EIM Energy Insurance Mutual

Volume 27, Issue 1 • January 2013

Members Report

From the Start, EIM Has Considered Reinsurance a Capital Idea

By Tommy Bolton

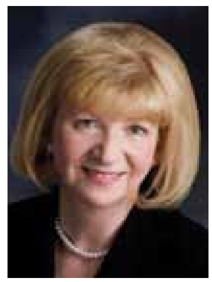
When EIM was formed in 1986, reinsurance was one of the first topics discussed by the Board. Initial meeting minutes reflect a clear intent to partner with the reinsurance community to access much needed capital and, thereby, provide more stable operating results for the fledgling organization.

> *"Reinsurance provides a vital function to organizations like EIM, where underwriting results can be volatile and capital needs swing dramatically from year to year. Purchasing reinsurance enables EIM to protect against catastrophic loss scenarios while continuing to offer significant insurance capacity to Member Companies."*

At the initial EIM General Information Meeting held on December 9, 1986, in Bridgetown, Barbados, founding Chairman Irene Moszer stated, "Despite what I said earlier about having to retain our own risks without reinsurance, we still have a fighting chance to purchase reinsurance. All that should be said at this stage is that we are actively negotiating. Hopefully, the negotiations will be productive." By July 1987, Dr. Moszer announced to Member Company representatives that, "… EIM was able to secure substantial amounts of reinsur-

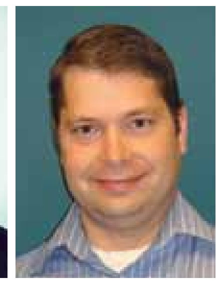
(Continued on page 5)

Board Expands IAC to 12; Three New Members Elected



Roni Salo

Forrest Strachan



Jeremy Stephens

At the November meeting, the EIM Board approved the expansion of the Insurance Advisory Committee from 10 members to 12—and also approved the appointment of three new IAC members, effective February 2013.

The newly elected members are: Roni Salo, ALLETE, Duluth, MN; Forrest Strachan, PJM Interconnection, Norristown, PA; and Jeremy Stephens, Citizens Energy Group, Indianapolis, IN.

One of the new members replaces Gary Little, who joined the IAC in May 2007 as the Risk Manager Representative from Progress Energy and completed his term at the end of 2012. The other two new members fill the newly created seats.

Roni Salo

As insurance manager, risk services, Roni leads a corporate property and casualty insurance program for a diversified company that employs 1,200 people in the electric utility, which is Minnesota Power that serves approximately 144,000 electric customers. An additional 250 people are employed by various other ALLETE business units. Roni has been in her present position since 1998.

Roni graduated in 1980 with a bachelor's degree from the University of Minnesota, Duluth, with a major in mathematics. She received a master's in business administration in 1985, also from the University of Minnesota.

Roni joined Minnesota Power in 1980 as a rate analyst.

(Continued on page 2)

(Board Expands IAC to 12; Three New Members Elected continued from page 1)

In 1984, she advanced to insurance/financial analyst. She was in that position for two years. In 1986, she became insurance administrator. From 1996 to 1998, she was insurance and claims adjuster.

Since 2007, Roni also has been a member of ALLETE's crisis management team.

Active in civic affairs, Roni is a past president of Duluth Rotary, a graduate of Leadership Duluth, and a group chairman for United Way, among other activities. She was Duluth Area Chamber of Commerce Volunteer of the Year in 1994. She also has chaired the EEI risk management committee.

Forrest Strachan

Forrest is risk manager of PJM Interconnection, which is a federally regulated regional transmission organization (RTO) that is responsible for the operation of the world's largest centrally dispatched power grid. He has been in that position since 1998.

A graduate of Bloomsburg University, Bloomsburg, PA, Forrest has a bachelor's degree in business administration. He graduated in 1975.

Forrest began his career as an ironworker, welder, and foreman for a bridge structural steel erection company in Kutztown, PA. He was there from 1971-1975. He then joined Liberty Mutual Insurance Company, Boston, where he became a claims supervisor. He was with Liberty Mutual 10 years. He then joined Meridian Bancorp, Reading, PA, as the director of claims where he worked from 1986 to 1996. He was named vice president and risk manager in 1993. He worked as a professional liability lines underwriter for two years for Travelers Property and Casualty Insurance Company, Hartford, CT, before joining PJM.

Additional educational endeavors include: Management of Managers Program, School of Business Administration, University of Michigan; numerous safety and risk management certifications; and two professional designations, ARM and AMIA. He also completed Travelers Bond School, Hartford, CT.

Jeremy Stephens

Since May 2006, Jeremy has been responsible for insurance risk management at Citizens Energy Group, an energy management company specializing in: the delivery of natural gas, water, and wastewater services to residents of Central Indiana; providing steam and chilled water services to customers in downtown Indianapolis; and the production of oil in southwestern Indiana.

Jeremy graduated in December 1998 from Tennessee Technological University, Cookeville, TN, with a bachelor's in business administration. He has since earned two professional designations: ARM and CRM.

Jeremy began his insurance career in December 1998 with Covenant Transport, Chattanooga, TN, first as safety and loss analyst and later as senior risk analyst. He also worked for several months for Life Care Centers of America, Cleveland, TN. In September 2002, Jeremy moved to Indianapolis to work for Baldwin & Lyons, an insurance company specializing in coverage for large trucking fleets. He worked there until he moved to Citizens Energy Group.

His professional and community involvement includes: vice president, Indiana Chapter, RIMS; chairman, Midwest Regional Utility Risk Manger's Committee; member, American Society of Safety Engineers; member, AGA risk management committee; treasurer, The Rivoli Center for the Performing Arts; and volunteer, United Way, Juvenile Diabetes Research Foundation, Ovarian Cancer Research Foundation, and Habitat for Humanity.

IAC Hosts Annual Exchange with Broker Guests

In the afternoon and evening following its December meeting, the Insurance Advisory Committee and several staff members, hosted an annual information exchange with seven invited brokers:

Jon Ball, Marsh, New York; Paul Bernardino, Aon, Atlanta; Rick Dowling, Lockton, Houston; Mike MacCrory, Wortham, Houston; David Scott, Willis, Radnor, PA; Scott Sink, McGriff, Seibels and Williams, Birmingham; and Steve Verbeski, Hays, Des Moines, IA.

IAC Chair Focuses on Various Task Forces

By Randy Martin

Randy Martin

The Insurance Advisory Committee has been busy with several task forces. It is "out with the old and in with the new" as two new task forces were established in September and two were closed.

The new task forces are to study (settlor) liability and wildfire liability. Edsel Carlson is chairing settlor liability. The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that establishes legal and operational guidelines for private pension and employee benefit plans. Not all decisions directly involving a plan, even when made by a fiduciary, are subject to ERISA's fiduciary rules. These decisions are business judgment type decisions and are commonly called "settlor" functions. The task force mission is to research market reaction to settlor liability as it relates to fiduciary liability insurance. Wildfire liability, chaired by Dean Jobko, is monitoring legal developments on a state-by-state basis where there have been wildfire events.

The Member portal and Member distribution task forces have been closed. Bob Dillard and Sandi Hart worked very closely with staff and offered critiques on the layout and function of this new Membership portal tool. The task force also acted as the beta test group for the EIM website Member portal. The distribution task force helped look at process and formula alternatives to the existing surplus distribution format as contained in the Company's bylaws. The study was shared with the EIM Board which decided to retain the current distribution formula.

Also, the pollution liability task force has been suspended until February 2013, awaiting the IAC's reexamination of the need to go forward. We have been waiting to see if any coverage changes are coming from AEGIS as well as waiting to see what if any further regulation may be forthcoming from the EPA.

The cyber liability task force has been at work on a coverage matrix. This matrix was shared with the Board in August. This task force will continue for the foreseeable future. Julie Jackson chairs this task force and is working with John Vinski and Jerry Rhoades to monitor court cases and the insurance coverage offered by the commercial market.

"EIM representatives updated the brokers on the 2012 underwriting year, along with the Company's operating strategy for the next 12-24 months. Overall, the meeting offered a valuable forum for IAC members, brokers, and EIM to exchange ideas on how to continue adding value for Member Companies."

On December 4, 2012, the IAC met with broker representatives who regularly access EIM capacity. The meeting was constructive and informative, with brokers addressing market trends in pricing, capacity, and coverage terms. As a follow up to the IAC agenda earlier in the day, brokers were asked to comment on cyber risk, settlor liability, and emerging wildfire exposure outside of California. The broking group also provided its perspective on EIM's role in the energy marketplace as well as areas where EIM might consider providing new or additional support to Member Companies.

EIM representatives updated the brokers on the 2012 underwriting year, along with the Company's operating strategy for the next 12-24 months. Overall, the meeting offered a valuable forum for IAC members, brokers, and EIM to exchange ideas on how to continue adding value for Member Companies.

The IAC is looking forward to 2013, which promises to be a busy year.

Gary Little, Long-Time Utility Manager, Completes IAC Service

Gary Little, ARM, CPCU, long-time employee of Progress Energy, Raleigh, NC—which became part of Duke Energy in July 2012—joined EIM's Insurance Advisory Committee in May 2007 and completed his final term December 2012.

A native and life-long resident of North Carolina, Gary began his utility career with Carolina Power & Light Co. (predecessor to Progress Energy) in 1978. He worked in insurance, claims, and loss control before being named manager, corporate insurance, Progress Energy Service Company, in 1994. Gary will be retiring from Duke Energy in 2013.

Gary Little

Please describe your experience on the IAC.

I found it to be a very rewarding experience, primarily due to the regular interaction with peers representing other Member Companies, along with EIM leadership, to discuss issues important to EIM and our industry.

What were the highlights of your IAC experience?

Sharing experiences and discussing issues that we were all concerned about with knowledgeable and talented people on the IAC, in the context of EIM coverage. I also appreciated the opportunity to gain a deeper understanding of the issues that must be considered in making material changes as a mutual, while getting to know EIM's management on a more personal level. By the way, I believe Member Companies should appreciate the high quality of leadership at EIM.

Would you encourage non-IAC members to seek membership?

Serving on the IAC does require a time commitment, but the knowledge and experience gained is more than worth it. We are very fortunate, as an industry, to have mutual companies like EIM that provide significant capacity tailored to our unique risks. I believe representatives of Member Companies should take advantage of every opportunity to help ensure EIM continues to meet industry needs for the long term.

How did you get into risk management?

I was in my fifth year working for an insurance company when I decided to make a career change. I heard about an opening in the Insurance Department at CP&L in Raleigh and thought that would allow me to use my insurance experience and still pursue a different career. I was fortunate to get the CP&L job and I have never looked back.

How does the electric utility industry today differ from the one you joined in 1978?

First of all, there are a lot fewer companies now than in 1978, due to the many mergers that we are all familiar with. Second, in 1978, most companies were regulated and didn't deviate much from the generation, transmission, and distribution of electricity. We are all aware of the push for deregulation over the past 15 to 20 years and how that has impacted the industry. A third major change has been the significant increase in regulatory issues, especially the intense environmental-impact scrutiny. The significant costs associated with this, along with the aging infrastructure, are huge concerns that weren't priorities in 1978.

Having experienced two big mergers in your career, what observations might you share?

Depending on which company you work for, there are obvious differences in cultures and management styles and plenty of stress and uncertainty to go around. There are rumors and unofficial statements from the initial announcement to the final close. One observation: the people that are able to handle the stress and uncertainty best are those employees who pretty much ignore the rumors and just continue to do their jobs well and support merger and integration activities.

How do you expect to spend the first months after you leave Duke Energy?

My wife and I plan to travel and spend time with our grandchildren. I may also work on my golf game, which is in desperate need of help. After a few months of that, I may be looking to get back into the workforce.

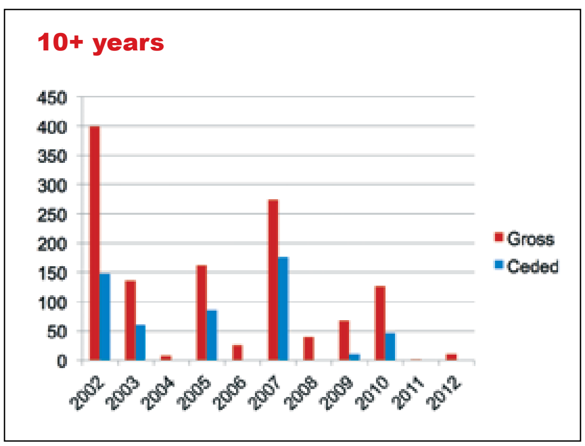
(From the Start, EIM Has Considered Reinsurance a Capital Idea continued from page 1)

ance only five months after it started its operations. It demonstrates, I think, the commercial market's interest in the EIM program. The reinsurance follows EIM's policy form without exclusion." This confirmation began a more than 25-year relationship with reinsurance partners who have provided unwavering support for EIM.

Why Reinsurance?

Reinsurance provides a vital function to organizations like EIM, where underwriting results can be volatile and capital needs swing dramatically from year to year. Purchasing reinsurance enables EIM to protect against catastrophic loss scenarios while continuing to offer significant insurance capacity to Member Companies.

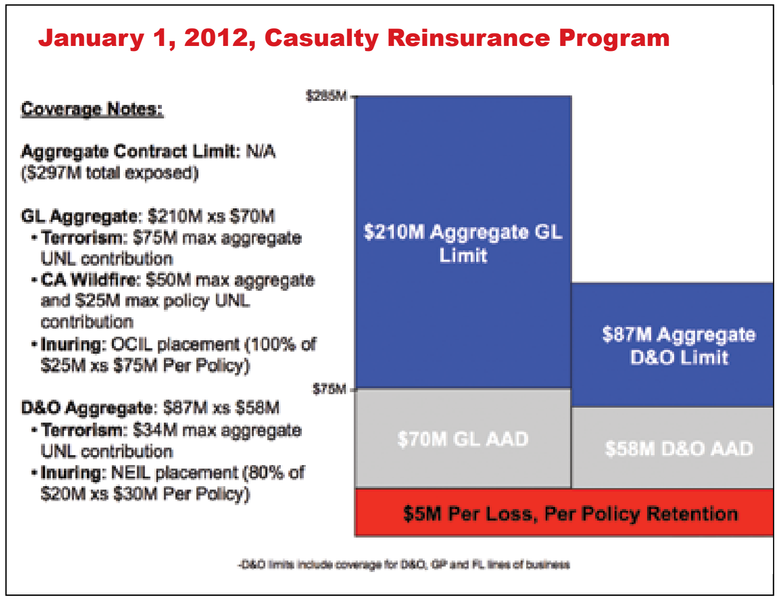
The following chart highlights EIM's loss experience over the past 10 years. The benefit of reinsurance is clearly highlighted in 2002, 2003, 2005, and 2007 when significant losses were experienced by EIM and ceded to reinsurance partners.



Since the inception of EIM's reinsurance contracts, EIM has collected more than $450 million from its reinsurance partners. Without reinsurance protection, EIM would have incurred losses that substantially reduced capital, and, in all likelihood, EIM would have had to reconsider policy limits made available to Member Companies.

How Is EIM's Program Structured?

A substantial amount of quantitative analysis goes in to determining the optimal excess of loss reinsurance structure for EIM in any given year. After ceding $25 million excess of $75 million for Excess General Liability (EGL) and 80 percent of $20 million excess of $30 million for Excess Directors and Officers (EDO), the following excess of loss reinsurance structure has been in place since 2011:



This structure enables EIM to achieve, or provides the greatest likelihood of achieving, a number of goals. First, it contributes to EIM's ability to operate within its stated risk tolerance of having a no greater than 10-percent likelihood of losing more than 20 percent of its prior year Policyholders' surplus in any one year. Second, the structure protects against catastrophic or systemic losses. And third, the structure offers a sufficient balance between EIM' net retention ($173 million) and ceded losses ($297 million) to enable the most efficient pricing on the reinsurance that is purchased.

As the above schematic indicates, EIM retains $5 million on each and every loss subject to its reinsurance treaty. After retaining the first EGL loss ($70 million plus the $5 million retention) and the first two EDO losses ($58 million plus the $5 million retention for each loss), EIM cedes the next $297 million in losses—up to $210 million in GL losses and $87 million in D&O losses, subject only to the Company's $5 million per occurrence retention. With this reinsurance program, EIM is able to withstand up to $470 million in losses in any given year. Quantitative modeling suggests that exposure to $470 million in combined GL and D&O losses in any one year represents a 1:500 year, or less than a 0.02 percent likelihood of occurrence. However, even in this unlikely event,

(Continued on page 6)

(From the Start, EIM Has Considered Reinsurance a Capital Idea continued from page 5)

Policyholders' surplus would only be impacted on an after-tax basis by $112 million, or 13 percent, well within the Company's risk tolerance.

Who Are EIM's Reinsurance Partners?

EIM has been fortunate to enjoy long-standing reinsurance partnerships with some of the strongest and most enduring professional reinsurance companies in the world. Originally supported by Lloyd's of London and its various syndicates, EIM has, over the years, built relationships worldwide with reinsurers located not only at Lloyd's and the London market but also in the United States, Bermuda, Europe, and Asia. All of EIM's current reinsurers are rated "A-" or better by A.M. Best. All but one of those reinsurers are rated "A" or better.

Because of the substantial limits offered by EIM and ceded to the reinsurance treaty, the reinsurance program is highly syndicated, with no one reinsurer participating for more than 22 percent of the reinsurance cession. In all, EIM currently has 15 reinsurers participating on its reinsurance program.

Overall, reinsurance represents one of EIM's largest assets and largest expenses. EIM spends more than 40 percent of gross written premium dollars per year on reinsurance. And, with more than $400 million in existing case and incurred but not reported (IBNR) reserves, reinsurance provides over $200 million in capital relief to the Company. Simply stated, reinsurance is, and has always been, a capital idea.

***Tommy Bolton** is vice president, chief financial officer, and corporate secretary of Energy Insurance Mutual and is responsible for the Company's reinsurance program.*

Wildfire Litigation Continues to Heat Up

By Ann Joslin

Since 2007, EIM has paid more than $150 million for California wildfire liabilities. The Company currently has several open wildfire claims that may result in further significant payments.

The Legal Landscape

California continues to stand in stark contrast to other states regarding its position on wildfire liability. In *Barham v. Southern California Edison,* a 1999 California court of appeals decision, the court expressly held that a privately owned public utility could be held liable for inverse condemnation if damage to property resulted from public use. Inverse condemnation is an eminent domain action where the injured party alleges that a public entity has taken or damaged their property for public use. Inverse condemnation does not require any breach of a standard of care, nor does it require proof of foreseeable harm.

In a very recent decision, *Pacific Bell Telephone v. Southern California Edison*, the California Second Appellate District reaffirmed the conclusion reached in *Barham* and also applied a strict liability standard rather than the reasonableness standard urged on appeal by Southern California Edison. On November 14, 2012, the California Supreme Court denied review of the *Pacific Bell Telephone* case.

Most California plaintiffs augment inverse condemnation claims with alternative causes of action sounding in negligence, trespass, and nuisance. These theories are routinely asserted in concert with recent California decisions that have recognized more expansive damage theories relating to wildfire losses.

Recent damages cases include *United States v. CB&I Constructors*, where the Ninth Circuit upheld a U.S. District Court decision that the U.S. government was entitled to recover intangible environmental damages and that the award of $28.8 million was warranted and not excessive. In support of its decision, the Court cited several California cases that have recognized expansive theories of damage recovery (e.g. *McKay v. California* which held that California Health & Safety Code Sect. 13007 places "no restrictions on the type of property damage that is compensable" and *People v. Southern Pacific Co.,* holding that a private landowner was entitled to both the fair market value of destroyed timber and the cost of reforestation).

Recent wildfires in states outside California suggest that the plaintiffs' bar is active in other locations as well. For example, the Bastrop Fire in Texas resulted in numerous lawsuits being filed against a utility claiming that the company failed to remove dead trees and branches that fell onto power lines and sparked the September 4, 2011, fire. These suits allege negligence, gross negligence, and in some cases trespass.

Legislative Developments

Recent activity in the California legislature may also make future wildfire claims more challenging.

The California "Wildfire Liability" bill (AB 1492) was passed by the California Senate in the waning hours before adjournment on Saturday, September 1, 2012. While attempting to solve the problem of double damages for timber loss claims by governmental agencies, the bill appears to limit such damages only when a claim is brought under Health & Safety Code Sect. 13009. The bill does not impact private individual claims for tree and vegetation loss, nor does it limit damages to the cost of replacement or fair market value. Although the bill indicates that pre-fire fair market value is a consideration and that damages not be unreasonable in relation to pre-fire fair market value, it is unclear how this standard might be applied to environmental damages claims, especially in light of cases such as *CB&I*.

Typically, the United States (via United States Forest Service involvement and through the U.S. Attorney's Office) makes claims for response costs and damage to vegetation resulting from a wildfire. While current EIM wildfire claims will not be impacted by the new legislation, the *CB&I* decision foreshadows some intriguing negotiations with the federal government.

Expansion of the California Doctrine

Despite the fact that wildfires have been the subject of plaintiffs' actions outside California, to date, there have been no wildfire claims resulting in exposure to EIM's layer of coverage. EIM is, however, monitoring wildfire developments to identify any emerging trends. In addition, the Insurance Advisory Committee has recently formed a Wildfire Task Force to update research on judicial and legislative actions throughout the United States.

With continuing developments in California and elsewhere, wildfire liability continues to be a hot issue facing our Membership.

***Ann Joslin** is claims manager, Energy Insurance Mutual.*

Byron Whitman Joins EIM Staff

Byron Whitman joined Energy Insurance Mutual in October 2012 as an accounting manager.

Byron Whitman

Prior to joining EIM, Byron was the internal audit manager at The Auto Club Group (AAA), Tampa, and earlier spent over six years in public accounting with KPMG LLP, also in Tampa, providing assurance and advisory services primarily to property and casualty insurance companies.

A native of Tampa, Byron obtained his bachelor's degree in 2003 and master's in accountancy in 2004, both from the University of South Florida, Tampa. Byron is a licensed CPA in the state of Florida, is a member of the AICPA, and serves on the USF Accounting Circle board of directors.

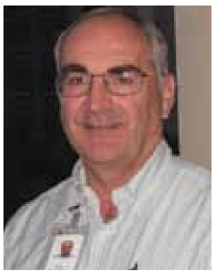
Byron and his wife, Janelle, live in Land O' Lakes, just north of Tampa, and have two children, Owen, 3, and Adelyn, 1.

An estimated 60 people participated in Energy Insurance Services 2012 Annual Program Advisory Committee Conference held in mid-October in Greenville, SC, where EIS is located. This is one of the general business sessions held at the Hyatt Regency Greenville.

Four EIM Members Name New Reps

Four EIM Member Companies—CPS Energy, San Antonio; Dynegy Inc., Houston; Sacramento Municipal Utility District, Sacramento, CA; and Tennessee Valley Authority, Knoxville—have named recently new EIM representatives.

Roy Elizondo



Roy Elizondo

Roy Elizondo, manager, risk management services, is the new EIM Risk Manager Representative for CPS Energy.

A Texas native, Roy received in 1986 his bachelor's degree in accounting from the University of Incarnate Word, San Antonio. In 1992, also from Incarnate Word, he received a master's in business administration.

Roy went to work for CPS Energy in 1987 and has worked in audit, information technology, and financial services in addition to risk management. He has been in his present position since December 2011 where, in addition to the insurance programs, he manages the company's governance, risk & compliance, and business continuity/IT disaster recovery programs. His professional designations include CPA, CISA, and CIA.

Currently, Roy is chairman of the board of the CPS/IBEW federal credit union. He is also on the board of directors of the Fair Oaks Ranch Homeowners Association.

Kevin Hole

Kevin Hole, managing director, credit and risk management, Dynegy, is this Member's new EIM Risk Management Representative.

A native of Albuquerque, NM, Kevin received in 1990 a bachelor's in electrical engineering from Michigan State University, East Lansing. In 1994, he received a master's in business administration from Southern Methodist University, Dallas.

Kevin rejoined Dynegy in 2000 and has worked in mergers and acquisitions, finance, and treasury. He has been in his present position since June 2012. He came to Dynegy from American Electric Power, Houston, where he was director, business development. Before going to AEP, he had worked at Dynegy from 1994 to 1998. From 1990 to 1992, Kevin was a loss prevention representative at Industrial Risk Insurers, Dallas.

Cynthia Fee

Cynthia Fee

Cynthia Fee, risk management analyst, SMUD, is this Member's new EIM Risk Manager Representative.

A California native, Cynthia received a bachelor's in business administration in 1999 from California State University, Sacramento. In 2006, she earned a law degree from the University of the Pacific, McGeorge School of Law, also in Sacramento.

Cynthia began her career as a personal lines underwriter at Safeco, Pleasant Hill, CA in 1999. After attending law school and passing the California Bar, she practiced law with a Redding, CA, firm named Maire & Beasley for two years focusing on insurance defense and employment law. In 2008, she joined Wells Fargo Insurance Services in Sacramento as a risk management/claims consultant handling contract negotiations and construction claims. She joined SMUD and has been in her present position since 2010.

Cynthia is a member of the State Bar of California and is licensed as a property/casualty broker. Cynthia has two active boys, age 8 and 7, who keep her quite busy in her free time. She also volunteers at her children's school.

Steve Birchfield

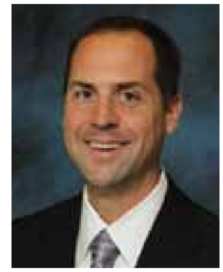
Steve Birchfield is vice president and chief risk officer of TVA, a position he has held since December 2010. He is TVA's EIM Member Representative.

A native of North Carolina, Steve graduated in 1996 from the University of Florida, Gainesville, with a bachelor's degree in computer engineering. In 2001, he completed a master's in business administration from the University of Michigan, Ann Arbor.

Steve joined TVA in July 2007 from Progress Energy, now Duke Energy, where he was manager of executive compensation. Prior to Progress Energy, he held financial management and information technology roles at HAHT Commerce (now GXS) and Procter & Gamble, respectively.

Prior to his current position at TVA, Steve was vice president, finance. Before that, he served as vice president for performance analysis and internal reporting, senior manager for business planning and reporting, and senior manager for financial process design and consolidation.

Steve is a CFA charterholder.



Steve Birchfield

Five Companies Join EIM

EIM has five new Member Companies: EP Energy, LLC, Houston; Plains All American Pipeline, L.P., Houston; SEMCO Holding Corp., Port Huron, MI; Copano Energy, LLC, Houston; and Tallgrass GP, LLC, Overland Park, KS.

To date, in 2012, the Company has lost two Members, and five Members have merged into existing Members. Total Membership was 160 at the end of November. UniSource Energy Corporation, an EIM Member, became UNS Energy Corporation this past May.

EP Energy

EP Energy describes itself as "one of the industry's most effective employee groups with a passion for finding and producing the oil and natural gas that enriches people's lives." The company came from El Paso Exploration & Production Company, which was a business unit of El Paso Corporation.

Domestically, EP Energy has a diverse asset base with significant reserves and large positions in several core development programs (Eagle Ford, Altamont, Wolfcamp, South Louisiana Wilcox, and Haynesville). The company also has a presence in Brazil.

Plains All American Pipeline

Plains All American Pipeline is a publicly traded master limited partnership (MLP) engaged in the transportation, storage, terminalling, and marketing of crude oil, refined products, and NGL. The company is also engaged in the development and operation of natural gas storage facilities through direct and indirect ownership of PAA Natural Gas Storage, LP (PNG). The partnership owns PNG's general partner, PNGS GP LLC, which holds a two-percent general partner interest in PNG and all of its incentive distribution rights. It also owns an approximate 62-percent limited partner interest in PNG.

The partnership also owns and operates a diversified portfolio of strategically located assets that play a vital role in the movement of U. S. and Canadian energy supplies. On average, Plains All American Pipeline handles over three million barrels per day of crude oil, refined products, and other natural gas related petroleum products through an extensive network of assets located in key North American producing basins and transportation gateways.

(Continued on page 11)

Balance Sheets

(unaudited and expressed in thousands of U.S. dollars)

	9/30/12	12/31/11
Assets		
Investments	$ 1,242,289	$ 1,138,378
Cash and cash equivalents	71,557	60,350
Reinsurance paid in advance	43,273	42,772
Insurance balances receivable	10,376	4,064
Reinsurance recoverable on unpaid losses and IBNR	376,775	375,158
Other assets	23,020	21,097
Total assets	$ 1,767,290	$ 1,641,819
Liabilities and Policyholders' surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	$ 715,912	$ 680,650
Unearned premiums	103,106	106,285
Reinsurance balances payable	38,191	26,330
Deferred income tax	5,554	5,664
Accrued expenses	48,488	30,957
Income taxes payable	5,450	9,300
Total liabilities	916,701	859,186
Policyholders' surplus:		
Members' account balance	717,315	679,952
Accumulated other comprehensive income	133,274	102,681
Total Policyholders' surplus	850,589	782,633
Total liabilities and Policyholders' surplus	$ 1,767,290	$ 1,641,819

Statements of Income and Comprehensive Income

(unaudited and expressed in thousands of U.S. dollars)

	9/30/12	9/30/11
Underwriting income		
Net premiums earned	$ 80,998	$ 70,307
Ceding commission	2,186	1,987
Total underwriting income	83,184	72,294
Underwriting expenses		
Net losses and loss adjustment expenses	68,781	41,054
Policy acquisition costs	1,578	1,378
Administrative expenses	7,674	7,442
Total underwriting expenses	78,033	49,874
Income from underwriting	5,151	22,420
Investment income	48,171	40,854
Income before Policyholders' distribution	53,322	63,274
Policyholders' distributions	-	-
Income before income taxes	53,322	63,274
Federal income tax expense	15,959	20,193
Net income	37,363	43,081
Other comprehensive income		
Change in unrealized gain/(loss)on securities, net	30,593	(20,299)
Comprehensive income	$ 67,956	$ 22,782

(Five Companies Join EIM continued from page 9)

SEMCO Holding Corp.

SEMCO Energy Gas Company is a regulated public utility that delivers natural gas to approximately 290,000 residential, commercial, and industrial customers in service territories in the southern half of Michigan's Lower Peninsula (including in and around the cities of Albion, Battle Creek, Holland, Niles, Port Huron, and Three Rivers) and in the central, eastern, and western parts of the state's Upper Peninsula.

SEMCO Energy is regulated by the Michigan Public Service Commission. Among other things, this agency sets the prices charged by the company and the other terms and conditions of service to its customers. The company's overall strategy is to provide excellent customer service and to grow existing businesses.

SEMCO Energy Gas Company is an indirect wholly owned subsidiary of AltaGas Ltd.

Copano Energy

Copano is a midstream natural gas company providing comprehensive services to natural gas producers, including natural gas gathering, intrastate transmission, processing, conditioning, treating, and natural gas liquids fractionation. The company has operations in Oklahoma, Texas, and Wyoming. Copano provides midstream services to producers of about 2,200,000 MMBtu per day of natural gas.

Founded in 1992, Copano has grown from a single 23-mile pipeline to a successful midstream natural gas company with over 6,000 miles of pipe and seven processing plants.

Copano is structured as a publicly traded limited liability corporation. There is no general partner. A board of directors is elected by the common unitholders. The LLC structure combines the tax attributes of a master limited partnership, or MLP, with the corporate governance of a corporation.

Tallgrass GP

Tallgrass is a private master limited partnership (MLP) that acquired various assets from Kinder Morgan, including Kinder Morgan Interstate Gas Transmission, Trailblazer Pipeline Company, Casper-Douglas natural gas processing, and West Frenchie Draw treating facilities in Wyoming, and KMP's 50-percent interest in the Rockies Express Pipeline.

Tallgrass is owned by the management team of Tallgrass, Kelso & Company, and a limited group of investors led by The Energy & Minerals Group, including Magnetar Capital.

Taniyka Erb

Two Staff Anniversaries in January

Two staffers—Taniyka Erb and Joan Bryant—have anniversaries in January 2013. Taniyka, who is assistant corporate secretary, celebrates her five-year anniversary on January 28. Joan, manager, information technology, has been with EIM 10 years on January 27.

Joan Bryant

Energy Insurance Mutual
Bayport Plaza, Suite 550
3000 Bayport Drive
Tampa, FL 33607-8418

EIM Team Tours

In late October, the EIM staff toured Duke Energy's Bartow Plant, which is in nearby St. Petersburg. Located on the west shore of Tampa Bay, the Bartow Plant includes a 1,133-megawatt, four-on-one combined-cycle unit, with four gas turbines and one steam turbine. The combined-cycle unit began operation in 2009.

EIM Team Gives

Energy Insurance Mutual, along with participating staff members, contributed a total of $3,300 to the Red Cross Hurricane Sandy Disaster Relief Fund.

EIM's *Members Report* is published four times per year. The Company's annual report is published in May. Comments, questions, and suggested subjects from Members are sincerely welcomed. Please send information to the EIM office in Tampa.

Energy Insurance Mutual
Bayport Plaza, Suite 550, 3000 Bayport Drive
Tampa, FL 33607-8418

1-800-446-2270 ▪ 813-287-2117 ▪ Fax: 813-874-2523

www.eimltd.com