





At year-end 2016, EIM will have completed its most recent three-year plan. Performance over the last 36 months has been strong, despite years marked by substantial loss activity and a volatile investment environment. Key performance metrics over the last five years are summarized below:

|                     |        |        | 2014      |        | 2015      |        | 2016      |          |
|---------------------|--------|--------|-----------|--------|-----------|--------|-----------|----------|
|                     | 2012   | 2013   | Orig Plan | Actual | Orig Plan | Actual | Orig Plan | Forecast |
| Surplus             | \$823M | \$890M | \$914M    | \$958M | \$939M    | \$972M | \$964M    | \$1014M  |
| Net Loss Ratio      | 140%   | 38%    | 90%       | 68%    | 90%       | 96%    | 90%       | 81%      |
| Net Expense Ratio   | 9%     | 9%     | 9%        | 9%     | 9%        | 8%     | 9%        | 7%       |
| Net Premium         | \$106M | \$120M | \$124M    | \$134M | \$129M    | \$137M | \$135M    | \$142M   |
| Investment Return   | 9%     | 6%     | 4%        | 7%     | 4%        | 2%     | 4%        | 5%       |
| 3-Yr Surplus Growth | 26%    | 23%    | 12%       | 22%    | 12%       | 18%    | 12%       | 14%      |
| Risk Capacity       | n/a    | 94%    | 100%      | 127%   | 100%      | 130%   | 100%      | 129%     |

Of the seven metrics tracked over the course of the 2014-2016 strategic plan, five metrics consistently met or exceeded benchmarks. These metrics included surplus, three-year average surplus growth, net premium, net expense ratio, and risk capacity. Between 2014 and 2016 surplus grew by 14% from \$890M to \$1,014M, exceeding the plan's original surplus target of \$964 million by \$50 million, or 5%. Over the three-year term of strategic plan, average surplus growth was 5% per year.

Net premium written bettered budget in each of the three plan years, ending 2016 at \$142M, which was 5% more than originally projected. Much of this additional premium represented new business and loss surcharges incurred by Member Companies who experienced substantial losses.

The Company's net expense ratio consistently met or surpassed the 9% target, averaging 8%. We expect EIM's net expense ratio to remain at 8% in the coming years.

Although the net loss ratio (targeted at 90%), was above target at 96% in 2015, EIM achieved a three-year average net loss ratio of 82%, bettering the targeted 90% net loss ratio by 8%. The net loss ratio and net expense ratio produced a three-year average combined ratio of 91%, which was 8% better than the targeted 99% combined net loss ratio.

After exceeding budget in 2014, EIM's investment results missed the 4% target in 2015, returning 2% for the year. However,

*(continued from page 2)*

investment performance rebounded in 2016, enabling EIM to average 4.6% against the three-year plan target of 4%.

Risk capacity, the measure of capital needed to withstand a 1:200 tail value at risk (TVaR) event and still maintain an “A” rating from A.M. Best was consistently exceeded during the most recent strategic plan. As EIM continues to provide distributions to members, expands existing lines of business



and addresses evolving Member Company risk management concerns, this ratio (EIM Surplus/1:200TVaR event + A.M. Best “A” level surplus) will trend back to 100% over time.

Overall, it has been a strong three years for EIM. The updated strategic plan, extending from 2017-2019, builds on the success of the expiring plan and reflects insurance and energy industry trends expected to impact both EIM and Member Companies over the coming years. Many of these trends will continue well beyond the term of the updated strategic plan, particularly with respect to the energy industry where fundamental changes in generation, transmission and distribution, driven by new technologies, regulatory considerations and macroeconomic dynamics, have the potential to dramatically transform the industry.

This changing landscape is expected to take place amidst an ongoing competitive insurance marketplace that will place continued pressure on EIM to sustain Member Company loyalty while maintaining adequate premium levels for all lines of business.

The updated strategic plan will again provide a detailed view of EIM’s three-year direction and serve as a reference point for the Board of Directors, IAC, Member Companies and EIM to collectively assess EIM’s performance, evaluate effectiveness, and, where necessary, implement changes to meet Member Company risk management needs.

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It has been a busy year for the EIM's Insurance Advisory Committee (IAC) from a number of different perspectives. First, we have seen a sizeable turnover in IAC member composition, driven by mergers and acquisitions, job changes within member companies, and departures for new positions outside the energy industry. Despite the changes in Committee members, the IAC has remained busy, completing the 2016 Member Company Satisfaction Survey, continuing task force work and providing feedback to EIM on its new three-year strategic plan.

## IAC Membership

We welcomed eight new members to the IAC in 2016, bringing the Committee to its full complement of twelve. Current members include:

### Insurance Advisory Committee Membership

Dean Jobko, NRG (Chairman)  
Edsel Carlson, TECO Energy – Emera (Vice Chairman)  
Bob Green, PSE&G (new)  
Andy Hamilton, Spectra Energy (new)  
Richard LaPeter, Pinnacle West Capital Corp (new)  
Mike McFarland, Great River Energy (new)  
Stephanie Rogers, Plains All American (new)  
Roni Salo, Allele  
Jessica Shultz, EQT Corp (new)  
Cindy Stevens, Colorado Springs Utilities (new)  
Forrest Strachan, PJM  
Tim Underwood, CMS (new)

Committee members are actively engaged with EIM management and, through our quarterly meetings, have kept abreast of EIM operational and strategic initiatives, as well as monitoring and addressing significant issues facing the energy industry.

## Task Force Activities

The IAC has four active task forces: cyber liability, renewables, pollution, and emerging issues. The emerging risk task force actively monitors a number of developing areas including fracking, the use of unmanned aircraft systems (UAS) or drones, and wildfires.



**Mike McFarland**  
Great River Energy

### Cyber Liability Task Force

Mike McFarland, Great River Energy, heads up the cyber liability task force and has reported that, as of August 19, 2016, in the U.S., 21.1 million records have been breached. More recent hacks include the NSA, US News outlets, and the Democratic National Committee.

The services sector (retail, financial, etc.) remains the most affected business segment with 38% of the 2016 organizational infections. Cybercrime is on the rise, as hacking toolkits are being sold on the internet. Ransomware attacks are also increasing and are becoming more sophisticated and well-organized, targeting organizations rather than encompassing wide-scale, indiscriminate ransomware campaigns.

(continued from page 4)

Some member companies have engaged in tabletop exercises designed to test response to cyber-attacks, not only with respect to data breaches, but also takeover of operating systems. Many of these exercises are undertaken in conjunction with federal and state anti-terrorism resources.

As EIM sees expanded opportunities to write stand-alone cyber liability coverage, the task force will continue reviewing alternative forms of coverage available to EIM members.



Edsel Carlson  
TECO/Emera

#### Pollution Task Force

The IAC has decided to maintain the Pollution task force, headed by Edsel Carlson, TECO/Emera, as a stand-alone group. The primary purpose of the task force is to monitor the evolving environmental liability exposures and the availability of pollution coverage afforded the energy industry participants throughout the worldwide insurance marketplace to ensure that EIM is aware of any developing issues so they can effectively address members' needs.



Forrest Strachan  
PJM

#### Emerging Risk Task Force

Forrest Strachan, PJM, chairman of the Emerging Risk task force, notes that the task force has been focusing on a number of developing areas during the course of the year, including fracking, drones and wildfires.

**Fracking:** Recent lawsuits alleging that fracking has caused increased seismic activity resulting in property damage are now pending in a number of states. Questions regarding whether such claims are covered under pollution provisions of insurance policies, and whether actual property damage has been incurred are also being litigated. Overall, new technologies, injection fluid recapture capabilities and improved pre- and post-fracking well and aquifer testing should continue to address and reduce the pollution risk associated with fracking.

**Drone/UAS:** The use of drones for oversight, maintenance, and damage assessment relating to transmission and distribution systems, large boilers and remote pipelines is on the increase, bringing with it increased risk of property and liability claims. Operators should ensure that drones are properly licensed and flown in accordance with FAA regulations and applicable state and local laws. Consideration should also be given to ensuring that drones are protected from hacking. While Member Company capacity needs have not yet extended into EIM's \$35 million excess layer, the task force will continue to monitor drone usage and the risks associated with drone operation.

**Wildfires:** Wildfire liability, particularly outside California, where EIM does not currently sublimit its exposure, has been a topic of ongoing discussion. Wildfire activity and liability claims arising from wildfires are on the rise. The task force is working with EIM to determine if there is a trend toward increased wildfire frequency and, if so, what this means for EIM's ability to continue offering \$100 million limits outside California. Several options are under consideration with an eye toward maintaining current coverage, if possible.

(continued from page 5)



Bob Green  
PSE&G

### Renewables Task Force

Bob Green of PSE&G leads the Renewables Task Force. This is one of the more dynamic areas of our industry risk profile due to the expansion of solar, wind, battery technology, and distributed generation.

### Distributed Generation/Renewables/ Battery Storage:

While still in its infancy, distributed generation has the potential to bring power generation and distribution to the local level, providing greater energy efficiency at lower cost. A significant portion of distributed generation will be driven by renewable energy, which continues to become less expensive while increasing in scale. As battery storage technology advances, the cyclical challenges of wind and solar generation can be better addressed, making distributed generation even more attractive. The risks associated with solar, wind and battery storage installations require ongoing assessment, but include fire resulting in property damage or bodily injury, particularly at an industrial level. The task force will continue to monitor developments in these areas to analyze potential impact on EIM's excess of loss coverages.

**Shift Away from Coal-Fired Generation:** With the implementation of the Clean Power Plan and accompanying state legislation, coupled with the lower cost of natural gas, Member Companies are retiring or retrofitting coal-fired generation facilities and opting for natural gas or renewable sources for cleaner operations. While the Clean Power Plan is currently under judicial

review, and the recent Presidential election may leave some clean power initiatives in limbo, renewables will continue to grow. Moreover, if the price of natural gas continues to undercut oil prices, the shift away from fossil fuel will persist.

### Strategic Planning

The IAC has reviewed EIM's updated strategic plan covering the time period 2017-2019 and provided comments on various aspects of the plan. The plan was approved at the January 2017 Board meeting and will provide the roadmap for EIM's key initiatives over the next three years.

The IAC will work with EIM during the course of the three-year plan to assess progress, evaluate the plan's effectiveness and, if necessary, recommend changes.

I would like to thank the IAC members for their time and substantial efforts on behalf of EIM and its members. Thanks also to those members who provided valuable input and feedback on EIM, the state of the energy industry, and risk management trends that must be addressed over the next three to five years. With your continued insights and support, I am confident that EIM will continue to meet the risk management challenges it has so effectively addressed over the last three decades. Bring on 2017!

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**Tim Underwood**  
CMS Energy Corporation

Tim joined the insurance department of CMS Energy in 1993 as an insurance analyst. He has since gained experience with international insurance and project finance insurance placements, in addition to electric and gas utility insurance programs.

During his time at CMS, Tim has obtained the CPCU, ARM, AIC and CEBS insurance designations while progressing to the positions of Senior Insurance Analyst and later, Director of Insurance Risk Management. Prior to joining CMS Energy, Tim worked as a farm insurance underwriter for a regional insurer and with a risk management and insurance consulting firm, both in Michigan.

Tim considers his new role an essential one of carrying member concerns and ideas forward to the EIM management for consideration. Tim also views the IAC as an ideal forum for EIM management to vet their ideas and provide greater transparency into the operations of EIM. Most of all, Tim looks forward to playing a role in maintaining EIM as an important risk transfer mechanism to its members—particularly in light of the new risks faced by member companies.



**Stephanie S. Rogers**  
Plains All American Pipeline

As Director, Risk and Insurance, for Plains All American Pipeline, Stephanie oversees the planning, directing and coordination of all risk management activities associated with insurable risk for the company's US and Canadian operations. Her current role at Plains involves the structuring and optimization of its insurance program, understanding coverage nuances and evaluating due diligence for commercial opportunities and transactions, in addition to analyzing and finding creative ways to manage risk.

Stephanie's experience also includes commercial insurance broking. She considers this essential to the development of her career in risk management, as it taught her about the ongoing challenges of finding insurance products and risk financing to meet the evolving needs of the midstream industry.

Before taking on the role of risk manager for a global oilfield services company, Stephanie earned a degree in economics from the University of Texas/Austin and her MBA from Texas A&M University-Commerce. She looks forward to providing useful insight to EIM on the day-to-day and developing risks shared by the energy industry from a midstream industry perspective.



**Richard LaPeter**  
Pinnacle West Capital Corp.

Richard holds the title, Manager of Risk, Insurance & Claims, for Pinnacle West Capital Corporation and its subsidiaries, including its electric utility subsidiary, Arizona Public Service Company. Prior to joining the risk management discipline, Richard held leadership and frontline roles in a variety of electric utility functions, including nuclear power plant operations, gas generation construction and operations support, federal regulatory affairs, resource planning engineering, project management, enterprise risk management, and business continuity/emergency management.

Richard served in the US Navy as a nuclear propulsion plant operator and instructor and holds a BS from Excelsior College. He has held professional licenses and certifications in nuclear plant operations, technical training, project management (PMP), technical writing, and lean/six sigma and risk management (RIMS-CRMP). Richard is also a member of the NEIL and ANI Insurance Advisory Committees.

Richard says his knowledge has taught him that mutuals work most effectively when the members fully understand and actively participate in the processes. He looks forward to learning more about EIM processes and products, while contributing his understanding of member needs and challenges.

## **THE 2017 ANNUAL EIM RISK MANAGERS INFORMATION MEETING**

**SAVE THE DATE:** *February 26-28, 2017*

**LOCATION:** *Hyatt Regency, Grand Cypress, Orlando*

There is an old adage that the only source of knowledge is experience. We invite you to attend EIM's 2017 Risk Managers Information Meeting in Orlando, Florida, where we will consider EIM's powerful past experience and capitalize on the EIM and Member Company decades-long collective knowledge to better illuminate the Company's future direction.

As mutual partners, taking advantage of successes, learning from mistakes, and regularly assessing EIM's effectiveness provides the foundation for ongoing growth and responsiveness. At the 2017 RMIM we will review EIM's 2016 performance, contemplate lessons learned, consider new technologies, and examine ways to best apply our shared experience to continue being the premier provider of insurance and risk management solutions to our Member Companies.

We look forward to seeing you in Orlando.







Energy Insurance Services, Inc. held its 2016 Annual Program Advisory Committee (PAC) Conference in late October at the new Hyatt House Hotel in Charleston, South Carolina. The conference kicked off with an evening reception on Monday, October 24th and concluded on Thursday, October 27. The purpose of the annual conference was threefold:

1. Conduct annual meetings (akin to a board meeting) for each Mutual Business Program (MBP) PAC.
2. Provide continuing education for attendees and knowledge sharing among PAC representatives regarding captive insurance programs.
3. Create a networking platform for PAC representatives, service providers and other constituents including investment managers, reinsurers, intermediaries, bankers, legal representatives, auditors and South Carolina regulators.

In addition to the MBP annual PAC meetings, several informational sessions provided topical presentations on the status of the South Carolina captive market, US and global

economic outlook, investment perspectives, the implications of recent tax cases, insuring benefits in a captive, captive reinsurance, and the EIS web portal. An MBP participant panel discussed risk financing structures that have helped MBPs build value for their organizations.

In addition, a special presentation was delivered by a team of students from the Darla Moore School of Business at the University of South Carolina. This team was engaged by EIS to conceptualize a flexible platform for individual MBP Enterprise Risk Management metrics, incorporating a graphical report dashboard. The prototype conceived from this project will ultimately be included in the quarterly financial reporting package provided by EIS to MBPs.



Beyond EIM's business and educational sessions, attendees enjoyed networking in the comfortable environs of the best hospitality Charleston offers. As attendees arrived at Tuesday evening's venue, they were greeted by the incredible voices of the world renowned Low Country Gospel Singers. Before and during dinner, many shucked steamed clams and were entertained by live music along the mouth of Shem Creek at Charleston Harbor.

Plans are already taking shape for the 2017 PAC Conference as EIS enters its Silver Anniversary (25th) year. Mark your calendars for the week of October 23, 2017. We hope to see you in Charleston!



# Q3 2016 FINANCIAL REPORT

## Balance Sheets

(Expressed in Thousands of U.S. Dollars)

|   | 09/30/2016          | 12/31/2015          |
|---|---------------------|---------------------|
| <b>Assets</b>                                       |                     |                     |
| Investments   | \$ 1,535,036        | \$ 1,512,002        |
| Cash and cash equivalents                           | 91,680              | 76,026              |
| Reinsurance recoverables on losses                  | 367,279             | 402,240             |
| Prepaid reinsurance premiums                        | 43,573              | 43,634              |
| Premiums receivable                                 | 3,668               | 7,446               |
| Income taxes recoverable                            | -                   | 1,837               |
| Other assets  | 2,814               | 9,497               |
| <b>Total assets</b>                                 | <b>\$ 2,044,050</b> | <b>\$ 2,052,682</b> |
| <b>Liabilities and policyholders' surplus</b>       |                     |                     |
| Reserves for losses and loss adjustment expenses    | \$ 760,639          | \$ 839,222          |
| Unearned premiums                                   | 123,455             | 120,976             |
| Reinsurance premiums payable and funds held         | 8,942               | 20,131              |
| Net deferred tax liability                          | 79,997              | 67,697              |
| Policyholder distributions payable                  | -                   | 20,000              |
| Accounts payable and accrued expenses               | 11,451              | 12,210              |
| Income taxes payable                                | 14,328              | -                   |
| <b>Total liabilities</b>                            | <b>998,812</b>      | <b>1,080,236</b>    |
| Members' account balance                            | 860,907             | 807,516             |
| Accumulated other comprehensive income              | 184,331             | 164,930             |
| <b>Total policyholders' surplus</b>                 | <b>1,045,238</b>    | <b>972,446</b>      |
| <b>Total liabilities and policyholders' surplus</b> | <b>\$ 2,044,050</b> | <b>\$ 2,052,682</b> |

## Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

|  | 09/30/2016       | 09/30/2015        |
|--|------------------|-------------------|
| <b>Underwriting revenue</b>                                |                  |                   |
| Net premiums earned  | \$ 106,705       | \$ 104,388        |
| Other underwriting income                                  | 1,807            | 1,589             |
| <b>Total underwriting income</b>                           | <b>108,512</b>   | <b>105,977</b>    |
| <b>Underwriting expenses</b>                               |                  |                   |
| Net losses and loss adjustment expenses                    | 70,851           | 116,589           |
| Policy acquisition costs                                   | 1,769            | 1,313             |
| Administrative expenses                                    | 7,700            | 7,176             |
| <b>Total underwriting expense</b>                          | <b>80,320</b>    | <b>125,078</b>    |
| Income (loss) from underwriting                            | 28,192           | (19,101)          |
| Investment income  | 45,120           | 37,447            |
| Income before policyholders' distribution and income taxes | 73,312           | 18,346            |
| Policyholder distribution                                  | -                | -                 |
| Income before income taxes                                 | 73,312           | 18,346            |
| Income tax expense (benefit)                               | 19,921           | (5,300)           |
| <b>Net income</b>  | <b>53,391</b>    | <b>23,646</b>     |
| Other comprehensive income (loss)                          | 19,401           | (24,708)          |
| <b>Comprehensive income (loss)</b>                         | <b>\$ 72,792</b> | <b>\$ (1,062)</b> |

*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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