

## Report on Gas Works and Waterworks

Excerpt from the WCIRB Classification and Rating Committee Minutes  
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## Report on Gas Works and Waterworks

**7500, Gas Works – all operations – including construction or extension of lines**  
**7520, Waterworks – operation – all employees – including construction or extension of lines**

### Executive Summary

#### Objective

The WCIRB reviewed the appropriateness of combining, for ratemaking purposes, the experience of Classification 7500, *Gas Works – all operations*, and Classification 7520, *Waterworks – operation*, to determine if the classifications should remain combined for ratemaking purposes.

#### Findings

Based on its review of the above matter, the WCIRB has determined that:

1. The statistical credibility of the payroll and loss data generated by combining Classifications 7500 and 7520 is within the range the WCIRB considers sufficient to create an advisory pure premium rate.
2. The statistical credibility of the payroll and loss data generated by Classification 7500 is not within the range the WCIRB considers sufficient to create an advisory pure premium rate.
3. The operations of employers assigned to Classification 7500 are most comparable to the operations assignable to Classification 7520.

#### Recommendation

The WCIRB recommends the following:

1. Continue to combine the experience of Classifications 7500 and 7520 for ratemaking purposes; and
2. Amend Classifications 7500 and 7520 to clarify their intended application and provide direction as to how related operations shall be classified.

## Introduction

The WCIRB reviewed the appropriateness of combining, for ratemaking purposes, the payroll and loss experience of Classification 7500, *Gas Works*, and Classification 7520, *Waterworks*, to determine if they should remain combined for ratemaking purposes. Typically, classifications are combined for ratemaking purposes for the following reasons:

1. Similarity in Operations  
There is significant overlap within the operations contemplated under the respective classifications, thus providing no clear line of delineation between the two classifications.
2. Low Statistical Credibility  
The statistical credibility of the payroll and loss data generated by one or both classifications does not meet the level that the WCIRB considers sufficient to create an advisory pure premium rate. As such, the classifications may be combined based on similarity in industry type and operations.
3. Temporary Variance in Experience  
There is a temporary dissimilarity in the relative experience of two related classifications that results in a relationship between the relativities for the classifications that are not expected to continue into the future.

## Classification History

Classification 7500, *Gas Works*, was established in 1915. Classification 7520, *Waterworks*, was established in 1917.

In 1962, Classifications 7500, *Gas Works*, and 7520, *Waterworks*, were combined for ratemaking purposes as Classification 7500 developed low statistical credibility and it was determined its operations were most comparable to those contemplated under Classification 7520, *Waterworks*.

## Description of Operations

Following are the classification phraseologies, footnotes and relevant summaries of operations currently assigned to Classifications 7500 and 7520.

### **GAS WORKS – all operations – including construction or extension of lines** **7500**

Payroll of meter readers not exposed to operative hazards shall be separately classified as 8742(1), *Salespersons – Outside*.

Classification 7500 applies to the operations of companies providing natural gas to customers for domestic and industrial use, as well as for use in transportation as an alternative fuel.

The operations of a natural gas utility company include but are not limited to the operation of gas processing and storage facilities, construction or repair of gas lines, including trenching, laying pipe and connecting gas lines and valves; the installation, repair and replacement of regulation and flow meter devices; and providing gas services to customers.

According to WCIRB policy records, Classification 7500 is assigned on eleven current policies. Of the eleven policies, seven pertain to temporary labor contractors.

The WCIRB's library of inspection reports contains one report assigning Classification 7500 because most firms providing natural gas services are large self-insured utilities.

### **WATERWORKS – operation – all employees – including construction or extension of lines** **7520**

The construction of aqueducts, buildings, dams or reservoirs shall be separately classified.

The payroll of meter readers not exposed to operative hazards shall be separately classified as 8742(1), *Salespersons – Outside*.

Classification 7520 applies to the operations of companies that supply water to communities. The operations include but are not limited to the operation of water processing and storage facilities; construction or extension of water lines; the installation, monitoring and repair of pumping equipment; the operation of pumping stations; installation, repair and replacement of water meters; pressure testing water lines and valves; and repairing or replacing damaged water lines and valves.

According to WCIRB records, Classification 7520 is assigned on 482 current policies. The WCIRB's library of inspection reports contains 64 reports assigning Classification 7520. Only five current policies assign both Classifications 7520 and 7500. No inspection reports assign both classifications.

### Statistical Analysis

Table 1 presents the classification relativity data for Classifications 7500 and 7520 at policy year 2015 level:

**Table 1: Gas Works (7500) and Waterworks (7520) Combined  
Classification Relativity Data at Policy Year 2015 Level**

Year	Number of Employers	Payroll	Losses	Loss to Payroll Ratio
2007	451	128,232,762	4,150,375	3.237
2008	456	144,398,647	5,251,240	3.637
2009	443	148,250,424	3,487,573	2.352
2010	434	139,435,190	3,215,373	2.306
2011	421	116,036,922	2,661,143	2.293
<b>Total</b>		<b>676,353,945</b>	<b>18,765,704</b>	<b>2.775</b>

Credibility <sup>1</sup>	
Indemnity	Medical
0.90	0.84

Selected (Unlimited) Loss to Payroll Ratio      3.824

Tables 2 and 3 present the classification relativity at the policy year 2015 level for each classification independently:

**Table 2: Gas Works (7500)**

<sup>1</sup> The relativity for each classification in the upcoming policy year is determined based on a comparison of that classification's actual losses per \$100 of payroll and the ratio of losses per \$100 of payroll underlying the current pure premium rate. The "credibilities" assigned to a classification are the statistical weights assigned to that classification's experience as a predictor of future claim experience relative to the loss per \$100 of payroll underlying the classification's current pure premium rate. The predictability or credibilities assigned to a classification's recent historical experience depends on the volume of indemnity and medical claims incurred during the experience period. The WCIRB strives to have classifications that are fully, or 100%, statistically credible based on historical experience over five or fewer years, which means that the classification's relativity in the upcoming policy year can be best estimated using only the loss per \$100 of payroll experience from the latest two-, three-, four- or five-year periods. The WCIRB generally will not recommend the establishment of a new classification if the credibility factors are less than one-half (< 0.50).

**Relativity Data at Policy Year 2015 Level**

Year	Number of Employers	Payroll	Losses	Loss to Payroll Ratio
2007	13	3,074,793	52,456	1.706
2008	12	3,194,768	204	0.006
2009	9	3,304,750	12,185	0.369
2010	10	2,796,338	96,244	3.442
2011	8	3,225,462	0	0.000
<b>Total</b>		<b>15,596,111</b>	<b>161,089</b>	<b>1.033</b>

Credibility	
Indemnity	Medical
0.20	0.19

Selected (Unlimited) Loss to Payroll Ratio 3.754

**Table 3: Waterworks (7520)  
Relativity Data at Policy Year 2015 Level**

Year	Number of Employers	Payroll	Losses	Loss to Payroll Ratio
2007	438	125,157,969	4,097,919	3.274
2008	444	141,203,879	5,251,036	3.719
2009	434	144,945,674	3,475,397	2.398
2010	424	136,638,852	3,119,130	2.283
2011	413	112,811,460	2,661,143	2.359
<b>Total</b>		<b>660,757,834</b>	<b>18,604,615</b>	<b>2.816</b>

Credibility	
Indemnity	Medical
0.89	0.83

Selected (Unlimited) Loss to Payroll Ratio 3.878

As shown in Table 2, the statistical credibility of the payroll and loss data generated by Classification 7500 is not within the range (+50%) the WCIRB considers sufficient to create an advisory pure premium rate. Accordingly, either the current procedure of combining Classifications 7500 and 7520 for ratemaking should be continued, Classification 7500 should be combined with a different classification, or Classification 7500 should be eliminated and its constituents assigned to a different classification.

### **Classification Analysis**

Firms assigned to Classification 7500 perform all operations required to process, store and deliver natural gas to customers, while firms assigned to Classification 7520 perform all operations required to process, store and deliver water to customers. While the commodities being provided to customers differ, there are similarities in the operations performed by each type of employer, most notably the operation and maintenance of processing and storage facilities and the construction and maintenance of flow lines, valves and control and monitoring equipment. Further, WCIRB staff finds no other classifications better describe the operations of Classification 7500 than Classification 7520.

### **Conclusion**

Based on its review of Classifications 7500 and 7520, WCIRB staff finds the following:

1. Classifications 7500 and 7520 combined develop sufficient payroll and loss experience to produce a statistically credible pure premium rate.
2. Classification 7500 by itself does not develop sufficient payroll and loss experience to develop a credible pure premium rate.
3. The operations of employers assigned to Classification 7500 are most comparable to the operations assignable to Classification 7520.

### **Recommendations**

The WCIRB recommends the following:

1. Continue to combine the experience of Classifications 7500 and 7520 for ratemaking purposes; and
2. Amend Classifications 7500 and 7520 to clarify their intended application and provide direction as to how related operations shall be classified.

**Recommendation**

Amend Classification 7500, *Gas Works*, to clarify its intended application and provide direction as to how related operations shall be classified.

PROPOSED

**GAS WORKS – all operations – including construction or extension of lines**

**7500**

This classification applies to the operations of publicly or privately operated natural gas utility companies. The operations include but are not limited to the operation and maintenance of gas processing and storage plants; construction or repair of gas lines and valves; installation, repair and replacement of flow regulation and metering devices; and the sale and delivery of containerized propane or liquefied petroleum gas.

Payroll of meter readers not exposed to operative hazards shall be separately classified as 8742(1), *Salespersons – Outside*.

The sale and delivery of containerized propane or liquefied petroleum gas by separate concerns shall be classified as 8350, *Gasoline or Oil Dealers*.

The operation of gas pipelines on a fee basis shall be classified as 7515, *Oil or Gas Pipeline Operation*.

The construction of gas pipelines between natural gas producing fields and points of connection with local distributing systems by separate concerns shall be classified as 6233, *Oil or Gas Pipeline Construction*.

The construction of gas mains along streets and roads by separate concerns shall be classified as 6315(2)/6316(2), *Gas Mains or Connections Construction*.

\* \* \* \* \*

**Recommendation**

Amend Classification 7520, *Waterworks*, to clarify its intended application and provide direction as to how related operations shall be classified.

PROPOSED

**~~WATERWORKS COMPANIES – operation~~ – all employees – including construction or extension of lines**

**7520**

This classification applies to the operations of publicly or privately operated water companies that supply potable water to communities. This classification includes but is not limited to the construction of water mains and lateral lines, the treatment of water, the operation and maintenance of pumping stations and the installation and repair of water meters.

The construction of aqueducts, buildings, dams or reservoirs shall be separately classified.

The payroll of meter readers not exposed to operative hazards shall be separately classified as 8742(1), *Salespersons – Outside*.

The construction of cross-country water pipelines by separate concerns shall be classified as 6361(2), Cross-Country Water Pipeline Construction.

The construction of water mains along streets and roads by separate concerns shall be classified as 6315(1)/6316(1), Water Mains or Connections Construction.

The delivery and spraying of water at construction sites by water truck service companies shall be classified as 7272, Water Truck Service Companies.

The operation of hydroelectric power plants shall be classified as 7539, Electric Light or Power Companies.

\* \* \* \* \*

**Recommendation**

Remove Classification 7520, *Waterworks*, from the *Municipal, State or Other Public Agencies* Industry Group, and establish a cross-reference.

PROPOSED

**MUNICIPAL, STATE OR OTHER PUBLIC AGENCIES**

**WATERWORKS COMPANIES—operation—all employees—including construction or extension of lines **7520****

The construction of aqueducts, buildings, dams or reservoirs shall be separately classified. See Classification 7520, *Water Companies*.

\* \* \* \* \*

**Recommendation**

Amend Section VIII, *Abbreviated Classifications – Numeric Listing*, for consistency.

PROPOSED

**Section VIII – Abbreviated Classifications – Numeric Listing**

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- 7520      Waterworks Companies
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