a total of ten contractors who are alleged to be involved in an occurrence at the job site the limit indicated in the manual and required by the contract is 10 times \$35,000,000 or \$350,000,000 for Bodily Injury and 10 times \$35,000,000 for Property Damage Liability or \$350,000,000 for a total limit of \$700,000,000.

The same inadequacies exist in Phase II where the manual and contracts specify \$10,000,000 BI/\$10,000,000 PD per occurrence per contractor.

However as respects Phase III, the manual clearly calls for a limit of \$50,000,000, combined single limit per occurrence, not per occurrence, per contractor.

If 10 contractors were alleged to be involved under these terms, the total limit required for all insured contractors, together would be \$50,000,000.

It should be noted that if the occurrence occurred e.g. a completed operations claim or is alleged to have occurred during the period in which the policy was in force, the contractors have been told that the above limits of insurance have been provided.

Policy Terms and Conditions

There are coverage deficiencies in the policies when compared to the contract language, including no coverage for Railroad Protective Liability. Railroad Protective Liability Insurance, the exclusions for Explosion, Collapse and Underground Operations have not been deleted and there is no coverage for Incidental Errors and Omissions.

The Contractual Liability Coverage contains the following onerous exclusion:

- (4) to any obligation for which the insured may be held liable in an action on a contract by a third party beneficiary for bodily injury or property damage arising out of a project for a public authority; but this exclusion does not apply to an action by the public authority or any other person or organization engaged in the project;

There is no reference in contract language with contractors relative to the \$5,000 Property, Damage deductible for general liability insurance contained in the Pac Mar policy referenced above.

There are clearly major deficiencies in the coverages provided in the policy compared to the coverage agreed to by contract.

The excess policies clearly contain the same deficiencies as the primary Pac Mar policy.

Relative to Workers' Compensation coverage for Maritime exposures the primary Pac Mar policies properly includes coverage for the ". . . the liability of the insured to provide transportation, wages, maintenance and cure to any such employee." With a limit by accident of \$500,000, whereas the excess policy clearly states that its coverage ". . . does not apply to the liability of the insured to provide transportation, wages, maintenance and cure to any such employee".

It is unclear as to what aggregate limits would apply as respects the excess subscription placement. Policy limits aggregate normally apply to Contractual Liability Property Damage and Completed operations.

It should be noted that only the schedule of insurance indicates a \$55,000,000 limit; the excess policy indicates a \$35,000,000 limit.

Endorsement #110A to the referenced excess liability policy mentioned above indicates a \$35,000,000 limit for CGL - not \$35,000,000 BI and \$35,000,000 PD. Further, the "Limits of Liability" coverage part of this policy clearly states that the total limit for each occurrence is the policy limit for all insureds, not per each contractor/insured.

All the endorsements extending coverage in the standard Workers' Compensation and Employees Liability policy and the excess policies should be broadened to pick up coverage for liability under the Acts or Laws of Canada and its Provinces. It, also, should be noted that the insurance companies shown in the excess liability policy are not those shown in the schedule of insurance.

Inland and Marine Cargo

Subscription policy and Certificates of Insurance issued to Mitsui/D.W. Close transmitted by Dave Carlson's letter of March 2, 1983 shows a limit of \$5,000,000 any one vessel (and presumably any one land conveyance), subject to a \$5,000 deductible, with Lloyds of London as the insurance carrier.

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

Coverage analysis is impossible in view of the fact that the terms and conditions ". . . are per the Master State of Alaska Subscription Policy No. S.O.A.M.C.-1982," which has never been provided.

In the letter dated March 2, 1983, Dave Carlson provided a "Schedule of Insurance" and this schedule refers to:

"Pacific Marine 7/15/82 to 10/1/83
Cover Note M-2673 - - Ocean Cargo Certificate
\$10,000,000 any one tow single and/or Tandom"

The same letter provided a separate Certificate issued to APA Mitsui/D.W. Close showing coverage for \$10,000,000 any one vessel, any one tow with a \$5,000 deductible any one vessel "Non-Owned Marine". "Coverage to include Protection & Indemnity" with Llyods shown as the carrier. Attached to this Certificate are numerous standard clauses and endorsements with all of the blanks as respects to Assureds, Loss Payee etc. left uncompleted.

The Schedule of Insurance shows;

"Pacific Marine 7/15/82 to 10/1/83
Cover Note M-2674 - \$10,000,000 Charter's Liability
Protection & Indemnity and Running Down Clause on any
Vessels Bareboat Charter, Leased or Rented by the Assured:
Stevedore's Liability."

Builder's Risk/Course of Construction Insurance

Two copies of Subscription Policy No. P.R.P.-ST-U AL - F82 (APA) were provided. Both show a Limit of Liability for Phase I of \$45,000,000 and a deductible of \$5,000. Nowhere in either of the policies is any reference made to any other deductible. However, Dave Carlson's letter of March 2, 1983 states "The deductibles are \$250,000 Earthquake and Flood and \$100,000 for all other Perils."

The insureds include State of Alaska/Alaska Power Authority, Prime Contractors and their Subcontractors of all tiers. One copy of the Subscription Policy has three endorsements attached to it. Endorsement No. 1 includes coverage for Mitsui/D.W. Close as respects exposures under "Tyee Lake Submarine Cable Contract" and raises the limit of liability to \$65,000,000. Endorsement No. 2 adds coverage for Power City Construction/Power City Constructors as respects exposures under "Tyee Lake Transmission Lines Contract No. 2708-8" and raises the limit to \$90,000,000. Endorsement No. 3 adds coverage for Mitsui & Co. (USA Inc.) and D.W. Close Company, Inc. with a limit of liability of \$65,000,000.

The Schedule of Insurance shows two insurance companies providing all Risk Builder's Risk Insurance as follows:

"Allianz 10/1/82 to 1/4/84 Policy No. AIO-801511
 All Risk Builders Risk - \$90,000,000
 Commonwealth 12/16/82 to 1/4/84 Policy No. RXMP62770
 All Risk Builders Risk \$400,000 Excess of \$250,000 Earthquake
 & Flood - \$150,000 Excess of \$100,000 all other Perils."

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.

Non-Owned Aviation

The Schedule of Insurance provides the following:

"Americas 10/1/82 to 1/4/84 Policy No. HA-2-0111
 Non-Owned Aviation \$1,000,000 Primary
 Americas 10/1/82 to 1/4/84 Policy No. YA-1-0119
 Non-Owned Aviation \$4,000,000 Excess of \$1,000,000
 Puritan 10/1/82 to 1/4/84 Policy No. PZ-2181
 Non-Owned Aviation \$10,000,000 Excess of \$5,000,000"

Item 2: Analysis of the "rating plans" for Worker's Compensation and General Liability

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 factors follow:

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

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.

State premium taxes are charged on "earned" premium. It is my understanding that the State forgives premium taxes for a recently formed insurance company for a period of four years.

The Authority's maximum premium liability under this plan is \$150,000 as the Basic Premium plus incurred losses, that is the liability for premium is unlimited.

Wrap-up Insurance Program for a Project of this size should have a maximum aggregate premium in the primary insurance program.

Since there are separate and unusual financial agreements controlling premium and investment income between Pac Mar and APCOP, the insurance policies and retro plan are not the controlling documents in the final analysis. However, as respects APA's liability for premium, the policies are the controlling documents.

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 Tyee 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.

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 obviated by this Plan's maximum and final premium provisions.



Item 3: Analysis of the various contracts with the broker, carrier (s) other entities and related fees.

The first agreement to be analyzed is Standard Agreement Forms for Professional Services Contract between Alaska Power Authority and 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, although amendment 3 has not been executed by APA.

The contract requires the 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.

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. No evidence of this has been supplied.

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.

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 premium 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 under this contract. The APCOP budget prepared for the Tyee Project does not contain a provision for fees or other compensation to the brokers. The budget for the project provides for total insurance expenditures of \$3,784.602.

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.

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

Item 3: (continued)

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 financial section of this report.

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.

Peat Marwick Mitchell have completed an account balance audit covering the period of inception of the wrap-up to January 31, 1983. Discussion of this will be included in the financial section of this report.

Agreement with Pac Mar

This is a most important agreement. I shall attempt to 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 contractors 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 issuance 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 - Fee for insurance underwriting services for engaging in the Tye Wrap-up Program - PLUS Boards, Bureaus and Commissions Taxes; Involency/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. I find it difficult to understand why Pac Mar chooses to make these charges under this agreement. It is possible that duplicate charges are invoked, once in the insurance policy and retro agreement and again under this agreement.

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. Dave Carlson stated that this amount was changed to \$100,000 by amendment. This has not been received. 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" of 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 is 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 liability for payment of all outstanding liabilities with Pac Mar to be compensated in an amount agreed to at that time by Pac Mar and Broker on behalf of the Insured.

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. Further discussion of this is contained in the financial section of this report.

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.

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

The agreement is dated July 6, 1982, and expires June 30, 1983. It is by and between APCOP and Pac Mar for loss adjusting services. If these services are to continue the contract must be renewed or extended.

All reference to APCOP's "self insured claims program" is misleading and inappropriate since Pac Mar has issued policies of insurance.

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 another Trust Fund established in the amount of \$25,000 by the client APCOP.

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.

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.

The value of this contract is questionable.

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 manager.
- 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.

The value of this contract is questionable.

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 liberal increasing costs to A.P.A.
- 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 and/or investment income on the trust account on funds excess \$150,000.
- 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.

Item 5: Comment on the Selection of Insurance Companies for the Tyee Wrap-up Program

Presumably Pac Mar was selected as the insurance company for the basic Workers' 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 \$9,000,000 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 to \$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 business of fronting an insurance program as compared to other 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.

1981 Bests Key Ratings of Insurance Companies involved in the Tyee
Wrap-up Program

Pacific Marine Insurance Company	Not rated
Nutmeg (Hartford Insurance Group)	A+ Class X
Protective National Insurance Company	A Class XI
National Union Fire Insurance Company	A+ Class XV
Lexington Insurance Company	A+ Class XII
Insurance Company of North America	A+ Class XV
Allianz Insurance Company	Will be rated in 1982
Commonwealth	Not listed
Americas Insurance Company	Not rated \$19,920,000 Policyholder Surplus
Purtian Insurance Company	A+ XIII

A+ & A = Excellent

Surplus Rating:	X	\$7.5,000,000	to	12,500,000
	XI	\$12,500,000	to	25,000,000
	XII	\$25,000,000	to	50,000,000
	XIII	\$50,000,000	to	75,000,000
	XV	\$100,000,000	&	Over