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November 7, 2012

Wayne Lamoreaux, PE  
Public Assistance Engineering Specialist  
Homeland Security and Emergency Management  
445 Minnesota Street, Suite 223  
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**RE: FEMA insurance requirement on disaster DR-4069**

Dear Mr. Stahl: Lamoreaux:

This letter is being written at the request of the Minnesota Homeland Security and Emergency Management and the Minnesota Rural Electric Association, Inc. (the "Statewide") on behalf of five (5) rural electric cooperatives in the State of Minnesota who had an estimated 5,684 miles of line damaged or destroyed during severe storms, tornadoes, straight-line winds and flooding occurring June 14-21, 2012. In response to paragraph 10 of the FEMA Insurance Considerations for Applicants dated May 29, 2008, the Minnesota Homeland Security and Emergency Management and the Statewide, in conjunction with Federated Rural Electric Insurance Exchange ("Federated"), requested that the Insurance Division of the Minnesota Department of Commerce provide information to FEMA regarding the type and extent of insurance coverage available for electric lines and poles.

**Background**

A severe storm, including tornadoes, straight-line winds and flooding, occurred in the State of Minnesota on June 14-21, 2012, causing damage to an estimated 5,684 miles of line owned and operated by rural electric cooperatives in the State of Minnesota. Five (5) rural electric cooperatives suffered damage in the storm, and they estimate that the cost for repairing lines and poles is approximately \$8,094,542. This estimate would cover elements that were repaired as well as those that were replaced.

Federated is the property and casualty insurer for the majority of the rural electric cooperatives in the State of Minnesota. Federated is organized as a reciprocal insurance exchange, meaning that the insureds are member-owners of the Company. Federated has been providing property and casualty insurance to rural electric cooperatives since 1959 and currently insures 86 percent of the market of all rural electric cooperatives in the United States. Other than approximately fifty (50) telephone cooperatives, Federated's only business is rural electric cooperatives. As the insurer of the majority of the Minnesota rural electric cooperatives, Federated undertook the task of surveying the marketplace to determine whether coverage for lines and poles was reasonably available. Due to the high severity and catastrophic nature of losses involving lines and poles, and the inability to require reinsurance for such losses, Federated has never provided coverage to its members for lines and poles.

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*Page Two*  
November 7, 2012

### **Insurance Market**

The search undertaken in August, 2012 by Federated brought declinations from the following admitted carriers: Allied, America First, Acuity, Hartford, Travelers, State Auto, Secura, United Fire, Hanover and Continental Western.

Federated also searched the non-admitted or Lloyds-type market. This search resulted in thirty-nine (39) declinations to quote, with one company ultimately interested in quoting. A very preliminary indication, based on a single electric system in rural Minnesota, resulted in a policy being offered with a \$5-10 million aggregate limit of liability at a minimum premium cost of \$150,000 and a minimum deductible of \$100,000. Federated is unsure of the quality of the carrier, excess and surplus taxes and fees and deductibles.

### **Insurance Certification**

Based upon the above market search conducted by Federated, the Insurance Division of the Minnesota Department of Commerce hereby certifies that insurance coverage for electric lines and poles owned by rural electric cooperatives is not reasonably available. The economic feasibility of rural electric cooperatives purchasing \$5-10 million of aggregate coverage for a minimum of \$150,000 of premium and a \$100,000 deductible is not insurance that is reasonably available, particularly given that only one company was willing to consider a quote. It is noted that the willingness to quote was tempered by a caveat that it was dependent upon prior claims. As losses of lines and poles due to weather events and prairie fires tend to be catastrophic, it is not surprising that there is a dearth of insurance companies willing to even consider quoting this coverage.

Therefore, the Insurance Division of the Minnesota Department of Commerce hereby certifies that coverage for electric lines and poles for rural electric cooperatives is not reasonably available at this time.

Sincerely,



Tim Vande Hey  
Assistant Commissioner of Insurance

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Public Assistance Engineering Specialist  
Homeland Security and Emergency Management  
*Page Three*  
November 7, 2012

cc. Mr. Mark A. Glaess  
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