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SOCORRO ELECTRIC  
COOPERATIVE



FEDERATED RURAL ELECTRIC  
INSURANCE EXCHANGE

*A reciprocal exchange managed by Federated Rural Electric Management Corp*

A Touchstone Energy<sup>®</sup> Cooperative 

December 8, 2014

Mr. Joseph Herrera  
Socorro Electric Cooperative, Inc.  
215 E. Manzanaras Ave.  
Socorro, NM 87801

Re: Directors Officers & Managers and Corporate  
Indemnification Policy; 30DOM002-13

Dear Joseph,

Federated Rural Electric Insurance Exchange ("Federated" or the "Company") has recently undertaken a review of Socorro Electric Cooperative's ("Socorro" or the "Cooperative") Directors, Officers and Managers Liability and Corporate Indemnification Policy ("DOM"). Specifically, we reviewed your Cooperative's claims experience under the DOM within the last several years.

Unfortunately, your Cooperative's claims experience has been poor in that time period. There have been a number of discrimination actions filed, alleging what appears to be a pattern of discrimination on the basis of national origin, gender and/or age; the alleged actions all named one director as the primary offender. In addition, the League of United Latin American Citizens has written a letter to Socorro, detailing various complaints received from Cooperative employees regarding the actions of a specific director.

There has also been significant legal action that seems to involve primarily a single director. Given this history and the increased exposure and claims that Socorro is experiencing, Federated must review the premiums charged to your Cooperative in order to ensure that it is adequately charging the appropriate premium for the risk insured. It appears that the standard rates on file in New Mexico may not be sufficient for the risk and exposure being undertaken by the Company in providing DOM coverage to Socorro. Therefore, the Company is faced with two alternatives: one, it can charge a premium appropriate to the risk under a Consent to Rate form that must be agreed to and signed by Socorro; or two, Federated can decline to renew the DOM coverage for Socorro.

Federated regrets that this action may be necessary. However, the Company has not been made aware of any meaningful risk control measures being implemented by Socorro to help control and ameliorate these exposures. As you are aware, Federated is a reciprocal exchange and operates in a manner similar to a cooperative. Therefore, it must take action to ensure that adequate premium is being charged to each insured/member for the risk presented in order to protect the interests of all of its insureds/members. If circumstances have changed or if proactive risk control measures have been implemented, Federated would certainly want to take those items into consideration. Please do not hesitate to contact the undersigned if you have any questions or have information that would be beneficial in our decision-making.

Sincerely,

William C. West, CPCU  
Vice President – Underwriting