

30 October 2020

Mr Sebastian Roberts
General Manager
Transmission and Gas
Australian Energy Regulator

By Email: AERInquiry@aer.gov.au

Dear Sebastian

RE: Insurance coverage pass through event – guidance note

ElectraNet appreciates the opportunity to respond to the AER's Consultation Paper, *Guidance Note on key matters the AER is likely to have regard to when assessing an insurance coverage event application*.

ElectraNet is party to a submission on behalf of the network sector from Energy Networks Australia and supports the thrust of that submission. We provide the following additional responses to the relevant questions in the consultation paper as follows.

1. Questions 1 and 2

ElectraNet is broadly comfortable with the revised definition of 'an insurance coverage pass-through event' as applied in the recent SA Power Networks, Ergon Energy and Energex 2020-2025 Final Determinations.

However, we consider the definition of the words 'changed circumstances' could be further amended (or clarified in the event that the AER considers that it is already provided for in the definition) to include a situation where an NSP is either unable to place cover or to place cover on reasonable commercial terms on a particular layer of an NSP's insurance tower (e.g. the 10th excess layer on a General Liability Insurance Policy). This would make it clear that the insurance coverage pass-through provisions cover all instances where insurance is not available on reasonable commercial terms.

2. Questions 3, 4 and 5

In our view, it would be helpful if the AER could assist NSPs to access any information used by Underwriters to inform their assessment of NSP maximum loss exposures (to the extent that the information is not confidential and/or proprietary).

3. Question 6

ElectraNet gives the highest priority to safety issues, including network safety and security, environmental, workplace and public safety, bushfire risk and the safety of customer connections to the ElectraNet network. Significant resources are accordingly dedicated to ensuring that ElectraNet's risk management processes are effective, coordinated and that they represent industry best practice.

ElectraNet has consistently received positive feedback from Australian and global insurance markets regarding its very strong risk profile and its excellent risk management practices.

Notwithstanding this positive response, ElectraNet is committed to exploring continuous improvement in its operations to ensure the safe operation of our network, the provision of a reliable and safe supply of electricity to our customers and to securing the requisite insurance capacity (across its entire insurance portfolio) at commercially viable rates.

For example, ElectraNet has made significant efforts in recent years to 'test' historical assumptions around its maximum loss exposures, has established an enterprise wide bushfire risk review focused on delivering improved bushfire mitigation strategies and controls to minimise the risk of fire ignitions by ElectraNet's transmission network assets and is assessing its response to the impacts of climate change.

Although this work is ongoing, we have already identified several activities and risk mitigation practices that we consider ElectraNet, as a prudent network service provider, should consider adopting. A number of these initiatives are not currently funded under the current regulatory allowance.

This work is particularly important in the context of the significant volatility present in the global insurance markets.

Notwithstanding the acknowledgement by the insurance market of ElectraNet's strong risk profile and the ongoing work we are undertaking to continuously improve our risk profile, over the last 2 years ElectraNet has faced challenges in its placement of aspects of its insurance cover (particularly its bushfire liability and industrial special risks cover) from both a capacity and a premium cost perspective.

Given the hardening of the global insurance market, it is highly likely that issues around premium increases and the availability of capacity will continue to present significant challenges for future renewals, such that it may no longer be commercially viable to obtain the requisite level of insurance.

As a result, ElectraNet is actively exploring the merits of the alternative risk transfer mechanism options available to it – specifically, the feasibility of a captive insurance vehicle. One of the key considerations in determining the potential value of a captive instrument is assessing how any instrument of this kind would be funded.

We would welcome the opportunity to engage with the AER to explore potential funding options for such a mechanism (in addition to the self-insurance allowance) to assist ElectraNet to meet the costs of capitalising on a captive instrument.

An efficient funding option for a captive solution would provide NSPs with an incentive to explore this option as a cost effective, alternative means of managing the challenges presented by the global insurance market in order to manage risk and meet service obligations at the lowest long-run cost to customers.

We would be happy to discuss any aspects of this submission further and look forward to engaging in the further consultation on the guidance note in the coming weeks.

Should you have any queries in relation to this submission, please contact [REDACTED]

Yours sincerely



Rainer Korte
Group Executive Asset Management