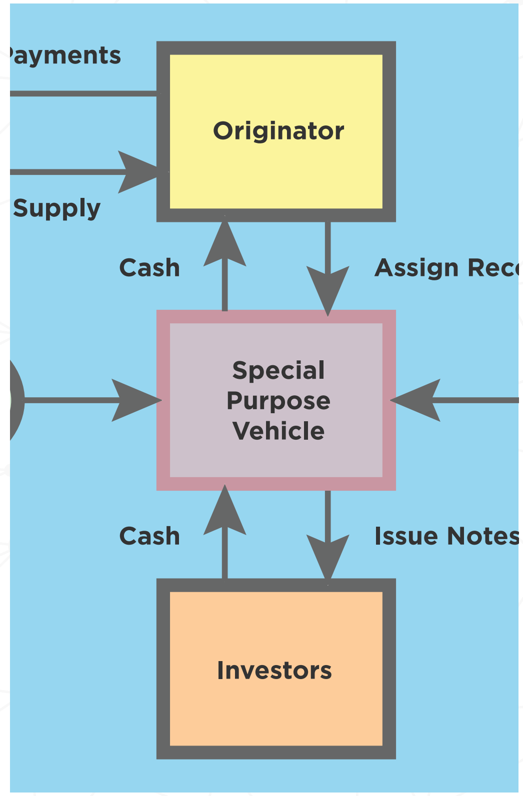
MEMBERS REPORT

Energy Insurance Mutual



EIM
Energy Insurance Mutual

A LOOK INTO THE FUTURE

There is little doubt that the energy industry is undergoing continuous and profound changes in how power is generated, transmitted and distributed. Coal-fired generation sites are routinely being replaced by natural gas and renewable energy resources. Transmission technology—encompassing the movement of both electricity and natural gas—is becoming more automated, relying on newly developed technology that not only creates transmission efficiencies, but also provides for two-way communication between provider and end user. Distribution is becoming more discrete, as multi-state and regional power grids give way to more and more local, focused delivery of power.

While these changes will be incremental in nature, they are moving forward at an accelerating pace, presenting challenges for not only the energy community, but also insurers who must stay current to remain relevant to the varied companies' risk management frameworks.

It is incumbent upon EIM to work closely with Members to identify emerging risk management needs and to provide meaningful solutions. The following update highlights some of the key developments expected within both the energy and insurance industry, as well as their potential impact on EIM.

For more information, contact:
George Thomas Bolton, III, EIM Vice President and Chief Financial Officer, at tbolton@eimltd.com

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EIM Board Authorizes Supplemental Distribution of $25 Million

At its August 2018 meeting, the EIM Board of Directors approved a $25 million supplemental distribution to be paid on or about November 15, 2018 to all EIM Member Companies of record at September 30, 2018.

The supplemental distribution is in addition to the $40 million distribution provided to Members in March 2018 and reflects EIM's strong financial performance along with the exceptional risk management efforts employed by EIM Member Companies.

EIM remains committed to its annual distribution to Members and, subject to final 2018 audited financial results and approval of the Board, EIM anticipates announcing its eighth consecutive annual distribution in February 2019, payable on or about March 15, 2019.

The Board intends to review EIM's financial position throughout the 2019 fiscal year and will consider a supplemental distribution in the second half of 2019 as well.

The ability to return capital is a direct result of the membership's ongoing commitment to EIM. Continued Member Company support is essential to maintaining EIM's excess of loss insurance capacity, its meaningful coverage terms and conditions, and the lowest cost of insurance protection over time.

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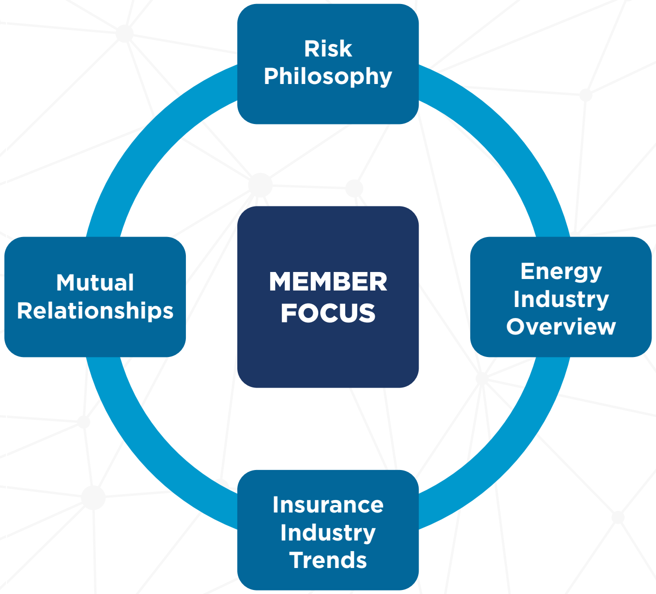
Energy Insurance Mutual – 2020-2022

"Evolutionary not revolutionary" has been the strategic mantra for EIM over the past 32 years. Consistent with this maxim, EIM remains steadfast in its mission and vision to provide long-term capacity, the lowest cost of insurance over time and the ongoing financial stability required to meet claim payment obligations. At the same time, however, EIM will remain dynamic and flexible as the insurance and energy industries undergo change. Maintaining an adequate capital base is essential to sustaining the flexibility necessary to meet the risk financing needs of the membership. EIM will be wrapping up its most recent three-year strategic plan in 2019 and has already begun planning for the following three years, 2020-2022, and beyond. While labeled the "2020-2022 Strategic Plan," the plan necessarily incorporates anticipated changes that will impact EIM and its Members well beyond that time frame.



MEMBER FOCUS

Looking forward, Member focus will continue to be the centerpoint of EIM activities. Working closely with the EIM Board and the Insurance Advisory Committee (IAC), EIM will maintain a regular dialogue with industry executives and risk managers to anticipate changing risk management needs, revise existing coverages, and/or develop new products to meet newly-emerging risk management demands. Amidst this landscape of change, EIM intends to maintain a consistent risk philosophy which highlights financial stability and unquestioned claims paying ability. As always, it will be the Members who drive product design, coverage terms and conditions, and capacity.

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A LOOK INTO THE FUTURE (CONTINUED)

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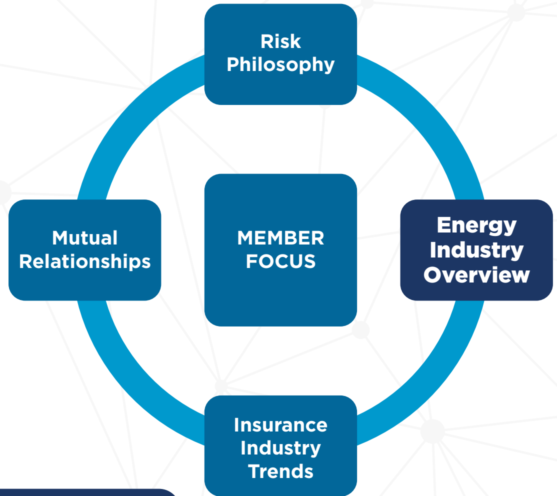

Energy Industry Overview

Changes within the energy industry will create new exposures, which in turn will create new risks, requiring updated, expanded or new coverages. The following represent some of the changes we expect to see in the coming years:

1. Declining Power Prices and Changing Generation Fuel Mix

- Energy generation costs have fallen across the US. These savings have been offset by capital expenditures earmarked for upgrading, modernizing and decarbonizing the grid.
- Wind and solar have nearly doubled in the past five years, going from 5% in 2012 to almost 10% in 2017.
- This expansion is expected to continue as improvements in technology lead to greater efficiency and reduced cost.
- Further development of battery storage technology will enhance and accelerate this renewable energy generation growth.
- Natural gas generation surpassed coal for the first time in 2016 due to lower pricing. This trend is expected to continue into the near future, sustained by low natural gas prices.
- Much needed infrastructure upgrades will continue, but given the the scope of CapEx initiatives, this process will take many years to complete, particularly when competing interests for newly built-out natural gas and renewable generation and transmission resources are running concurrently.

2. Increased Distributed Energy Resource Penetration

- Distributed solar and wind, small natural gas units, electric vehicles, energy storage and energy management technologies—all connected to the energy grid—are proving effective in helping communities improve sustainability, efficiency and reliability.
- Distributed generation has the potential to disrupt the traditional energy generation and supply paradigm, reshaping the grid structure in future years.

3. Commitment to Strengthen Cyber and Physical Security

- Cyber risk continues in the forefront of the news.
- Damages from 2017 cyber attacks are expected to exceed $5b, 15 times what they were a few years ago
- Cyber breaches are expected to increase exponentially over the next five years.
- As supervisory control and data acquisition (SCADA) systems become more interconnected, forming two-way information and energy flows from smart grids, smart devices, and the growing Internet of Things (IOT), the risk of a cyber attack resulting in physical damage rises correspondingly.

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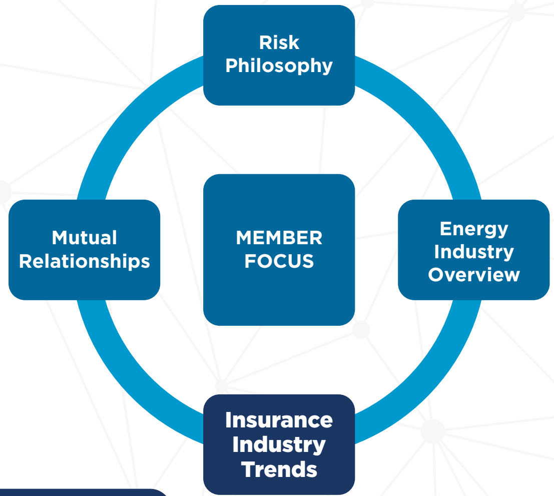

Insurance Industry Trends

New developments in the energy industry will not occur in a vacuum. Insurance industry dynamics will also play a role in how EIM works with Members to effectively manage evolving risks. Insurance industry developments include:

1. P/C Insurance Industry Competition

- A significant amount of capital has been built up on a global level since 2009, driven by strong investment returns, below-average combined ratios and tax code changes. Reinsurer and insurer balance sheets are stronger than ever, resulting in continued soft market conditions.
- 2017 was the costliest in history in terms of catastrophe losses, but didn't have a major impact on the industry. The lower combined ratios, coupled with strong capital positions, is a strong indication that soft market conditions are expected to continue, except in niche areas with high loss ratios, such as the property catastrophe and auto insurance markets.

2. 2017: A Record Year of Catastrophe Losses

- 2017 saw hurricanes Harvey and Irma (ranked by the NFIP among the second and third most significant flood events since 1978) produce significant property losses, which, when combined with the multiple California wildfires, hailstorms and tornadoes, led to record catastrophe losses for the year.
- Reflecting the significant capital available in the marketplace, the catastrophe loss activity in 2017 represented an earning event (greatly reducing or eliminating profits) rather than a capital event (where overall surplus is depleted). Nevertheless, if catastrophe loss activity continues, 2017 may very well have set the stage for a hardening market.

3. Technology

- The insurance industry is seeing major impacts from advanced technology. The IOT, such as smart home devices, wearables linking life and health products and pay-as-you-drive concepts, are helping drive down losses and decrease insurance cost.
- Automated processes and artificial intelligence will play a huge part in data analytics, helping the development of different products with more flexibility and better focus. Risk selection and pricing will become more accurate and efficient.
- With wider deployment of such insurance technologies (otherwise known as InsurTech), carriers may receive fewer and less-severe claims, while gathering key data for more precise, personalized and profitable pricing.

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A LOOK INTO THE FUTURE (CONTINUED)

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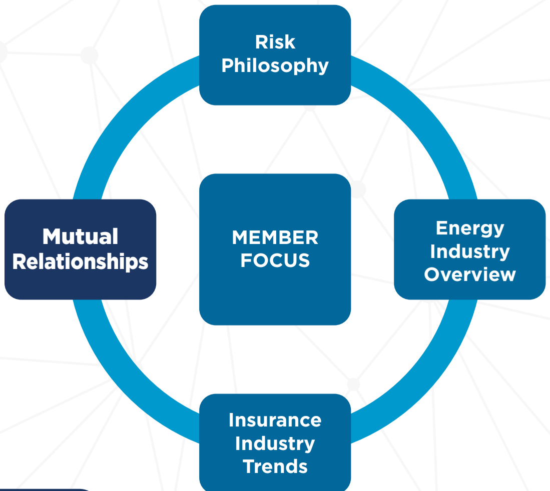
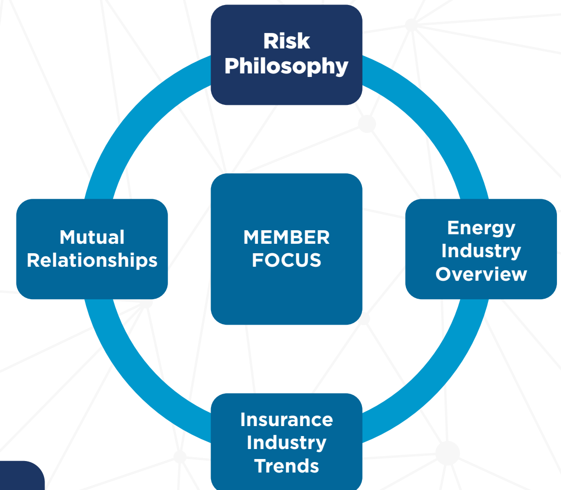
- As with the energy industry, insurance industry technology changes are having an immediate, albeit modest, impact on day-to-day business, but are slowly gathering speed.



Mutual Relationships

EIM and its sister companies, AEGIS, NEIL and OCIL, have collaborated throughout their histories to provide a coherent risk management framework, designed to maximize Member surplus, while minimizing cost. Working with the sister mutuals enabled EIM to maintain $100M limits during the 2008 financial crisis, offer increased property limits, develop expanded cyber coverage and share one another's risk through reinsurance. As the energy and insurance worlds change, cooperation will be even more important among mutual company partners. History has shown that collaboration yields more responsive insurance coverages, stable pricing and capacity, as well as a consistent return of underwriting profits to Members.

EIM is committed to a shared vision that builds upon the existing mutual relationships by sharing more risk and offering new or expanded risk solutions. Collaboration and communication on new products, analysis of insurance and industry trends, along with transparency among the mutuals will be key in expanding these relationships.



Risk Philosophy

EIM's risk philosophy will remain constant over the next three to five years. As risk profiles change and member companies add, shed or alter their current risk exposure, EIM will adapt to these changes and continue to maintain an organization that is well-positioned from an underwriting, claims and financial perspective.

Given the substantial growth in capital and surplus over the last ten years, EIM routinely examines required capital levels and, when prudent, returns available capital to Members. However, EIM is

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cognizant of the volatility associated with a portfolio of excess-of-loss risks, as well as the substantial limits offered in conjuction with these risks. This reality, coupled with the not-so-distant memory of the "perfect storm" visited on EIM as part of the 2008 financial crisis, will drive a conservative risk philosophy that encompasses both underwriting and investment activities.

EIM will remain committed to preserving enough capital to be able to withstand a significant company-wide loss event and maintain an A rating by AM Best. This means that when underwriting risk expands beyond acceptable risk tolerances, investment risk will be managed accordingly to maintain the overall risk philosophy in the company. The single constant in EIM's risk philosophy is the recognition that the organization is in business to pay losses. Any change in risk philosophy will always be assessed against whether claims paying ability is negatively or positively impacted.

Conclusion

Keeping with the theme that has made EIM a success over the last 32 years, a focus on the membership in the utility industry sector is paramount. EIM cannot be all things to all people; it can only strive to provide the greatest value to the broadest spectrum of Members, while maintaining financial stability. The EIM Board and IAC will continue to be key drivers of EIM's short- and long-term strategic direction, identifying member company needs and fashioning responsive solutions.

Staying on top of trends and evolving risk needs in the energy and insurance industries will be important to the continued success of EIM. Direction and guidance from the Board, input from the IAC, and partnering with sister mutuals will assist in the identification of evolving risk management needs and provide a solid foundation upon which to design new or expanded product offerings.

The EIM Impact: EIM will continue to embrace technology to gain efficiencies and remain responsive to Member Company risk management needs. From streamlining the underwriting process, to accelerating claims administration, to facilitating regular communication with members, EIM is committed to identifying and implementing technology advantages that translate into added value to member company risk management efforts. Faster, more responsive, and less expensive will be the driving forces for EIM's future. These efforts will support EIM's ongoing mission to provide meaningful excess of loss coverage at the lowest cost over time.

The future for both EIM and its member companies will be challenging. However, EIM has never been better positioned to meet these challenges and, working together with its Members, EIM is confident that it can and will continue to effectively meet member company risk management needs.

EIM WELCOMES NEW BOARD MEMBER - RUDOLPH (RUDY) WYNTER

Rudolph (Rudy) Wynter
President and COO,
Transmission, Generation and Energy Procurement
National Grid

In his role with National Grid, Rudy Wynter oversees businesses with an asset base of $4.5 billion, including one of the largest electric transmission networks in the northeast. National Grid provides natural gas and electricity to residential, commercial, and wholesale customers in New York, Rhode Island and Massachusetts. Rudy is leading the transformation of the company's electric transmission network into a highly intelligent, resilient system that will meet customers' long-term needs, while enabling a clean energy future.

Rudy also is responsible for the company's regulated energy storage assets and opportunities, including the development of New England's first large-scale battery energy storage system, on the island of Nantucket. As customers and policymakers increasingly want electricity from lower-carbon energy sources, Rudy's team will play a critical role in this transition, while ensuring that energy supplies remain reliable and affordable for all customers.

"The energy industry faces an unprecedented amount of change and a rapidly evolving landscape," Rudy explains. "EIM will need to meet the challenges of this changing future as its members adapt to this new landscape and move forward with creating a more agile, flexible and smarter energy network."

According to Rudy, "Energy networks are more important than ever. Our customers depend on them for safe, reliable, and affordable electricity and natural gas. Building resilient infrastructure to meet our customers' needs is critical." He added, "EIM provides an essential service to the industry. It is paramount that EIM continues to keep its members and their needs at the forefront, adapting its services and products as those needs change."

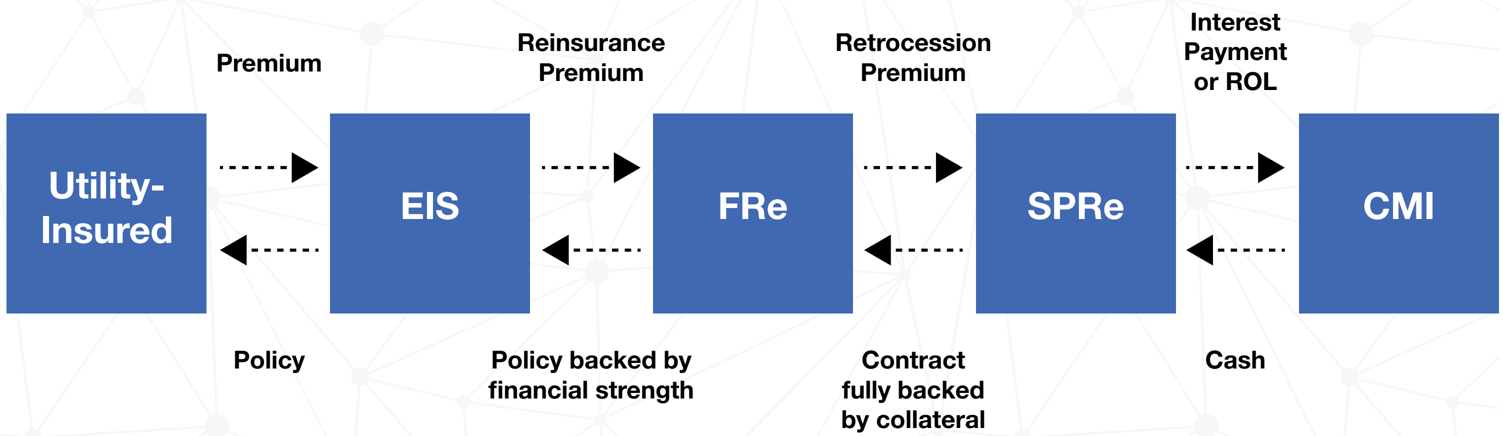
Rudy also serves on the boards of Ascendant Group Limited, a Bermuda-based, publicly-traded provider of energy and energy-related services, and the Brooklyn Historical Society. He is a member of The American Society of Mechanical Engineers, the American Gas Association, and the Edison Electric Institute. He earned his Bachelors in Mechanical Engineering from Pratt Institute, an MBA from Fordham University, and has completed an executive development program at Harvard University.

Please join us in welcoming Rudy Wynter to the EIM Board.

nationalgrid

EIS had an exciting summer, issuing its first insurance policy ultimately protected by a catastrophe bond (commonly known as a cat bond). A cat bond is a type of insurance-linked security (ILS), a financial instrument that's structured to raise capital from investors in the capital markets. The proceeds from the capital raised are used to support reinsurance of a well-defined risk.

These instruments arose in the mid-1990s, after Hurricane Andrew and the Northridge Earthquake hit the insurance markets, setting record losses. These losses—combined with historically low interest rates for fixed-income investments—created an opportunity for capital markets and insurance companies to work together to develop alternatives to traditional reinsurance and existing fixed-income investments.



The ILS structure allows insurers to seek portfolio diversity in the manner in which they layoff risk. At the same time, many institutional investors are making room in their portfolios for a fixed-income security like an ILS, which pays a competitive interest rate and may also be traded on the secondary market like other securities.

Typically, cat bonds are set up to obtain capital to insure property risk from catastrophic and other natural disasters, such as hurricanes, storm surges, floods or earthquakes. Investors assume the risks of a specified catastrophe or event, in return for potentially attractive investment returns. If a qualifying catastrophe or event occurs during the relevant period, the investors forfeit their principal investment, and the issuer—usually an insurance or reinsurance company—receives this money to cover its losses.

Captives are used in structuring these risk transfer programs, particularly when the ultimate beneficiary is not an insurance company. In the case of the recent EIS transaction, the EIS participant, PG&E, sought additional and diverse capacity due to exposure to California wildfire risk. The chart above is a representation of the parties involved.

In the above schematic, FRe is the fronting reinsurer, Tokio Millennium Re, which is reinsuring EIS. SPRe is the special-purpose reinsurer, Cal Phoenix Re Ltd., which issued the security note and provides a retrocession agreement to the FRe. CMI represents the Capital Market Investors.

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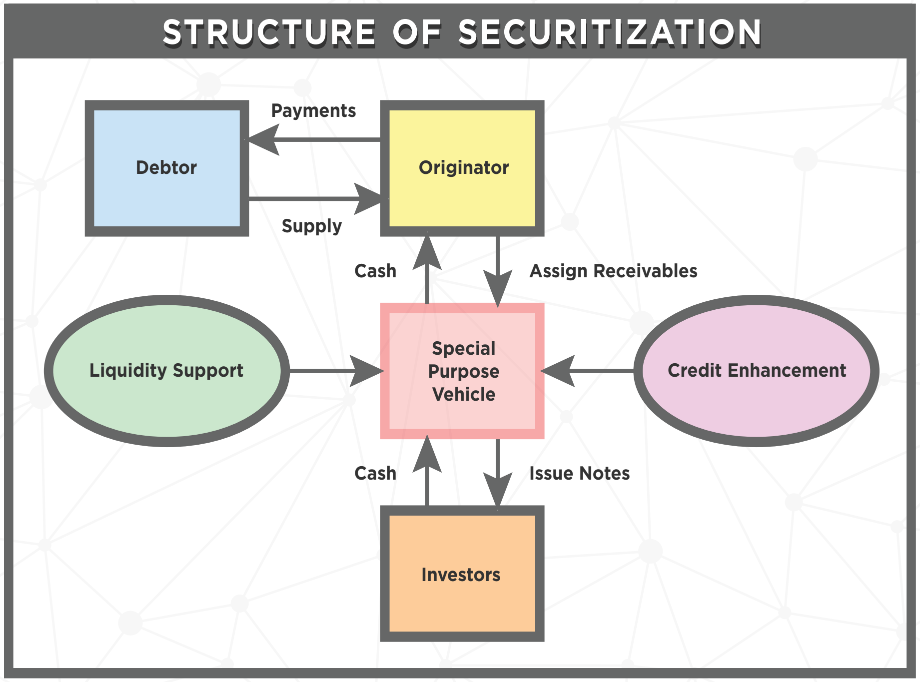
The PG&E transcaction looks, in many respects, like the traditional securitization outlined below.



Cat bonds commonly have a parametric trigger that determines when and how much loss payment will be made to the insured. The recent EIS transaction, however, has an indemnity trigger. This is somewhat unique. Extensive risk modeling is used to quantify the magnitude of risk and probability of occurrence. Capital markets have come to rely on modeling to set pricing, attachment points and triggering conditions.

As reported by Artemis, a Bermuda-based news service dedicated to reporting on insurance linked securities, “This new Cal Phoenix Re 2018-1 catastrophe bond is the first to cover pure wildfire risks. It’s an interesting way to see the corporate risk of PG&E cascade through multiple layers of insurance, reinsurance and retrocession to the capital markets, allowing for an indemnity coverage arrangement to be put in place, backed by the efficiency of ILS capacity.”

The advantages of using an ILS are fairly straightforward, and include:

- Multi-year capacity
- Reduced rate volatility
- Fully-collateralized protection
- Diversification of risk among traditional reinsurers and the capital market

EIS remains available for alternative risk financing solutions, when and where its participation makes sense for EIM Members. If you have questions or want to know more about how EIS can help with ILS transactions, or with other alternatives to lower your total cost of risk, please contact Randy Martin, EIS Vice-President and Chief Operating Officer (rmartin@eimltd.com).

Randall L. Martin, EIS Vice President and Chief Operating Officer

Kevin R. Wolff, EIM Vice President, General Counsel and Secretary

A WARM CONGRATULATIONS TO JILL DOMINGUEZ ON 25 YEARS WITH EIM

Jill Dominguez
Vice President and Chief Underwriting Officer

Much has happened at EIM since Jill Dominguez came to work here in September, 1993. Jill joined the company as a Member Service Representative at a time when EIM was still building its membership. Not long after her arrival, we received our first “A” Excellent rating from A.M. Best, and we have maintained that “A” Excellent rating, even during the uncertainty of deregulation, a run on D&O claims in 2002-3, and the 2008 financial crisis.

During this same time, Jill progressed to her current role as EIM’s Vice President and Chief Underwriting Officer, much to the benefit of our growing membership. Her long list of accomplishments with EIM includes working with the IAC on the Member Satisfaction Survey, a key driver for EIM initiatives; streamlining customer service transactions, such as quote delivery and the underwriting process; adding Property coverage in 2001 and Cyber Liability in 2015; and adding a Member portal in 2012.

Jill considers her involvement with the Energy School, however, to be a major accomplishment. “This is a complex industry, but mostly it’s a ‘people’ business. The Energy School provides a wonderful environment, where those just starting out can learn about the many aspects of the energy industry while making invaluable, long-term networking connections.”

Since inception, the Energy School has evolved to become a collaborative effort of four industry mutuals—AEGIS, EIM, NEIL and OCIL—who work together to create the agenda, coordinate speakers and demonstrate the partners’ value to this sector. As a result, the 2018 Energy School class, which will convene at Florida State University, was completely filled in under two weeks.

Jill sees this same type of collaborative process play out daily within EIM. “Being part of EIM is like being part of a family. We always work together to find the best solutions. We listen to our Members, and do what we say we will do.”

Jill remains excited about her future with EIM, pointing out, “EIM is in the strongest financial position in its history. This allows us to consider options with products, limits and the value proposition we can bring to our Members over the long term.”

She believes long-term stability is key. “I look forward to continuing my role in fostering the ongoing communication and responsiveness that has been the cornerstone of this solid mutual.”

To give some perspective of Jill’s longevity with EIM, she gave birth to two sons not long after coming to work for us. One is now 18, and the other, 22. When Jill isn’t working on behalf of EIM Members, she enjoys spending time boating, fishing and traveling with her family.

EIM WELCOMES NEW IAC MEMBER, DENISE STRAKA

Denise Straka, ARM
Vice President of Insurance
Calpine Corporation

Denise Straka, Vice President of Insurance, Calpine Corporation, Dublin, CA, is the newest member of the EIM Insurance Advisory Committee (IAC). Employed by Calpine since 1990, Denise leads a team that is responsible for placement of property, casualty and management liability coverage and associated claims, as well as surety bond placement. Calpine is America's largest generator of electricity from natural gas and geothermal resources, with over $16 billion in assets and annual revenue in excess of $8 billion.

Denise's additional responsibilities include management of Calpine's captive subsidiary, CPN Insurance Corporation. She serves as both a director and officer of the captive, which provides primary property and casualty insurance coverage.

Over the years, Denise has played a vital role in developing and maintaining relationships with insurers, brokers, claims administrators and a number of third-party service providers. "I have always believed in the value of a partnership with the industry's mutual insurance companies," Denise explained.

As part of the IAC, Denise hopes her experience will help shed light on issues faced by EIM and other mutual insurers. "EIM has been extremely supportive of Calpine over the years, and we appreciate their support and the role they play in our insurance programs," she said. Denise hopes her role on the advisory committee will enable her to communicate effectively with her executive team and assist in either preventing or resolving issues as they arise.

Denise graduated with honors from the University of San Francisco with a Bachelor of Science degree in applied economics. She has been a recipient of the YWCA's Tribute to Women in Industry Award, which recognizes women who excel in executive positions along with the companies who employ them. She has also served as a director for the Silicon Valley Chapter of the Risk and Insurance Management Society, served on various Risk Manager's Advisory Panels for insurers and holds a property and casualty brokerage license in the State of California. Denise prefers to spend her free time hiking, dancing, cruising with her family or simply being around the ocean.

Calpine's Magic Valley Generating Station

EIM WELCOMES NEW MEMBER COMPANY

Snohomish County Public Utility District (PUD) is the second largest publicly-owned utility in Washington, serving over 348,000 electric customers and about 20,000 water customers. The company's service territory covers over 2,200 square miles, including all of Snohomish County and Camano Island.

Of the 27 other PUDs in Washington, Snohomish County PUD is the largest. It is also the second largest publicly owned utility in the Pacific Northwest and the 12th largest in the nation, in terms of customers served. The company's operations also include nine water systems, 15 reservoirs and three treatment plants that supply an average residential water usage of 60,000 gallons per year.

www.snopud.com

SNOHOMISH COUNTY PUD PUBLIC UTILITY DISTRICT NO. 1

The Lynnwood office features information about how solar power works.

Q2 2018 FINANCIAL REPORT

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

	06/30/2018	12/31/2017
Assets		
Investments	$ 1,660,359	$ 1,681,929
Cash and cash equivalents	41,348	8,016
Reinsurance recoverables on losses	218,249	228,673
Prepaid reinsurance premiums	30,319	40,352
Premiums receivable	19,282	9,106
Income taxes recoverable	-	16,690
Other assets	(2,747)	(1,326)
Total assets	$ 1,966,810	$ 1,983,440
Liabilities and policyholders' surplus		
Reserves for losses and loss adjustment expenses	$ 602,125	$ 563,971
Unearned premiums	104,038	126,979
Reinsurance premiums payable and funds held	7,970	8,488
Net deferred tax liability	55,707	61,383
Policyholders' distributions payable	-	40,000
Borrowings on line of credit	11,548	13,779
Accounts payable and accrued expenses	2,050	-
Total liabilities	783,438	814,600
Members' account balance	940,835	904,625
Accumulated other comprehensive income	242,537	264,215
Total policyholders' surplus	1,183,372	1,168,840
Total liabilities and policyholders' surplus	$ 1,966,810	$ 1,983,440

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

	06/30/2018	06/30/2017
Underwriting revenue		
Net premiums earned	$ 77,573	$ 69,224
Other underwriting income	1,119	1,256
Total underwriting income	78,692	70,480
Underwriting expenses		
Net losses and loss adjustment expenses	61,676	29,813
Policy acquisition costs	951	1,001
Administrative expenses	5,358	5,635
Total underwriting expense	67,985	36,449
Income from underwriting	10,707	34,031
Investment income	32,760	36,483
Income before policyholders' distribution and income taxes	43,467	70,514
Distribution to policyholders	-	-
Income before income taxes	43,467	70,514
Income tax expense	7,257	21,180
Net income	36,210	49,334
Other comprehensive (loss) income, net of taxes	(21,678)	23,012
Comprehensive income	$ 14,532	$ 72,346

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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