

## Report on Supply Dealers

Excerpt from the WCIRB Classification and Rating Committee Minutes  
May 5, 2015

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## Report on Supply Dealers

**8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*  
8204(1), *Building Material Dealers – dealers in secondhand materials*  
8204(2), *Pipe Reclaiming***

### Executive Summary

#### Objective

The WCIRB reviewed the appropriateness of combining, for ratemaking purposes, the experience of Classification 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, with that of Classifications 8204(1), *Building Material Dealers – dealers in secondhand materials*, and 8204(2), *Pipe Reclaiming*, to determine if the classifications should continue to be combined or if alternative classification procedures should be initiated.

#### Findings

Based on its review, the WCIRB has determined that:

1. The statistical credibility of the payroll and loss data generated by Classifications 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, and 8204 combined is not within the range the WCIRB considers sufficient to create an advisory pure premium rate;
2. The operations contemplated under Classification 8113 are comparable to the operations assignable to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*;
3. The operations contemplated under Classification 8204(1), *Building Material Dealers – dealers in secondhand materials*, are comparable to the operations assignable to Classification 8232(2), *Building Material Dealers – commercial*; and
4. The operations contemplated under Classification 8204(2), *Pipe Reclaiming*, are comparable to the operations assignable to Classifications 8111(1), *Plumbers' Supplies Dealers – wholesale or retail*.

#### Recommendation

In view of the above, the WCIRB recommends the following<sup>1</sup>:

1. Eliminate Classification 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, and reassign employers to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*;
2. Eliminate Classification 8204(1), *Building Material Dealers – dealers in secondhand materials*, and reassign employers to Classification 8232(2), *Building Material Dealers – commercial*;
3. Eliminate Classification 8204(2), *Pipe Reclaiming*, and reassign employers to Classification 8111(1), *Plumbers' Supplies Dealers*;
4. Amend Classifications 8111(2) and 8232(2) for consistency and to clarify their intended application; and
5. Amend Classification 8111(1) to clarify its intended application.

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<sup>1</sup> At its meeting of January 6, 2015, the Classification and Rating Committee approved changes to Classifications 8113 and 8111(2) that were proposed by WCIRB staff as part of the USRP Enhancement Project. The changes detailed in this report supersede the changes to these classifications approved at the January 6, 2015 meeting.

## Introduction

The WCIRB reviewed the appropriateness of combining, for ratemaking purposes, the experience of Classifications 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, and 8204(1), *Building Material Dealers – dealers in secondhand materials*, and 8204(2), *Pipe Reclaiming*. In view of the fact that the combination of Classifications 8113 and 8204 no longer develops sufficient data to produce statistically credible advisory pure premium rates, this study focuses on an alternative classification procedure for the constituents of these classifications.

## Classification History

The history of Classifications 8113 and 8204 is as follows:

- **1915:** Classification 8204, *Building Material Dealer (yard work only – secondhand materials)*, was included in the first (1915) *Manual of Compensation and Liability Rules and Rates*.
- **1930:** *Oil or Gas Well Supplies or Equipment Dealers – secondhand* was established as an alternate wording to Classification 8204.
- **1934:** Classification 8204, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, was eliminated and Classification 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, was established.
- **1945:** *Pipe Reclaiming* was added as an alternate wording to Classification 8204.
- **1969:** Classifications 8113 and 8204 were combined for ratemaking purposes as Classification 8113 developed insufficient experience to develop a credible pure premium rate and the operations assignable to Classification 8204 were determined to be most comparable to the operations assignable to Classification 8113.

## Description of Operations

### PETROLEUM INDUSTRY

#### **OIL OR GAS WELL SUPPLIES OR EQUIPMENT DEALERS – secondhand – including incidental 8113 reconditioning or repairing**

Installation, erection, dismantling or salvage operations shall be separately classified.

Dealers of secondhand oil or gas well supplies or equipment sell used supplies and equipment, including but not limited to drill collars, bushings, drill pipe, pipe tongs, blow-out preventers, compressors, vacuum pumps, tubing, valves, gasoline engines, generators, pipe fittings and tools to the oil and gas and water well drilling industries. Oil and water well equipment may be reconditioned prior to resale. Such operations involve disassembling equipment after which parts are degreased and machined. The reconditioned components are assembled with new gaskets, rubber seals and springs, painted and made ready for sale to customers.

WCIRB policy records indicate there are seven (7) dealers in secondhand oil or gas well supplies with current coverage.

#### **BUILDING MATERIAL DEALERS – dealers in secondhand materials 8204(1)**

Wrecking or salvaging operations shall be separately classified.

Dealers of secondhand building materials sell used building materials, including but not limited to brick, lumber, electrical lighting fixtures, toilets, sinks, windows, doors, plumbing fixtures, railroad ties, glass, paneling, roof shingles and pipes. Operations involve the receipt of secondhand materials which are

either purchased or donated from the general public or commercial concerns. The materials are sorted, graded, cleaned, counted, inventoried and set in designated areas within a yard or store area. Large or heavy items are moved using forklifts. The operations may include incidental milling, cutting, planning and edging. Workers assist customers in selecting secondhand building materials, receive payment for goods, and assist customers with loading vehicles. These dealers may also sell secondhand furniture and a variety of decorative items, hardware and household items.

WCIRB policy records indicate there are twenty six (26) dealers in secondhand building materials with current coverage.

#### PIPE RECLAIMING

8204(2)

**Classification 8204(2) shall not be used for division of payroll in connection with Classifications 8267, Machinery and Equipment Dealers – secondhand, or 8113, Oil or Gas Well Supplies or Equipment Dealers – secondhand, unless the operation described by Classification 8204(2) constitutes a separate and distinct enterprise having no connection with the operations covered by Classifications 8267 or 8113.**

Employers assignable to Classification 8204(2) engage in reclaiming and selling used pipe. Pipe reclaiming involves the receipt of used pipe from industrial concerns, including but not limited to irrigation companies, utility companies and oil and gas companies. The used pipe is steam cleaned and scraped or hammered by hand to remove scale and debris. Used pipe is stored pending sale and delivery to customers. Customers typically consist of industrial and commercial businesses.

WCIRB policy records indicate there are two (2) employers engaged in pipe reclaiming with current coverage.

#### Payroll and Loss Experience for Classifications 8113 and 8204

The following table summarizes the payroll and loss data and credibility factors for combined Classifications 8113 and 8204 at policy year 2015 level:

**Table 1  
Combined Classifications 8113 and 8204  
Payroll and Loss Experience at Policy Year 2015 Level**

Year	No. of Unit Reports	Payroll	Losses	Loss to P/R Ratio
2007	43	4,162,663	263,472	6.329
2008	52	5,255,644	561,989	10.693
2009	49	4,899,029	262,180	5.352
2010	50	6,354,027	212,277	3.341
2011	47	5,077,570	325,415	6.409
Total		25,748,933	1,625,334	6.312

Credibility	
Indemnity	Medical
0.35	0.36

Selected (Unlimited) Loss to Payroll Ratio 10.802

As shown in Table 1, the statistical credibility of the payroll and loss data generated by combining Classifications 8113 and 8204 is not within the range (+50%) the WCIRB considers sufficient to create an advisory pure premium rate. This is underscored by the year-to-year fluctuations in the loss to payroll ratios. The high loss to payroll ratio for 2008 is due to two large claims for a single employer.

Tables 2 and 3 summarize the payroll and loss data for Classifications 8113 and 8204 separately:

**Table 2: Classification 8113  
Payroll and Loss Experience at Policy Year 2015 Level**

Year	No. of Unit Reports	Payroll	Losses	Adj. Loss to P/R Ratio
2007	9	926,584	0	0.000
2008	6	1,215,555	0	0.000
2009	6	655,127	0	0.000
2010	6	1,192,605	824	0.069
2011	5	822,044	0	0.000
Total		4,811,915	824	0.017

Credibility	
Indemnity	Medical
0.18	0.18

Selected (Unlimited) Loss to Payroll Ratio 9.747

**Table 3: Classification 8204  
Payroll and Loss Experience at Policy Year 2015 Level**

Year	No. of Unit Reports	Payroll	Losses	Adj. Loss to P/R Ratio
2007	34	3,236,079	263,472	8.142
2008	46	4,040,089	561,989	13.910
2009	43	4,243,902	262,180	6.178
2010	44	5,161,422	211,453	4.097
2011	42	4,255,526	325,415	7.647
Total		20,937,018	1,624,509	7.759

Credibility	
Indemnity	Medical
0.32	0.33

Selected (Unlimited) Loss to Payroll Ratio 11.555

### Classification Analysis

In view of the lack of statistical credibility, the WCIRB considered an alternative classification procedure for dealers of secondhand oil or gas well supplies or equipment, dealers of secondhand building materials and dealers of used pipe (pipe reclaimers).

Dealers of Secondhand Oil or Gas Well Supplies or Equipment (Classification 8113)

WCIRB staff compared the operations assignable to Classification 8113 with the operations assignable to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*, as both classifications apply to dealers that sell similar, if not identical, supplies and equipment.

Classification 8111(2) applies to the sale of new oil and gas well supplies and equipment, including but not limited to well casing, pipe, sucker rods, pump units, tubing, pump engines, valves, couplings, fittings, light bulbs, springs, rope, belting stock, oil well pump parts, controls, seals, gaskets and bearings. Oil or gas well supply dealers maintain large yard areas where materials are stored in racks, while the new parts are stored on shelves and bins within buildings. These employers may engage in a minor amount of cutting of pipe to length or perforation of casing.

As described above, dealers of secondhand oil or gas well supplies or equipment clean and recondition supplies and equipment. Such activities are not performed by dealers of new oil or gas well supplies; however, both types of dealers engage in similar core operations, i.e., receiving, storing, incidental pipe cutting and perforating, displaying and selling oil or gas well supplies or equipment. Further, while the percentages of revenue derived from the sale of new and used products differ, both types of dealers frequently deal in both used and new supplies and equipment.

In view of the similarities in operations of dealers of secondhand vs. new oil or gas well supplies or equipment, WCIRB staff concludes that dealers of secondhand oil or gas well supplies or equipment should be reassigned to Classification 8111(2).

Dealers of Secondhand Building Materials (Classification 8204(1))

Staff compared the operations assignable to Classification 8204(1) with the operations assignable to Classification 8232(2), *Building Material Dealers – commercial*, as both classifications apply to dealers that sell building materials.

Classification 8232(2) applies to dealers that sell new building materials, including but not limited to sand, gravel, cement, brick, lumber, fencing wire, wallboard, windows, doors, roofing paper, paneling, decorative stone, foundation piers, pipe and button board.<sup>2</sup> Building material dealer activities involve the receipt of various building materials that are placed on display in racks, bins, shelves or in storage areas. Employees greet customers, answer questions, take orders, and receive payment for building materials. As needed, individual pieces of lumber and wood panels are trimmed and cut to length per customer order. Building materials are loaded into customer vehicles or delivered to customers.

As described above, dealers of secondhand building materials sort, grade and clean purchased or donated goods. Such activities are not performed in connection with the sale of new building materials; however, both types of dealers engage in the sale of building materials and engage in similar core operations, i.e., receiving, storing, incidental cutting of lumber, display and sale of building materials, assisting customers with loading their vehicles and delivery operations.

WCIRB staff concluded that the operations of dealers of secondhand building materials are similar to the operations of dealers of new building materials and should be reassigned to Classification 8232(2).

Pipe Reclaiming (Classification 8204(2))

Staff compared the operations assignable to Classification 8204(2) with the operations assignable to Classification 8111(1), *Plumbers' Supplies Dealers*, as both classifications apply to dealers that sell pipe.

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<sup>2</sup> When a building material dealer also operates a retail store for the sale of various products, including but not limited to hardware, tools, electrical appliances, housewares, and paint, the store shall be separately classified as 8017(7), *Stores – hardware*, in accordance with the provisions of the Multiple Enterprises rule.

Classification 8111(1) applies to dealers engaged in the wholesale or retail sale of plumbing supplies, including but not limited to steel, black iron, plastic, copper and transite pipe, pipefittings, valves, bathroom fixtures, water heaters, water filters, pumps, ventilating ducts, insulation, pipe putty and sealants, caulk and hand tools. Plumbing supply dealers often specialize in the sale of various types and sizes of pipe, which may take up large yard areas for storage. Plumbing supplies are purchased from vendors, stored on racks and shelves and sold to contractors and walk-in trade engaged in the construction or remodeling of industrial, commercial and residential buildings.

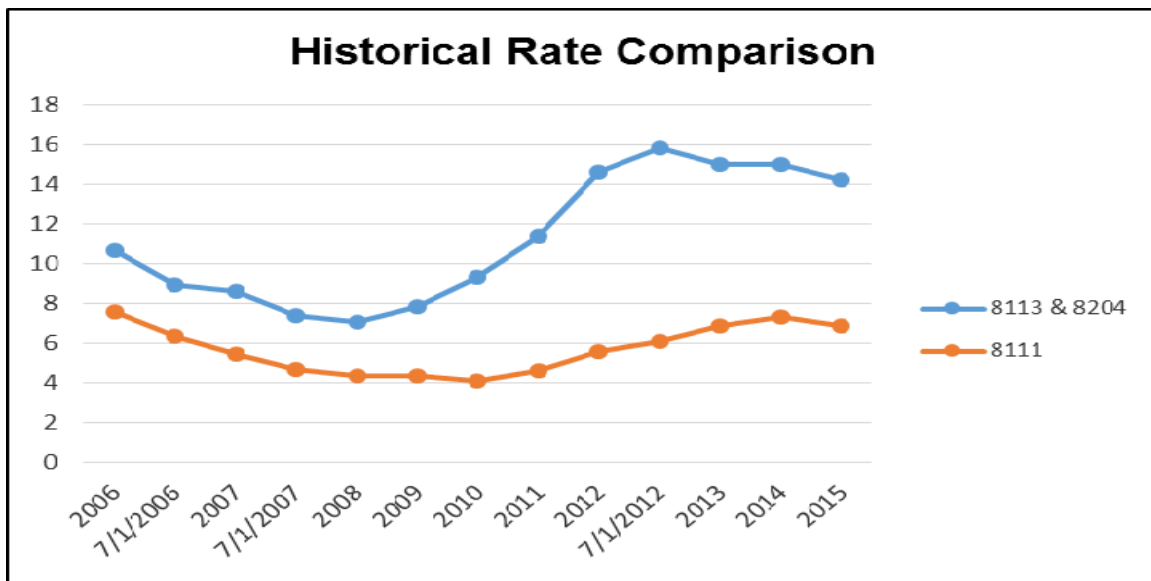
As described above, pipe reclaiming involves the receipt, cleaning, storing and sale of used pipe to industrial and commercial businesses. The operations of dealers of plumbing supplies also include the receipt, storage and sale of pipe to industrial and commercial businesses. Accordingly, WCIRB staff concludes that dealers of secondhand pipe should be assigned to Classification 8111(1).

**Impact Analysis**

*Reassignment of Dealers of Secondhand Oil or Gas Well Supplies (8113) and Pipe Reclaimers (8204) to Classification 8111*

To gain an historical perspective on the relativity of pure premium rates for Classifications 8113/8204 and Classification 8111, WCIRB staff reviewed the rates for the past ten years, which are shown in Graph 1.

**Graph 1  
Comparison of Historical Pure Premium Rates  
8113/8204 vs. 8111**





As shown in Table 4, a comparison of Selected (Unlimited) Loss to Payroll Ratios for Classifications 8113 and 8111 combined versus Classifications 8113/8204 indicates that the reassignment of dealers of secondhand oil or gas well supplies and pipe reclaimers to Classification 8111 most likely would result in a significant reduction in the cost of insurance for such firms.

**Table 4**  
**Comparison of Selected (Unlimited) Loss to Payroll Ratios at Policy Year 2015 Level**  
**8111 vs. 8111 and 8113 Combined**

Classifications 8113/8204	Classifications 8111 and 8113 Combined	Difference
10.802	5.197	-5.605 (-51.9%)

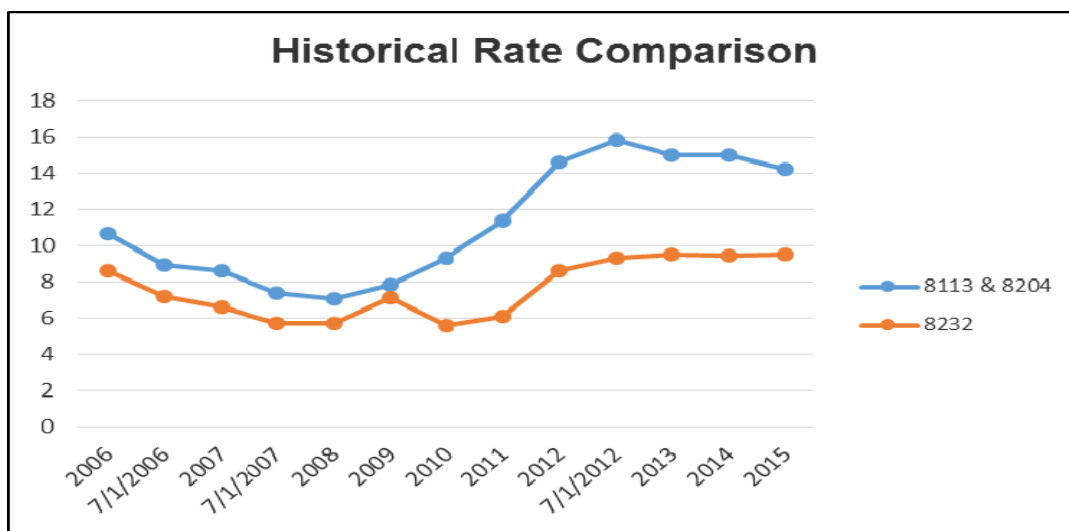
Table 5 shows that the reassignment of dealers of secondhand oil or gas well supplies and pipe reclaimers to Classification 8111 will have little impact on the advisory pure premium rate for employers assigned to Classification 8111.

**Table 5**  
**Comparison of Selected (Unlimited) Loss to Payroll Ratios at Policy Year 2015 Level**  
**8111 vs. 8111 and 8113 Combined**

Classification 8111	Classifications 8111 and 8113 Combined	Difference
5.225	5.197	-0.028 (-0.54%)

*Reassignment of Dealers of Secondhand Building Materials (8204) to Classification 8232*  
To gain an historical perspective on the relativity of pure premium rates for Classifications 8113/8204 and Classification 8232, WCIRB staff reviewed the rates for the past ten years, which are shown in Graph 2.

**Graph 2**  
**Comparison of Historical Pure Premium Rates**  
**8113/8204 vs. 8232**



It is noted that the pure premium rates for Classifications 8113/8204 and 8232 were comparable until 2010. Thereafter, the pure premium rates for Classifications 8113/8204 increased significantly due

primarily to two (2) losses incurred by a single employer in 2008. As these losses were closed or adjusted, the pure premium rates for Classifications 8113/8204 and 8232 again began to converge.

A comparison of Selected (Unlimited) Loss to Payroll Ratios for Classifications 8113/8204 versus Classifications 8232 and 8204 combined indicates that the reassignment of dealers of secondhand building materials (8204) to Classification 8232 most likely would result in a reduction in the cost of insurance for such firms.

**Table 6**  
**Comparison of Selected (Unlimited) Loss to Payroll Ratios at Policy Year 2015 Level**  
**8232 vs. 8232 and 8204 Combined**

Classifications 8113/8204	Classifications 8232 and 8204 Combined	Difference
10.802	7.240	-3.562 (-33.0%)

As shown in Table 7, the reassignment of dealers of secondhand building materials (8204) to Classification 8232 will have little impact on the advisory pure premium rate for employers assigned to Classification 8232.

**Table 7**  
**Comparison of Selected (Unlimited) Loss to Payroll Ratios at Policy Year 2015 Level**  
**8232 vs. 8232 and 8204 Combined**

Classification 8232	Classifications 8232 and 8204 Combined	Difference
7.231	7.240	0.009 (0.12%)

### Conclusion

Based on the review of Classifications 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, 8204(1), *Building Material Dealers – dealers in secondhand materials*, and 8204(2), *Pipe Reclaiming*, the WCIRB finds the following:

1. The statistical credibility of the payroll and loss data generated by combining Classifications 8113 and 8204 is not within the range the WCIRB considers sufficient to create an advisory pure premium rate;
2. The operations contemplated under Classification 8113 are comparable to the operations assignable to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*;
3. The operations contemplated under Classification 8204(1) are comparable to the operations assignable to Classification 8232(2), *Building Material Dealers – commercial*; and
4. The operations of contemplated under Classification 8204(2) are comparable to the operations assignable to Classifications 8111(1), *Plumbers' Supplies Dealers*.

### Recommendations

In view of the above, the WCIRB recommends the following changes to the USRP effective January 1, 2016:

1. Eliminate Classification 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, and reassign employers to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*;
2. Eliminate Classification 8204(1), *Building Material Dealers – dealers in secondhand materials*, and reassign employers to Classification 8232(2), *Building Material Dealers – commercial*;
3. Eliminate Classification 8204(2), *Pipe Reclaiming*, and reassign employers to Classification 8111(1), *Plumbers' Supplies Dealers*;
4. Amend Classifications 8111(2) and 8232(2) for consistency and to clarify their intended application; and
5. Amend Classification 8111(1) to clarify its intended application.

**Recommendation**

Eliminate Classification 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, which is part of the *Petroleum Industry Group*, and reassign employers to Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*.

PROPOSED

**PETROLEUM INDUSTRY**

~~**OIL OR GAS WELL SUPPLIES OR EQUIPMENT DEALERS – secondhand – including incidental**      **8113**  
**reconditioning or repairing**~~

~~Installation, erection, dismantling or salvage operations shall be separately classified.~~

\* \* \* \* \*

**Recommendation**

Eliminate Classification 8204(1), *Building Material Dealers – dealers in secondhand materials*, and reassign employers to Classification 8232(2), *Building Material Dealers – commercial*.

PROPOSED

~~**BUILDING MATERIAL DEALERS – dealers in secondhand materials**      **8204(1)**~~

~~Wrecking or salvaging operations shall be separately classified.~~

\* \* \* \* \*

**Recommendation**

Eliminate Classification 8204(2), *Pipe Reclaiming*, and reassign employers to Classification 8111(1), *Plumbers' Supplies Dealers*.

PROPOSED

~~**PIPE RECLAIMING**      **8204(2)**~~

~~Classification 8204(2) shall not be used for division of payroll in connection with Classifications 8267, *Machinery and Equipment Dealers – secondhand*, or 8113, *Oil or Gas Well Supplies or Equipment Dealers – secondhand*, unless the operation described by Classification 8204(2) constitutes a separate and distinct enterprise having no connection with the operations covered by Classifications 8267 or 8113.~~

\* \* \* \* \*

**Recommendation**

Amend Classification 8111(2), *Oil or Gas Well Supplies or Equipment Dealers – store or yard only*, which is part of the *Petroleum Industry Group*, to eliminate the restriction that excludes the sale of secondhand oil or gas well supplies or equipment, clarify its intended application, and provide direction as to how related operations shall be classified.

PROPOSED

**PETROLEUM INDUSTRY**

**OIL OR GAS WELL SUPPLIES OR EQUIPMENT DEALERS – store or yard only –~~not~~ **8111(2)**  
~~secondhand~~**

This classification applies to dealers of oil or gas well supplies and equipment, including but not limited to drill collars, drill bits, bushings, casings, drill pipe, sucker rods, pipe tongs, blowout preventers, compressors, subsurface oil well pump parts, vacuum pumps, tubing, valves, gasoline engines, generators, gaskets, lubricants, drilling fluids, well cleaning chemicals, sand, cement, belting stock, hand tools, chain, wire rope and pipe fittings. This classification also applies to dealers of water well supplies and equipment.

This classification also applies to the sale of used oil or gas well supplies, including incidental cleaning operations to prepare items for sale.

Installation and erection operations shall be separately classified.

Dealers of plumbers' supplies shall be classified as 8111(1), *Plumbers' Supplies Dealers*.

\* \* \* \* \*

**Recommendation**

Amend Classification 8232(2), *Building Material Dealers – commercial*, to eliminate the restriction that excludes the sale of secondhand building materials and for clarity.

PROPOSED

**BUILDING MATERIAL DEALERS – commercial –~~no secondhand materials~~ – including **8232(2)**  
~~counterpersons~~**

This classification ~~contemplates~~ applies to the sale of building materials, including but not limited to sand, gravel, cement, brick, fencing wire, wallboard, doors, roofing paper, paneling, decorative stone, foundation piers, pipe, and button board, and similar building material items.

The operation of a retail store for the sale of various products including, but not limited to, hardware, tools, electrical appliances, housewares, and paint shall be separately classified as 8017(7), *Stores – hardware*, in accordance with the provisions of the Multiple Enterprises rule. For purposes of applying the Multiple Enterprises rule, the receipt of the payment for building material merchandise shall not be considered interchange of labor with the building material dealer.

This classification also applies to the sale of used building materials, including incidental cleaning, trimming or cutting operations to prepare items for sale.

\* \* \* \* \*

**Recommendation**

Amend Classification 8111(1), *Plumbers' Supplies Dealers*, to clarify its intended application and provide direction as to how a related operation shall be classified.

PROPOSED

**PLUMBERS' SUPPLIES DEALERS – wholesale or retail – gas, steam or hot water equipment – no manufacturing 8111(1)**

~~This classification shall not be used for division of payroll in connection with any other classification (other than the Standard Exceptions or General Exclusions) unless the operations described by Classification 8111(1) constitute a separate and distinct enterprise having no connection with the operations covered by any other applicable classification.~~

This classification applies to dealers of plumbing supplies, including but not limited to steel, black iron, plastic, copper and transite pipe, pipefittings, valves, pipe putty and sealants, water filters, bathroom fixtures, bathtubs, washbasins, drinking fountains, water heaters, pumps, boilers, insulation, ventilating ducts and hand tools.

This classification also applies to the sale of used pipe, including incidental cleaning operations to prepare pipe for sale.

Dealers of oil or gas well supplies and equipment shall be classified as 8111(2), *Oil or Gas Well Supplies or Equipment Dealers*.

\* \* \* \* \*

**Recommendation**

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

PROPOSED

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

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- 8111(2) Oil/Gas Well Supplies/Equip Dealers–new
- 8113 Oil/Gas Well Supplies/Equip Dealers–used
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- 8204(1) Building Material Dealers–secondhand
- 8204(2) Pipe Reclaiming

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