



We are all very much attuned to the wildfire exposure faced by California utilities. Santa Ana winds, rugged topography, significant land and property values, and inverse condemnation rulings have for many years made California the focal point for general liability claims arising from wildfire events. While California remains central to the wildfire discussion, EIM is seeing more wildfire activity outside of California, both in terms of wildfire occurrences as well as claims against utilities for damages. Three questions are worth considering: (1) is the U.S. becoming more prone to wildfire activity; (2) will California’s inverse condemnation theory of recovery expand beyond that state’s boundaries; and (3) are wildfire losses becoming more expensive?



Is the U.S. Becoming More Prone to Wildfires?

During the week of April 30 - May 5, 2017, six new large wildfires were reported nationally, and nine previously reported were contained. Florida, Georgia and New Mexico were the states reporting significant fire activity. The West Mims Fire in Georgia continues to grow and has burned a total of 111,650 acres. A recent report issued by the National Interagency Fire Center (“NIFC”) noted that drier than normal weather conditions in Florida and

Southeastern Georgia, as well as drought conditions, could result in increased fire activity in these states. In Florida, normally permitted open burns have been banned in numerous counties due to persistent dry and windy weather, generally expected to continue through June, 2017.

Large wildfire events are generally covered by national news media, showing footage of dramatic fire-fighting efforts and the extensive damage caused by these wildfires. The public is often left with the impression that fires are more severe and frequent than ever before, generating discussion about climate change and controlled burn practices.

Turning to the actual data, a chart published by the NIFC summarizing the total number of fires and total acres burned nationally from 1985 through 2016 does not support the notion that fires are more frequent. For example, in 1985 there were 82,591 fires reported while in 2015, reported fires totaled 68,151. However, the number of acres affected by these fires does appear to be increasing. Following is a chart comparing reported fires and acres burned every ten years since 1985.

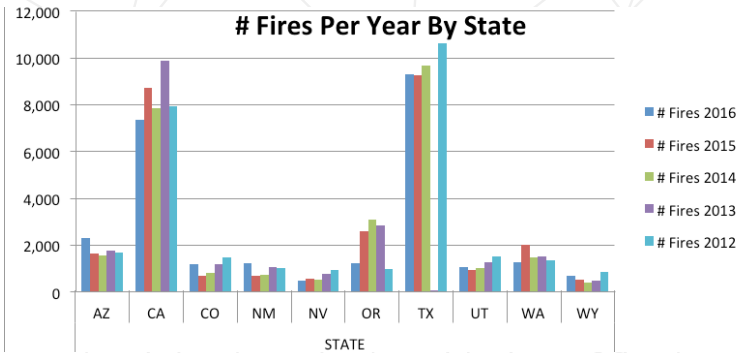
Year	# Fires Reported	# Acres Affected
1985	82,591	2,896,147
1995	82,234	1,840,546
2005	66,753	8,689,389
2015	68,151	10,125,149 ¹

Additionally, examining and comparing the data for various states in recent years, it is noteworthy that California is not the only state prone to extensive wildfire activity. The charts on the following page summarize the number of fires and acres burned for the last five years in several Western and Southwestern states.²

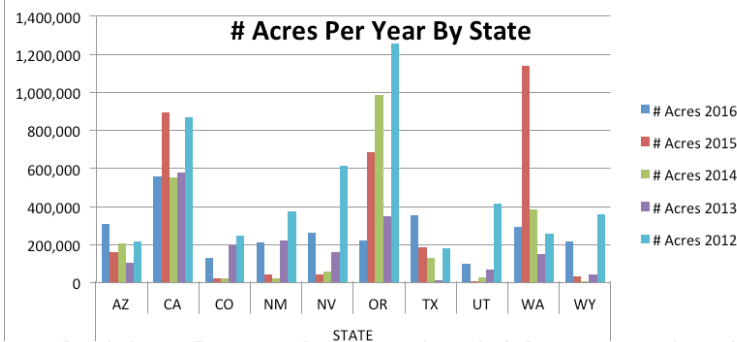
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^{1,2} Source: National Interagency Fire Center

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While California, by far, leads the total number of wildfires for these five years, activity is quite high in Texas as well.



Moreover there are thousands of other wildfires and hundreds of thousands of acres burned per year in states outside California.

Will California's Inverse Condemnation Theory of Recovery Expand to Other States?

As with the wildfire event itself, California has historically been the nexus for damage claims associated with wildfire activity. This association has been driven in large part by the California Court of

Appeal decision in *Barham v. Southern California Edison*, where the court determined that claims of inverse condemnation could be pursued against public utilities. Since the *Barham* decision, subrogation actions from homeowner insurers and lawsuits from uninsured or underinsured property owners have aggressively pursued recovery under this cause of action. The inverse condemnation theory of recovery has been upheld consistently in California, in essence creating a strict liability standard. While this cause of action has not yet been upheld at the appellate level in other states, the plaintiffs' wildfire bar continually asserts it in complaints filed in surrounding states, particularly in jurisdictions where this theory of liability has not been specifically rejected, such as Nevada and New Mexico. Some states have expressly rejected a cause of action under inverse condemnation at the appellate level, including Colorado and Texas.

Traditional theories of negligence still prevail in states outside California, where public utilities have been named routinely in lawsuits citing them as the proximate cause of a wildfire event. The duty of reasonable care is assessed against the backdrop of factual circumstances relating to each event and has resulted in liability findings or substantial settlements in several states, including Utah, Texas, North Dakota and New Mexico. Other than negligence, common causes of action are nuisance and trespass, as many jurisdictions allow double or treble damages for certain elements of damages under these theories. At trial, the threat of these increased damages is often used as a bargaining tool during settlement negotiations.

Public utilities will be targeted if any evidence of causation can be established in connection with wildfire activity. While strict liability applies only in California, other states allow negligence,

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negligence per se, nuisance and trespass claims to proceed to trial against utilities.

Are Wildfire Losses Becoming More Expensive?

While California has seen billions of dollars in losses associated with wildfire activity over the last ten years, other states have seen significant wildfire claims as well. Referred to as the Wildland-Urban Interface (WUI), the expansion of development into areas bordering forests, has direct implications for the number of structures and homes that can be potentially damaged or destroyed, as well as increased firefighting costs. This steady increase in the area that is part of the WUI has been documented in a USDA 2015 publication entitled, *The 2010 Wildland-Urban Interface of the Contiguous United States*. That publication notes, “The expansion of the wildland-urban interface continues to increase the likelihood that wildfires will threaten structures and people.” As of 2010 (the latest year with data available), the WUI of the lower 48 states includes about 44 million homes, equivalent to one in every three houses in the country, with the highest concentration of houses in the WUI in California, Texas and Florida.³

In addition to the claims associated with damaged and destroyed homes and other structures, claims are presented to utilities for fire suppression costs, as well as damage to the forests themselves. The U.S. Forest Service (USFS) has stated, “As the WUI grows, our firefighters must commit greater resources to

protect homes and property which dramatically increases the costs of fire suppression.”⁴ The U.S. Attorney Office commonly pursues the USFS suppression costs and forest destruction/natural habitat claims against utilities. Other agencies, such as state fire protection agencies and county fire departments, have presented suppression costs claims. For the years 1985 through 1999, not one year exceeded \$1 billion for the total combined USFS and Department of Interior suppression costs and the highest incurred was \$918.335 million. But, from 2000 through 2016, only four of those years did NOT exceed \$1 billion in suppression costs, with the highest year (2015) at over \$2.1 billion.⁵

In summary, development has had a major impact on the costs associated with wildfires. Utilities have been, and will continue to be, targeted as a source of reimbursement for all of those costs, including damage to homes and other structures, suppression expense, and damage to natural habitats. Plaintiffs’ efforts to expand the strict liability recovery under inverse condemnation to states other than California will be ongoing as will aggressive pursuit of claims under negligence, nuisance and trespass theories in those states that reject inverse condemnation as an avenue of recovery. Our industry must continue to monitor developments and proactively manage the wildfire risk, not only in California, but throughout the country.

³ USDA Press Release No. 0250.15, referencing *The 2010 Wildland-Urban Interface* study cited above.

⁴ *Ibid.*, quoting Robert Bonnie of the USFS.

⁵ National Interagency Fire Center.

For more information contact:
Ann Joslin, Vice President - Claims,
at ajoslin@eimltd.com





Elizabeth Hackenson
New Board Member

Elizabeth Hackenson brings a wealth of information and technology experience to her new role as EIM board member. Elizabeth serves as Chief Information Officer and SVP of Technology and Services for The AES Corporation, headquartered in Arlington, VA. As a member of the AES Executive Leadership Team, Elizabeth helps define the company's

corporate strategy as well as make decisions regarding allocation of capital for this Fortune 200 company generating and distributing electric power in 17 countries.

Reporting directly to the CEO, Elizabeth oversees the office of technology, which includes information technology, cybersecurity, and emerging technology. She is also responsible for the company's insurance programs and internal audit, and serves as a board member of several AES companies, ranging geographically from the U.S. to Chile.

Prior to her current position, Elizabeth served as senior Vice President and CIO for Alcatel-Lucent, where she was responsible for the operations of the company's information technology, communication systems and e-business platforms. She has also held key positions with MCI, British Telecom, AOL and EDS. Most

notably, at MCI, Elizabeth held the position of Chief Information Officer, employing innovative approaches to create a business-focused IT organization.

Throughout her corporate tenure, Elizabeth has served in a variety of senior management positions, working on the management and delivery of information technology services to support business needs across a corporate-wide enterprise. In addition to serving as a Director of Serena Software Inc. from August 28, 2006 until June 2013, Elizabeth also serves on the Board of Dayton Power and Light Company, on the HP Board of Advisors, and as a Member of Strategic Advisory Group of Paladin Capital Group. In the past she has served as a Director of IPALCO Enterprises, Inc. and as Senior Director of UUNET.

Elizabeth brings award-winning expertise to her role as EIM Board Member. Her professional accomplishments include induction into the CIO Hall of Fame in 2014; being named one of Computer World's top 100 premier IT leaders and one of the Washington Post's top 200 female executives. In addition, Information Week ranked the department she led as one of the top 100 for IT leadership.

Elizabeth's vast experience leading technology operations and initiatives across large-scale operations, coupled with her degree in Applied Sciences from New York State University, should prove highly valuable in her new role as EIM board member. We look forward to her leadership, contributions and advice as we increasingly focus on the challenges of cyber risk and new technologies.

Please join us in welcoming and supporting Elizabeth Hackenson as the latest addition to the EIM Board.



It is often said that we need to find the silver lining in that occasional dark cloud that hangs over us. The silver lining is not difficult to see in EIM's plan to migrate its server and desktop infrastructure to the Cloud, which offers many advantages that will make the company more efficient, more secure, scalable, and better able to recover from catastrophic events.

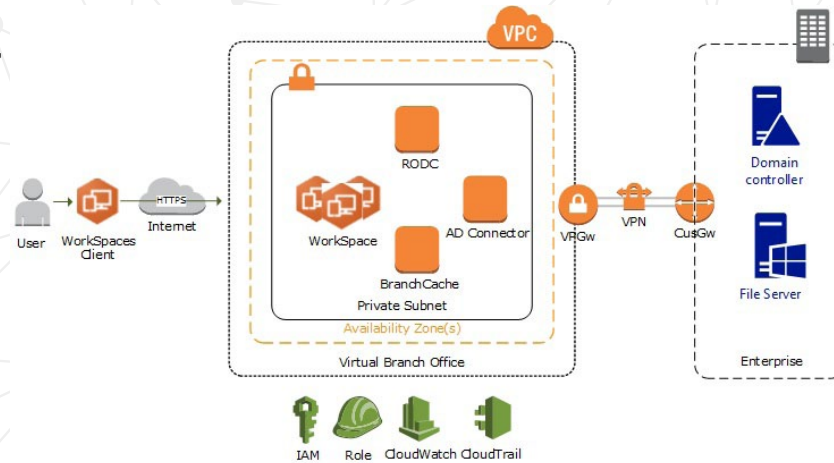
The server migration has already been completed for Energy Insurance Services, Inc. (EIS) and Energy Captive Management, LLC (ECM) and should be finalized for EIM servers by the end of the second quarter. EIM is moving to Virtual Desktop Infrastructure (VDI) to join the server infrastructure in the Cloud with EIS/ECM's desktops to follow by the end of third quarter. These migrations provide numerous operational advantages for the three companies, including broader accessibility, enhanced performance, greater reliability and availability, added computing capacity, rapid time-to-market, updated security, and more efficient maintenance.

By operating in the Cloud, EIM staff can access desktop applications from anywhere in the world, 24-hours a day.

Secure access to internal applications is available through a broad range of devices, including i-Pads, personal computers, and mobile devices. Equally significant is that enhanced and scalable system resources make performance more efficient and effective. This includes faster upload and download speeds. The utility computing model of the Cloud allows EIM's storage and processing needs to be quickly upgraded to meet the company's growing computing demands.

While EIM's data is currently backed up every four hours, Cloud services offer additional features that will enable the company to back up data at more frequent intervals (15 mins). This not only minimizes the potential for lost data (addressing EIM's recovery point objectives), but also enhances recovery time in the event of system failure or business interruption.

The following graph outlines the schematic for EIM's desktop configuration on the Cloud.



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Another advantage of the Cloud is security. EIM's Virtual Desktop systems will now be encrypted with secure communications over the network connecting users and workspaces. The company's critical and confidential data will no longer be stored on-site in Tampa or Charleston, or on mobile devices post migration. In effect, once transmitted to the Cloud, data will stay in the Cloud environment rather than be regularly transmitted to multiple, potentially unsecured sites and devices.

In addition to enhanced security, the Cloud will provide easier and more efficient maintenance to EIM's systems. Patches and upgrades can be automatically applied to Virtual Desktops from a centralized source. Moreover, EIM will be able to remove on-site servers, which will reduce current network bandwidth, power, and cooling requirements as well as free up office space for more efficient uses. EIM's reliance on backup services and other onsite redundancies will be eliminated, creating further operational efficiencies.

Finally, and perhaps most importantly, the move to the Cloud provides EIM with a more effective business continuity plan

to respond to catastrophic events. While the Tampa Bay area has avoided a direct hit from the more recent Atlantic hurricane events, history tells us that we should be prepared for a major wind event on Florida's Gulf Coast. By reducing EIM's reliance on Tampa-based servers and capitalizing on the global backup capabilities attendant to the Cloud, EIM has greatly reduced its exposure to business interruption risk occasioned by natural disasters. A recent disaster recovery exercise involving the EIS and ECM Cloud-based systems showed a reduction in data recovery and system access downtime from a week to slightly over two hours.

EIM is always searching for the "silver lining," and continually looks for technology solutions that provide ongoing benefits to Members. The Cloud is one such solution, providing a more stable, flexible, efficient, reliable, and secure platform for entering, accessing and maintaining Member Company data.

For more information contact:

Sridhar Kocharalakota, Director of IT Operations,
at skocharalakota@eimltd.com





EIM continues to provide property capacity for Members despite a prolonged competitive property marketplace. The property market is comprised of a large number of willing and able insurers, offering thinly-priced limits, and, in some cases, expansive terms and conditions of coverage. Despite these soft market conditions, EIM is working diligently to identify opportunities and provide property coverage to Member Companies.

Even in light of the recent 2016 Hurricane Matthew, the first Category 5 hurricane since Hurricane Felix in 2007 and the costliest Atlantic hurricane since Hurricane Sandy in 2012, delivering an estimated \$15 billion in damages (of which there were \$6-\$9 billion insured), there has been no major constriction of capacity or tightening of pricing in the property market. Some speculate that it will take a large event or a combination of catastrophic events in excess of \$100 billion to have any major impact on the current property market environment.

While some new capacity and capital appears to have entered the property market, the pace seems to have slowed somewhat from recent years, which may be due to an already full playing field. With this full playing field comes expanded capacity and, in some circumstances, multiple quota share layer arrangements being replaced by a single layer quota share limit. In addition, while Earthquake, Flood and Named Wind Storm capacity continue to increase, per placement aggregate limits that were usually imposed by companies in years past now are less prevalent.

So how does EIM position itself in this intensely competitive soft property market environment?

First, it is important that EIM maintain consistent underwriting discipline so that the lead market terms, conditions and pricing appropriately reflect the risk assumed.

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Next, EIM considers risks where Member Companies are having difficulty finding capacity. EIM has historically limited its California Earthquake and Named Wind Storm aggregate exposures to no more than \$25 million across the entire property portfolio. Given EIM's current capital and surplus position, EIM is considering expanding its overall portfolio aggregate limit to \$50 million for both California Earthquake and Named Wind Storm. This could potentially provide greater capacity to Member Companies operating in California and/or coastal areas prone to Named Wind Storm events.

In 2016, EIM saw 13 new property submissions. Of these submissions, EIM bound three new policies (all involving builder's risk projects). Of the 10 submissions that were not bound, seven were not quoted due to risks and/or coverage terms and conditions that were outside the scope of EIM's current underwriting guidelines, and three were quoted but not taken up due to pricing. Property submissions have picked up in 2017. Year to date, EIM has received six new submissions. Three of these have been declined and two were bound, both of these being builder's risk placements. One submission is still pending.

EIM currently has a total of 62 total member property placements inclusive of any NEIL fronting arrangement placements. It should be noted that many of these placements have been long time supporters of EIM's property capacity for more than 10+ years. Many recognize EIM as a mutual that will continue to be a long term provider of stable property capacity for its Members Companies for many years to come.

In short, it continues to be a challenging market for those property insurance companies not trying to garner market share. However, in those instances where Member companies seek additional capacity, and the terms, conditions and pricing fall within our risk tolerance, EIM stands ready to be a provider of ongoing, long-term property coverage.

*For more information contact:
Scott Leiman, Senior Underwriter - Property,
at sleiman@eimltd.com*





Cindy Stevens
MBA, CRM, CIC
Colorado Springs Utilities

Cindy A. Stevens joins the Insurance Advisory Committee (IAC) through her role as Insurance Risk Manager for Colorado Springs Utilities, a \$1.0 billion, four-service municipal utility and EIM member serving over 500,000 customers. In her position with the utility, Cindy is responsible for the ongoing placement and management of large, complex property and casualty programs and oversight of claims. She also manages contractual insurance/risk transfer for large, high-risk construction projects.

During her five years with Colorado Springs Utilities, Cindy has overseen a complete overhaul of the insurance programs, gaining efficiencies resulting in seven-figure cost savings and improved policy terms and conditions. She has also succeeded in regaining the company's Colorado Public Entity immunity/tort cap protections, which had previously been waived.

In her new role as an IAC member, Cindy's industry designations should serve her well. These include Certified Risk Manager (CRM), Certified Insurance Counselor (CIC), and a 50% completion of CPCU. In addition, Cindy is ICS-300 Certified by FEMA under the National Incident Management System (NIMS) Training Program and MGT-345 as endorsed by Colorado's Department of Homeland Security and Emergency Management (DHSEM).

Cindy's impressive educational background includes an MBA in Finance and Energy Management from the Daniels College of Business at the University of Denver and a BA in Economics from Kalamazoo College in Michigan.

"I am honored and humbled to serve in this important role as a member of IAC, and look forward to sharing 'lessons learned' with other members," explains Cindy. "In particular, I am a passionate advocate for Public Power, and hope to differentiate the uniqueness of our risk profile to the underwriters."

In addition to her new role as an IAC member, Cindy serves on the AEGIS Loss Control Task Force and is active in the Rocky Mountain Chapter of the Risk and Insurance Management Society. In the latter, she serves as a member of the Board of Directors, Chair of the Finance Committee and participates in the Legal and Regulatory Committee.

Cindy's personal passions include enjoying the great outdoors of Colorado through skiing, hiking and mountain biking. In this arena, her accomplishments cover hiking 28 of the 53 24,000 foot peaks (14r's), with another two planned for this summer. She is also a mom to three adult sons--two who are twins and a third son with special needs. Cindy has been a longtime volunteer for disability advocacy and support organizations.

We welcome Cindy's participation on the IAC and look forward to her contributions on behalf of her peers and her company.

EIM CONGRATULATES JILL TOWELL AND SCOTT LEIMAN ON 15 YEARS OF SERVICE.



Jill Towell
Assistant Underwriter

Jill Towell came to EIM in June of 2002, after a 14-year career with Fireman's Fund Insurance, a company she left when it moved its operations to Atlanta.

Jill began her career with EIM as an Underwriting Assistant in Casualty. Over the course of her 15 years with us, Jill's responsibilities have grown from General Liability and Directors & Officers coverages to now include assistance in the Property and Cyber lines of business as well.

More than anything, Jill says she values the relationships she has built over the years with both EIM members and business partners. When she's not busy serving either, she can often be found traveling with her fiancée, David, on a motorcycle.

A resident of Clearwater, Jill lives just a "long fly ball" from the spring training facilities for the Philadelphia Phillies and enjoys getting an early start on the major league baseball season by attending many spring training games.



Scott Leiman
Senior Underwriter - Property

Like Jill Towell, Scott Leiman began with EIM in June of 2002, after serving in a long-term position with Fireman's Fund Insurance. Scott began his career with EIM as an Underwriter Assistant in Property.

Working with Larry Baccari, Scott helped grow and service the property book, and eventually assumed additional responsibilities under the title, Senior Underwriter - Property. He is now involved in both managing and underwriting EIM's property portfolio.

For Scott, EIM has provided the opportunity to work with great people in a family atmosphere. Over the years, he has consistently met the company's objectives and hopes to continue to do so while working toward the common goal of exceptional Member Company service—a quality he learned while serving in the U.S. Navy. Whenever he finds a little free time from his many home improvement projects, Scott enjoys offshore fishing in the Gulf of Mexico.

Please join us in a warm congratulations to both Jill and Scott on their 15 years of valuable service to EIM and its member companies.



Kevin Wolff
General Counsel and Secretary

On March 27 of this year, Kevin Wolff joined EIM as our first General Counsel. In this new role, Kevin will be responsible for all the company's legal affairs--exclusive of claims-related litigation. In particular, he expects to continue the company's excellent track record of regulatory compliance, while also serving as corporate secretary, working closely with our Board of Directors, and playing an active role in Human Resources.

Kevin comes to EIM from a position as general counsel for Swett & Crawford, an excess property and casualty insurance broker. He has also served as chief litigation counsel for AGL Resources, an EIM member company recently acquired by Southern Company.

Kevin twice graduated from the University of Georgia with a bachelor's degree in political science, magna cum laude and Phi Beta Kappa, and a JD degree cum laude. This has earned him the coveted distinction as a "Double Dawg."

After spending most of his career in Atlanta, Kevin is now relocating to Tampa. He's excited to be "coming home again" to the utility industry, and looks forward to working in a "collaborative and service-oriented culture where employees wear many hats."

Kevin has been married to his college sweetheart, Stacy Wolff, for 27 years. The couple have three daughters, Emeline, Lexie and Natalie, ranging in age from 23 to 15. Kevin also takes an active role in his synagogue, serving on the Board of Trustees, the Endowment Committee and teaching adult beginning Hebrew. In his free time, he enjoys running and singing.

Please join us in welcoming Kevin to the EIM team.

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	<u>03/31/2017</u>	<u>12/31/2016</u>
Assets		
Investments	\$ 1,484,211	\$ 1,515,197
Cash and cash equivalents	63,173	39,696
Reinsurance recoverables on losses	342,208	354,487
Prepaid reinsurance premiums	33,053	39,444
Premiums receivable	2,714	8,186
Income taxes recoverable	-	726
Other assets	2,964	1,361
Total assets	<u>\$ 1,928,323</u>	<u>\$ 1,959,097</u>
Liabilities and policyholders' surplus		
Reserves for losses and loss adjustment expenses	\$ 674,663	\$ 673,877
Unearned premiums	78,858	121,825
Reinsurance premiums payable and funds held	3,148	8,574
Net deferred tax liability	80,411	72,365
Policyholder distributions payable	-	25,000
Borrowings on line of credit	1,900	16,500
Accounts payable and accrued expenses	11,064	12,589
Income taxes payable	10,030	-
Total liabilities	<u>860,074</u>	<u>930,730</u>
Members' account balance	891,382	861,300
Accumulated other comprehensive income	176,867	167,067
Total policyholders' surplus	<u>1,068,249</u>	<u>1,028,367</u>
Total liabilities and policyholders' surplus	<u>\$ 1,928,323</u>	<u>\$ 1,959,097</u>

Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

	<u>03/31/2017</u>	<u>03/31/2016</u>
Underwriting revenue		
Net premiums earned	\$ 34,477	\$ 34,047
Other underwriting income	609	584
Total underwriting income	<u>35,086</u>	<u>34,631</u>
Underwriting expenses		
Net losses and loss adjustment expenses	10,704	25,494
Policy acquisition costs	502	476
Administrative expenses	3,437	3,646
Total underwriting expense	<u>14,643</u>	<u>29,616</u>
Income from underwriting	20,443	5,015
Investment income	23,272	12,305
Income before policyholder's distribution and income taxes	43,715	17,320
Policyholder distribution	-	-
Income before income taxes	43,715	17,320
Income tax expense	13,633	4,454
Net income	<u>30,082</u>	<u>12,866</u>
Other comprehensive income	9,800	4,783
Comprehensive income	<u>\$ 39,882</u>	<u>\$ 17,649</u>

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

Energy Insurance Mutual Limited
 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