Energy Insurance Mutual

MEMBERS REPORT

THE 2016 EIS PAC CONFERENCE

DATE

October 24-27

LOCATION

Charleston, South Carolina

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EIM WELCOMES NEW BOARD MEMBER, ARMANDO PIMENTEL

Armando Pimentel
Board Member

EIM's newest board member, Armando Pimentel, is the president and chief executive officer of NextEra Energy Resources, a competitive energy supplier with approximately 18,260 megawatts of generating capacity. Armando has also served as executive vice president, finance, and chief financial officer of NextEra Energy, Inc., parent of NextEra Energy Resources. Prior to that, he was a partner at Deloitte & Touche, where he held various client and leadership positions in the financial services and energy industries. Armando has also worked in the Office of the Chief Accountant of the U.S. Securities and Exchange Commission as a professional accounting fellow.

As a new member to the EIM Board of Directors, we asked Armando to share his views on a variety of topics important to our company.

What do you perceive to be the biggest challenges facing EIM as you assess the energy industry today?

As a new member of the board, I am probably not the one best positioned to speak to the biggest challenge EIM is facing. However, as a leader in the energy industry, I think I can offer a few thoughts on what it will take for EIM to continue to be a premier provider of insurance and risk management services, and build on its 30-year track record of success.

The foundation of this organization has been and will continue to be strong enterprise-wide risk management processes. Beyond that, I believe EIM members want and expect the same thing our customers expect of us—the best products and services we can provide at a reasonable and stable price. In order to deliver on that expectation, EIM will need to focus on innovation and continuous improvement to ensure it stays ahead of the curve.

The key to ensuring long-term success for any business is to make sure it does the basics extremely well. At my company, and for many of us, that means helping customers meet their energy needs safely, reliably and at a reasonable cost. For EIM that means having strong enterprise risk management, prudent investment and underwriting practices, and a strong financial position.

Beyond that basic blocking and tackling, EIM needs to maintain a focus on continuous improvement similar to many of its member companies. Great companies never rest on past accomplishments.

To what would you attribute the organization's ability to stand the test of time? How can EIM ensure its long-term success?

At NextEra Energy, we say that it's our people who make the difference, and I truly believe that. Show me any great company, and I will show you a dedicated and engaged workforce. Focusing on employees is critical for any successful business.

Of equal importance is maintaining strong relationships with the customer, or in the case of EIM, its members. Finally, it doesn't matter how good we are, or what relationships we have if we don't offer our customers, or members in this case, the products they need at a price they can afford.

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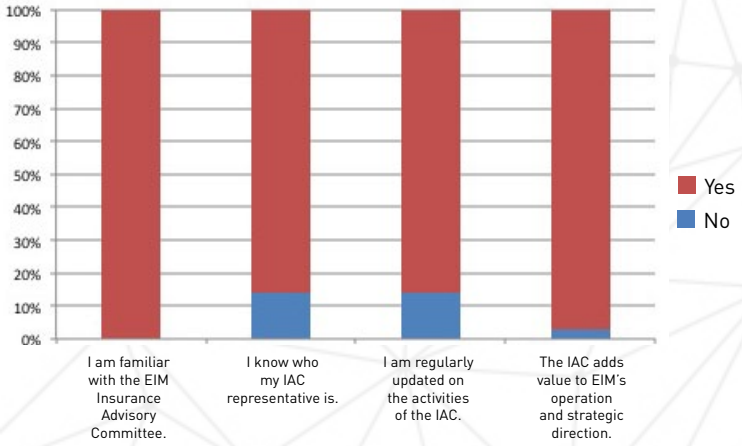
MEMBER SURVEY REVEALS STRONG PERFORMANCE, HIGHLIGHTS CHALLENGES AHEAD

The most recent Member Company survey provided valuable feedback from company risk managers and business partners regarding the Insurance Advisory Committee (IAC) and EIM. Overall, the IAC continues to add value to EIM's operation and strategic direction and EIM continues to deliver meaningful General Liability (GL), Directors and Officers (D&O) and Fiduciary excess of loss capacity in a highly professional and knowledgeable manner. In addition, Members view EIM as a financially stable organization, committed to managing enterprise-wide risk and paying claims in a timely fashion.

The IAC

The Insurance Advisory Committee (IAC) enjoys a high level of familiarity (100%) with Member Companies. In addition, the IAC benefits from regular personal contact with member company risk managers as evidenced by the fact that 86% of survey respondents reported that they knew their IAC representative. A substantial majority of members (86%) also confirmed that they are regularly updated on IAC activities, and 97% confirmed that the IAC adds value to EIM's operation and strategic direction.

Insurance Advisory Committee



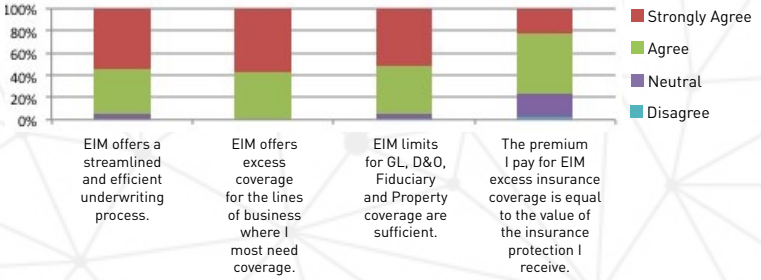
The survey results reflect that the IAC has done a good job keeping members apprised of ongoing activities and adding value to EIM's operating and strategic vision. As the IAC continues to address emerging industry issues, it will be important to continue this high level of communication.

The following three graphics highlight Member sentiment on EIM's underwriting, financial and claim-handling performance, all of which continue to be positively regarded.

EIM Operations

Respondents were asked to reply on a range from "Strongly Disagree" to "Strongly Agree" to the following statements:

Underwriting



Overall, 96% of respondents agreed or strongly agreed that EIM offers a streamlined and efficient underwriting process, while 100% agreed or strongly agreed that EIM continues to deliver meaningful GL, D&O and Fiduciary excess of loss capacity. In addition, EIM's limits were viewed as sufficient by 96% of survey participants. While a lower percentage of respondents agreed that premium paid equaled value received (76%), a strong majority subscribe to this statement.

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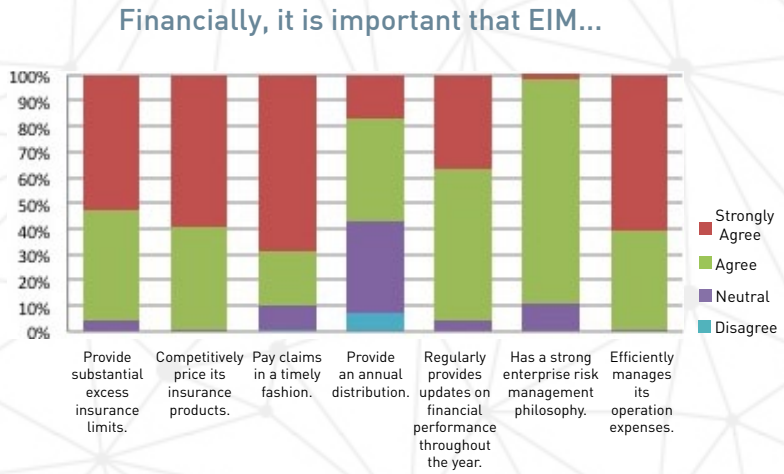
Not only is EIM perceived as offering much needed coverages, but it also provides these coverages in a streamlined, efficient and cost-effective manner. While the cost of insurance will continue to be an issue, EIM routinely balances expected loss against pricing necessary to sustain both lines of business and capacity offered.

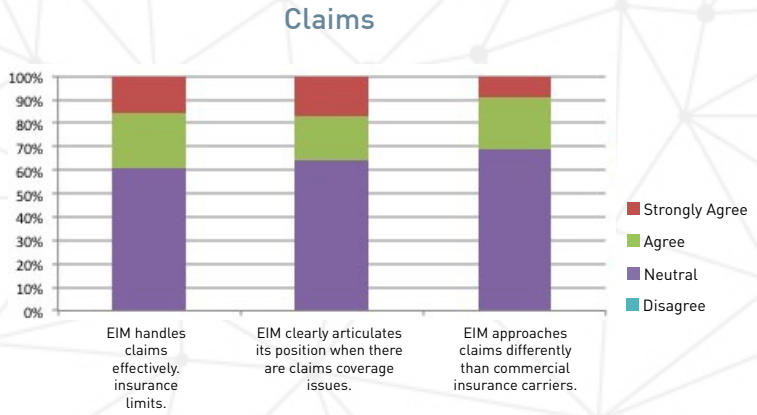
Respondents were asked to agree or disagree with the following seven statements designed to reflect how well EIM is meeting its financial commitment to member companies:



Survey respondents overwhelming agreed that EIM must be a strongly capitalized company, able to provide substantial excess of loss limits (96%) with competitively priced products (99%). Similarly, 90% of participants agreed or strongly agreed it is important that EIM pay claims in a timely fashion. In addition to the 89% of respondents agreeing that EIM must maintain a strong enterprise risk management philosophy, 96% agreed or strongly agreed that EIM must also provide regular updates on financial performance. Ninety-nine percent subscribed to the belief that EIM must efficiently manage operating expenses.

While a strong majority of respondents favored annual distributions, support was less pronounced (57%) than for other financial attributes, suggesting that while distributions are important they do not overshadow the need for financial stability.

A significant portion of those participating in the survey (52%) have never reported a loss to EIM and therefore responded "I Don't Know" to the EIM claims administration statements. However, a majority of survey respondents who have had claims experience agreed or strongly agreed that EIM effectively handles claims (82%) and clearly articulates its position when there are claims coverage issues (78%).



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Most significantly, 69% of respondents with claims experience agreed or strongly agreed that EIM approaches claims handling differently from commercial carriers. Survey responses suggest that where claims are incurred, EIM distinguishes itself in the administration and resolution of claims.

Energy Insurance Services

More than 75% of respondents agreed or strongly agreed that they were familiar with EIS, while 47% of respondents agreed or strongly agreed that they had considered risk management solutions involving EIS. More than half (56%) of respondents agreed or strongly agreed that EIS provided important value-added services to Member Companies.

Energy Insurance Services

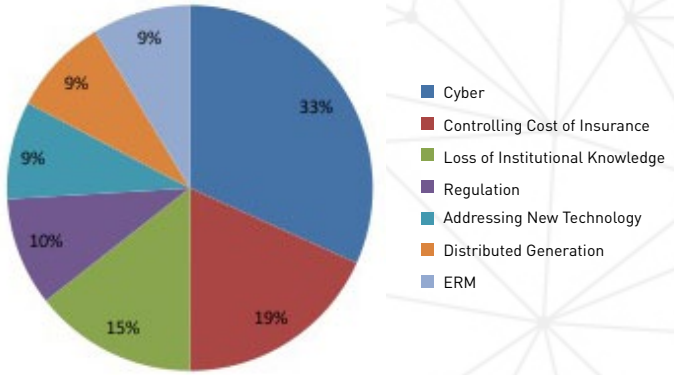
Overall, EIS has achieved high name recognition with member companies, and a consensus that the organization adds value to EIM members. If there is any room for improvement at EIS, it would be to increase the percentage of members considering and actually using EIS as part of the risk management process.

Challenges ahead

While EIM and EIS continue to receive high marks for underwriting, financial, claims and risk management performance, there are challenges ahead. Respondents highlighted seven key areas where energy industry risk management will be impacted over the next five years, including: cyber risk, cost of insurance, loss of institutional knowledge, regulatory mandates, new technologies, enterprise risk management tools, and distributed generation.

These areas of concern are summarized below:

5-Year Risk Management Considerations



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Other considerations receiving mention included, aging infrastructure (7%), adequate insurance limits (4%), jury award increases (4%), alternative risk transfer options (4%), drones (4%), self-insured retentions (2%), declining demand (2%), supporting the mutuals (2%), public safety (2%), electromagnetic pulse (2%), and grid security (2%).

Based on these anticipated changes, it is clear that the IAC, EIM and EIS will need to work closely with Member Companies to ensure that emerging risks are effectively addressed. Equally important, longstanding considerations that include aging workforce and infrastructure, cost of insurance and enterprise risk must continue to be examined as risk management solutions are developed and/or refined.

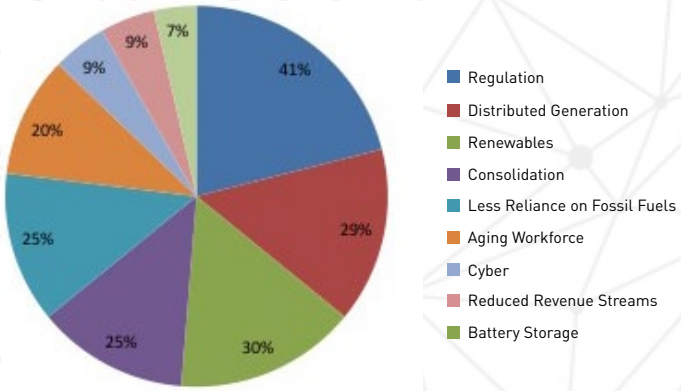
In addition to short-term risk management concerns, respondents also highlighted longer-term industry changes that will compel changes within EIM. While a number of the long-term considerations dovetailed with respondents' short-term concerns, areas such as distributed generation, renewable, less reliance on fossil fuels, and battery storage foretell significant industry evolutions expected within the next decade. The previous chart outlines specific areas identified by respondents that will need attention by EIM within the next 5-10 years.

Other potential changes identified by respondents included new generation technologies (7%), aging infrastructure (5%), low oil prices (5%), less reliance on foreign imports (2%), increasing natural gas prices (2%), drones (2%) and autonomous cars (2%).

These long-term considerations suggest that the IAC and EIM need to begin laying the groundwork for an industry that will gradually embrace new technologies encompassing areas such as distributed generation, renewables, and energy storage to a much greater degree.

The 2016 survey provides important feedback and assists in the development of EIM's updated three-year strategic plan. Survey input, together with the guidance and direction of the EIM Board, Insurance Advisory Committee and individual Member Company risk managers, will drive both the long and short-term objectives of the organization and help define the specific goals and objectives that will define EIM's success or failure over the next three to five years.

Ways EIM must change in the next 5-10 years



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FIVE THINGS YOU SHOULD KNOW ABOUT RANSOMWARE

Ransomware is a type of malicious software designed to prevent use of a computer system with encryption until a sum of money is paid. It requires password access or a user to initiate an executable file and successfully infect a system. Once ransomware has infected a system through vulnerable code it can intelligently look for passwords, mine data, and self-propagate additional systems. The majority of ransomware is delivered by corrupted attachments and malicious links included in spearfishing (an e-mail spoofing fraud attempt that targets a specific organization, seeking unauthorized access to confidential data). Corrupted websites, drive-by attacks, misdirects, and adware are also tools used to deliver ransomware.

Homeland security data shows ransomware as the fastest growing malware, averaging over 4,000 daily attacks in 2016 compared to 1,000 in 2015. Advances in functionality such as automated attacks and tailored targeting methods are increasing infection, execution, and total ransoms paid. Here are five things energy companies and utilities need to know when considering a risk strategy for ransomware:

1. Ransomware is a Long-Term Threat

Cyber extortion and ransomware have been effective tools for cyber criminals for years. Early campaigns that collected a ransom under threat of exposing embarrassing personal information and sensitive business intelligence gave way to ransomware's blocking and locking threat directed at individuals and small-user systems. Encryption technology allowed hackers to successfully target small and medium-size companies with poor security and limited file back up. Modern tools like Bitcoin currency and Tor network technology provided hackers with the anonymity needed to monetize crypto ransomware and create a widespread distribution model.

Crypto ransomware is an established global threat to all internet connected enterprise systems. The top ransomware variants include CryptoWall, CTB-Locker, TeslaCrypt, MSIL/Samas, and Locky. New variations of ransomware are being quickly developed by adapting code rather than reinventing it. Mobile devices, ICS, and SCADA are emerging attack vectors and the increasing complexity of the Internet of Things will offer more opportunities to exploit security vulnerabilities and human error.

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2. Ransomware is a Professional Business

Ransomware isn't known to be a nation-state or terrorism tool aimed at causing maximum destruction. The goal is to quickly convert vulnerabilities into a reliable flow of payments. Decryption keys are usually provided upon payment to incent easy transactions with future targets. However, future concerns could include lists of previously infected, paying targets and unexecuted latent ransomware. Ransomware's entrepreneurial business model shares information and creates opportunity for a wide range of criminal expertise ranging from coding talent designing new variations, to less technical partners tweaking existing building blocks of code, to pure business partners executing inexpensive prepackaged exploit toolkits.

Ransomware also attracts advanced hackers with opportunities to license malicious code and take a percentage of ransoms paid. Locky is an example of an affiliate model giving its creators licensing fees with each additional use. Torlocker is an example of ransomware as a service that automatically distributes Bitcoin royalty payments as ransoms are paid. Readily available resources have lowered the barrier to entry and increased the scale of ransom activity with the average $300 individual and $10,000 large target ransoms adding up to hundreds of millions of dollars at stake. Their success is driving technical advancements in ransomware and raises concerns for future attacks on critical assets for larger ransom.

3. Utilities Have Been Targeted

The first proven malware attack against a utility was the 2015 Ukraine event that disrupted electricity for 225,000+ people. Malware-rigged Word and Excel docs delivered by spearfishing emails helped steal access credentials. ICS settings were manipulated to cause grid failure. Multiple networks were targeted, prompting an outage and crippled monitoring systems that would have helped diagnose and address the problem. The event highlighted the potential threat of malware, heightened awareness of targeted social engineering methods, and raised questions about SCADA security. Malicious code has since been found on SCADA and ICS components in forensic investigations and honey pot (decoy computer) research scenarios.

The Israel Electric Authority's IT system was crippled with a spearfishing delivery of ransomware in January 2016. Only IT was affected. Also in January, 10,000 AGL (Australia) individual and commercial customers were affected with ransomware delivered through a targeted email campaign expertly mirroring official payment screen and invoice information. In April of this year, Michigan's Board of Water and Light in Lansing, Michigan was struck by ransomware. The IT network was completely shut down as a precaution after the corporate network was affected. Water and energy supplies were unaffected and, to date, the energy sector has not seen a ransomware event crossover from IT to OT (Operational Technology).

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4. A Multilayered Defense is Effective

Recent events highlight the interest in exploiting the grid and other energy infrastructure. Energy-related critical assets present highly-visible, likely-to-pay targets that will continue to attract ransomware activity. Emerging system vulnerabilities will continue to develop making continuous improvement of operating error an important part of an IT strategy that adapts to ransomware trends. Asking the right questions in a regular cybersecurity analysis can protect against ransomware infection:

-Is critical information backed up and stored regularly in different formats and locations?
-Are IT and OT systems fully inventoried and separated?
-Is a centralized vulnerability patching program in place for operating systems, software, and devices?
-Are documents and emails scanned with anti-malware programs?
-Is there continuing training to avoid ransomware infection and testing of employee behavior?
-Are administrative and access rights tailored on an individual level?
-Is an incident response plan with business continuity resources regularly exercised?

5. Insurance Coverage is Available

Coverage is available for ransomware events and insurers are consistently paying claims. While fact patterns and coverage responses vary with each event, the AEGIS and Critical Asset Protection (CAP) forms may offer coverage for ransomware under cyber extortion. Many insurers' definitions of cyber extortion expense often include money paid to satisfy a demand from cyber extortion threat. Ransoms paid in Bitcoin or other valuable currency could be covered and adjusted in dollars for potential claims payment. However, with current ransom demands in the five-figure range, a typical ransom amount might not exceed retentions. Nevertheless, expenses incurred while responding to an event could very well escalate if systems and data are infected and not decrypted. Expense definitions may also include the costs from retaining third parties to investigate, respond to and assist with terminating a threat. Forensic and other consultant expenses are limited to a prudent response, but may also be included.

EIM can offer a range of cyber capacity following underlying AEGIS and CAP terms and provide up to a $5M limit attaching at a minimum of $25M. Increased limits of up to $25M attaching excess of $50M are also available through EIM's partnership with NEIL.

Ransomware poses a persistent threat to energy and utility companies that requires vigilance. Ransomware coverage is available, but reputation, public security, and business interruption are at risk as well. A strong defense will help protect systems against ransomware, minimize system damage, and reduce the likelihood of ransom demands.

For more information contact:
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IAC WELCOMES NEW MEMBERS

Jessica Lukac
EQT Corp.

As Corporate Director, Business Risk & Insurance, Jessica heads up the insurance function for EQT Corporation in Pittsburgh. She and her team are responsible for the placement and administration of the D&O, property and casualty insurance programs as well as handling surety bonds, claims oversight, contract review, and collecting and maintaining insurance documentation for EQT's contractors and suppliers.

Jessica joined EQT in January 2009, after servicing large multinational clients in Marsh's Pittsburgh office. Jessica is a second-generation insurance professional who has worked in the industry since her early teens, helping her father at two different local agencies during summer breaks from school. Jessica graduated, summa cum laude, with a Bachelor of Arts degree from the University of Pittsburgh.

Regarding her recent IAC membership, Jessica says, "I feel honored to be selected to the IAC by such a distinguished and accomplished group of professionals. I am energized by the opportunity to act as a conduit (puns intended) between EIM and its membership. I look forward to deepening my interactions with my peers and exchanging thoughts and ideas to advance EIM's mission."

Robert (Bob) A. Green
PSE&G

Bob Green is Insurance Risk Manager for PSE&G. He joined the company's accounting department in 1981 and eventually transitioned to the insurance department in 1989. He has been responsible for risk financing, administering property/casualty insurance and for providing other risk management services to PSE&G and its regulated and non-regulated business units.

At PSE&G, Bob has responsibility for fire protection on all new construction projects and serves as the subject-matter expert for all fire related questions--largely due to his having served 30 years as a volunteer firefighter and holding a State of New Jersey fire official license.

Bob currently is a member of the AEGIS Loss Control Task Force and has served as chairperson of the EEI Loss Control Committee, as well as Chief of the Woodbridge Township Hazardous Materials Team. He has also taught over 150 classes on "Awareness for First Responders to Solar Safety." He holds an undergraduate degree in Mathematics (BS) from Ursinus College, a Master in Business Administration (MBA) from Rutgers and an ARM designation.

Bob says he is pleased to be part of the IAC. "PSE&G understands the importance in utilizing industry mutuals. By becoming active in the IAC, I feel I can better serve my company and the industry." Bob hopes to use his experience and knowledge to make industry changes that are beneficial for all.

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NEW TEAM MEMBER; EIS PAC CONFERENCE; AND RISK MANAGERS INFORMATION MEETING

Sridhar Kocharlakota
Director of IT Operations

Sridhar Kocharlakota joined EIM on May 16 of this year and will head up EIM's IT operations. Sridhar comes to EIM from Accenture LLP, where he spent five years as a technology architect manager. Prior to that, Sridhar received a Bachelors in Mechanical Engineering from Gulbarga University, India, and a masters in Technology Management from Stevens Institute of Technology in Hoboken, NJ.

At EIM, Sridhar will oversee IT infrastructure and security services. In this role, he plans to "establish a cost effective, high performing, scalable, reliable and secure computing environment for EIM and its subsidiaries."

In his free time, Sridhar enjoys body building, riding motorcycles and traveling. He also intends to tackle organic farming in the future.

ENERGY INSURANCE SERVICES PROGRAM ADVISORY COMMITTEE CONFERENCE

October 24 – 27, 2016

LOCATION
Charleston
South Carolina

Join us at the Hyatt Place hotel for PAC meetings with service providers and networking. In addition to meetings, we will also find time for unique Southern charm through fabulous dinners and great activity options.

THE 2017 ANNUAL EIM RISK MANAGERS INFORMATION MEETING

SAVE THE DATE
February 26-28, 2017

LOCATION
Hyatt Regency
Grand Cypress, Orlando

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Energy Insurance Mutual

Q2 2016 FINANCIAL REPORT

Balance Sheets
(Expressed in Thousands of U.S. Dollars)

	06/30/2016	12/31/2015
Assets		
Investments	$ 1,513,940	$ 1,512,002
Cash and cash equivalents	40,184	76,026
Reinsurance recoverables on losses	386,151	402,240
Prepaid reinsurance premiums	31,809	43,634
Premiums receivable	15,997	7,446
Income taxes recoverable	-	1,837
Other assets	5,495	9,497
Total assets	$ 1,993,576	$ 2,052,682
Liabilities and policyholders' surplus		
Reserves for losses and loss adjustment expenses	$ 783,583	$ 839,222
Unearned premiums	96,994	120,976
Reinsurance premiums payable and funds held	11,097	20,131
Net deferred tax liability	77,034	67,697
Policyholder distributions payable	-	20,000
Accounts payable and accrued expenses	10,860	12,210
Income taxes payable	2,481	-
Total liabilities	982,049	1,080,236
Members' account balance	833,328	807,516
Accumulated other comprehensive income	178,199	164,930
Total policyholders' surplus	1,011,527	972,446
Total liabilities and policyholders' surplus	$ 1,993,576	$ 2,052,682

Statements of Income and Comprehensive Income
(Expressed in Thousands of U.S. Dollars)

	06/30/2016	06/30/2015
Underwriting revenue		
Net premiums earned	$ 70,029	$ 69,436
Other underwriting income	1,284	1,085
Total underwriting income	71,313	70,521
Underwriting expenses		
Net losses and loss adjustment expenses	60,594	98,924
Policy acquisition costs	1,244	870
Administrative expenses	5,752	5,289
Total underwriting expense	67,590	105,083
Income from underwriting	3,723	(34,562)
Investment income	30,886	21,915
Income before policyholders' distribution and income taxes	34,609	(12,647)
Policyholder distribution	-	-
Income before income taxes	34,609	(12,647)
Income tax expense	8,797	(7,926)
Net income	25,812	(4,721)
Other comprehensive income	13,269	(5,205)
Comprehensive income	$ 39,081	$ (9,926)

EIM's Members Report is electronically published four times per year. Comments, questions, and suggested subjects from members are sincerely welcomed.

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