

Preston Pipelines

General Engineering Contractor

2011

**EXPERIENCE MODIFICATION RATE AND
SAFETY AT PRESTON PIPELINES TODAY**



Preston Pipelines, Inc.

Risk Management Services.

2/1/2011

What Industry Experts are Saying

“The construction industry expected loss rates have decreased for 2011, which will have an upward pressure on experience modifications. For contractors with decreasing payrolls and increasing claims expense, this can mean significant increases in their experience modification.

The average cost of a lost time injury has increased by 60% since 2005.

“Insurers continue to offer aggressive pricing to those contractors who demonstrate effective safety programs and low claims ratio compared to the industry.”

The following charts and detailed safety initiatives demonstrate our effective safety programs and the positive impact they are having for Preston Pipelines.

Safety and our Experience Modification Rating (EMR)

Preston Pipelines recently experienced a significant increase in its EMR. This document provides information about the factors causing that increase in this lagging indicator and describes SAFETY AT PRESTON PIPELINES TODAY!

PPI EMR History

The 2011 EMR is calculated based on losses and formula changes by the WCIRB for the years 2007, 2008 and 2009. They are lagging indicators not reflective of our current world-class safety position and direction.

Following is Preston Pipelines’ five and ten year experience modification history as reported by the Workers’ Compensation Insurance Rating Bureau which provides a longer and more accurate picture of Preston Pipelines as it relates to safety and risk management:

2011: 1.46	
2010: 1.23	
2009: 0.86	
2008: 0.89	
2007: 0.75	Five year average: 1.04
2006: 0.81	
2005: 0.77	
2004: 0.65	
2003: 0.72	
2002: 0.69	Ten year average: 0.88

Attached are 3 letters from our broker describing our current insurance and surety program and our loss experience history:

- 1) Preston Pipelines insurance and surety program
- 2) Insurance program – deductible/retentions
- 3) Experience modification rate history noting our five year average of 1.04

2010 & 2011 EMR –factors affecting current rating

Preston Pipelines EMR in 2009 was .86. That year there were three significant changes that impacted Preston Pipelines' EMR. Unfortunately, these changes along with decreasing payrolls created a "perfect storm" for Preston Pipelines and the significant increase in EMR resulted. They include:

1. The WCIRB, the agency responsible for calculating EMR, changed the formula in 2010 and 2011 thus causing a large increase in the rate across the industry. The Expected Loss Rate calculations (projected losses by classification code) used as the basis for comparison to individual company losses, were adjusted downward resulting in a lower expected loss total. When compared to actual losses, this created a greater disparity and resulted in a higher EMR.
2. Zurich, our insurance underwriter and a nationwide carrier reported loss totals in California similar to how they reported them in other states. This was incorrect and Zurich has been required to revise all of the loss information for California to reflect the full losses (they had deducted any savings they experienced from their medical management program which understated their reported totals).
3. In 2007, Preston experienced 2 claims that represented 50% of the total incurred for the year and caused that year to be more than double the highest year up to and since then. This is having a very big impact on our EMR.
4. In 2008, Preston Pipelines had 3 people on one job exposed to "Valley Fever" during the course of construction operations. The diagnosis was later confirmed. These valued members of Preston Pipelines are still undergoing treatment and rehabilitation.

Current Activities and Future Plans

In 2009, we were determined to show our ongoing commitment to safety despite the economic climate and recruited and hired a Vice President of Safety to join our senior management group. Our search for the "right" person bore fruit when Rick Seifert agreed to join our team. This raised the safety bar at Preston Pipelines as we now have the leadership and expertise in this area to build a world-class safety program.

Rick Seifert

Rick holds a BS degree in Engineering Technology and is a Construction Safety Instructor at UC Berkeley. Among his many other credentials, he holds certifications in Environmental Assessment, Storm Water Pollution Prevention and Fed OSHA Instruction. Rick has served as Expert Witness on FED-OSHA, CAL-OSHA, CAL-EPA and Bay Area AQMD in numerous legal and regulatory proceedings. He was also the principal writer and editor for "Click Safety" during its start-up.

Rick spent 24 years with Rudolph and Sletten, Inc. as their Safety and Environmental Director and played a leading role in the creation of their impressive safety program and record.

2009/2010 Safety Strategy

We developed an extensive written strategy to bring our safety program to world- class level. This strategy has two parts: strengthen our existing successful programs and identify new industry proven methods to bring our safety culture to a world- class level.

Following are some of our accomplishments to date along with our responses to specific safety issues:

- ✓ New improved IIPP and Code of Safe Practices,
 1. Created an easy-to-understand, accessible, illustrated, hard and soft copy IIPP that is used for field training weekly and during monthly foreman meetings so it is fully received, understood and applied.
 2. Hired a professional trainer to develop training materials and conduct training on the IIPP and other safety topics. She is a subject matter expert in leading edge training that increases understanding and retention of training delivered to our employees.
 3. Conducted training with all personnel on key safety elements.
 4. Conducted "train the trainer" training with foremen at monthly meetings so they could then train their crews on the IIPP and other safety topics.
- ✓ In 2010, Preston Pipelines hired a certified SWPPP coordinator, Qualified SWPPP Professional (QSP, State of California), Certified Professional in Erosion and

Sedimentation Control (CPESC-IT, Envirocert), SWPPP trained (CalTrans approved) in the industry to ensure our clients' sites are in full compliance with all applicable laws.

- ✓ Created specialized Stretch and Flex program under guidance of our insurance carrier, Zurich and held field training on it which has been met with 100% enthusiastic participation. Many workplace injuries are strains and sprains directly related to a lack of being warmed up before starting work.
- ✓ Conducting ongoing safety training programs that ensure everyone understands the emphasis we place on safety.
- ✓ Updated relevant Job Hazard Safety Analyses for daily use by the field.
- ✓ Rewards and penalties programs to acknowledge those who show they value safety and to give those who need help an opportunity and path to improve.
- ✓ Site specific safety program template so that all sites are not lumped under some general, one-size-fits-all program.
- ✓ Site specific programs and procedures including project specific safety orientation videos that enhance our ability to manage safety according to the very different requirements at different sites.
- ✓ Inspection instructions and protocols that give anyone doing inspections all the tools they need to properly inspect an area.
- ✓ Subcontractor safety program review and multi-employee site safety management.
- ✓ New program and improved safety standards for subcontractors to help take responsibility for everyone working on a job.
- ✓ Drug and alcohol testing of all new employees and education to ensure employees are aware and unimpaired in the workplace.
- ✓ Return to work/modified work program to give employees an opportunity to return to productivity as soon as possible.
- ✓ Safety reviews and "lessons learned" with operations and estimating managers at least on a weekly basis.

We examined our claims experience and identified all key opportunities for improvements. ... These are the specific actions we have taken to correct these issues and bring the standard to the highest level possible.

- ✓ 25% of field employees are Certified Flaggers.
- ✓ Pedestrian safety policy created and field training on it.
- ✓ Pressurized pipe testing procedures and field training delivered on the procedures.
- ✓ Created respiratory protection program for all field employees especially those in geographic areas where Valley Fever can be a challenge.
- ✓ Created safety orientation video for all new and existing employees (who are responsible for the largest percentage of incidents), which includes testing to a 100% standard.
- ✓ 100% of field employees trained on updated and improved heat illness prevention program including all new OSHA guidelines.
- ✓ 50% of field employees are certified on asbestos cement pipe training.
- ✓ Fall protection training and Competent Persons identified.
- ✓ Created innovative technique for fall protection anchorages using traffic plates – manufacturer in Canada in process of approving this method.
- ✓ Confined space procedures and field training on them.
- ✓ Trenching and excavation training and Competent Person identified.
- ✓ 100% of Preston Pipelines employees are CPR/AED/First Aid/O2 training. This gives us a greater opportunity to help people quickly while waiting for emergency responders, if needed.
- ✓ OSHA 30 training for all supervisors which gives us broad coverage to make sure that all OSHA rules and regulations are implemented and monitored.
- ✓ OSHA 10 training for interested employees with the goal to have all PPI regular employees a minimum of OSHA 10 trained by August 2011.

- ✓ Monthly ongoing safety training during scheduled field supervision meetings.
- ✓ Weekly safety review at executive team level and personal calls and feedback to field crews.
- ✓ 1-800 Driver Check safe driving program to encourage accountability for all PPI employees driving company vehicles.
- ✓ Lock-out, Tag-out program and training with mechanics.
- ✓ Storm Water Pollution Prevention training attended by Project Managers, Estimators, Foreman and Superintendents.
- ✓ Many other ongoing and new safety training programs delivered to Preston Pipelines' employees on a regular basis.

Our EMR is on a downward trend - absent any other changes by WCIRB in their methodologies. Clearly, the EMR is important; however, what is more important is our driving goal to keep all of our employees safe and healthy.

2010 - THE RESULTS OF OUR WORK

Preston recordable	Total recordable-Federal (Water & Sewer)	Total recordable-Federal (Construction all)	
3.3	4.9	13	
Preston days away (lost time)	Cases with days away-Federal (Water & Sewer)	Cases with days away- Federal (Construction all)	
0.95	3.2	6.1	

It is our priority and our commitment to provide a safe environment for our employees and the public at large and we are applying all of the effort, energy and resources to ensure that this occurs.



 Geraldine F. Malloy
 Executive Vice President



 Mike Preston
 President



January 13, 2011

Geraldine Malloy
Preston Pipelines, Inc.
133 Bothelo Ave.
Milpitas, CA 95035

Preston Pipelines, Inc. – Insurance and Surety Program

Dear Geraldine:

Aon Construction Services Group is the largest construction insurance and surety broker in the United States, and as such we work with many major contractors throughout the country. This experience has shown us that no contractor can sustain competitive and comprehensive insurance coverage and surety support without advanced and effective project management, loss control and safety programs.

We are pleased to confirm that Preston Pipelines maintains insurance coverage with Old Republic Construction Program Group, Inc., an admitted insurer rated A IX by A.M. Best Co. Old Republic CPG is considered to be one of the top companies insuring contractors in the United States.

The ten year average of Preston Pipelines' Workers' Compensation experience modifications is .88 and reflects Preston's commitment to safety.

Liberty Mutual, rated A XV, as the surety, has authorized bonds up to \$50 million per project for Preston Pipelines.

We are proud to represent Preston Pipelines and welcome the opportunity to recommend them as a truly exceptional contractor. Please call me for a personal recommendation at (408) 288-8000.

Sincerely,

A handwritten signature in black ink, appearing to read "James W. Untiedt", is written over the word "Sincerely,".

James W. Untiedt, CPCU, ARM
Resident Managing Director

Aon Risk Insurance Services West, Inc.

225 W. Santa Clara St. • Suite 1150 • San Jose, California • 95113-1604
tel: (408) 288-8000 • fax: (408) 289-9021 • (800) 827-7879 • www.aon.com



January 13, 2011

Re: Preston Pipelines, Inc.
Insurance Program – Deductible/Retention

To Whom It May Concern:

Preston Pipelines, Inc. maintains an insurance program through Old Republic Construction Program Group, Inc. subject to the following deductibles:

- Workers' Compensation/Employer's Liability - \$150,000 per accident or occupational disease subject to a \$1,000,000 aggregate deductible.
- General Liability - \$25,000 per occurrence
- Automobile Liability - \$5,000 each accident

The deductible obligation is specifically that of Preston Pipelines, Inc. and is secured by a written agreement and collateral.

Please contact me with additional questions or concerns at (408) 288-8000.

Sincerely

A handwritten signature in black ink, appearing to read "James W. Untiedt", is written over the word "Sincerely".

James W. Untiedt, CPCU, ARM
Resident Managing Director

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January 13, 2011

Preston Pipelines, Inc.
133 Bothelo Ave.
Milpitas, CA 95035

Re: Experience Modification Rate History

To Whom It May Concern:

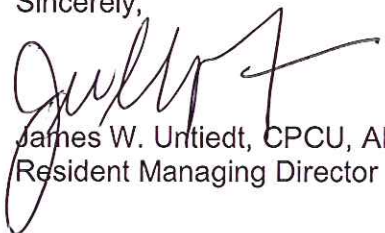
This letter will confirm the ten year experience modification history for Preston Pipelines, Inc. as reported by the Workers' Compensation Insurance Rating Bureau:

2011:	1.46
2010:	1.23
2009:	0.87
2008:	0.89
2007:	0.75
2006:	0.81
2005:	0.77
2004:	0.65
2003:	0.72
2002:	0.69
Ten Year Average:	0.88

This experience modification rating applies for the State of California only.

For additional information, please contact me at (408) 288-8000.

Sincerely,



James W. Untiedt, CPCU, ARM
Resident Managing Director

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