Insurance Costs 2022-23

Cost Pass Through Application

28 OCTOBER 2022

Executive Summary

This document sets out ElectraNet's cost pass through application (Application) in relation to our insurance premium costs for 2022-23 which exceed our insurance allowance materially.

Our insurance costs for 2022-23 were forecast in March 2017 in our last Revenue Determination when insurance market conditions were expected to be more favourable to buyers. Since then, global insurance markets have hardened considerably in response to natural disaster events, increased exposure from cyber-attacks and COVID-19, and the withdrawal of capacity from the market.

As a result, in each year of the current 2018-19 to 2022-23 regulatory period, the regulatory allowance for our insurance premium costs has proved inadequate as insurance costs have risen steadily. Rising insurance costs exceeded the materiality threshold specified in the National Electricity Rules for the first time in 2021-22 which led us to submit a cost pass through application which was approved by the AER. This situation persists for 2022-23 as insurance costs continue to increase in real terms

Accordingly, this Application seeks the approval of a positive pass through amount of $5.32m in relation to insurance premium costs for 2022-23. These costs again relate only to the direct costs of obtaining insurance cover and, therefore, exclude all internal costs associated with the insurance function, the cost of management time relating to insurance and the costs of external advice. They are also consistent with the forecasts submitted in conjunction with our current Revenue Proposal and recently found to be reasonable by the AER and its consultant, Taylor Fry[1].

Our objective is to obtain prudent levels of cover in accordance with our compliance obligations and community expectations at the lowest total cost to our customers. ElectraNet works actively to ensure that levels of cover, deductibles and premiums are optimised to minimise long run costs.

In approving our 2021-22 insurance cost pass through application, the AER determined that our approach to our insurance renewals through our active participation in the insurance market is prudent and efficient. This is evidenced again in this Application, which remains consistent with the strategy, policy coverage, methodologies and calculations reviewed by the AER in approving our 2021-22 pass through application, and is supported by expert opinion from our insurance broker, Aon.

This Application provides the information required by the Rules and also considers the AER's Guidance Note on Insurance Coverage Pass Through Events.[2] For example, the Guidance Note highlights the importance of demonstrating we have undertaken appropriate analysis to understand our risk exposure and choice of insurance policy, including the level of coverage and deductibles.[3]

Our experience of significantly increased insurance costs is shared by our peers and understood by our stakeholders. This includes engagement with our Consumer Advisory Panel in the development of our 2022 Revenue Proposal which considered these costs and the appropriate allocation of risks. We have continued to engage with the Panel in relation to our insurance forecasts for the coming regulatory period, and shared the cost pass through amount proposed in this Application for 2022-23.

We remain conscious of the impact of any increase in our revenue on electricity customers. In this Application, we have calculated the indicative impact on a typical household electricity to be approximately $2.60 or 0.1% pa. We are continuing to work to minimise the costs of insurance to our customers through our ongoing and active engagement with our insurers and our broker.

With the approval of the AER, we intend to recover these pass through costs in our transmission prices for 2023-24, which must be published by 15 March 2023.

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1 Taylor Fry "Insurance market consultant report - ElectraNet - Public summary", June 2022 available form https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/electranet-determination-2023%E2%80%9328/draft-decision

2 We note that this Guidance Note is not directly relevant to this Application, as it relates to a different cost pass through provision. Nevertheless, we have taken it into account in preparing this Application.

3 Ibid, page 13.

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1. Introduction

1.1. Overview

ElectraNet's insurance program forms a key part of our overall risk management strategy. Policy terms, conditions and limits of cover are reviewed and negotiated annually to ensure that they address our evolving risk profile, the changing landscape in which we operate, and the costs of insurance cover.

The Australian electricity industry has experienced significant increases in insurance premiums in recent years. This is principally due to the repricing of bushfire risk and a significant retraction in available market capacity. These conditions have affected all buyers of bushfire liability insurance, including generators and networks. Premium costs for other classes of insurance have also continued to increase, as insurers have responded to emerging risks such as COVID 19 and cyber security.

The National Electricity Rules (the Rules) recognise that insurance premiums may increase unexpectedly during a regulatory control period. Where these increases are material, the Rules allow these additional premium costs to be recovered from customers. These cost pass through provisions are designed to share risk appropriately between network companies and customers, so that network charges are kept as low as practicable.[4]

Our total insurance premiums have exceeded the AER allowance in each year of the current regulatory control period. The materiality threshold specified in the Rules was exceeded in 2021-22, which triggered a cost pass through application which was approved by the AER. That application related only to our actual insurance costs for 2021-22 .

This cost pass through application (Application) is seeking recovery of our additional insurance premium costs for 2022-23. It is required because our annual insurance costs have continued to increase above the high levels reached in 2021-22 and again exceed the AER allowance materially.

Clause 6A.7.3(c) of the Rules sets out the information that we must provide to the AER to obtain approval for the recovery of our increased insurance costs. In addition to providing the information required, we also provide background information to explain the steps that we have taken to minimise our insurance costs.

[4] Cost pass through provisions obviate the need to include an allowance to cover the risk that actual costs are much higher than forecast. As a result, network charges are lower than would otherwise be the case.

1.2. Structure of this Application

This Application is structured as follows:

- Chapter 2 provides important background information to this Application, including the changing conditions in the insurance market and our insurance strategy, which is focused on minimising total costs to customers while meeting our insurance obligations;
- Chapter 3 describes the regulatory requirements that apply in relation to this Application and how they relate to our particular circumstances;
- Chapter 4 addresses the specific information requirements of the Rules, including the eligible positive pass through amount; and
- Chapter 5 demonstrates that our 2022-23 insurance costs are prudent and efficient and, therefore, that the AER should approve the proposed positive pass through amount.

Information on the apportionment of costs to prescribed transmission services is provided in Appendix A. A compliance checklist is included as Appendix B.

We also provide a report from our insurance broker, Aon, which demonstrates that our actual premium costs for 2022-23 are prudent and efficient, together with detailed supporting cost information and calculations.

2. Background

This chapter provides background information relevant to our insurance program, increases in the cost of that program and the measures we have taken to minimise those increases.

2.1. Our insurance program

Our insurance program must satisfy our compliance obligations and meet the expectations of our customers and the wider community. Over successive years, we have worked closely with our broker Aon, and our insurers to minimise our insurance costs while maintaining appropriate levels of cover in accordance with these drivers.

Our insurance program remains consistent with the coverage in our 2017 Revenue Proposal and the AER's Final Decision for the current regulatory control period, and with our insurance cost pass through application approved for 2021-22.

It includes the following categories of insurance:

[redacted]

2.2. Insurance market conditions

Our forecast insurance premiums for the current regulatory control period were based on independent expert advice from Finity Consulting. In its report, which we submitted to the AER in March 2017 as part of our Revenue Proposal, Finity Consulting made the following observations regarding the insurance market conditions that it expected to prevail over the 2018-19 to 2022-23 regulatory control period:[5]

> "Generally, premium rates have been falling for most commercial classes of insurance since circa 2004 – i.e. a softening of the market. An absence of any significant catastrophic events and excess capacity in the market means that competition remains strong. This is good news for insurance buyers as:
>
> - The supply of capital and appetite to take on risk remains strong. This means competition for business, particularly in commercial lines, is likely to remain a feature of the market.
> - Insurers are now starting to offer enhanced coverage, lower deductibles and long-term agreements as further incentives for clients to purchase insurance.
> - Financial security of insurers remains strong.
>
> We expect that the insurance market will remain "soft" for the next couple of years (in the absence of any significant catastrophic events) before transitioning to a "harder" market and premium rate increases. On this basis we have assumed modest premium increases during the regulatory period 2018/19 to 2022/23 for most classes of insurance."

Finity Consulting expected the insurance market conditions to be favourable, which it described as 'good news' for insurance buyers. However, the actual conditions have proved to be substantially less favourable. In particular:

- [redacted]
- [redacted]

5 Finity Consulting Pty Ltd, Regulatory Proposal 2018-19 to 2022-23: Self-Insurance Estimates, Premium Forecasts and Nominated Pass Through Events, February 2017, page 41.

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

[redacted]

ElectraNet is not alone in experiencing significant increases in insurance costs. This is borne out by the AER's recent determinations, in which it has accepted 'step changes' to accommodate forecast increases in insurance premiums.

The AER's Consumer Challenge Panel has also recognised that the recent changes in insurance market conditions warrant an increased expenditure allowance to cover higher insurance premiums:[6]

> "CCP17 acknowledged that insurance coverage is decreasing while insurance costs are rising rapidly. It viewed the insurance market changes as material and beyond reasonable budget projections (with these changes likely to be sustained over a long period due to climate change). As such, it considered the insurance step changes to be reasonable."

Given the hardening insurance market conditions and the recent experience of other network companies, it is not surprising that our insurance costs for the 2018-19 to 2022-23 regulatory control period have exceeded the allowance that was estimated in March 2017.

In the next section, we describe our insurance objectives and strategies, including the specific actions we have taken to minimise our insurance costs.

6 AER, Powercor Distribution Determination 2021 to 2026, Attachment 6 Operating expenditure, April 2021, p10.

2.3. Insurance objectives and strategies

[redacted]

ElectraNet's insurance objective is to obtain prudent levels of insurance cover in accordance with our compliance obligations and community expectations at the lowest total cost to our customers. A first step in delivering on this objective is to recognise our legal and contractual obligations in relation to the level of our insurance cover. These include:

- [redacted]
- Our Transmission License requires adequate and appropriate bushfire liability insurance to be maintained, having regard to the nature of the operations conducted under our licence and the risks associated with those operations.
- [redacted]
- As a self-insured employer, we are also required to maintain an Excess of Loss insurance policy to the satisfaction of Return to Work (SA).

Our strategy for achieving our insurance objective comprises a number of elements:

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

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[redacted]

Two of these immunities are unique to ElectraNet and are an important tool in minimising our liability exposure in relation to these critical risks faced by the business.

[redacted]

2.4. Efficiency analysis

[redacted]

We are confident that we have maintained a prudent and efficient approach to our insurance renewals. It is notable that our actual (total) insurance cost for 2022-23 is consistent with the forecast that accompanied our Revenue Proposal for the forthcoming 2024-2028 regulatory period. That proposal, which was submitted in January 2022, includes an insurance step change which is based in part upon forecasts of our insurance cost for 2022-23.[7]

That forecast was reviewed by the AER and its consultant, Taylor Fry, as part of the AER's review of our Revenue Proposal. Taylor Fry concluded that Marsh's forecast was reasonable and 'directionally consistent' with its own. On this advice the AER accepted the basis of ElectraNet's insurance forecast. [8]

Marsh's forecast of our insurance cost for 2022-23 was approximately $8.3m, which is within $0.5m (or 6%) of the actual cost shown below. This confirms both the veracity of Marsh's forecast and the efficiency of our 2022-23 costs.

2.5. Insurance program and costs

In its Draft Decision for our 2018-19 to 2022-23 regulatory period, the AER accepted[9] our proposed operating expenditure, which included the cost allowance for insurance premiums[10], as shown in Table 1 below.

In its Final Decision, the AER confirmed that it accepted our forecast operating expenditure (updated from our initial proposal) and noted that the insurance cost pass through provisions would apply for the 2018-19 to 2022-23 regulatory period.[11]

Table 1: Insurance premiums – allowance and actual costs ($m nominal)

Component	2018-19	2019-20	2020-21	2021-22	2022-23
Insurance allowance	2.78	2.85	2.92	3.15	3.45[a]
Actual or expected costs	2.82	3.75	4.8	6.53	8.78
Overspend	0.10	0.90	1.9	3.38	$\boxed{5.32}$

[a] This forecast of our insurance allowance was prepared based on the Reserve Bank of Australia's August 2022 forecast of inflation in the year to December 2022. Our revenue allowance will be updated for actual inflation in due course.

While the overspend amounts in relation to our insurance premium costs have been steadily rising in previous years, the materiality threshold was not exceeded until 2021-22.[12] As Table 1 shows, our costs for 2022-23 also exceed the threshold.

7 2022-23 is outside the regulatory period, but Marsh's forecasting methodology began with actual costs in 2021-22 and forecast each year from there.

8 The AER amended the proposed step change in its Draft Decision on our revenue proposal. However, this was for reasons not connected to Marsh's forecast.

9 AER, Draft Decision, ElectraNet's transmission revenue determination 2018-23, Attachment 7, October 2017 p6.

10 ElectraNet's Revenue Proposal 2019-23, March 2017, Attachment 7, Table 7.6, page 24.

11 AER, Final Decision, ElectraNet transmission determination, 2018 to 2023, Overview, April 2018, pp 24 and 34.

12 The materiality threshold calculation is presented in Section 4.3 of this Application.

3. Regulatory Requirements

The regulatory requirements for the submission and acceptance of a cost pass through application are contained in clause 6A.7.3 of the Rules. In broad terms, the regulatory process is as follows:

- Establish that a positive change event has occurred;[13]
- Quantify the pass through amount;[14]
- Submit a pass through application in accordance with the Rules; and
- Determine the approved pass through amount.

We discuss each of these elements in turn.

3.1. Positive change event

A positive change event is defined in the Rules as:

> A pass through event which entails the *Transmission Network Service Provider* incurring *materially* higher costs in providing *prescribed transmission services* than it would have incurred but for that event, but does not include a *contingent project* or an associated *trigger event*.

An ‘insurance event’ is one of seven transmission cost pass through events specified in the Rules. An ‘insurance event’ is defined (relevantly) as follows:

> An event for which the risk of its occurrence is the subject of insurance taken out by or for a *Transmission Network Service Provider*, for which an allowance is provided in the *total revenue cap* for the *Transmission Network Service Provider* and in respect of which:
>
> a) the cost of the premium paid or required to be paid by the *Transmission Network Service Provider* in the *regulatory year* in which the cost of the premium changes is higher or lower than the premium that is provided for in the *maximum allowed revenue* for the provider for that *regulatory year* by an amount of more than 1% of the *maximum allowed revenue* for the provider for that *regulatory year*;
>
> b) ….

3.2. Pass through amount

A positive pass through amount is defined in the Rules as:

> For a *Transmission Network Service Provider*, an amount (not exceeding the *eligible pass through amount*) proposed by the provider under clause 6A.7.3(c).

An eligible pass through amount is defined in the Rules as:

> In respect of a *positive change event* for a *Transmission Network Service Provider*, the increase in costs in the provision of *prescribed transmission services* that, as a result

13 Clause 6A.7.3(c)(1)

14 Clause 6A.7.3(c)(1)

of that *positive change event*, the *Transmission Network Service Provider* has incurred and is likely to incur (as opposed to the revenue impact of that event) until:

a) unless paragraph (b) applies – the end of the regulatory control period in which the positive change event occurred; or

b) if the transmission determination for the regulatory control period following that in which the positive change event occurred does not make any allowance for the recovery of that increase in costs (whether or not in the forecast operating expenditure or forecast capital expenditure accepted or substituted by the AER for that regulatory control period) – the end of the regulatory control period following that in which the positive change event occurred.

For this Application, the insurance cost pass through event is defined in terms of the cost of the premiums paid or required to be paid compared to the AER's allowance in a regulatory year. Therefore this Application relates to the actual insurance premium costs for the 2022-23 regulatory year, which is the final year of the current regulatory control period.

In our previous cost pass through Application for the 2021-22 regulatory year, we indicated that a separate pass through application may be submitted in relation the 2022-23 regulatory year if the materiality threshold is exceeded.

3.3. Information requirements for a pass through application

Clause 6A.7.3(c) of the Rules sets out the information that a TNSP must provide to the AER in a pass through application:

To seek the approval of the *AER* to pass through a *positive pass through amount*, a *Transmission Network Service Provider* must submit to the *AER*, within 90 *business days* of the relevant *positive change event* occurring, a written statement which specifies:

1) the details of the *positive change event*;

2) the date on which the *positive change event* occurred;

3) the *eligible pass through amount* in respect of that positive change event;

4) the *positive pass through amount* the *Transmission Network Service Provider* proposes in relation to the *positive change event*;

5) the amount of the *positive pass through amount* that the *Transmission Network Service Provider* proposes should be passed through to *Transmission Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;

6) evidence:

   i. of the actual and likely increase in costs referred to in subparagraph (3); and

   ii. that such costs occur solely as a consequence of the *positive change event*; and

7) such other information as may be required pursuant to any relevant *regulatory information instrument*.

These items are addressed in turn in Section 4 below. As explained in Section 1.2, a compliance checklist is also included in Appendix B to this Application to verify that each information requirement has been addressed.

3.4. Framework for the AER's assessment

If the AER concludes that a positive change event has occurred, it must then determine:[15]

- the approved pass through amount, and
- the recovery of that approved pass through amount in the TNSP's network charges.[16]

In making its determination, the AER must take into account the factors listed in clause 6A.7.3(j) of the Rules. These include:

- the matters and proposals set out in any statement given to the AER by the TNSP;
- the increase in costs in the provision of prescribed transmission services that, as a result of the positive change event, the TNSP has incurred and is likely to incur;
- the efficiency of the provider's decisions and actions in relation to the risk of the positive change event, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount in respect of that positive change event and whether the provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that positive change event;
- the time cost of money based on the allowed rate of return for the TNSP for the regulatory control period in which the pass through event occurred;
- the need to ensure that the TNSP only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of a pass through event;
- whether the costs of the pass through event have already been factored into the calculation of the provider's maximum allowed revenues for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the provider's maximum allowed revenues for a subsequent regulatory control period;
- the extent to which the costs that the TNSP has incurred and is likely to incur are the subject of a previous cost pass through determination made by the AER; and
- any other factors the AER considers relevant.

In addition to the above factors, the National Electricity Law (NEL) requires the AER to exercise its powers in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (NEO). The NEL also specifies revenue and pricing principles.

Of relevance to this Application is the principle that a network service provider should be provided with a reasonable opportunity to recover at least the efficient costs it incurs in providing prescribed transmission services and complying with a regulatory obligation or requirement or making a regulatory payment. In this regard, it is noted that the pass through provisions relating to an insurance event enable a network service provider to recover material increases in insurance premiums, providing that the costs incurred are efficient.

While the factors listed in clause 6A.7.3(j) are matters for the AER to consider in assessing this Application, our approach is to provide sufficient information in this Application, together with the supporting report from Aon, to enable the AER to assess the prudency and efficiency of our actual premium costs. We regard prudency as important alongside the concept of efficiency, as it captures the need to maintain appropriate levels of insurance cover.

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15 Clause 6A.7.3(d)

16 This may occur in regulatory year(s) subsequent to the year in which the pass through event occurred.

4. Addressing the Rules requirements

This chapter sets out and addresses the information requirements specified in the Rules in relation to a cost pass though application.

4.1. Positive change event

A positive change event, being an insurance event, has occurred because the cost of the premium paid or required to be paid by ElectraNet in the 2022-23 regulatory year exceeds the allowance included in our maximum allowed revenue for that year by more than 1%. The relevant cost information is provided in Table 2 below.

4.2. Date on which the positive change event occurred

Placement of the majority of our insurance policies (representing approximately 98% of the total costs) occurred on [redacted], with the balance remaining to be placed on 30 November 2022.

The insurance premiums in respect of the 2022-23 regulatory year determined on [redacted] exceeded the 1% materiality threshold specified in paragraph (a) of the definition of an insurance event in Chapter 10 of the Rules. This is the date on which the positive change event occurred.

This Application has been lodged within 90 business days of this date and therefore complies with the timelines specified in the Rules.

4.3. Eligible pass through amount

As shown in the table below, the cost of insurance premiums for the 2022-23 regulatory year comprise an actual cost incurred to date of $8.30 million [redacted] and an estimate of $0.48 million [redacted] Our estimated total insurance cost for 2022-23 exceeds the allowance by $5.32 million.

Our maximum allowed revenue for 2022-23 is $347.8 million, of which 1% is $3.48m.

The additional insurance premium cost incurred for the 2022-23 regulatory year therefore exceeds the 1% materiality threshold.

Table 2: Eligible pass through amount ($m nominal)

Component	2018-19	2019-20	2020-21	2021-22	2022-23
Insurance allowance	2.78	2.85	2.92	3.15	3.45
Actual or expected insurance costs	2.82	3.75	4.8	6.53	8.78
Overspend	0.10	0.90	1.9	3.38	5.32
Maximum allowed revenue (MAR)	305.3	312.5	322.3	333.0	347.8
Materiality threshold (1% of MAR)	3.05	3.13	3.22	3.33	3.48
Eligible pass through amount	-	-	-	**3.38[a]**	**5.32**

[a] On 23 March 2022, the AER released its decision on ElectraNet's 2021–22 insurance cost pass through application. It determined that ElectraNet's application satisfied the definition of an insurance event and positive change event under the National Electricity Rules and approved a positive pass-through amount. https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/electranet-cost-pass-through-2021%E2%80%9322-insurance-costs/decision

Our actual or expected costs only relate to the direct costs of obtaining insurance cover, excluding internal costs associated with the insurance function, the cost of management time relating to insurance and the costs of external advice. There is no capital expenditure relating to this insurance event, which only relates to the costs of insurance premiums incurred or to be incurred in relation to the 2022-23 regulatory year as prescribed operating expenditure.

In specific terms, the actual or expected costs for 2022-23 total $8,775,587 ($nom) against an insurance allowance of $3,452,532 ($nom) yielding an eligible pass through amount of $5,323,035 ($nom).

4.4. Positive pass through amount

The proposed positive pass through amount is equal to the eligible pass through amount, as detailed in Section 4.3, which is $5,323,035 (nominal).

We have assumed that the positive pass through amount will be recovered during the 2023-24 regulatory control year. This relies on the AER making its determination by mid-February 2023, as our transmission charges for the 2023-24 regulatory year must be published by 15 March 2023.

4.5. Evidence to support the pass through amount

As noted above, the eligible pass through amount reflects our actual or expected insurance costs for the 2022-23 regulatory year, noting that only 5% of our total cost is currently estimated in anticipation of the final placement on [redacted]. The eligible pass through amount is the regulated portion of our total insurance costs, determined in accordance with ElectraNet's approved Cost Allocation Methodology. A breakdown of the insurance premium costs is provided in the spreadsheet that accompanies this Application.

ElectraNet confirms that the eligible pass through amount as presented in Table 2 reflects the increase in insurance premium costs and, as such, is caused solely by the positive change event.

As explained in Section 2 of this Application, the increase in insurance premium costs is the outcome of further hardening conditions in the insurance market. ElectraNet has continued to make concerted efforts throughout this regulatory control period, including during the 2022-23 regulatory year, to minimise our insurance costs to the benefit of our customers.

4.6. Customer bill impact

While it is not a regulatory requirement in the Rules to explain how the approval of the cost pass through amount will affect transmission network charges, we consider it appropriate to include this information.

We have calculated that the indicative impact on a typical household electricity bill of the proposed cost pass though amount is approximately $2.60 or 0.1% pa.

5. Prudency and efficiency of our insurance costs

Section 4 of this Application has addressed the information requirements specified by clause 6A.7.3(c)(7) of the Rules.

In addition to meeting these information requirements, this Application has had regard to:

- the factors that the AER is required to consider in determining the approved pass through amount, in accordance with clause 6A.7.3(j) of the Rules; and
- The requirements of the AER's Guidance Note in relation to an insurance coverage cost pass through event, noting this Guidance Note is not directly applicable to this Application.

In particular, the background information presented in Section 2 and the accompanying report from Aon, explain the causes of the increase in our insurance premium costs in the 2022-23 regulatory year and shows that these increased costs were incurred prudently and efficiently. In particular, it is evident from the information provided that:

- ElectraNet's Board, Audit and Compliance Committee and Senior Management are actively engaged in the insurance renewal strategy in accordance with our governance and risk management processes;
- ElectraNet engages independent analysis and strategic advice to ensure that it obtains prudent levels of insurance cover at the lowest total cost;
- For each insurance line, strategic advice is obtained and acted upon, leveraging off long-standing relationships with insurers in the context of existing market conditions; and
- Opportunities are explored to reduce the total costs of insurance, including trading off cover and deductibles for insurance premium savings where it is feasible to do so.

In summary, we consider that the information provided supports the recovery of the proposed pass through amount in our network charges.

Looking forward, we will continue to work with Aon to minimise our total costs of insurance while maintaining prudent coverage.

City West Substation

Appendices

ElectraNet

Appendix A Apportioning costs to prescribed transmission services

A detailed reconciliation of prescribed insurance costs for 2022-23 is provided in the accompanying spreadsheet *ENet insurance cost allocation_October2022* (Attachment 1) including a full cost build up from all relevant invoices.

As advised in support of our 2021-22 insurance cost pass through application, insurance costs are allocated between the prescribed and contracted portion of the business. Annual costs are also pro-rated where the relevant policy period spans regulatory years. In a small number of cases, costs are also converted from $US to AUD based on prevailing exchange rates. The methodology applied here is the same as the established approach applied in the reporting of annual insurance expenditure in the Regulatory Accounts and that used in developing our 2021-22 insurance cost pass through application.

As Attachment 1 shows, the attribution of insurance costs to prescribed transmission services is based on the ratio of the book value of ElectraNet's Contracted and Regulated Asset Bases. This is consistent with our approved Cost Allocation Methodology (CAM) which requires the use of an appropriate allocator where direct attribution is not possible. This ratio is used as a proxy for the relative size of the business activities being insured.

A small number of Industrial Special Risk (ISR) policies are directly attributable to specific assets in the contracted business and have been allocated on this basis. This is also consistent with the CAM, which requires that direct attribution be used where possible and indirect otherwise as noted above. The cost of the remaining ISR policies is allocated to the prescribed business in proportion to the Regulated Asset Base and residual Contracted Asset Base (excluding the directly insured assets).

A small number of policies have terms of less than one year. This is reflected in the spreadsheet in the step where the monthly cost is calculated (where total value is divided by less than 12).

The key values in these calculations are as follows (all $m nom):

- ElectraNet's Regulated Asset Base for FY2023 is $3,258m;
- ElectraNet's contracted Asset Base for FY2023 is $564m; and
- ISR cover is provided through dedicated policies for a portion of the Contracted Asset Base with book value totalling $321m.

Therefore:

- for insurances other than ISR, 85.2 per cent of total insurance cost is attributed to prescribed transmission services (calculated as: 3,258/(3,258+564)=85.2%); and
- for ISR insurance (other than policies dedicated to specific contracted assets), 93.1 per cent of total insurance cost is attributed to prescribed transmission services (calculated as: 3,258/(3,258+564-320)=93.1%).

Appendix B compliance checklist

The purpose of this table is to demonstrate compliance with the cost pass through information requirements specified in clause 6A.7.3(c)(1) to (7) of the Rules.

Table 3: Compliance checklist

Rules clause	Requirement of Rules provision	Relevant Section of this Application
6A.7.3(c)(1)	the details of the *positive change event*;	Section 4.1
6A.7.3(c)(2)	the date on which the *positive change event occurred*;	Section 4.2
6A.7.3(c)(3)	the *eligible pass through amount* in respect of that *positive change event*;	Section 4.3
6A.7.3(c)(4)	the *positive pass through amount* the *Transmission Network Service Provider* proposes in relation to the *positive change event*;	Section 4.4
6A.7.3(c)(5)	the amount of the *positive pass through amount* that the *Transmission Network Service Provider* proposes should be passed through to *Transmission Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;	Section 4.4
6A.7.3(c)(6)	evidence: (i) of the actual and likely increase in costs referred to in subparagraph (3); and	Section 4.5
	(ii) that such costs occur solely as a consequence of the *positive change event*	Section 4.5
6A.7.3(c)(7)	such other information as may be required pursuant to any relevant *regulatory information instrument*	Not applicable

ElectraNet