

# Bushfire Liability Overview

## Essential Energy

December 2016

DRAFT

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# Executive Summary

This overview should be read in conjunction with the completed Ausgrid, Essential Energy and Endeavour Energy ("the Group") Bushfire Liability Review report, which is provided separately, as it is an integral part of this overview and should be read in its entirety, together with this Executive Summary as parts considered in isolation may be misleading.

## Key Results

Based on the Applied Insurance Research ("AIR") Bushfire Model outputs and other parameters selected, Essential Energy's shared policy limit of \$860m was assessed to have a 0.11% annual probability of being exceeded. This means that the chance of incurring a loss greater than the current shared insurance limit of \$860 million is relatively low, i.e. a return period of 893 years in any given year. However, by its very nature, the damage arising from a bushfire event is catastrophic and should Essential Energy be deemed liable, the financial impact has the potential of significantly exceeding the current limit.

Table 1 below contains annual exceedance probabilities demonstrating the sufficiency across a range of potential policy limits.

**Table 1 – Sufficiency Of Policy Limits (Based on Contributory Negligence Arising from Electricity Asset Fire Start)**

Policy Limit (\$m)	Annual Exceedance Probability	Return Period (Years)
500	0.34%	291
600	0.24%	412
700	0.18%	554
<b>860</b>	<b>0.11%</b>	<b>893</b>
1,000	0.08%	1,306
1,200	0.04%	2,254
1,400	0.03%	3,794
1,600	0.02%	6,374

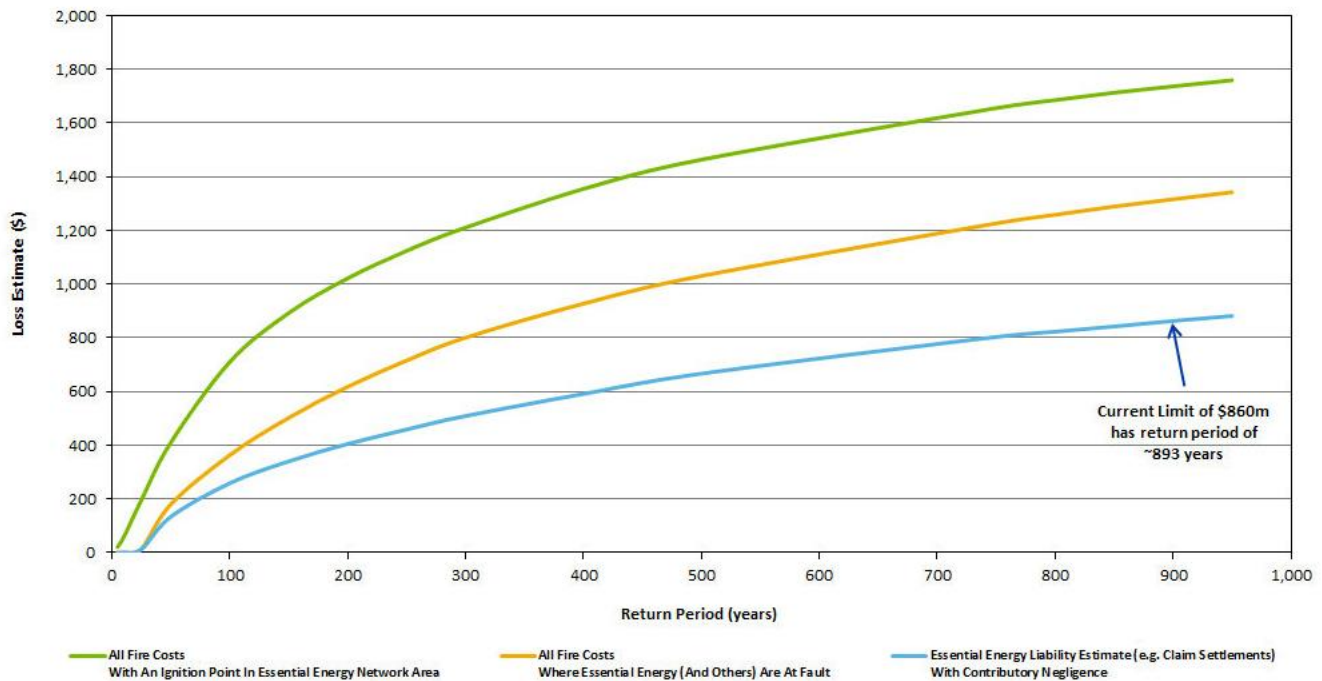
These annual exceedance probabilities are derived from all events with a fire ignition point within Essential Energy's network area (although with the potential to spread further) that are subsequently diluted to account for:

- 1 Fire ignition in Essential Energy's network areas for which electricity assets are not deemed part of the cause; and
- 2 The portion of financial liability attributed to other parties for their contributory negligence.

Chart 1 illustrates the material effect of these diluting factors have on the assessment of bushfire loss estimates. It is important that Essential Energy pay specific attention to validating these factors. This will ensure that outputs are being assessed on a reasonable basis.



**Chart 1 – Bushfire Loss Estimates Chart**



Key results are found in Appendix 1 of this report while full details of impacts and assumptions are found in Appendix 1 of the completed Group Bushfire Liability Review report; including a summarised description of the AIR Bushfire Model. Essential Energy should review these impacts and parameters to seek comfort that the full range of financial liabilities have been taken into account, and are a reasonable reflection of the risk.

At present, Essential Energy shares the \$860m policy limit with Ausgrid and Endeavour Energy; and based on the Group's analysis, the current limit would not appear to be unreasonable. To determine an appropriate level of Bushfire Liability policy limit specific for Essential Energy, it will largely be dependent on Essential Energy's risk appetite (which Aon cannot determine on behalf of Essential Energy) and the AER's stance on the cost pass-through mechanism. The decision should consider a balance of key factors as outlined in the Group's Bushfire Liability Review report under Section 2.5 – Table 2.



## Appendix 1. Key Results

**A1.1**

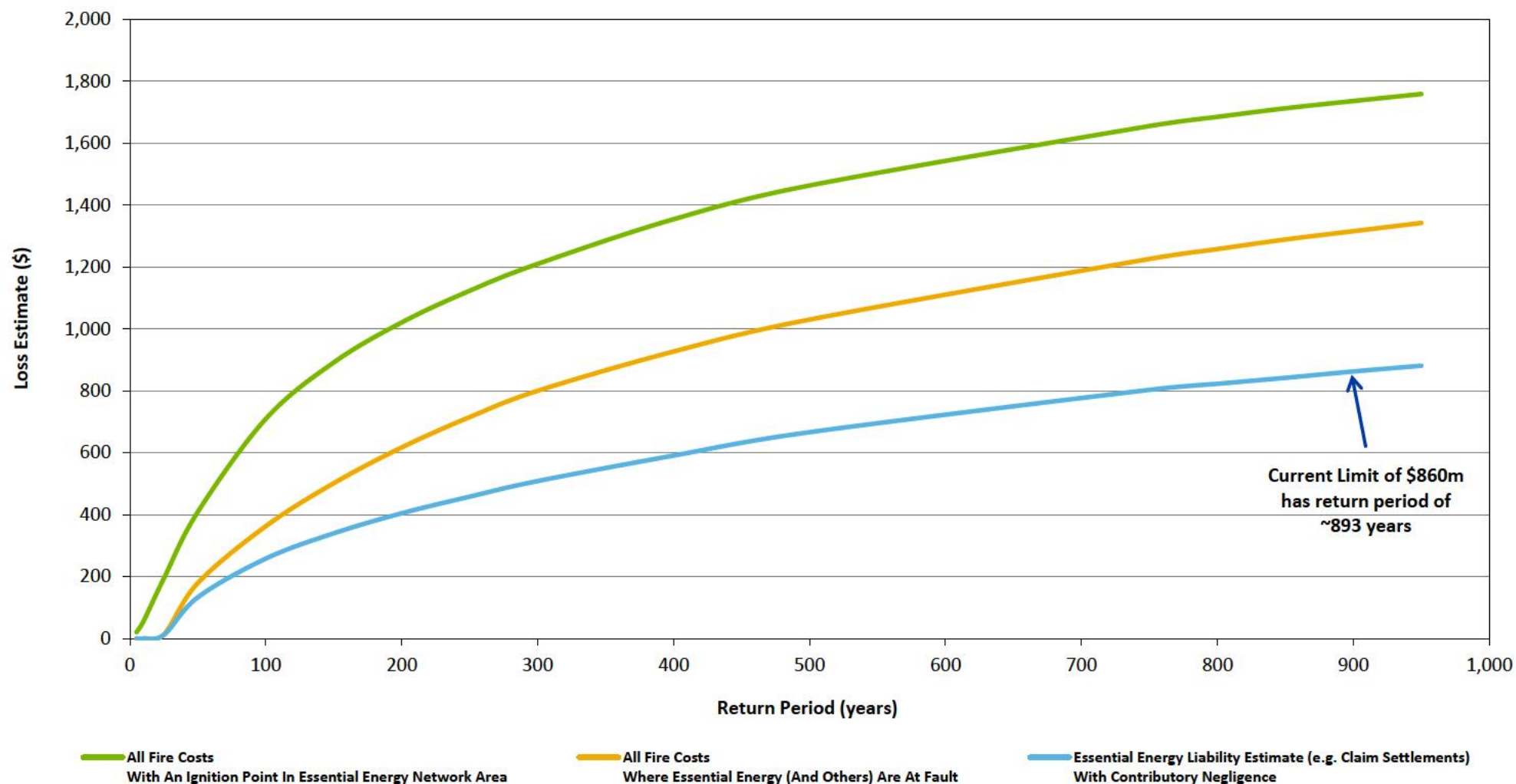
**Essential Energy Electricity Distribution Network**  
**Bushfire Liability Risk**  
**Results Table**

**Loss Estimates**

Return Period	All Fire Costs		Essential Energy Liability
	With An Ignition Point In	All Fire Costs	Estimate (e.g. Claim
	Essential Energy Network	Where Essential Energy	Settlements)
(years)	Area	(And Others) Are At Fault	With Contributory
	(\$m)	(\$m)	Negligence
			(\$m)
50	409	179	133
100	709	363	258
150	892	502	340
200	1,021	617	405
250	1,123	715	458
300	1,210	800	509
400	1,354	927	591
500	1,463	1,030	667
1,000	1,781	1,368	900
2,000	2,073	1,689	1,157
3,000	2,252	1,859	1,306
5,000	2,446	2,074	1,509
10,000	2,704	2,385	1,775
Annual Average	36.7	12.1	8.4

**Sufficiency of Policy Limits**

Policy Limit (\$m)	Annual Exceedence	
	Probability (%)	Return Period (Years)
500	0.34%	291
600	0.24%	412
700	0.18%	554
<b>860</b>	<b>0.11%</b>	<b>893</b>
1,000	0.08%	1,306
1,200	0.04%	2,254
1,400	0.03%	3,794
1,600	0.02%	6,374

**A1.2****Essential Energy Electricity Distribution Network  
Bushfire Loss Estimate Chart**



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