Marsh

SA Power Networks
Australian Energy Regulator Report

2025-2030

Premium Projections and Insurance Market Update

July 2023

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Executive Overview

Introduction

SA Power Networks has engaged Marsh Pty Ltd (Marsh) to provide a forecast of its cost of managing risk for the forthcoming regulatory period, covering the period of 2025 to 2030. Marsh understand that this report will be provided to the Australian Energy Regulator (AER) as part of SA Power Network's Regulatory Proposal.

There are three elements to SA Power Network's cost of managing risk, namely:

- The premium paid for insurances purchased by SA Power Networks;
- The expected cost of uninsured risks (i.e. self-insured risks); and
- The extent to which the cost pass through mechanism included in the National Electricity Rules (NER) and regulatory determination limits SA Power Network's risk exposure.

Summary of SA Power Network's program

Marsh has reviewed SA Power Network's insurance program and consider SA Power Network's approach to procuring insurance to be prudent, reflecting good industry practice. SA Power Network's insurance program consists of the following insurance classes:

- Property (Industrial Special Risks);
- Liability (including General and Products Liability, Bushfire Liability, Failure to Supply Liability and Professional Indemnity);
- Directors' and Officers' insurance (D&O); and
- Other Insurance Lines – Workers Compensation, Excess of Loss, Contract Works, Crime, Aviation, Environmental Liability, Motor Vehicle, Marine Cargo, Corporate Travel and Voluntary Workers Personal Accident.

SA Power Networks retains exposure to all risks outside the terms and conditions of the above policies including below deductible risks (i.e. where a claims is less than the deductible) as well as risks that exceed the Policy Limit of Liability being purchased.

Consistent with industry practice, SA Power Networks does not commercially insure electricity poles and lines.

It is noted that SA Power Networks continues to have insurance requirements as a condition of the Distribution Network Lease:

- [redacted]
- [redacted]
- [redacted]

The requirements of the lease (in particular the required [redacted] add significant cost to the insurance program. With this said, the focus of this Report is on a lease compliance insurance program.

Assessment

We have prepared our estimates for the forthcoming regulatory period (2025 – 2030) based on real $December 2023 values only. In line with instructions from SA Power Networks, anticipated nominal premium outcomes and increases per financial year were not to be incorporated within this Report. It is noted that projections provided assume:

- Continuing hard market conditions in the short to medium term, resulting in premium increases and pressure on breadth of coverage, especially catastrophe limits, which could increase deductibles and may cause capacity contraction. However, we expect market conditions to gradually ease throughout the regulatory period;
- The absence of any catastrophic bushfire event(s) [redacted]) or other peer power distribution organisations leading to a meaningful shift in the availability of [redacted]
- No change in future premium allocation approach applicable to the [redacted];
- The absence of any catastrophic event causing a major Property claim which has a significant impact on Property insurance claims performance and subsequent renewal pricing and coverage terms; and
- An allowance for:
  - All current statutory tax rates as of 2022 and levies, excluding GST; and
  - Removal of inflation factors based on “Australian CPI mid rates quoted on Bloomberg page SWIL on 14/7/23”.

The main implications for SA Power Networks from the state of the insurance market and continuing associated pressures on price, capacity, and coverage include:

- Ongoing increases in the premiums that SA Power Networks must pay to continue purchasing Liability and Property coverage;
- Potential for increases in deductibles, which will increase SA Power Network’s expected value of uninsured risks; and
- Insurer’s retracting policy coverage.

Insurance Premium Forecasts

As noted earlier, premium forecasts are provided within this Report for Liability and Property insurance only, based on an exposure profile which is unchanged from 2023/24 and based on estimates of real $December 2023 values only. Premium projection outcomes are shown below in Table 1.

[redacted]

Scope of Report

The scope of our review is to provide a forecast of SA Power Network's insurance premiums payable for the forthcoming five year regulatory period (2025–2030) in relation to the following insurance classes:

- Property (Industrial Special Risks); and
- Liability (including General and Products Liability, Bushfire Liability, Failure to Supply Liability and Professional Indemnity).

In line with instructions from SA Power Networks:

- values provided in this report are real $December 2023 values only;
- anticipated nominal premium outcomes and increases per financial year were not incorporated within this Report;
- any future increases in exposure to be insured have not been considered; and
- other insurance lines have not been considered in preparing this Report, including classes of insurance which are not purchased by SA Power Networks.

With respect to Property and Liability placements, it is noted that from an insurable risk perspective, SA Power Networks retains exposure to the following risks which are not the subject of this Report:

- Power poles and Lines – consistent with industry practice, SA Power Networks does not commercially insure electricity poles and lines;
- 'Below deductible' risks – SA Power Networks retains exposure to all risks for which commercial cover is held but where claims are less than the deductible; and
- Risks that exceed the Policy Limit of Liability being purchased.

Approach and Methodology

In deriving our estimates for each insurance class, we have considered the following factors influencing premium levels:

- Changes in insurance cover;
- Claims experience;
- Expected market outlook; and

- Other historical market factors (e.g. changes in insurers, changes in insurer profit margins, and industry claims experience) to the extent that historical premium trends are observed which cannot be directly attributable to other factors.

We have made our best attempt to predict the commercial insurance terms during this future period, however given the volatility in insurance markets, there will be a level of uncertainty in these projections.

We have referred to the estimated premiums in this Report as 'Insurance Premiums'.

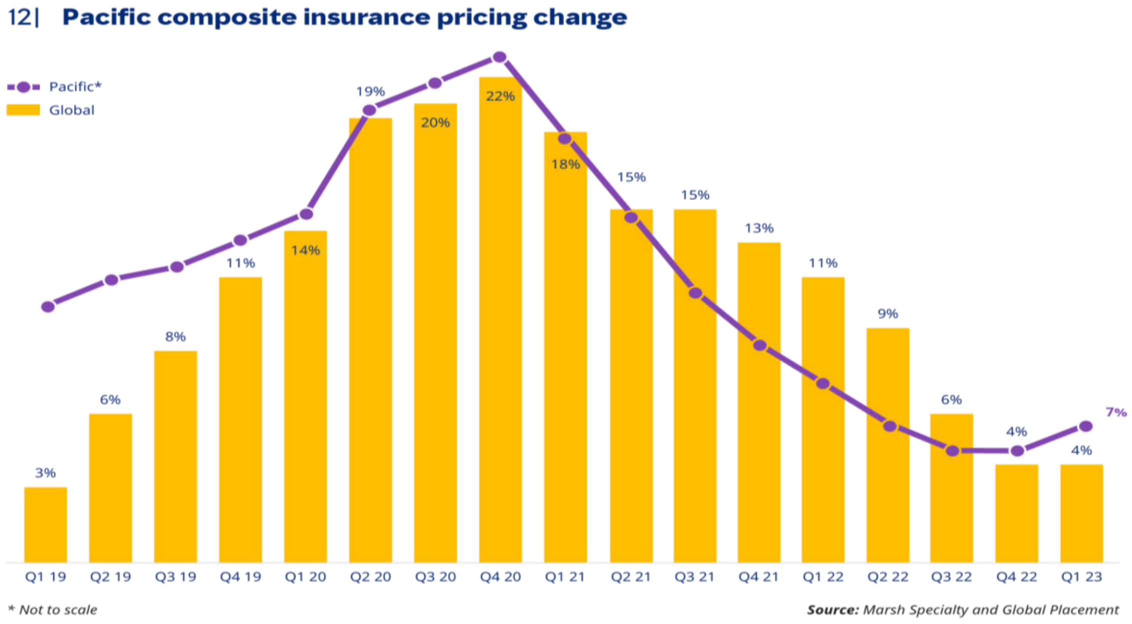
Insurance Market Drivers

The market cycle and cost of insurance is influenced by a number of key factors including:

- Size of premium pool;
- Claims paid and / or provisioned;
- Major loss events (such as recent flooding experienced across Australia as well as Hurricane Ian in the USA);
- Cost of reinsurance; and
- Investment returns and flow of additional funds into the sector from the Insurance-Linked-Securities.

The current market cycle has been subject to 22 consecutive quarters of premium increases as illustrated in the Marsh Global Insurance Market Index and as detailed in Figure 1. Unfortunately, the below chart demonstrates continuation of the longest run of increases since the inception of the index in 2012.

Figure 1 – Global Insurance Composite Pricing Change



Insurance Market Update

We are currently in the "Hard Market" section of the insurance market cycle (as illustrated), characterised by increasing premiums, selective underwriting, and shrinking capacity.

It is not only the cost implications of premium increases. Insurers are also cutting back on coverage enhancements and generous sub limits offered during the soft market phase (being an environment where insurers fight to maintain market share in a competitive environment).

It is difficult to predict when the market will move to a transition phase and back towards a Soft Market. It will require sustained profitability of insurers' property portfolios over the next couple of years before they have the confidence to push for growth and market share (thus increasing competition).

However, it is not expected that the escalation of rate increases over the past four years will continue at the same pace.

Considerable pricing correction has already occurred, and rates were seen to be approaching a more sustainable level. However, the persistent occurrences of significant natural catastrophe events locally and abroad have created substantial volatility and made profitable underwriting challenging for insurers and reinsurers.

The alignment to technical underwriting models, used to justify pricing, terms and capacity, has weighed heavily on property insurers. This has led to limited competition in the market. Overlaid in this process is referral underwriting, where underwriters who were previously empowered to make their own decisions must now refer to their respective head office committees. This process places less emphasis on insurers' prior history and relationships with buyers, favouring an approach that is rooted in technical adequacy and profitability for underwriters.

Notable coverage trends occurring in the current Hard Market include:

- Scrutiny by insurers in policy coverage with attention to removal and limitation of cover for infectious diseases, civil authority intervention, construction, and cyber. The property insurance industry has provided at least some level of coverage for fire, explosions and machinery breakdown which result from a "computer virus" however, due to the rise in frequency and severity of such events, the industry has looked to remove coverage for any loss or damage that occurs from malicious cyber activity;
- Business interruption extensions, including non-damage triggers for customers and suppliers and public utilities (gas, electricity, and water) exposures, are being more rigorously tested for validity and geographical scope;
- Natural catastrophe limits are also being reviewed/reduced and imposed for bushfire, wind, flood and hail, along with aggregated limits; and

- Declared material damage values are a subject of focus, as insurers seek validation of accuracy and how current they are. In some cases, if valuations are more than three years old, insurers are applying underinsurance clauses (coinsurance/average) as a penalty to insureds where the percentage of under-declaration is deducted from the loss. This imposition is only removed once insurers are able to sight recent valuations.

The overall presentation of risk is imperative, particularly when reviewing engineering Reports. The positive attributes of risk (e.g. fire protection, preventative maintenance, asset monitoring and business continuity plans) can help underwriters differentiate and articulate clients' continued focus on risk management. In respect of capacity, whilst most insurers' individual capacity has shrunk, there remains sufficient market capacity for most risks utilising a larger panel of insurers. However, obtaining that extra capacity to complete placements often sees the program being "split rated" as those insurers previously left off the program due to higher pricing requirements are now needed.

In conjunction with the above, a sector specific Market Update is included within the Liability and Property sections of this Report.

Analysis of Insurance Related Costs

Basis of Estimates

As stated in the Executive Overview, we have prepared our estimates of SA Power Network's insurance premiums for the forthcoming regulatory period (2025–2030) on the basis of:

- Continuing hard market conditions in the short to medium term, resulting in premium increases and pressure on breadth of coverage, especially catastrophe limits, which could increase deductibles and may cause capacity contraction. However, we expect market conditions to gradually ease throughout the regulatory period;

- [redacted]

[redacted]

- The absence of any catastrophic event causing a major Property claim which has a significant impact on Property insurance claims performance and subsequent renewal pricing and coverage terms; and

- An allowance for:

  – All current statutory tax rates as of 2022 and levies, excluding GST; and

  – Removal of inflation factors based on "Australian CPI mid rates quoted on Bloomberg page SWIL on 14/7/23".

The main implications for SA Power Networks from the state of the insurance market and continuing associated pressures on price, capacity, and coverage include:

- Ongoing increases in the premiums that SA Power Networks must pay to continue purchasing Liability and Property coverage;

- Potential for increases in deductibles, which will increase SA Power Network's expected value of uninsured risks; and

- Insurer's retracting policy coverage.

Comments on insurance program

Marsh considers SA Power Network's approach to their insurance program to be prudent and to reflect good industry practice. The insurance program is informed by a range of processes comprising:

- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

As outlined above, SA Power Networks, supported by Marsh, regularly reviews its insurance requirements against the organisational and the external environment to ensure optimal coverage relative to risk profile and appetite is achieved.

Liability

Market Update and Overview

Significant capacity withdrew from the bushfire liability sector in 2019 and 2020. The capacity that withdrew three to four years ago has (in the main) not returned to the market, meaning market conditions have remained relatively consistent since the market correction experienced in 2020. This implies that well over $500m in capacity has exited the Bushfire Liability sector which, generally speaking, has not been replaced. Local and European markets remain the most viable suitors for bushfire liability exposures.

By way of alternative markets:

- China markets are a consideration. Unfortunately, however, these markets are only of relevance where there is a majority Chinese ownership of an Insured (which is not the case for SA Power Networks);

- Capacity remains in Bermuda, however it comes at a punitive cost (see below). Bermuda insurers also utilise their own policy form (i.e. terms and conditions), which is generally more restrictive than the terms of cover from existing insurers.

From a pricing perspective, Australian insureds are in competition for capacity, with a number of global insurers (operating out of London, Europe and North America) opting to deploy their capacity in other jurisdictions (specifically the USA) where pricing on excess layers can be as high as 20% rate on line for well performing risks. This is reflected in pricing offered by Bermudan markets whereby premium indications continue to be at a price of ~ $160k per million dollars of cover for capacity at the very top of a bushfire liability insurance program.

In today's market, insurers continue to scrutinise and revise their pricing models, with a much greater focus on adequacy of 'pay-back' period. This is resulting in continued upward pressure on premium, and downward pressure on overall policy limit for insureds in the sector. This has been reflected by ongoing correction in the broader liability market whereby increases of between 10-18% p.a. have been experienced across 2021 and 2022.

There is also growing momentum in the market for new exclusions regarding 'Toxic Substances' and expanding exclusions to include amongst other things per-fluoroalkyl and poly-fluoroalkyl substances (PFAS). Coverage challenges remain for the power distribution section, specifically in relation to ongoing insurers resistance to allow reinstatement of bushfire liability limits, pure financial loss (failure to supply) coverage and accommodating professional indemnity as a part of the a 'combined liability' solution (refer commentary regarding coverage challenges on p16-17).

Looking ahead, from a bushfire liability perspective, increased vegetation (fuel) levels along the east coast of Australia (following three years of 'wet' summers) and the expected longer term onset of El Nino (higher risk) weather conditions are a concern. The projected (and well publicised) future climatic conditions, which are unfavourable from a bushfire risk perspective, have re-invoked nerves amongst the underwriting fraternity in relation to the bushfire exposure they insure.

Claims environment

Insurers participating on primary layers of bushfire liability risks across Australia have been, and continue to be, significantly out of pocket as a result of claims over recent years, with insurance claim payments exceeding the premiums they have received by several fold. [redacted]

The delta between claims paid and premiums received represents a material loss for bushfire liability insurers. Whilst insurers have sought to remediate pricing in recent years, there remains sufficient doubt that pricing adequacy has been achieved. Recent adverse development in cases such as the Parkerville bushfire court appeal continue to challenge the ongoing stability in pricing for bushfire liability risks.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

1 [redacted]

Bushfire loss environment

The Australian 2019/20 bushfire season was one of the worst in recent times in the world. The season started in early November 2019 in New South Wales, and gradually progressed in Victoria, Western Australia, South Australia, and the Australian Capital Territory. Thousands of firefighters and volunteers battled the fires, with millions of hectares burned, thousands of properties damaged and more than 30 deaths. This event captured attention globally, and in terms of area burnt was the largest bushfire of the 21st century. Three years of La Nina weather patterns followed the 2019/20 bushfire season meaning this event was the most recent major bushfire in Australia. Insured property losses arising from the 2019/20 bushfire season were greater than $2Bn.

While there have been a large number of bushfire losses over time in Australia, the largest bushfire events from an insurance perspective (excluding the 2019/20 bushfire events) have included:

- The Black Saturday Fire (VIC) in 2009, which burnt 4,500 km2 of land, killed 173 people and destroyed some 2,000 homes. Overall insured losses were circa $1.2Bn (in original values);
- The Ash Wednesday Fire (VIC/SA) in 1983, which burnt 5,200 km2, destroyed some 2,400 homes and killed 75 people. Overall losses A$335m, insured losses A$176m (in original values);
- The Tasmanian Black Tuesday Fires (TAS) in 1967, which burnt more than 2,600 km2, destroyed some 1,400 homes and killed 62 people. Overall losses were A$35m, insured A$14m (in original values); and
- The Black Friday Fire (VIC) in 1939, which burnt almost 20,000 km2, destroyed more than 700 homes and resulted in 71 fatalities.

Notable recent bushfire events outside of Australia (which influence underwriter perception of bushfire risk) have included:

- 2023 Canada wildfire season: Canada has been affected by an ongoing record-setting series of wildfires. These have affected all Canadian provinces and territories except Nunavut. The 2023 wildfire season is the worst in Canada's modern history. As of June 5, 2,214 fires have burned 10,600,000 acres. Losses from these events are not yet known;
- 2020 California wildfire season: a record-setting year of wildfires in California. By the end of the year, 9,917 fires had burned 4,397,809 acres, making 2020 the largest wildfire season recorded in California's modern history. The fires destroyed over 10,000 structures and cost over $12.079Bn (2020 USD) in damages;
- California Wildfires (2017-2018): The series of wildfires that struck California in 2017 and 2018 caused substantial insurance losses. The exact figures vary depending on the specific fires, but the overall insured losses for the 2017 California wildfire season were estimated to be over $12Bn;
- Fort McMurray Wildfire, Canada (2016): The devastating wildfire that occurred in Fort McMurray, Alberta, in May 2016 resulted in substantial insurance losses. The total insured losses were estimated to be around CAD 3.8Bn; and
- Wine Country Fires, California (2017): The wildfires that swept through California's wine country in October 2017 caused substantial damage and insurance losses. The insured losses for the Wine Country Fires were estimated to be around $9Bn.

The increase in frequency and severity of bushfire events globally continues to drive a more selective approach from insurers in relation to where (geographically) they will provide capacity, how much capacity they will provide, and the cost of that capacity.

Whilst catastrophic bushfire events such as those above gain attention globally, frequent ‘smaller’ bushfires events overseas still generate substantial losses to the insurance market (just as the smaller bushfire events do in Australia).

As mentioned earlier, [redacted] In summary, the bushfire liability insurance market remains in an environment whereby another severe bushfire event is anticipated to result in further reductions in current capacity availability, with the remaining capacity available in the market coming at a substantially increased cost and greater coverage restrictions.

Summary of Insurance Cover

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

a) [redacted]

[redacted]

[redacted].

[redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Basis of Premium Projection

[redacted]

Before considering future forecasts for the SA Power Networks Liability placement, it is important to explain some fundamental aspects influencing the current insurance market:

Insurers perception of bushfire liability risk has changed dramatically

The catastrophic bushfires that occurred in Australia during 2019/20 led to insurers becoming extremely concerned about their bushfire liability exposure. To a far greater extent than in the past, insurers are having to justify – internally within their organisations – the risks proposed to be underwritten. There is an increased focus on due diligence and analysis of profitability of proposed underwritten risks. This has resulted in insurers having a reluctance to take on new Insured's, whilst reducing capacity and seeking ongoing premium increases to recover historical paid losses.

For those underwriters that remain willing to underwrite bushfire liability, notwithstanding relatively benign bushfire seasons across 2021 to present, their view of the world is that bushfire exposure in Australia is only increasing due to global warming and the expected onset of El Nino weather conditions at the coming bushfire season and beyond. They are therefore of the view that the risk they insure is higher relative to prior years. In this environment, insurers that continue to offer capacity are being staunch in their need to receive a minimum dollar amount per quantum of capacity offered. Many of SA Power Network's insurers need to receive a minimum dollar amount per quantum of capacity offered, and that minimum continues to increase because historical pricing has not been adequate.

Underwriter stakeholders are influencing behaviour

Treaty reinsurers are challenging underwriting approaches taken, forcing accountability on direct insurers in a way that has not been seen previously in Australia and is more akin to the USA.

In the current environment, underwriters are required by Lloyds and/or management to assess the level of aggregated risk they have to Bushfire exposure. Specific to your risk, this requirement is driven by the fact that SA Power Networks insurers also insure other power distribution and transmission companies as well as government organisations and ancillary service providers which present bushfire risk. Because of their in-depth analysis, each insurer has identified maximum overall capacity levels they are able to offer which further restricts capacity available for Insured's such as SA Power Networks. Such a practice also drives up the cost of the (restricted) capacity available. As a result, the benefit of this positive risk differentiation has been diluted in today's market. [redacted]

In summary, the ongoing presence of claims, (despite benign bushfire conditions over the past three years), the bushfire threat presented by the expected long-term onset of El Nino weather conditions combined and a highly litigious society (where class actions are now prominent) do not blend favourably with a cautious and restricted underwriting fraternity. [redacted]

Results

Acknowledging the preceding commentary, in relation to SA Power Networks Liability insurance, Marsh projects that insurance premiums will increase over the forthcoming regulatory period by the below factors which are considered to be real increases utilising 2023/24 as the base year.

Table 2 – SA Power Network's projected Liability Insurance premium changes

Year	FY26	FY27	FY28	FY29	FY30
General Liability YoY increase (%)	15%	10%	7%	5%	5%

* Increases in the above table have been rounded, unrounded increases have been used for premium forecast calculations.

The above projections are based on the following assumptions:

- No changes to SA Power Network's risk profile or exposure to be insured;
- [redacted]
- [redacted]
- No significant electricity infrastructure related bushfire event in Australia; and
- No further significant deterioration in the global insurance market.

Acknowledging the above, Marsh projects SA Power Network's cost of Liability insurance in line with Table 3 below.

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

In relation to the cost guidance set out in the above tables, we make the following comments:

- Our view is that the trend of increasing premiums will continue. Numbers determined above are based on the mid-point of a premium increase range determined by Marsh.
- It is important to note that the placement/program structure can vary significantly year by year as insurer appetite, capacity and pricing changes. [redacted]
- [redacted]

a) [redacted]

[redacted]

[redacted]

[redacted]

It is therefore assumed that in future years, coverage will be preserved to the maximum extent possible noting that changes to cover may be mandated by insurers with no alternative options available.

Property (Industrial Special Risks)

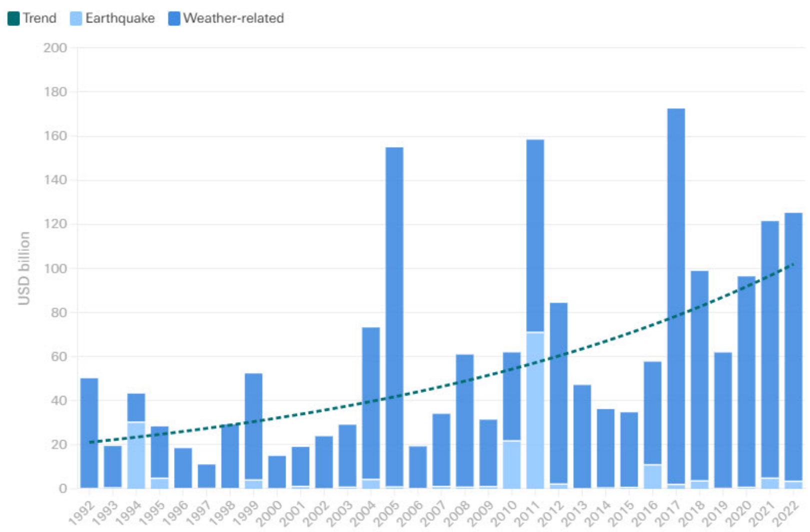
Market Overview

During Q3 and the early stages of Q4 2022 there was a level of optimism around ongoing improvement in Property market conditions, with the general sentiment being that ‘rate adequacy’ had (or was close to) being achieved. This view was supported by a slowing in Property rate increases for the Pacific region, whereby rate uplifts peaked in Q4 2020 with an ongoing decline in the level of increases through to the end of 2022. Unfortunately, as we enter 2023 the sentiment has changed, with hard market conditions set to persist for the foreseeable future. This market state is due to recent natural catastrophe events, in particular Hurricane Ian (USD75m loss estimate), which drove a meaningful correction in the reinsurance market effective 1 January 2023. This correction saw reinsurance premium increases ranging from 20-50%, insurer retentions increasing by 100% or more and further restrictions being placed on natural catastrophe coverage provided to direct insurers. Insurers will be looking to pass on the impact of the adverse shift in reinsurance market conditions to clients/Insured’s.

From a Pacific region perspective, unfortunately in Q4 we saw more major flooding events (particularly in Victoria and South Australia) further compounding what were already exceptional flood losses experienced in the northern region of Australia in February/March 2022. Overall, insurance claims across Australia arising from the flood losses of 2022 are estimated at a quantum of AUD10Bn – a number that stands without historical precedent in the Australian insurance market. The unfortunate scene set by Australia in 2022 was then followed by the New Zealand natural catastrophe events which represent estimated losses in excess of NZ1.75Bn. When Australian and New Zealand losses are considered in totality, ultimately the Pacific region is under the spotlight of insurers for the wrong reasons. As a result, the Pacific region is not perceived as an attractive risk and consequently overseas insurance capital is reluctant to underwrite local risks, and when it does, coverage offers are provided at significantly increased premiums to reduced coverage levels.

Indeed, catastrophic losses continue to dominate insurer concerns about pricing sustainability. As demonstrated by the below chart, insured losses from natural catastrophes have been rising for decades. Since 1992, the average annual growth trend of losses has been 5-7%. There was a dip from 2012-2016, but over the last six years annual average losses returned to the said growth trend. Regardless of year-on-year volatility, it is project that insured losses will continue to grow at trend, even when amplifiers such as inflation wane. From 2017 onwards, average annual insured losses from natural catastrophes have been over USD 110Bn, more than double the average of USD 52Bn over the previous five-year period. Factors contributing to these higher losses are asset value accumulation in areas prone to extreme weather events and elevated construction costs. In the coming decade, hazard intensification will likely play a bigger role as well as higher loss frequency and severity due to climate change.

Figure 3 – Growth in global natural catastrophe insured losses (2022 prices)



Natural catastrophe aside, a clear trend in the market has been the pressure seen from the current inflationary environment. Insurers expect to see demonstrable updates to insured's property values and, where they feel these are out of step with current trends, will instead build increases into their pricing models accordingly. Further compounded by this are the issues around increased labour costs and global supply chain management, leading to a stretching of lead times, greater business interruption volatility and ultimately an increase in the quantum of claims. In consequence, underwriters have found these global economic factors to be a firm footing from which to push back from, citing the increase in associated claim costs as a key driver behind the need to maintain applied rate and focus on tightening terms and conditions, with one prevalent item being the application of caps for Business Interruption.

Against the above backdrop, Property market conditions are anticipated to be challenging, a state of play which is expected to persist for the foreseeable future.

Summary of Insurance Cover

SA Power Networks purchases Property (Industrial Special Risks) insurance to cover its physical assets. [redacted]. SA Power Networks does not procure pole and wire infrastructure insurance, as per industry standard due to lack of insurance market appetite to insure these types of assets. [redacted]

[redacted]

Deductible levels are as follows:

a) [redacted]

[redacted]

[redacted]

[redacted]

Insurance Premium Projection

The premium is forecast using the projected real insurance market rate change, with 2023/24 being the base year. In line with SA Power Networks instructions, potential future increases in asset base are outside scope and not considered within this Report. Uplifts in assets to be insured will however result in increases higher than those reflected in the premium table below.

Results

In relation to SA Power Network's Property insurance, utilising 2023/24 as the base year, Marsh anticipates that the real premium percentage changes per dollar insured as shown in Table 4.

Table 4 – SA Power Network's projected Property Insurance premium rate movement

Year	FY26	FY27	FY28	FY29	FY30
Property YoY increase (%)	5%	5%	2%	0%	0%

* Increases in the above table have been rounded, unrounded increases have been used for premium forecast calculations.

Therefore, allowing for stamp duty and associated fees (but excluding GST), Marsh projects SA Power Network's real $December 2023 cost of Property insurance in line with Table 5 below.

Table 5 – SA Power Network's projected Property Insurance premium movement (real December $2023)

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Other Insurance Classes

As described in the Executive Overview, SA Power Networks procures other classes of insurance including:

- Directors' & Officers';
- Crime;
- Contract Works;
- Environmental Liability;
- Motor Vehicle;
- Marine;
- Aviation;
- Voluntary Workers Personal Accident;
- Corporate Travel;
- Workers Compensation Excess of Loss; and
- Public & Products Liability (Foundation).

[redacted]

The above classes of insurance will continue to see increases over the coming years at varying levels which generally speaking are expected to exceed inflation.

In line with SA Power Networks instructions, premium forecasts for other insurance classes do not form part of this Report.

With this acknowledged, due to ongoing challenged market conditions, Marsh expect a number of the above insurance classes will continue to be subject to increases over the forthcoming regulatory period, in particular Workers Compensation, Contract Works and Environmental Impairment Liability coverages.

Consolidated Premium Table FY24 to FY30

SA Power Network's Insurance Premiums

Table 6 – SA Power Network's Forecast Annual Liability and Property Insurance Premiums FY24 to FY30 (real $December 2023)

[redacted]:

[redacted]

Table 7 – SA Power Network's Forecast Annual Liability and Property Insurance Premium / Rate % Movement FY24 to FY30 (real $December 2023)

Utilising 2023/24 as the base year, the premium projections in this Report have been based on the following projected real increase factors for Liability and Property insurance purchased by SA Power Networks:

Insurance Class	FY26	FY27	FY28	FY29	FY30
Public & Products Liability & Professional Indemnity	15%	10%	7%	5%	5%
Property / Industrial Special Risks	5%	5%	2%	0%	0%

* Increases in the above table have been rounded, unrounded increases have been used for premium forecast calculations.

In regard to table 6 and 7, Marsh note that, in line with SA Power Network's instructions:

- Expected total premium cost outcomes for each financial year have not been incorporated in this Report;
- Real 2023/24 premium outcomes have been derived utilising forecast inflation dervived from "Australian CPI mid rates quoted on Bloomberg page SWIL on 14/7/23"; and
- No allowance has been made for increases in future exposure to be insured.

[3] Public and Products Liability and Professional Indemnity has a renewal date of 30 September, Property / Industrial Special Risks has a renewal date of 1 July.

Disclaimer

This Report contains confidential and commercially sensitive information. Marsh Australia (Marsh) agrees that this Report may be disclosed to the Australian Energy Regulator (AER) on a confidential basis as part of SA Power Network's regulatory submission.

Marsh understands that this report may be made publicly available, however, the report is prepared for use by SA Power Networks and the AER, and reliance on its contents should not be made by any other party.

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The Report must be read in its entirety. Individual sections of the Report, including the Summary Results, could be misleading if considered in isolation from each other. In particular, the opinions expressed in the Report are based on a number of assumptions and qualifications which are set out in full in the Report.

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