

REPORT ON EXAMINATION
OF
ENERGY INSURANCE MUTUAL LIMITED
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 10, 2004

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS) and Rule 69O-137.002(1), Florida Administrative Code (FAC), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

**ENERGY INSURANCE MUTUAL LIMITED
3000 BAYPORT PLAZA, SUITE 550
TAMPA, FLORIDA 33607**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2000 through December 31, 2003. This examination commenced, with planning at the Office, on August 23, 2004 and August 24, 2004. The fieldwork commenced on August 30, 2004, and was concluded as of November 10, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the National Association of Insurance Commissioners (NAIC) as adopted by Rules 69O-137.001(4), FAC and 138.001(1), FAC, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. The Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its financial statements as of December 31, 2003. Transactions subsequent to year-

end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPA, after verifying the statutory requirements, for the following accounts:

Federal Income Tax Recoverable
Deferred Income Tax

Status of Adverse Findings from Prior Examination

There were no findings from the prior examination.

HISTORY

General

The Company incorporated on June 13, 1986, as a mutual insurance company under the Companies Act of Barbados, British West Indies, and commenced business on July 1, 1986. On June 9, 1988, the Company became authorized in the State of Florida as an Industrial Insured Captive Insurer to provide insurance to its members. Membership in the Company was available to any electric or gas utility that met the underwriting standards established by the Company.

In accordance with Section 628.905, FS, the Company was authorized to transact the following insurance coverage, in Florida, on December 31, 2003:

Liability (general liability, directors & officers and fiduciary)
Property

The Company was incorporated under the Companies Act of Barbados on June 13, 1986. It obtained a license to engage in exempt insurance business, in accordance with the provisions of the Exempt Insurance Act of Barbados, 1983. On August 12, 2003 the Company amended its Articles as it applied for, and was granted a license, to operate as a Qualifying Insurance Company under the Insurance Act 1992 of Barbados.

The By-laws were not amended during the period covered by this examination.

Profitability of Company

The Company reported gross premiums written of \$210,407,000 at December 31, 2003. Previously, the Company reported \$141,764,000 in gross premiums written at December 31, 2002. At December 31, 2003, the Company reported net income before taxes of \$13,228,000. This amount was a decrease from a reported amount of \$33,061,000, in 2002.

Dividends to Policyholders

The Company did not declare a dividend to its members in 2003.

Management

The annual meeting for the election of directors and officers was held in accordance with their by-laws. Directors serving as of December 31, 2003:

Directors

Name and Location	Principal Occupation
H. Peter Burg Akron, Ohio	Chairman Chairman & CEO of FirstEnergy
Charles W. Shivery Berlin, Connecticut	Director Pres/CEO NU Enterprises, Inc.
David A. Kelly Merrillville, Indiana	Director VP NiSource Inc.
Jill I. Israel New Orleans, Louisiana	Director VP Entergy Corporation Risk Management & General Auditor
Trevor A. Carmichael Bridgetown, Barbados	Director Barrister at Law
Mark S. Dodson Portland, Oregon	Director Pres/CEO NW Natural
Dudley C. Reynolds Birmingham, Alabama	Director Pres/COO Alabama Gas Corporation
J. Barry Mitchell Chicago, Illinois	Director SVP/Treasurer Exelon
David L. Hadler Tampa, Florida	Director Pres/CEO EIM
Allen L. Leverett Milwaukee, Wisconsin	Director CFO Wisconsin Energy Corporation

Bruce R. Worthington
San Francisco, California

Director
SVP/General Counsel PG&G Corporation

James R. Hatfield
Oklahoma City, Oklahoma

Director
SVP/CFO OGE Energy Corporation

In accordance with the Company's by-laws, the Board of Directors appointed the following officers:

Senior Officers

Name	Title
David Hadler	President/CEO
Samuel Garvin, Jr.	VP/CFO
Donna Dunlap	Secretary
Jill Dominguez	VP/Underwriting

In December of 2003, the Company's board appointed the following committees:

Audit Committee

Jim Hatfield
Jill Israel
Allen Leverett
Dudley Reynolds
Chuck Shivery

Claim Committee

Bruce Worthington
Pete Burg
David Hadler
Dave Kelly

Executive Committee

Bruce Worthington
Pete Burg
Mark Dodson
David Hadler

Reinsurance Committee

Bruce Worthington
Pete Burg
David Hadler
Barry Mitchell

Insurance Advisory Committee

Michael G. Whelan
Joseph Spencer
Robert Semet
John Luley
Michael Hulseley
Diane Kenney
George Schuitema
Donna McGinnis
Ani Borgmeyer
William Powell

Investment Committee

Pete Burg
Mark Dodson
Jim Hatfield
Allen Leverett
Barry Mitchell

Nominating Committee

Mark Dodson
Jim Hatfield
Dave Kelley
Barry Mitchell

Strategic Planning Committee

Mark Dodson
David Hadler
Gary Meggs
Dudley Reynolds
Chuck Shivery
Joe Spencer

Conflict of Interest Procedure

The Company had adopted a formal policy statement for Conflict of Interests, in compliance with Rule 69O-138.001(1), FAC. The Company did maintain individual executed Conflict of Interest Statements, which were presented to the board.

Corporate Records

The recorded minutes of the Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

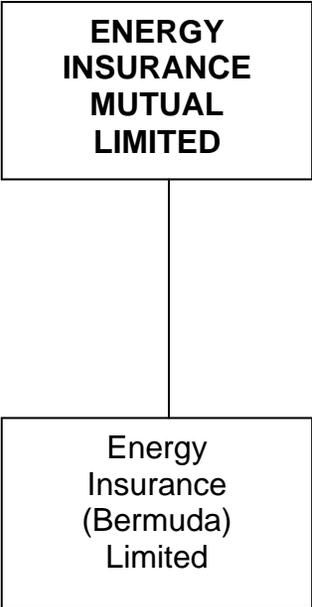
AFFILIATED COMPANIES

The Company's wholly owned subsidiary, Energy Insurance (Bermuda), Ltd. (EIB), was formed with the purpose of providing its members the vehicle to write specific risks that an individual utility might desire covered.

The Company was part of a holding company system, with EIB. The Company filed an initial Holding Company Registration Statement on April 15, 1996. The Company has not filed any additional registration statements to keep Company information current as to all material changes and additions, in non-compliance with Rule 690-143.046, FAC; for example, the changes to the management of the Company.

An organizational chart as of December 31, 2003, reflecting the Company, is shown below.

**ENERGY INSURANCE MUTUAL LIMITED
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage for individuals with the authority to disburse Company funds, which covered the minimum of \$1,250,000, as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had a qualified 401(k) retirement plan for the benefit of their employees. The Company also had a employee medical and dental plan.

STATUTORY DEPOSITS

The Company maintained a security deposit with the State of Florida, in accordance with the dollar requirement of Section 624.411, FS.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	CD, 1.69%, 6/2/05	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance for the benefit of its members, in Florida, in accordance with Section 628.905, FS. In 2003, the Company maintained 169 members.

The Company was eligible to write surplus lines business in:

Arizona	Arkansas	California	Colorado
Delaware	Hawaii	Idaho	Illinois
Indiana	Iowa	Kansas	Kentucky
Louisiana	Maryland	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada
New Mexico	N. Dakota	Ohio	Oklahoma
Oregon	S. Dakota	Tennessee	Texas
Washington	Washington, DC	Wisconsin	

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines, except where noted below.

The Surplus Protection reinsurance agreement did not include the required terms per SSAP No. 62, paragraph 8, with regard to (d) the agreement must provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period. This agreement covered a three year period and provided for annual premium installments. There were no paid losses ceded under this agreement. The agreement was not in compliance with SSAP No. 62, paragraph 9, in regard to transfer of risk and therefore reinsurance deposit accounting was applied to this treaty. **Subsequent event:** The Company terminated their Surplus Protection Agreement as of January 1, 2004.

Assumed

The Company assumed no insurance.

Ceded

The Company maintained a property quota share reinsurance agreement with Endurance Specialty Insurance Ltd (Endurance). Endurance was an unauthorized reinsurer in the State of Florida, in 2003. Endurance became an authorized reinsurer on June 24, 2004.

The Company maintained an excess of loss reinsurance agreement with United States Fidelity and Guaranty Company (F&G Re) and several subscribing reinsurers.

The Company maintained a casualty excess of loss catastrophe reinsurance agreement with Nuclear Electric Insurance Limited (NEIL). NEIL was an unauthorized reinsurer in the State of Florida.

The Company maintained a property quota share reinsurance agreement with NEIL.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's GAAP basis financial statements annually for the years 2000, 2001, 2002 and 2003, in accordance with Rule 69O.137.002(1), FAC. The Company's independent CPA work papers were used where applicable during this examination. The supporting work papers were prepared as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the financial statements submitted to the Office.

The Company maintained offices in Tampa, Florida and Bridgetown, Barbados. The examination was conducted in the Company's Tampa office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with State Street Bank and Trust Company, Boston, MA.

The Company maintained a trust agreement with State Street Bank and Trust Company, amended July 11, 2000, established in the United States as security for policyholders and third party claimants to qualify as an eligible or approved excess or surplus lines insurer in accordance with the NAIC.

Independent Auditor Agreement

The Company maintained a contract with an external CPA firm to perform the annual audit, in compliance with Rule 69O-137.002(1), FAC. The Company has used the same partner within the firm for five years and will not be in compliance with Rule 69O-137.002(1), FAC, if they continue to use the same partner within the CPA firm for more than seven consecutive years.

Investment Advisory Services

The Company maintained investment agreements with Morgan Stanley Dean Witter, Fidelity Management Trust Company and State Street Global Advisors and Company.

Public Relations Agreement

The Company maintained a public relations agreement with Summar & Associates/Atkinson Public Relations, Inc.

Risk-Based Capital

The Company was exempt from risk-based capital requirements.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

ENERGY INSURANCE MUTUAL LIMITED
Analysis of Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Investments	\$858,931,000		\$858,931,000
Cash and cash equivalent	9,712,000		9,712,000
Accrued interest	4,592,000		4,592,000
Refundable income taxes	7,460,000		7,460,000
Insurance balances receivable	5,000,000		5,000,000
Reinsurance premium in advance	7,983,000		7,983,000
Deferred acquisition costs	2,117,000		2,117,000
Prepaid expenses	352,000		352,000
Funds held by reinsurers	18,094,000		18,094,000
Reinsurance Recoverable	361,337,000		361,337,000
Investment in subsidiary	1,808,000		1,808,000
Property & Equipment less depreciation	384,000		384,000
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Totals	\$1,277,770,000	\$0	\$1,277,770,000
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ENERGY INSURANCE MUTUAL LIMITED
Liabilities and Policyholders' Surplus

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Reserve for losses and LAE	\$688,114,000		\$688,114,000
Unearned premiums	113,948,000		\$113,948,000
Payable from purchase of investments	4,004,000		\$4,004,000
Reinsurance premium payable	3,704,000		\$3,704,000
Accrued expenses	2,369,000		\$2,369,000
Deferred income taxes, net of tax	4,464,000		\$4,464,000
	<hr/>		<hr/>
Total Liabilities	\$816,603,000		\$816,603,000
Policyholders' surplus	461,167,000		\$461,167,000
	<hr/>		<hr/>
Surplus as regards policyholders	\$461,167,000		\$461,167,000
Total liabilities and surplus	<u>\$1,277,770,000</u>	<u>\$0</u>	<u>\$1,277,770,000</u>

ENERGY INSURANCE MUTUAL LIMITED

**Statement of Income
DECEMBER 31, 2003**

Underwriting Income

Premiums earned	
Gross premiums written	\$210,407,000
Increase in unearned premiums	(31,397,000)
Gross premiums earned	<u>\$179,010,000</u>
Reinsurance premiums ceded	(60,448,000)
Net earned premiums	<u>\$118,562,000</u>
Expenses (benefits):	
Gross losses and LAE incurred	\$178,268,000
Reinsurance recoverable	(59,794,000)
Net losses and LAE	<u>\$118,474,000</u>
Administrative expenses	6,044,000
Total Expenses	<u>\$124,518,000</u>
Income (Loss) from underwriting	<u>(\$5,956,000)</u>

Miscellaneous Income

Miscellaneous income	\$135,000
Net investment income	19,049,000
Income before income taxes	<u>\$13,228,000</u>
Income tax (expense) benefit:	
Current	(\$6,037,000)
Deferred	5,190,000
Total other income	<u>(\$847,000)</u>
NET INCOME	<u><u>\$12,381,000</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Reinsurance Recoverable \$361,337,000

The Company reported a reinsurance recoverable balance totaling \$361,337,000 of which \$345,666,000 represented losses reserved and ceded, but not yet paid by the Company. The remaining \$15,671,000 were recoverables due from unauthorized reinsurers, which were not secured by deposits or letters of credit, as required under Section 628.913(1)(b), FS., and most of which was over 90 days past due. The Company is not subject to the requirement that establishes a provision for reinsurance for such over due balances. No adjustment will be made to the Company's financial statement due to the immateriality of the unsecured \$15,671,000.

Subsequent event: The Company collected some of their unsecured reinsurance recoverable balances in 2004.

Liabilities

Losses and Loss Adjustment Expenses \$688,114,000

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and rendered an opinion which agreed with the outside actuarial firm.

ENERGY INSURANCE MUTUAL LIMITED
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2003, Financial Statement	\$461,167,000
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No adjustment necessary	\$0	\$0	\$0
LIABILITIES:			
No adjustment necessary	\$0	\$0	\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$461,167,000

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings of the examination as of December 31, 2003.

General

The Company did not submit updated Holding Company Registration Statements. **It is recommended that the Company comply with Rule 69O-143.046(4), FAC. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

Financial Items

The Company's reinsurance receivable balance included unsecured receivables from unauthorized reinsurers. **It is recommended that the Company comply with Section 628.913(1)(b), FS. Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Energy Insurance Mutual Limited** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$461,167,000, which was in compliance with Section 628.903, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Joe Boor, FCAS, Actuary and March Fisher, Senior Actuarial Analyst participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation