

Attachment 7.7

Marsh AGN Insurance Access Arrangement Report

SA Final Plan July 2021 – June 2026

July 2020

AUSTRALIAN GAS NETWORKS

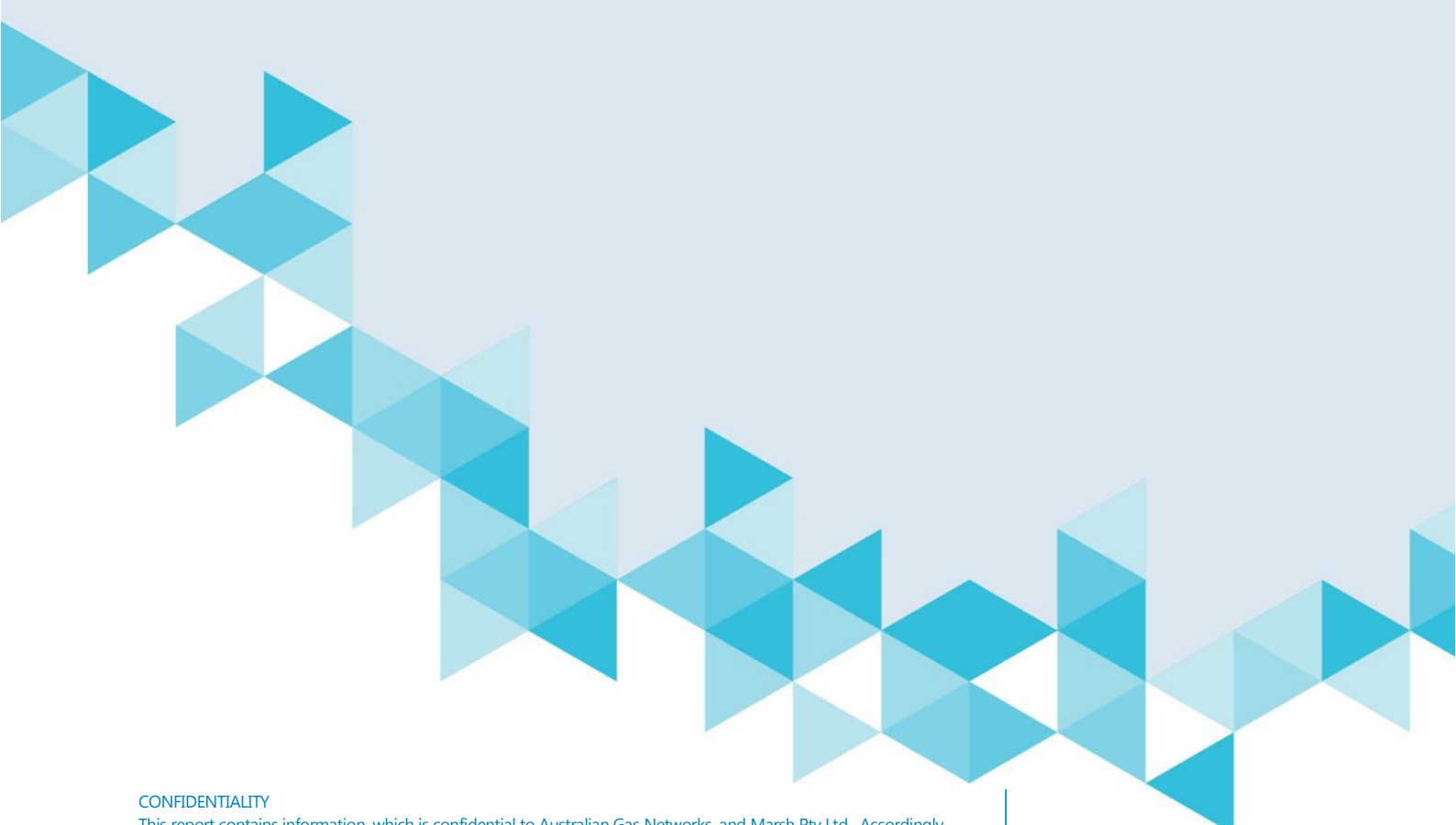
INSURANCE ACCESS ARRANGEMENT

(JULY 2021-2026) REPORT



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INTRODUCTION

Marsh has been engaged by Australian Gas Networks (AGN) to provide insurance costs forecasts for the review of its Access Arrangement for South Australia by the Australian Energy Regulator (AER).

Forecast are provided for the Industrial Special Risks (Property and Business Interruption) and Combined General Liability insurance programmes for the review period of July 2021 to June 2026.

This report contains confidential and commercially sensitive information. Marsh agrees that this report may be disclosed to the AER on a confidential basis as part of AGN's Access Arrangements Submission.

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

Except insofar as liability under statute cannot be excluded, Marsh, its directors, employees and agents will not be held liable for any loss or damage of any kind arising as a consequence of any use of the Report or purported reliance on the Report including any errors in, or omissions from, the utilised models.

The Report must be read in its entirety. Individual sections of the report 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.

David Brumpton | State Executive and Risk Management Leader, SA
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ISSUING OFFICE

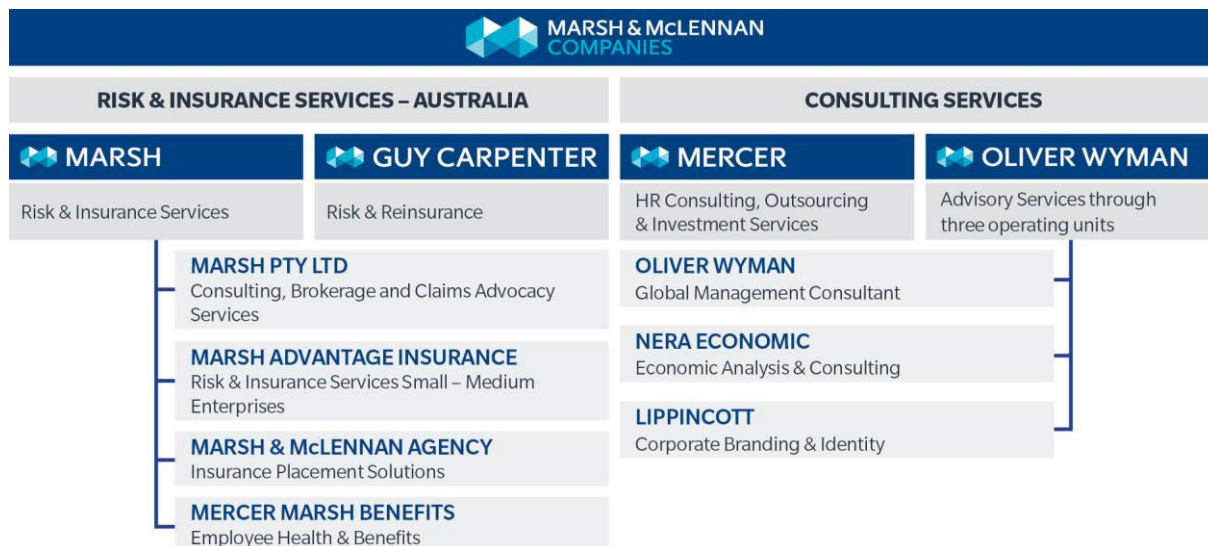
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DATE OF ISSUE

15 June 2020

ABOUT MARSH

Marsh & McLennan Companies Inc. is a global professional services firm providing advice and solutions in the areas of risk, strategy and human capital with 60,000 employees in more than 130 countries generating over \$13 billion in annual revenue. Marsh & McLennan is the parent company of Marsh, a global leader in insurance broking and innovative risk management solutions; Guy Carpenter, the risk and reinsurance specialist; Oliver Wyman Group, advisory services; and Mercer, the global provider of consulting, HR and investment services.



Marsh has been a pioneer in risk and insurance services for over 140 years. Approximately 30,000 Marsh colleagues provide risk management, risk consulting, insurance broking, alternative risk financing, and insurance program management services around the world. Marsh was established in Australia in 1953 and has over 800 staff in Australia, servicing clients from offices in every state and territory.

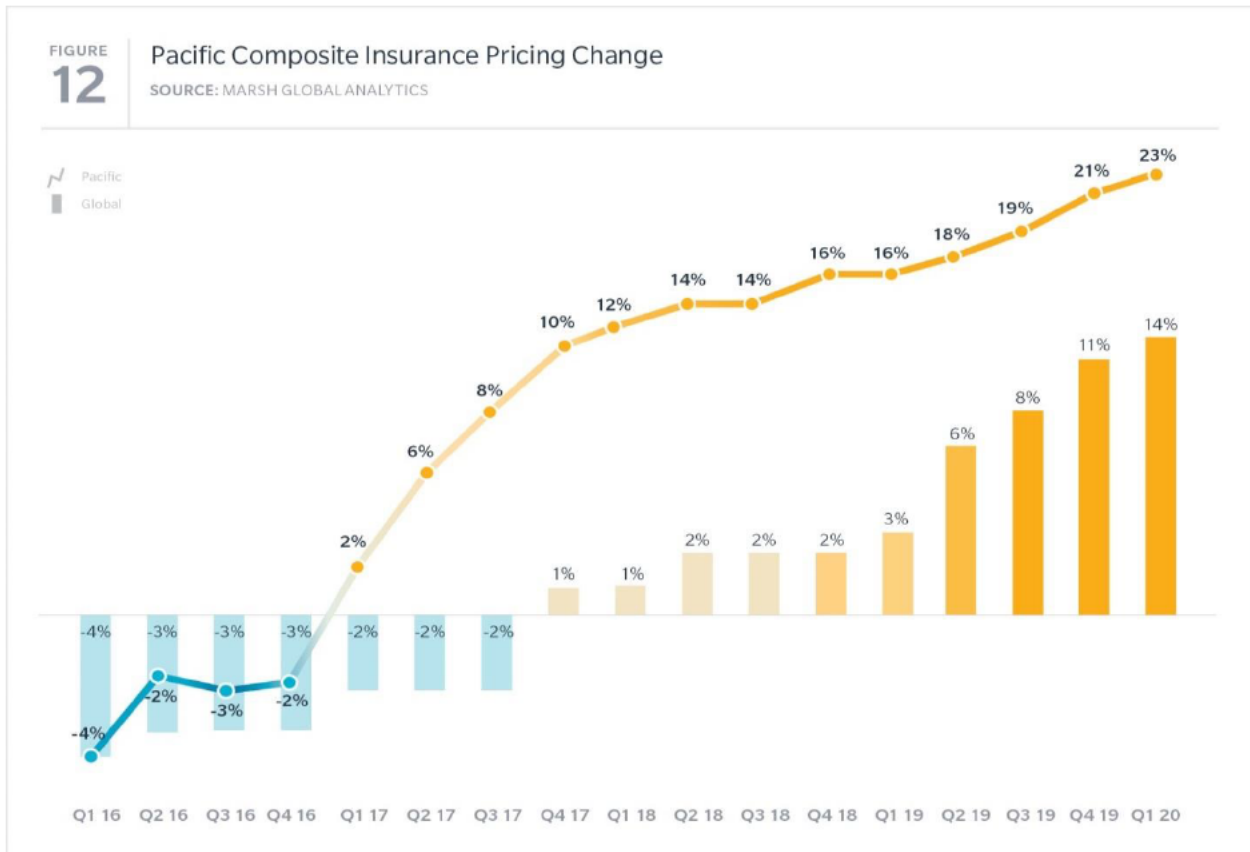
Our Website

Visit our website at www.marsh.com.au for information about our extensive range of products and services.

INSURANCE MARKET OUTLOOK

Global commercial insurance prices rose 14% in the first quarter of 2020, the 10th consecutive quarter of price increases. Although the COVID-19 global pandemic had an insignificant impact on pricing in the first quarter, the reported increase was the largest year-over-year increase in the Marsh GMI since its inception in 2012. We anticipate that COVID-19 will likely have an impact on pricing for the balance of 2020.

In the Pacific region, overall insurance pricing in the first quarter of 2020 increased 23%, continuing an upward trend that began in 2015.



Property insurance pricing increased 23% in the quarter, the tenth consecutive quarter of year-over-year double-digit increases.

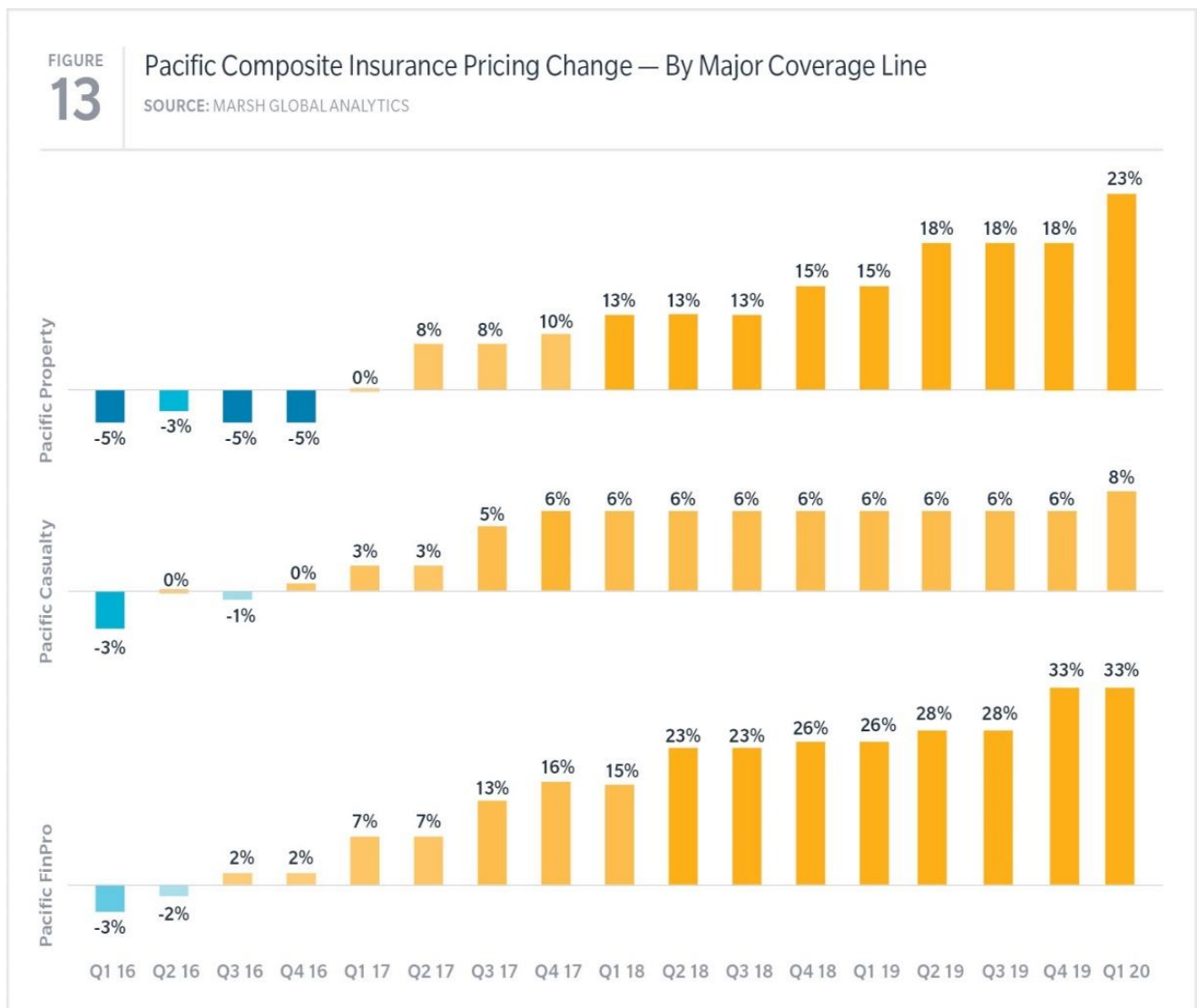
- Double-digit increases were reported for CAT and non-CAT risks. Pricing increases exceeded 30% reported for many clients.
- Property increases were mainly driven by bushfires, severe hailstorm damage, and flooding in December and January.

Casualty pricing rose 8%.

- Casualty pricing has been increasing for three years.
- Some risks are receiving increases ranging from 10% to 20%.

Financial and professional liability pricing rose more than 30% in the quarter, marking 11 straight quarters of double-digit increases.

- Conditions remained consistent with prior quarters.
- Side C-exposed listed companies experienced the largest increases, often times greater than 100%.



PREMIUM FORECAST

Overview

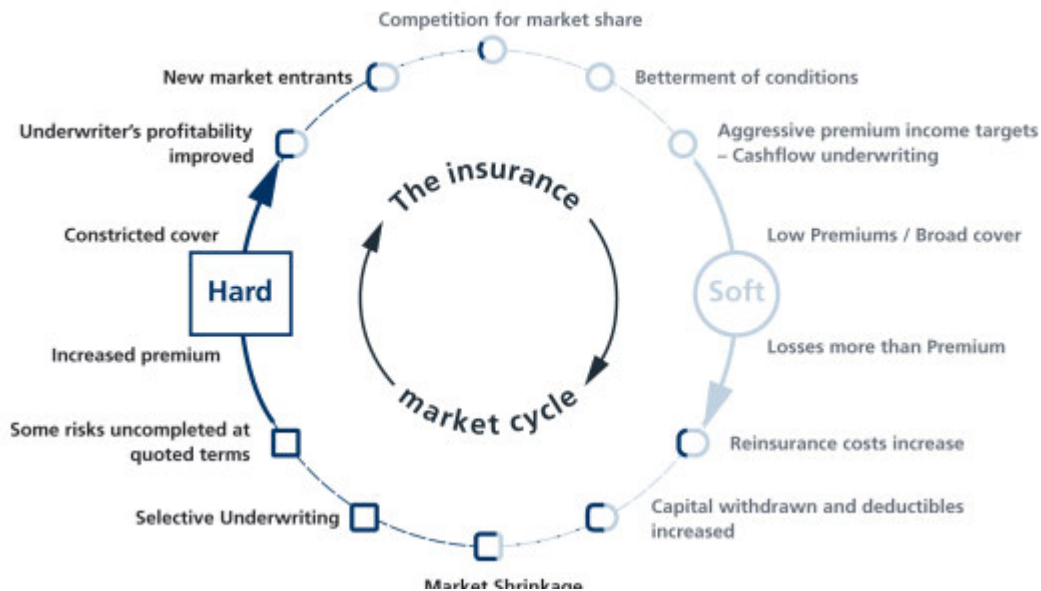
The following section provides estimates of the total premium payable by AGN across the five year period commencing 2021, with separate estimates for each year. The premiums constitute base premiums and relevant taxes and levies.

Our estimates incorporate allowance for the following insurance classes:

- Property
- Liability

Background Information

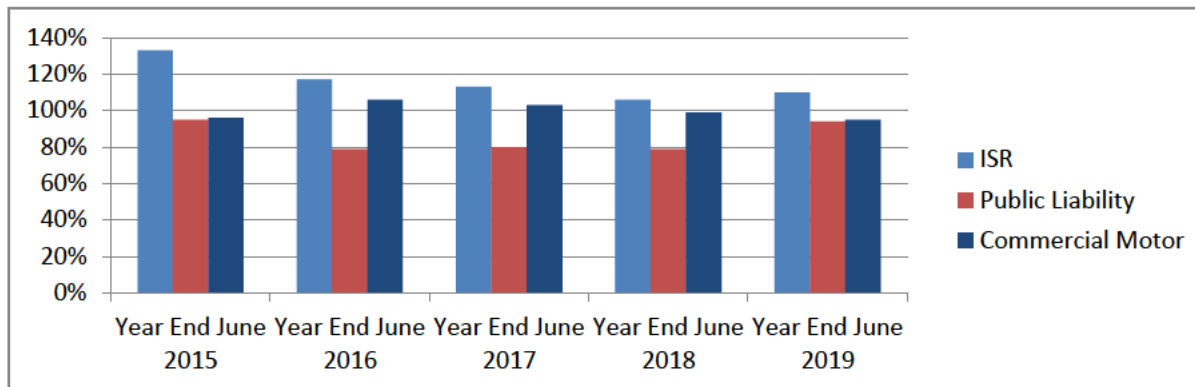
Broadly speaking the global property and casualty insurance markets oscillate between hard and soft periods demonstrating various characteristics illustrated below:



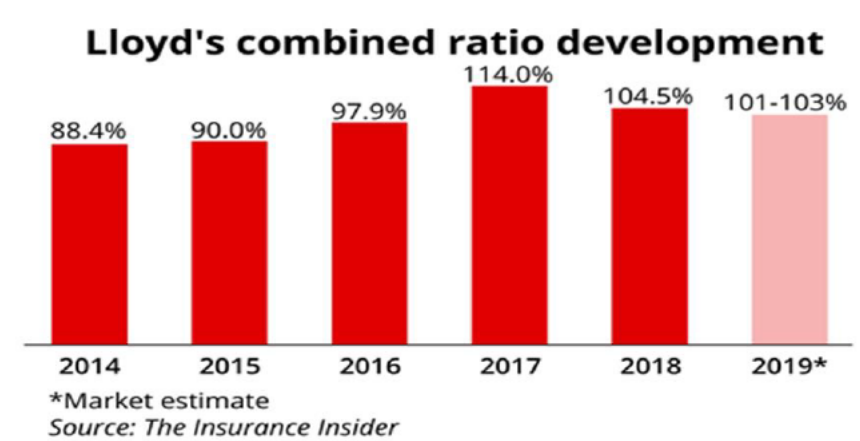
Soft markets are generally beneficial to the insured offering lower premiums, more favorable policy conditions and ample capacity. Conversely, hard markets dictate selective underwriting, shrinking capacity and higher premium levels. In between the two extremes are the transitional phases.

In contemplating AGN's insurance premiums for the access period, Marsh have considered property and casualty markets from a global perspective, as capacity is generally sought from Australia, the United Kingdom and Europe. Of note, we have not considered the possibility of one-off market shocks like catastrophe events or future financial crises in our projection. It should be noted the full impact and insurance market implications of the current COVID-19 event are still not known.

Currently the insurance market is the entered hard phase for both the Property and Liability and we anticipate the market will remain hard for the period covered by this report. This has been driven by poor underwriting loss ratios (as demonstrated in the following charts) and investment returns over the last 3 to 5 years:



Reference APRA Quarterly Statistics June 2019



When reviewing these premium estimates, we draw your attention to the following subjectivities:

- Premiums are estimates only and subject to change
- Premiums are based on the current conditions and parameters of the AGN covers
- Estimates assume there are no significant changes to AGN's risk profile or claims experience over the projection period

All statutory charges including GST Stamp Duty and terrorism levy are based on rates as at 27 May 2020, and are subject to change based on the final structure of the programme.

Marsh's Power and Utilities practice specialises in providing insurance and risk advisory services across the energy sector which includes gas transmission and distribution. We design and place insurance programmes for a range of clients in this space ranging from small companies to large multinational corporations. Our specific experience in your sector as outlined in the appendices.

To provide our indications we have used a combination of internal knowledge or our owned client portfolio in the sector and external views of the future of the insurance market including analysis reports, insurance company results, market surveys, regulator reports and insurance market media commentary.

The opinions and estimates contained in this report constitute our best judgement as of the date of the Report and are subject to change without notice. In our judgement, we have employed techniques and assumptions that are appropriate, and the conclusions presented are reasonable, given the information currently available.

Market Cycle Premium Forecasts

YEAR	PROPERTY	LIABILITY
2021	15%	20%
2022	10%	15%
2023	5%	10%
2024	0%	5%
2025	0%	0%

Property Premium Projections

Loss Experience

POLICY YEAR	NUMBER OF CLAIMS	NET PAID	NET OUTSTANDING	TOTAL INCURRED
30/6/15 to 30/6/16	Nil	-	-	-
30/6/16 to 30/6/17	Nil	-	-	-
30/6/17 to 30/9/18	Nil	-	-	-
30/9/18 to 30/9/19	Nil	-	-	-
30/9/19 to 30/9/20	Nil to Date	-	-	-

Coverage Assumptions

Limit	Combined Section 1 Material Damage & Section 3 Consequential Loss	\$250,000,000
	Combined Section 2 Engineering Special Risks & Section 3 Consequential Loss	\$100,000,000
Deductibles	Material Damage:	\$500,000
	Consequential Loss:	
	All SA & VIC Metro Assets:	\$1,000,000
	All QLD Metro Assets:	\$750,000
	All QLD Regional Assets for Flood & Weather related perils only:	\$750,000
	All Other Assets:	\$500,000
Indemnity Period	12 Months	

Projection Approach

Our Industrial Special Risks (ISR) premium projections are largely based on an exposure method, which utilises rates applied to insurable values. We have selected this method given the historical claims experience and the expectation changes in the ISR premium are related to movements in the declared values.

We have AGN's current declared (2019/2020 policy period) values and premiums and have adjusted these based on the average change in value over the last 4 years, when setting the comparison premium for the 2020 – 2021 premium. The premium rate used for the 2020-2021 comparison figures is based on early discussions with the current insurers.

Total declared values for 2021 to 2026 are a combination of the estimated RAB values and turnover for each year.

In terms of future market movements, the insurance market is entering a hard and tight market cycle and we do not anticipate this will be corrected by the time the Access Period agreement commences.

Premium Projections

POLICY YEAR	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Combined Base Rate (excluding charges)	██████████	██████████	██████████	██████████	██████████
SA Declared Values (assets and Revenue)	\$1,996,520,000	\$2,072,830,000	\$2,153,110,000	\$2,232,020,000	\$2,307,990,000
Premium Forecast (including charges)	██████████	██████████	██████████	██████████	██████████
Variance to Previous Year	██████████	██████████	██████████	██████████	██████████

Note 2019/2020 property premium including statutory charges: ██████████

Liability Premium Projections

Loss Experience

POLICY YEAR	NUMBER OF CLAIMS	NET PAID	NET OUTSTANDING	TOTAL INCURRED
30/6/15 to 30/6/16	2	Nil	-	Nil
30/6/16 to 30/6/17	Nil	-	-	-
30/6/17 to 30/9/18	Nil	-	-	-
30/9/18 to 30/9/19	Nil	-	-	-
30/9/19 to 30/9/20	Nil to date	-	-	-

Coverage Assumptions

Limit	General Liability	\$200,000,000 any one occurrence.
	Products Liability	\$200,000,000 any one occurrence and in the aggregate any one Period of Insurance.
	Advertising Liability	\$200,000,000 any one Occurrence
	Financial Loss/Failure to Supply	\$200,000,000 any one Occurrence
	Professional Indemnity	\$50,000,000 any one occurrence and in the aggregate any one Period of Insurance.
Deductibles	Worker to Worker claims	\$100,000 any one occurrence
	All other claims	\$25,000 any one Occurrence

Projection Approach

Our liability premium projections are based on our review of the risk exposures and benchmarking with AGN's peers. Given the nature of AGN's operations within the regulatory environment, its revenue, which is often used as a measure for other types of business for liability insurance does not appear to be a good measure in this case. Hence, we have relied solely on our understanding of the insurance market in particular in respect of other similar exposures, incorporating any future market movements.

Premium Estimates are based on the current level of cover, which is considered appropriate for the current exposures. The projections will be affected if there is deterioration in the claims experience of the group.

Premium Projections

POLICY YEAR	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Premium Forecast (including charges)	██████████	██████████	██████████	██████████	██████████
Variance to Previous Year	██████████	██████████	██████████	██████████	█

Note 2019/2020 Liability premium including statutory charges: ██████████

Summary

POLICY YEAR	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total Premium (Property & Liability)	██████████	██████████	██████████	██████████	██████████
Property yearly Variance	██████████	██████████	██████████	██████████	██████████
Liability yearly Variance	██████████	██████████	██████████	██████████	█
Total Variance to Base	██████████	██████████	██████████	██████████	██████████



APPENDICES

[APPENDIX A](#)
SCHEDULES

[APPENDIX B](#)
IMPORTANT NOTICES

[APPENDIX C](#)
TERMS OF ENGAGEMENT

[APPENDIX D](#)
FINANCIAL SERVICES GUIDE

[APPENDIX E](#)
CLASSES OF INSURANCE AVAILABLE

[APPENDIX F](#)
PRODUCT DISCLOSURE STATEMENT

[APPENDIX G](#)
COVER REQUEST

APPENDIX A

ABOUT MARSH

Marsh and McLennan Companies Inc

Marsh & McLennan Companies Inc. (MMC) is a global professional services firm providing advice and solutions in the areas of risk, strategy and human capital with 75,000 employees in more than 130 countries generating over \$15 billion in annual revenue.

MMC is publicly-held company listed on the New York, Chicago and London Stock Exchanges. MMC is the parent company of four operating companies – Marsh, Guy Carpenter, Oliver Wyman and Mercer.

Marsh is a world leader in risk and an insurance services, **Guy Carpenter** is a risk and reinsurance specialist. **Oliver Wyman Group** provides advisory services and **Mercer** is a global provider of consulting, HR and investment services.

Marsh & McLennan's website address is www.mmc.com.

Marsh

Marsh is a world leader in delivering risk and insurance services and solutions to clients and has been a pioneer in risk and insurance services for more than 145 years. Approximately 35,000 Marsh colleagues around the world provide risk management, risk consulting, insurance broking, alternative risk financing and insurance program management services.

Marsh Pty Ltd

Marsh was established in Australia in 1953 and has been servicing clients and placing insurance into the local and international insurance markets for more than 60 years. With more than 1,700 staff nationwide, Marsh operates from 33 offices located across all states and territories.

APPENDIX B INDUSTRY EXPERIENCE

Below we have outlined our relevant industry credentials.

SA Teams - Electricity & Gas Generation, Distribution and Transmission Clients

- | | |
|--------------|--------------|
| ▪ [REDACTED] | ▪ [REDACTED] |
| ▪ [REDACTED] | ▪ [REDACTED] |
| ▪ [REDACTED] | ▪ [REDACTED] |

Australia Energy and Power Clients

- | | | | |
|--------------|--------------|--------------|--------------|
| ▪ [REDACTED] | ▪ [REDACTED] | ▪ [REDACTED] | ▪ [REDACTED] |
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DAVID BRUMPTON

Chief Client Officer – Energy, Pacific
State Executive - SA | Adelaide

Experience

David has over 36 years' insurance industry experience, including 25 years in corporate insurance broking roles and five years in specialist risk and insurance analyst roles.

David's industry experience includes construction, mining, energy, industrial and government clients, and he has worked for the largest global insurance brokers in various client service and account management roles.

Following Marsh's acquisition of JLT, David has taken on the role of State Executive for South Australia.



DAVID STANBOROUGH

Managing Director – Placement (Property) Australia
Melbourne

Experience

David has 36 years' insurance industry experience and has provided placement and broking strategic support to leading organisations across a wide range of industry sectors. Commencing as an Account Executive before promotional movements to Account Director, National Placement Manager and National Property and Energy Manager at various global broking firms, based in Australia.

He has significant experience in placing complex programs in the energy and resources sectors and has a detailed understanding of the unique risks associated with these industries, along with effective mitigation strategies to address them. David has led the placement of significant onshore Construction and Property risks for Woodside Energy, Beach Energy, Inpex LNG project, Wheatstone LNG project and Origin.



JEREMY ROWSELL

Managing Director – Placement (Liability) Australia
Sydney


Experience

Over the past 27 years, Jeremy has placed complex casualty programs across a number of key international markets including the UK, Africa and the Asia-Pacific. He also has extensive experience with power and energy accounts. Having worked in both the Australian and broader Lloyds and London markets, Jeremy can leverage significant expertise in the negotiation and successful placement of clients' programs. He is extremely adept at being innovative and creating beneficial solutions for his clients.



NEXT STEPS

For more information about how you can benefit from our services, please contact your Marsh Adviser, or phone **1800 194 888**.



Marsh is a global leader in insurance broking and innovative risk management solutions, Marsh's 30,000 colleagues advise individual and commercial clients of all sizes in over 130 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With annual revenue over US\$14 billion and nearly 65,000 colleagues worldwide, MMC helps clients navigate an increasingly dynamic and complex environment through four market-leading firms. In addition to Marsh, MMC is the parent company of Guy Carpenter, Mercer, and Oliver Wyman. Follow Marsh on Twitter @MarshGlobal; LinkedIn; Facebook; and YouTube, or subscribe to BRINK.