VIEW ON THE CREEK

April 2024

Quarterly Newsletter from Energy Insurance Services, Inc. Volume 8, Issue 1

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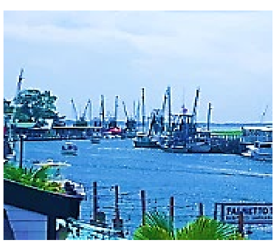


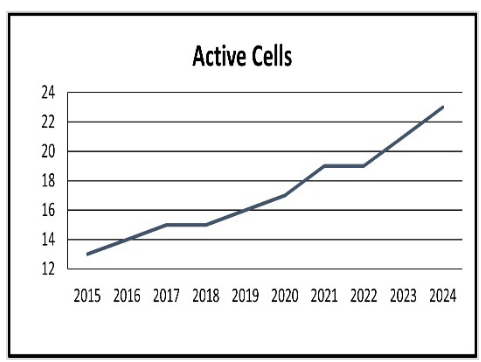
View on the Creek – *Welcome to 2024*

EIS and ECM finished 2023 with strong operational and financial performance. Below is a review of some of the 2023 highlights presented at the EIM Risk Managers Information Meeting – State of the Company session.

Do not miss this edition's Captive Optima section. We summarize the EIS Panel from the RMIM titled, "EIS ~ A jewel in your insurance treasure box." We look forward to continued discussions with our participants and prospective participants in 2024.

EIS 2023 Highlights

- Two new EIS cells formed in 2023
- Management fee credits continued
- New account manager added to the ECM team
- EIS has experienced substantial growth in the past 10 years
- Over 30 conversations with 15 EIM members and brokers
- In-house actuarial support continued and growing
- EIS participants provide coverage in 43 States



Anniversary Announcement

Please join us in congratulating Tobias Burke on his ninth anniversary! Tobias has been at ECM since its inception in 2015 and has worked with EIS for almost twenty years. His knowledge and experience are the backbone of the captive operations.

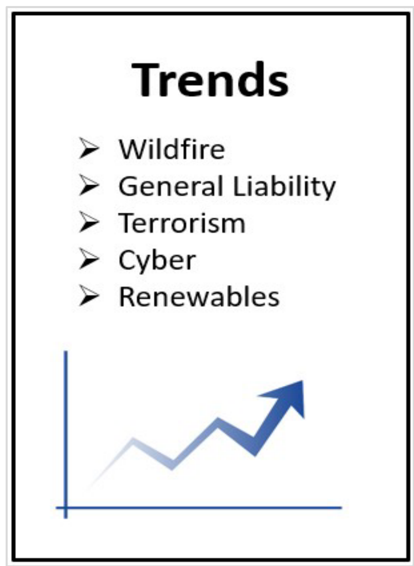
Captive Optima – "*EIS ~ A jewel in your insurance treasure box*"

Megan Ogden, COO of Energy Insurance Services, LLC and Pete Nadel, Director of Business Development & Member Relations at Energy Insurance Mutual Limited, moderated a panel at the RMIM. Participants on the panel included Ron Rispoli, Director of Risk Management & Risk Engineering at Entergy, Arnold Garcia, Director of Insurance at Duke Energy, and Lauren Schmitt, Manager of Insurance Risk Management at Ameren.

Megan began the session by presenting information on both Energy Insurance Services and Energy Captive Management. EIS is a sponsored protected cell company domiciled in South Carolia. It was founded in 1992 in Bermuda and re-domesticated to South Carolina in 2006. There are currently 23 active cells in EIS. ECM is a licensed captive manager in South Carolina and provides support to EIS participants and EIM members. It was founded in 2015 and provides staff expertise in captive administration, accounting, and regulatory requirements. Both EIS and ECM are wholly owned subsidiaries of EIM.

Megan described the formation and relationships of an EIS cell. Formation includes preparation of a business plan to outline the coverage and terms that will be included in the cell. Next steps are South Carolina Department of Insurance approval, EIS Board approval, and capitalization of the cell. The Participant (EIM Member) is a party to the Participation Agreement, the main legal document forming an EIS cell. The Participant also appoints a Program Advisory Committee (PAC) to make recommendations to EIS and ECM for all business transactions performed on behalf of the cell. ECM, as the captive manager, provides the accounting and other necessary administrative services to the cell. ECM also evaluates and acts on the PAC recommendations. EIS, as the licensed insurance company, executes transactions such as issuing insurance policies, paying claims, and acquiring reinsurance, all as recommended by the PAC.

Pete posed a series of questions to the panelists. Each participant described the coverages currently written in their company's EIS cell, which include excess liability, all-risk property, terrorism, builder's risk, marine cargo, run-off liabilities from acquisitions, and property for renewable assets.



The participants related their very diverse experiences with EIS, from a cell newly formed in 2023 to one that has been writing coverage with EIS since 1999. This led to discussion around the process and steps that occur within a Participant needed to form a new cell, including internal education, management approval, satisfaction of regulatory requirements, and review of the overall insurance program to determine the best lines of coverage to write in the cell.

The group also discussed steps taken to retain significantly more risk in a cell. These steps often involve robust planning on a tight deadline and require input from the Participant, broker and EIS. As more risk is retained, claims activity may increase, so claims handling policies and procedures should be reviewed to ensure they are sufficient for any additional reserves required in the cell.

A participant then discussed that EIS has also been effective in providing cost savings and increased opportunities in the renewables property market through changes in the deductible, attachment point and structure to include EIS in the program coverage.

The session ended with several questions from the audience related to these topics and other various areas of EIS. Once of the key advantages of EIS is the collaboration and sharing of knowledge and ideas among peers and colleagues with similar risks and insurance needs. Please reach out to Megan Ogden at mogden@eimltd.com for any questions and discussions you wish to have with EIS.

Operational Considerations – *Income Taxes*

When a new captive program is being considered, ECM along with Johnson Lambert, our public auditor and tax consultant, will review the GAAP and statutory accounting aspects of the risk, coverage structure and the insured(s) covered by the proposed policy(ies). After that review, ECM will determine whether it should treat the new EIS program as insurance for federal tax purposes. The Participant's company, likewise, will need to review the captive's insurance and come to their own opinion regarding how they determine the IRS will view the transaction from their perspective as an insured. In other words, the captive's insurance policy may or may not be treated as insurance for tax purposes.

Tax considerations should not be the only criteria used to determine if risk financing via a captive facility is appropriate to meet your company's overall risk financing objectives. However, when a policy is treated as insurance for tax reporting, that treatment typically will bring cost efficiency and can accelerate the program's accumulation of surplus. The primary criteria applied in determining whether a policy is insurance for federal income tax include the following:

Insurance Risk	Risk Transfer	Risk Shifting / Distribution

Insurance risk refers to the nature of the coverage written. The captive policy should generally be reflective of traditional insurance, meaning that it will perform like a traditional insurance policy. A primary question will examine if the covered losses are fortuitous in nature.

Risk transfer refers to the question of whether risk has been moved from one entity to another. In a sponsored captive facility (such as EIS), risk transfer very likely will not be challenged provided suitable contract terms exist.

Risk Sharing/Distribution occurs when the captive's policy(ies) insure(s) several entities that are all paying a determined amount of premium into the facility, and risk is being spread or shared across that group of entities. The brother/sister concept that arose from the *Humana* decision helped to frame this concept for captives 30 years ago.

The International Risk Management Institute's publication, Risk Finance, discusses these tax considerations and issues in depth. If you do not have a subscription, you can access a brief article on the subject at Captive.com with this link: https://www.captive.com/news/2017/01/04/tax-deduction-premiums-paid-to-captives? (link)

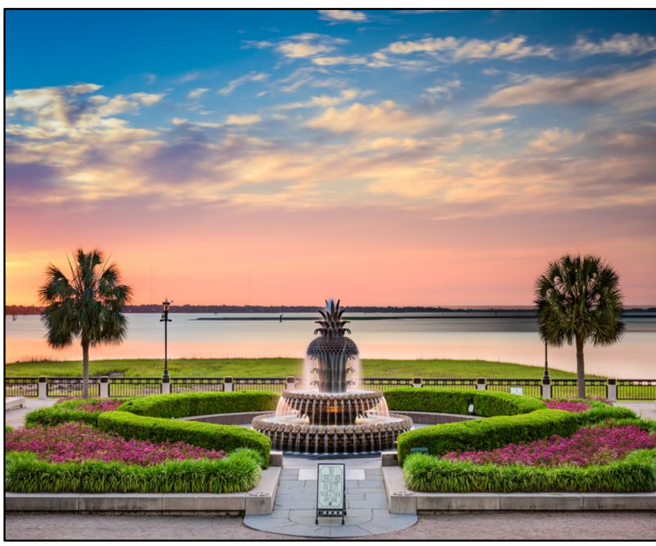
As EIS is not a tax advisor, it recommends that all participants or prospective participants continue to hold discussions with their organization's tax department around the tax treatment of premiums paid to an EIS.

EIS Financials

Energy Insurance Services, Inc.
General Account – Key Financial Data

General Account	As of Dec 31		Year-End		
	2023		2022		2021
In thousands	Actual	Budget	Actual	Budget	Actual
Revenue	**$2,070**	**$2,028**	**$1,992**	**$1,954**	**$2,002**
Expenses	**$1,788**	**$1,902**	**$1,929**	**$1,819**	**$1,856**
Surplus	**$4,961**	**$4,473**	**$4,586**	**$4,609**	**$4,503**

Save the Date



SAVE THE DATE

EIS PAC Annual Conference
October 28-31, 2024

The Mills House Hotel
Charleston, SC

All EIM members are welcome

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