

M E N E R G Y I N S U R A N C E M U T U A L M E M B E R S R E P O R T

VOLUME 21, ISSUE 1

JANUARY 2007

EIB Renamed Energy Insurance Services; Relocated to Greenville, South Carolina

EIM's sole subsidiary, Energy Insurance (Bermuda), has a new name, a new home, and a new sense of direction.

EIB, established in 1992 and operated from Bermuda until Nov. 30, 2006, has been renamed Energy Insurance Services, or EIS, and is now domiciled in South Carolina, where it will be operated by USA Risk Group from its Greenville office.



At the EIS document signing in South Carolina in October were, from left, Jeff Kehler, SCDOI; David Hadler, EIM; Director Eleanor Kitzman, SCDOI; Sam Garvin, EIM; and Rob Schmid, EIS.

After months of due diligence, preparation, and regulatory proceedings, EIB was discontinued as a captive in Bermuda, at 5 p.m., EST, on Nov. 30, and was then continued as EIS in South Carolina. EIS is the 160th captive insurance company domiciled in that state.

Robert Schmid, who joined EIM in May 2006 to work exclusively with EIB, said that South Carolina was chosen over Vermont, the District of Columbia, Arizona, and several other potential U.S. domiciles primarily for its geographical, political, and tax advantages. South Carolina determined in 2000 that it would embrace captive insurance as an economic development strategy, and it has realized remarkable success since doing so,

(Continued on page 5)

\$10-Million Distribution Declared, Payable in First Quarter of 2007

The EIM Board of Directors approved at its November meeting a \$10-million Distribution of Policyholders' Surplus that will be paid following completion of the 2006 audit.

In a letter dated Dec. 21, 2006, EIM President **David Hadler** reminded EIM Risk Manager Representatives that the 2006 declaration follows a 2005 Distribution, also in the amount of \$10-million. "We as a company are committed to certain objectives, and one of those is a 'consistent distribution policy,'" David said.

He had pointed out earlier that the Board had suspended distributions for the three years prior to 2005. He also reminded the representatives that EIM had returned in excess of \$157 million of Policyholders' Surplus over the life of the Company.

The patterns of Company distributions are as follows:

1988 – 1990	\$52,133,827
1996 – 2001	\$95,000,000
2005 – 2006	\$20,000,000

The 2006 Distribution will be made after the completion of the audit of the year-end financials and will also be subject to there being no material deterioration of loss experience between now and the time the Distribution is made, according to David.

Risk Manager Representatives Give Higher Marks in Satisfaction Survey

In the 2006 Customer Satisfaction Survey, 126 EIM Risk Manager Representatives gave EIM improved marks in customer satisfaction in all categories but two.

Out of 14 categories, the Company improved in 12, remained the same in one, and lost ground on one by .04 percent, management reported at the November Board meeting.

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Risk Manager Representatives Give Higher Marks in Satisfaction Survey

(Continued from page 1)

“The results have been of keen interest to the management of EIM since the feedback received provides significant insight as to how we are perceived by our Membership,” EIM President **David Hadler** said. “From management’s perspec-

...tive, responses to the questions are a critical barometer of how well we are doing in meeting our customer satisfaction goals as set out in our Strategic Plan.”

The annual Customer Satisfaction Survey is conducted by the Company’s Insurance Advisory Committee.

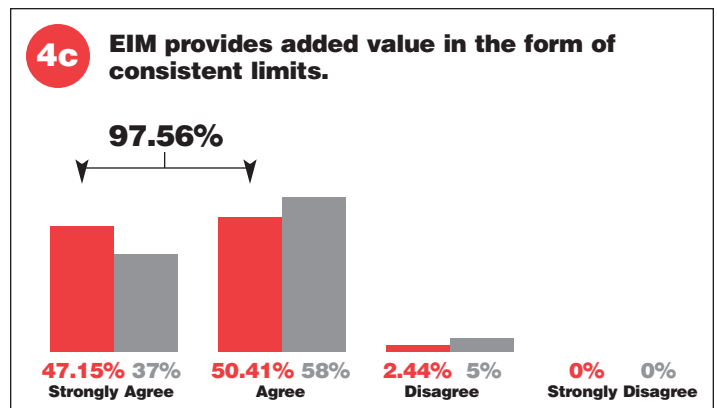
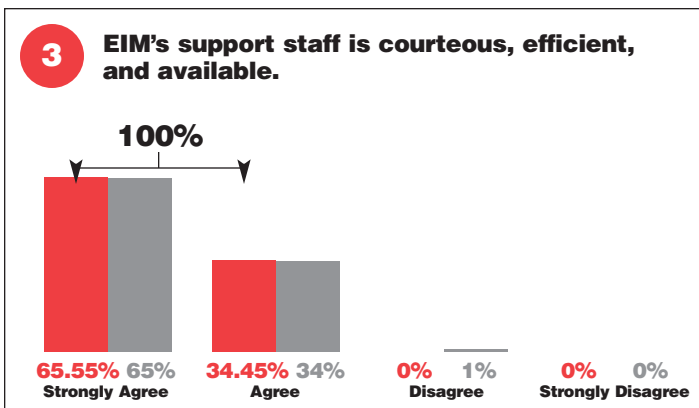
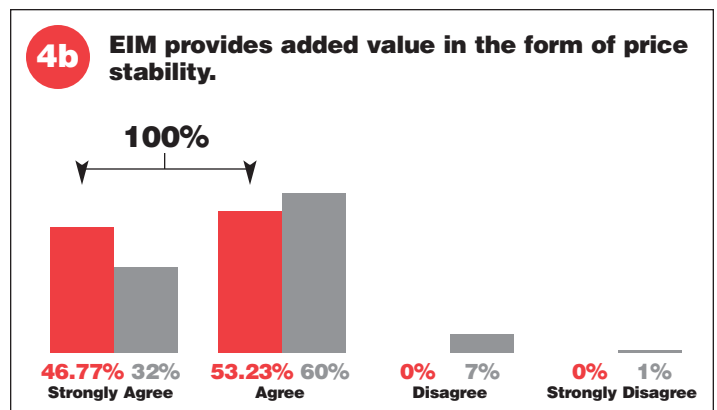
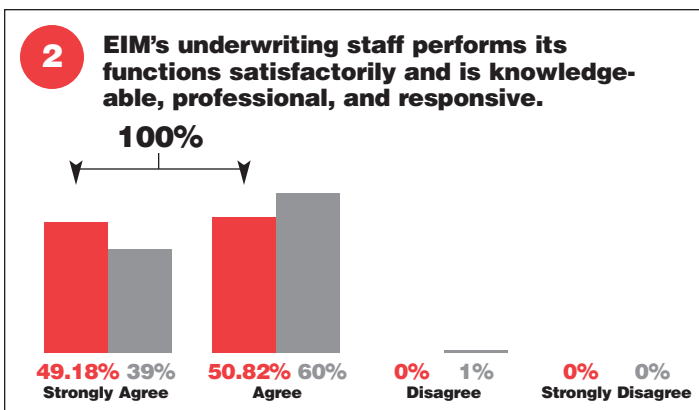
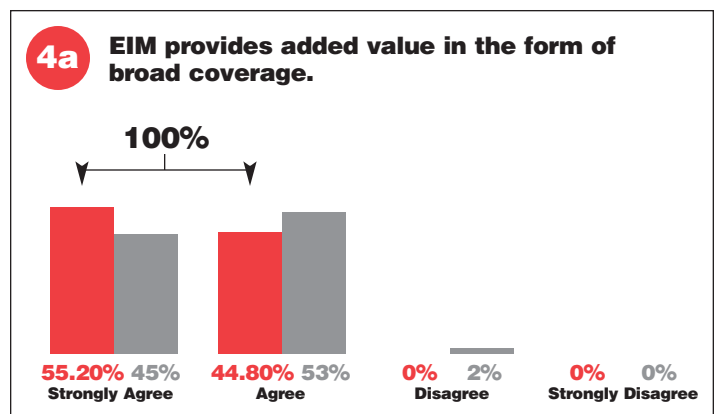
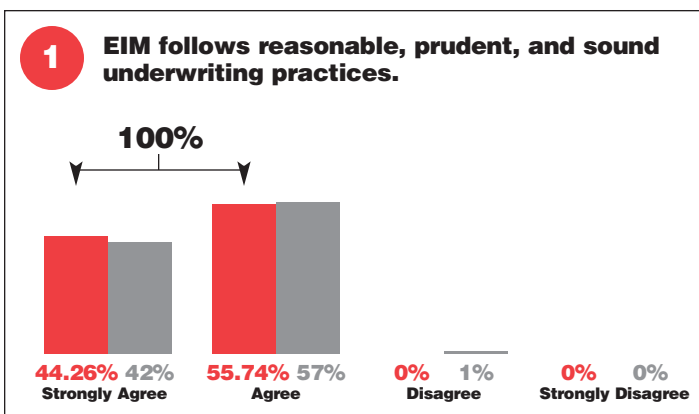
In the 14 charts that follow, 2006 findings are compared with 2005 results.

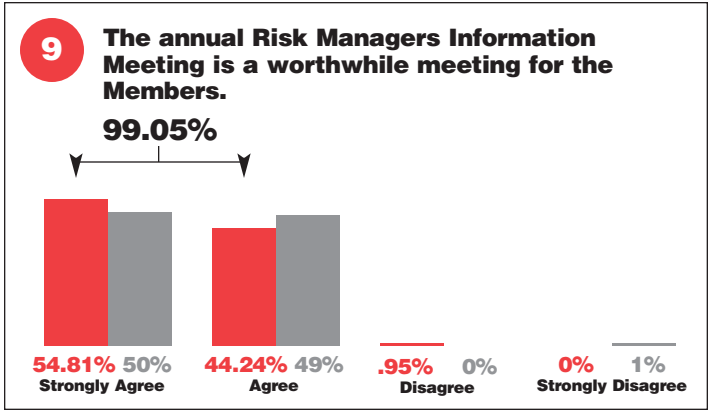
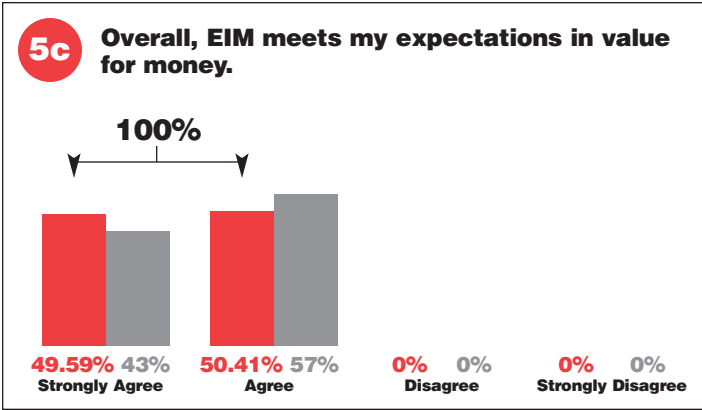
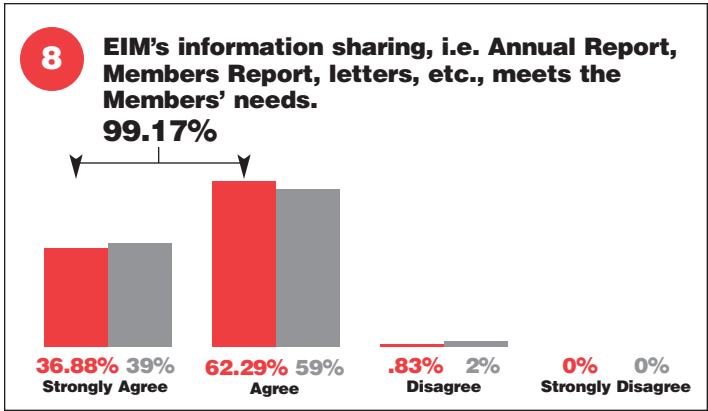
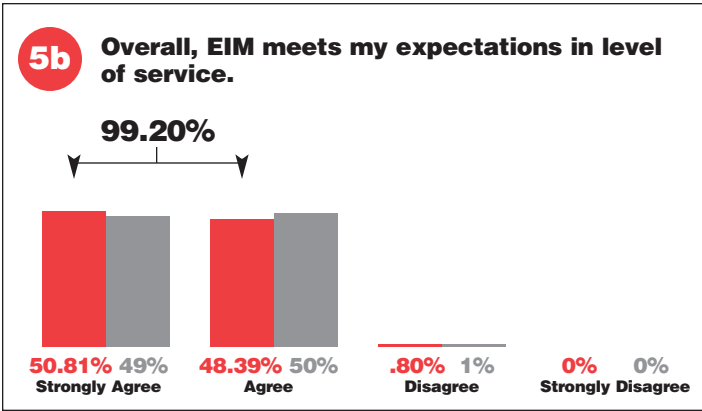
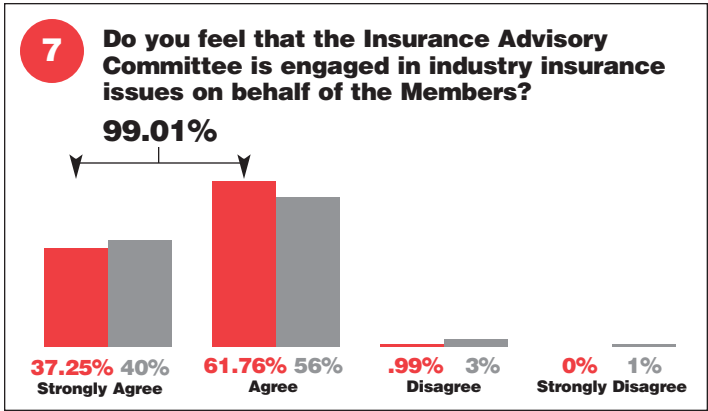
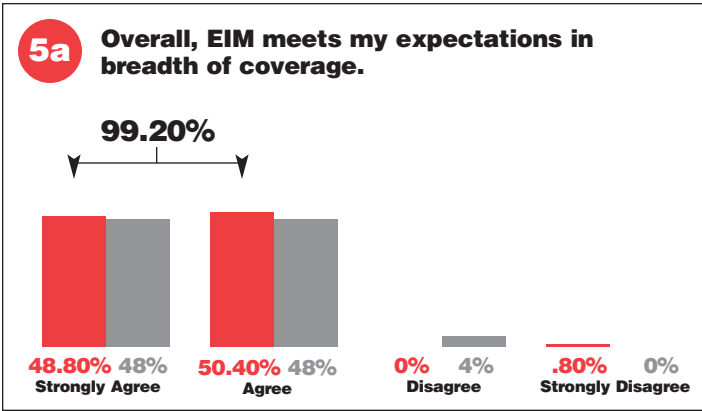
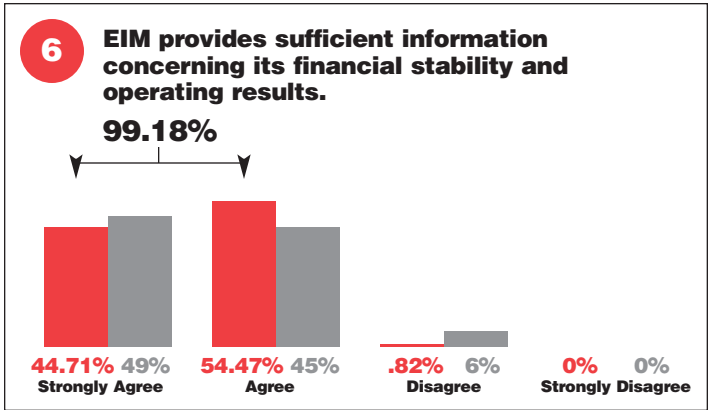
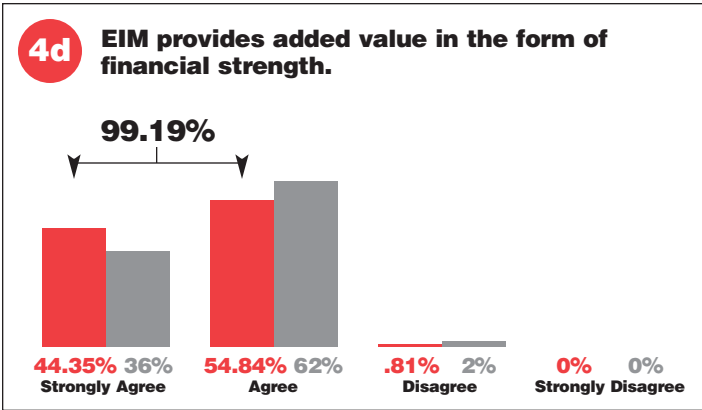
2006 Risk Managers Survey Results

126 Risk Managers Responding

■ 2006 Results

■ 2005 Results







2007 Risk Managers Information Meeting

The Company's 2007 Risk Managers Information Meeting returns to Omni Orlando Resort at ChampionsGate Feb. 25-27.

In recent years, approximately 300 people—EIM Risk Manager Representatives, Member brokers, consultants, and invited guests—have participated. This will be the Company's 21st RMIM.

To those who have registered or plan to attend, please notify Donna Dunlap at EIM of any personal scheduling changes. The deadline for registering is Jan. 17.



Jack Hadsall, City Utilities, Springfield, MO, Elected to Company's IAC



Jack Hadsall

At its November meeting, the EIM Board of Directors approved the selection of **Jack R. Hadsall**, CPCU, director, risk and security management, City Utilities, Springfield, MO, to the EIM Insurance Advisory Committee.

Jack joined City Utilities in September 1978. He has served the public utility as insurance specialist, risk manager, and director of personnel and risk management before being named to his present position. City Utilities provide electric generation and distribution, gas distribution, water treatment and distribution, telecommunications, and transit services.

A 1966 graduate of Oklahoma State University, Jack served as a naval officer aboard the U.S.S. Kawishiwi. He was awarded the Navy Achievement Medal, the Vietnam Campaign Medal, the Vietnam Service Medal, and the National Defense Medal. After military service, Jack worked first for Liberty Mutual Insurance Company in New Orleans and New York and then American Standard, Inc., New York.

Jack is the past president of three professional organizations—Society of Chartered Property and Casualty Underwriters, Ozark Chapter; Risk and Insurance Management Society, Ozark Area Chapter; Society of Human Resource Management, Springfield Personnel Association—and holds four professional designations—CPCU, SPHR, ARM, and ALCM. Jack currently serves on the AEGIS Loss Control Task Force and also serves on the board of governors of EPPIC, a risk-purchasing group for public power companies.

Also active in a number of civic organizations in Springfield, Jack's wife Judy is president of the CU Community Credit Union. They have two adult children, Joe, an award-winning journalist in Missouri, and Kris, a banker and singer in Nashville.

EIB Renamed Energy Insurance Services; Relocated to Greenville, South Carolina

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according to Rob. “While a host of domiciles may have met our expectations, we selected South Carolina as our best alternative among many good choices,” he said.

“Moving a company of this size and complexity is a daunting undertaking,” Rob continued, “and we would not have been successful without the significant contributions of many EIM Members. In addition to the management oversight and expertise provided by **David Hadler** and **Sam Garvin**, **Joan Bryant**, also an EIM staffer, provided valuable organizational skills and constant focus on the many interrelated details of the relocation process.

“Within months of our move, for those who choose this option, we expect to have all of our MBP policies, investments, and financial reporting on line, which will be a significant step forward,” Rob continued. “We will provide management support, through USA Risk, like our Members have never experienced.

“We will have a time of ‘tuning up’ in the first few months following a thorough audit that is now underway, preparing us for a fresh start with our current Members and with new possibilities for others who may find ways in which to meet some of their unique risk management needs through EIS,” Rob said.

USA Risk Group, the EIS insurance manager, was selected for a number of reasons, according to Rob, one being its reputation in the captive arena and another being its strong presence in South Carolina. The firm began in June 1981 as Vermont Insurance Management. USA Risk is now in eight

domiciles and is managing over 200 captives.

The South Carolina office opened in 2001 in Charleston. The Greenville office, a companion office to the one in Charleston, opened in 2006. Currently, USA Risk manages 35 captives that are domiciled in South Carolina.

In October, more than 65 people—MBP representatives, EIS service providers, South Carolina Insurance Department officials, and EIM staff—gathered for several days for a Program Conference. The informational meeting, which focused on EIB’s plans to become EIS and operate from South Carolina, was combined with the required annual Policy Advisory Committee meeting of each MBP.

While the day-to-day operations will be the responsibility of USA Risk, EIS will have an office only blocks from USA Risk’s Greenville office where Robert Schmid will be based.

Rob describes the relocation to Greenville, the partnership with USA

Risk’s team, and his new role as an exciting platform that will provide EIS Members improved levels of service as well as provide EIS a unique growth experience. He will be making himself available to EIM Risk Managers and demonstrating how EIS might be a good insurance solution.

EIM President David Hadler, who also is president and CEO of EIS, said in a memorandum dated December 1 that he wrote to all those involved with Energy Insurance (Bermuda), “I believe that we are now looking at a subsidiary that will start to grow once again and will provide you with the quality of service that you have every right to expect.”



Rob Schmid

EIS Board of Directors and Officers

Board Members

Mark Dodson
Northwest Natural Gas

Sam Garvin
EIM

David Hadler
EIM

Robert Schmid
EIS

Charles Shivery
Northeast Utilities

Bruce Worthington

Company Officers

David Hadler
president and CEO

Sam Garvin
vice president and CFO

Robert Schmid
vice president and COO

Joan Bryant
secretary

“Our Man” at USA Risk is Tobias Burke; EIS Team Includes Garry Coulter and Adam Forstot

The EIS account executive—**Tobias P. Burke**, assistant vice president—at USA Risk’s Greenville office is new to USA Risk but not to managing captives. He’s been doing that since 1990.

Tobias joined USA Risk in October 2006. He and his wife Jane recently moved to Greenville from Burlington, VT.

Also working in the USA Risk office in Greenville are **Garry Coulter** and **Adam Forstot**. Each of them will provide policy-related services to EIS Members.

Tobias Burke

A 1981 graduate of Columbia University, New York City, Tobias has a bachelor’s degree in English. He then earned a master’s degree in public accounting from St. John’s University, Jamaica, NY. His career began at AIG, New York, NY, where he was accounting manager from June 1985 to January 1990. He then moved to AIG’s Burlington office where he was manager, accounting services, from January 1990 to October 1995, for the captive management office.

From October 1995 until September 2002, Tobias was senior account executive at Aon Insurance Managers in Burlington. There he had direct oversight for 15 captives and peer review for an additional five. He also was responsible for preparing and licensing new captives and for statutory reporting for NAIC-filing companies.

Still in Burlington, Tobias became general manager of Beecher Carlson in September 2002. Responsible for the firm’s Vermont office, he also had regulatory, marketing, and financial reporting responsibilities. He also managed 10 captives, including one each in South Carolina and Nevada. He accomplished 100-percent account retention during his time at Beecher Carlson.

Tobias and Jane have three daughters: Claire, 24, who works for the Municipal Arts Society, New York City; Kate, 20, a senior at the University of Vermont; and Ellen, 19, a

sophomore at Fordham University, New York.

Garry Coulter

Garry, executive vice president, USA Risk Intermediaries LLC, joined USA Risk in 2001. He has more than 30 years of insurance and financial services experience, including alternative risk solutions. He has formed, managed, and structured reinsurance for captives and group self-insurance programs with premiums totaling \$1.5 billion.

A 1973 graduate of Davidson College, Garry just completed eight years as a city councilman in Greenville. While on the Council, he chaired its Economic Development and Finance committees. He also served on the SC Governors Export Advisory Committee and the SC Wholesales Tort Reform Committee.

Garry has been a visiting instructor at Davidson as well as at the University of Georgia and Auburn University.

Garry and his wife Carolyn are long-time South Carolina residents.

Adam Forstot

Adam, who has been in the insurance industry for more than 12 years, moved to USA Risk in 2004 to oversee its U.S. Virgin Islands office. While there, he was responsible for regulatory relations and oversight of captive accounts in the U.S. and British Virgin Islands. Adam moved to USA Risk’s Greenville office in March 2006. He is responsible for marketing and placement of reinsurance for existing and prospective captive clients. He also provides claim, policy, and coverage analysis services.

Adam began his career with a major auto carrier, serving in various positions, including claims management, training, and coverage analysis. He then worked for a regional commercial broker in Southern California.

Adam has a degree in political science from the University of California, San Diego. He holds the CPCU, ARM, and ACI designations.

Married to Rachel, the Forstots have two young children and live in a suburb of Greenville called Simpsonville.



The EIS account team at USA Risk, Greenville, from left, Adam Forstot, Garry Coulter, and Tobias Burke.

EIS at a Glance



Energy Insurance Services - An *EIM* Company

Primary contact at USA Risk

Tobias Burke

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Tobias' Cell Phone

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Fax

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E-mail Address

tburke@vim.USARisk.com

EIS Office in SC

Robert Schmid

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Telephone

864-527-5908

Fax

864-527-5909

E-mail Address

rschmid@eimltd.com

EIS law firm

Young Clement Rivers, LLP

www.ycrlaw.com

EIS Attorneys

T. Douglas Concannon, special counsel, joined the firm in September 2004, having been a staff attorney in the South Carolina Department of Insurance.

Michael A. Molony, partner, is chair of the YCR Administrative, Regulatory, and Captive Formations Practice Group.

EIS Audit Firm

Johnson Lambert & Co. LLP

www.jlco.com

Since its inception in 1986, Johnson Lambert has focused on the insurance industry. The captive and alternative risk market has developed as a niche within a niche.

MBP Representatives Briefed in October on Plans for EIS



Insurance Director Eleanor Kitzman addresses the group.



Mike Anderson, Xcel Energy.



From left, David Hadler, EIM; Rob Schmid, EIS; and Sam Garvin, EIM.



From left, Gerry Hayes, Baker & McKenzie; Sam Garvin, EIM; Roger Olson, DTE Energy; and Garry Coulter, USA Risk.



Gary Osborne, USA Risk.



The group enjoys a breakfast.



From left, Eleanor Kitzman, director, SCDOI, and Jeff Kehler, program manager, ARTS, SCDOI.



Mike Wilson, Entergy.



From left, Tobias Burke, USA Risk; Rob Schmid, EIS; and Congressman Converse Chellis, SC House of Representatives.



From left, David Abstance and Mark Cannon, SCANA, and Jeff Kehler, SCDOI.



From left, Eleanor Kitzman, SC Director of Insurance, and Paul Newton, USA Risk.



From left, Roger Olson, DTE Energy, and Sam Garvin, EIM.



From left, Garry Coulter, USA Risk, and Dave Coulter, Allegheny Energy.



From left, Doug Concannon, Young Clement Rivers; Fred Garsson, Baker & McKenzie; and Geoff Dean and Laura Thomas, AEP.

Five Companies Name New Risk Manager Representatives

Five Member Companies—Basin Electric Power, Citizens Gas & Coke Utility, Florida Public Utilities Company, Great Plains Energy, and TXU Corp.—have named new EIM Risk Manager Representatives.

Basin Electric Power



John Frank

John Frank, director of risk and insurance, Basin Electric Power Cooperative, Bismarck, ND, has been

named EIM Risk Manager Representative.

A 1988 graduate of the University of North Dakota, Grand Forks, John majored in management and minored in economics.

From 1991 until his joining Basin Electric Power in 2006, John worked for EMC Insurance Companies, also in Bismarck. He was a multi-line underwriter.

A member of the CPCU Society and RIMS, John has two professional designations, CPCU and AU. He and his wife Lori have two children.

Citizens Gas & Coke



Jeremy Stephens

Jeremy L. Stephens, ARM, insurance risk manager, Citizens Gas & Coke, Indianapolis, IN, is this Member's new EIM Risk Manager Representative.

A native of Union, KY, Jeremy graduated in 1998 from Tennessee Technological University, Cookeville, TN, with a bachelor's degree in finance. He received his ARM designation in 2002.

Jeremy began his career in 1998 at Covenant Transport, Chattanooga, as senior risk analyst. In 2002, he moved to

Baldwin & Lyons, Inc., Indianapolis, as excess casualty underwriter. He joined Citizens Gas & Coke in May 2006.

Jeremy and his wife Christy have one child.

FPU



Gerry Stuckart

Gerard R. Stuckart, safety manager, Florida Public Utilities, West Palm Beach, has been named EIM Risk Manager Representative.

A native of Scranton, PA, who grew up in Cleveland, OH, Gerry graduated in 1978 with a bachelor's degree in political science from the University of Oklahoma. In 1992, he completed a master's in engineering from the University of North Texas.

From 1993 to 2005, Gerry was special projects safety and compliance engineer for Hyperion Energy, LP, Dallas. He moved to Florida Public Utilities in 2005.

Gerry is a member of the Society of Petroleum Engineers. He is married to Diane Alexa.

Great Plains

Dennis W. Harber, insurance manager, Great Plains Energy, Kansas City, MO, is this Member's new EIM Risk Manager Representative.

A native of Springfield, Dennis graduated in 1974 from the University of Missouri, Columbia, with a bachelor's degree. Three years later, he completed a master's program at Louisiana State University, Baton Rouge.

Dennis began his insurance career at Wausau Insurance, Joplin, MO, as account representative. In 1986, he moved to the Insurancecenter, a division of Glatfelter Insurance Group, also in Joplin. He remained there until 1998, leaving as commercial lines manager and moving to Leggett & Platt, Inc., Carthage, MO, where he was risk manager. He joined Great Plains Energy in 2006.

Dennis has served as president of the Ozark Chapter of RIMS and the Independent Insurance System of Southwest Missouri. He also is a member of the CPCU Society. His pro-

(Continued on page 12)

EIM'S Balance Sheet at September 30, 2006

(Unaudited and Expressed in Thousands of U.S. Dollars)

	9/30/06	9/30/05
ASSETS		
Investments	\$ 1,129,637	\$ 988,880
Cash and cash equivalents	42,116	46,108
Accrued interest	6,352	5,024
Income taxes recoverable	0	11,705
Deferred acquisition costs	1,102	1,513
Reinsurance paid in advance	60,741	53,584
Insurance balances receivable	2,393	1,327
Prepaid expenses	580	500
Reinsurance recoverable on unpaid losses	251,916	224,133
Investment in subsidiary	1,234	1,669
Property and equipment	1,051	1,185
Total Assets	<u>\$ 1,497,122</u>	<u>\$ 1,335,628</u>
LIABILITIES		
Reserve for losses and LAEs	\$ 723,689	\$ 682,585
Unearned premiums	99,036	104,908
Reinsurance balances payable	13,532	14,274
Deferred income tax	41,299	20,469
Accrued expenses	4,656	1,881
Income taxes payable	4,274	0
Total Liabilities	<u>\$ 886,486</u>	<u>\$ 824,117</u>
POLICYHOLDERS' SURPLUS		
Retained earnings	\$ 484,190	\$ 418,943
Accumulated other comprehensive income	126,446	92,568
Total Policyholders' Surplus	<u>610,636</u>	<u>511,511</u>
Total Liabilities and Policyholders' Surplus	<u>\$ 1,497,122</u>	<u>\$ 1,335,628</u>

Statement of Operations for the Period January 1, 2006 to September 30, 2006

(Unaudited and Expressed in Thousands of U.S. Dollars)

	9/30/06	9/30/05
UNDERWRITING INCOME		
Gross premiums earned	\$ 157,479	\$ 156,388
Reinsurance premium assumed	4,949	5,786
Reinsurance premium ceded	(69,754)	(67,668)
Net Premiums Earned	<u>92,674</u>	<u>94,506</u>
UNDERWRITING EXPENSES		
Losses and LAE incurred - direct	93,939	75,394
Losses and LAE incurred - assumed	1,964	13,626
Reinsurance recoverable	(28,467)	3,026
Net losses and LAE	<u>67,436</u>	<u>92,046</u>
Administrative expenses	7,025	5,976
Total Benefits and Expenses	<u>\$ 74,461</u>	<u>\$ 98,022</u>
Income (loss) from underwriting	18,213	(3,516)
Miscellaneous income	8	37
Net investment income	<u>32,169</u>	<u>22,866</u>
Income before Policyholders' Distribution	50,390	19,387
Less: Policyholders' Distribution	<u>0</u>	<u>0</u>
Income before income taxes	50,390	19,387
Less: Income taxes	<u>13,448</u>	<u>2,965</u>
Net Income	<u>\$ 36,942</u>	<u>\$ 16,422</u>

Company Gains Two New Members

The Company has two new Members: NE Energy Inc., Rocky Hill, CT, and Duke Energy Field Services, Denver.

There were 174 EIM Members as of Dec. 15, 2006. Five utilities joined during the past year.

NE Energy

NE Energy, currently based in Rocky Hill, CT, with plans to open new headquarters in the Hartford area in early 2007, joined EIM effective Nov. 1, 2006.

On that same date, Energy Capital Partners and its affiliates completed the purchase of the competitive generation business from Northeast Utilities, also an EIM Member, representing approximately 1,442 megawatts of generating output. The portfolio consists of predominantly hydro-generation in Connecticut and Massachusetts and is owned and operated by NE Energy.

The 15 generating plants include: the 1,080-megawatt Northfield Mountain pumped-hydro storage facility located in Northfield, MA; the 146-megawatt coal-fired Mt. Tom Station in Holyoke, MA; and 13 additional predominantly hydro facilities along the Connecticut and Housatonic rivers representing 216 megawatts in Connecticut and Massachusetts.

Duke Energy Field Services

Duke Energy Field Services, which joined EIM Dec. 15, 2006, leads the mainstream segment as one of the nation's largest natural gas liquids producers and is one of the largest natural gas liquids marketers. Duke Energy Field Services is a 50-50 joint venture between Duke Energy and ConocoPhillips.

The link between natural gas exploration and production and end-use customers is known as the midstream segment of the natural gas industry. Duke Energy Field Services leads the midstream segment as one of the nation's largest natural gas gatherers, the largest natural gas liquids (NGLs) producer, and one of the largest NGL marketers. On a daily basis, Duke Energy Field Services gathers and transports approximately 6.8 trillion British thermal units of raw natural gas; produces approximately 355,000 barrels of NGL; and markets and trades over 500,000 barrels of NGL.

Five Companies Name New Risk Manager Representatives

(Continued from page 10)

Professional designations include CPCU and AAI.

He and wife Vicki have two children.

TXU



Robert Moussaid

Robert Moussaid, director, risk and insurance, TXU, Dallas, has been named EIM Risk Manager Representative.

Born in Casablanca, Morocco, Robert graduated from John Carroll University, Cleveland, OH, in 1993. He has a bachelor's in business administration, with a major in finance.

In June 1993, Robert joined Johnson & Higgins as client manager. He worked in Cleveland and Saudi Arabia. In October 1999, he moved to Merrill Lynch, Cleveland, as financial consultant. He remained there until July 2001 when he moved to American Electric Power in Columbus. From January 2006 to September 2006, he was risk manager at Ohio Casualty Group, Fairfield, OH. Robert joined TXU in October 2006.

Robert is a member of RIMS. He and his wife Cherrie have three children.

MEMBERS REPORT

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

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