



Appendix L

Workers Compensation Self Insurance Risk Quantification

11 September 2006

Mr D Johnstone
Business Risk and
Corporate Services Manager
ElectraNet SA
PO Box 7096
Hutt Street Post Office
ADELAIDE SA 5000

Dear Mr Johnstone,

Workers Compensation

**Outstanding Claims Investigation and Amount Required for a Guarantee
as at 30 June 2006**

I have pleasure in enclosing my report and certificate on the outstanding liability and financial guarantee of ElectraNet SA.

I look forward to discussing the report with you.

Yours sincerely,

L C Brett

ELECTRANET PTY LIMITED

**CERTIFICATE AS TO THE ADEQUACY OF PROVISION FOR
OUTSTANDING WORKERS' COMPENSATION CLAIMS AND
THE AMOUNT REQUIRED FOR A GUARANTEE
AS AT 30 JUNE 2006**

In accordance with Sections 8(1)(b) and 10(2) of the Fourth Schedule of the Regulations to the Act, I have investigated the Company's outstanding workers' compensation claims as at 30 June 2006 and expected incurred claims and claim payments for the year ending 30 June 2007. The results of my investigation, which have been produced in accordance with the guidelines for actuarial assessments as required by the Corporation, are contained in my report dated 11 September 2006.

The conclusion I have reached is that an appropriate provision for outstanding claims as at 30 June 2006 would be \$26,000. I estimate the amount to be guaranteed under Section 10 to be \$650,000.

L C Brett
Fellow of the Institute of Actuaries of Australia

11 September 2006

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Mr D Johnstone
Business Risk and
Corporate Services Manager
ElectraNet SA
PO Box 7096
Hutt Street Post Office
ADELAIDE SA 5000

Dear Mr Johnstone,

Workers Compensation

**OUTSTANDING CLAIMS INVESTIGATION AND AMOUNT REQUIRED
FOR A GUARANTEE AS AT 30 JUNE 2006**

1. Introduction and Terms of Reference

- 1.1 Since 1 November 2000, Electranet SA has been an Exempt Employer under Section 60 of the Workers Rehabilitation and Compensation Act, 1986.

ElectraNet SA is the trading name of the former transmission arm of ETSA Corporation and has taken over the workers compensation liabilities of current employees and former employees of the transmission business of ETSA Corporation, excluding any asbestos related claims.

- 1.2 We have been asked by the Company to prepare an actuarial report in respect of:-
- (a) outstanding claims liabilities as at 30 June 2006 in terms of Section 8(1)(b) of the Fourth Schedule of the Regulations to the Act, and

(b) the amount to be guaranteed under Section 10 of the Fourth Schedule of the Regulations to the Act. The amount of the guarantee, which is subject to a minimum of \$650,000, is determined by the Corporation and comprises 175% of:-

- (i) the outstanding claims liability as at 30 June 2006, plus
- (ii) the projected liabilities in respect of incurred claims for the year ending 30 June 2007, less
- (iii) the projected claim payments made during the year ending 30 June 2007 in respect of all claims incurred up to 30 June 2007.

1.3 This valuation has been undertaken on the basis that Electranet continues to operate as an Exempt Employer.

1.4 Our report is set out as follows:-

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2. *Summary*

2.1 **Outstanding Liability Estimate as at 30 June 2006**

- 2.1.1 Our estimate of the outstanding liability as at 30 June 2006, allowing for future claims inflation at 4.0% per annum and discounting expected claim payments at the rate of 5.8% per annum, is **\$26,000**, determined as follows:-

	\$
For reported claims still open at 30 June 2006	0
Plus: allowance for reopenings, IBNR's	24,000
	<hr/> 24,000
Plus: 8% for administration expenses	2,000
Estimated outstanding liability	<hr/> 26,000 <hr/>

- 2.1.2 Our assessment of the outstanding claims liability is a central estimate, which is an estimate that is neither deliberately overstated nor understated.

2.2 **Bank Guarantee**

The amount of the Bank Guarantee at 30 June 2006 is **\$650,000**, determined as follows:-

Outstanding liability as at 30 June 2006, plus	\$ 26,000
Projected liabilities for the year ending 30 June 2007, less	\$ 36,000
Projected claim payments for the year ending 30 June 2007	\$ 10,000
	<hr/> \$ 52,000
Plus 75%	\$ 39,000
	<hr/> \$ 91,000 <hr/>

Subject to a minimum of \$650,000.

3. *Information*

3.1 The information available for this investigation included:

- * Lists of claims containing the following claim details:-
 - claim number
 - description of injury
 - date of injury
 - amounts paid to 30 June 2006
 - outstanding estimates
 - claim status (open or closed).
- * Information regarding the number of employees and remuneration.
- * Details of the Company's reinsurance arrangements.

3.2 A summary of the claims data supplied is set out in Appendices A and B.

3.3 We have relied on the data provided. Independent verification of the data has not been undertaken but it has been reviewed for reasonableness and consistency.

4. *Methodology of Outstanding Claims Investigation*

4.1 Introduction

4.1.1 The number of claims incurred since 30 September 1987 is very small. As at 30 June 2006 there were no reported claims regarded as open. Accordingly, an estimated outstanding liability as at 30 June 2006 in respect of incurred but not reported claims (IBNR) and for reopened claims only was required. An allowance for claims handling expenses was also made. Future claim costs were projected allowing for inflation and discounted for investment returns.

4.1.2 Our assessment of the outstanding claims liability is a central estimate, which is an estimate that is neither deliberately overstated nor understated.

4.2 IBNRs, Reopenings, Escalation of Claim Costs

An allowance was made for the following contingent liabilities:-

- (i) claims incurred which had not been reported at the time of our examination of the claims files (i.e. "IBNR" claims), and
- (ii) claims incurred which are regarded as finalised but in respect of which there may actually be further payments to make (e.g. recurrence of the injury).

4.3 Administration Expenses

In accordance with WorkCover guidelines, claims administration expenses have been taken as 8% of future claim payments.

4.4 Projection Assumptions

The estimated outstanding liability is initially expressed in current values. Adjustments were made to allow for:-

- (a) future claim inflation, and
- (b) future investment returns by discounting expected future claim payments.

5. *Results of Outstanding Claims Investigation*

5.1 Reported Claims Still Open at 30 June 2006

There were no reported claims open at 30 June 2006.

5.2 Allowance for IBNR Claims and Reopened Claims

- 5.2.1 The past claims history under WorkCover to 31 October 2000, of the transmission business of ETSA comprised only 25 claims, all of which were finalised with total claim payments of \$180,151. Clearly this portfolio has had an exceptionally light claims history, averaging about 2 claims per annum with average claim costs of \$10,800, in current dollars.
- 5.2.2 For the period 1 November 2000 to 30 June 2006 there have been 22 claims with payments to date of \$209,877. These 22 claims are equivalent to 4 claims per annum since Electranet became an Exempt Employer. The average claim size is \$11,049, in current dollars, for these claims.
- 5.2.3 There has been one very large reported claim since Electranet became self-insured which was eventually redeemed for a total cost of \$200,071. Removing this very large claim from the experience reduces the total claim payments of the 46 remaining claims to \$189,958, of which only \$9,806 is in respect of 21 minor claims made since Electranet became an Exempt Employer. Furthermore, not one claim which was incurred prior to 1 November 2001 has been re-opened since that date.
- 5.2.4 As Electranet is liable for all claim costs in respect of the re-opening of closed claims, not only claims incurred since self-insurance but also claims incurred prior to self-insurance, that is, from 30 September 1987 to 31 October 2000, I consider an amount of \$20,000, in current dollars, is appropriate for the liability for reopenings.
- 5.2.5 Taking into account the possibility of an IBNR claim for, say \$5,000, which is about the average claim size for all claims, excluding the very large claim, I consider an appropriate outstanding liability for this portfolio to be **\$25,000**, in current values.

5.3 Administration Expenses

The adjusted provision should then be increased by a further 8% to allow for the costs involved in administering the claims run-off.

5.4 Estimation of Outstanding Liability

Our estimate of the outstanding liability as at 30 June 2006, in current values, for claims incurred prior to 30 June 2006 is therefore **\$27,000**, determined as follows:-
\$

For reported claims still open at 30 June 2006	0
Plus: allowance for reopenings and IBNR claims	25,000
	<hr/>
	25,000
Plus: 8% for administration expenses	2,000
	<hr/>
Estimated outstanding liability	27,000
	<hr/>

5.5 Inflation

- 5.5.1 Our estimate of the outstanding liability as at 30 November 2006 is \$27,000, in current values. We also have to consider any adjustments which may be necessary for the effects of increases in benefit levels and other costs due to future inflation.
- 5.5.2 Statutory benefits are increased annually in line with wage inflation. Other costs such as hospital and medical are also expected to rise broadly in line with inflation. Having regard for various economic forecasts of wage and price inflation, we have assumed future claims inflation of 4.0% per annum.
- 5.5.3 It is our experience that the overall level of payments increases at a faster rate than inflation. This is referred to as superimposed inflation and it arises from such things as precedent setting court awards and a tendency for claimants to stay on benefits longer as the scheme becomes better understood. Having regard for the assessment of future claims, we consider that it is not necessary to make any specific assumptions about superimposed inflation.

5.6 Discount Rate

5.6.1 The additional claim costs caused by inflation may be offset by discounting future payments to allow for future investment earnings. Since claim payments and the liability for outstanding claims are tax deductible, future payments may therefore be discounted using a gross of tax interest rate.

5.6.2 Gross interest rates at 30 June 2006 ranged between 5.9% per annum for 90 day bank bills to 5.8% per annum for 3 year bonds, and 5.8% per annum for 5 year bonds. Taking into consideration the average term for outstanding claims, we consider that it would be reasonable to assume a gross rate of interest of 5.8% per annum.

5.7 Estimated Liability

5.7.1 Based on an average term for outstanding claims, our estimate of liabilities should be reduced from **\$27,000** to **\$26,000**.

5.7.2 The estimate is comprised as follows:-

Reported claims open at 30 June 2006	\$ 0
Reserves for Re-openings and IBNR	\$ 24,000
	<hr/>
	\$ 24,000
Administration Reserve	\$ 2,000
	<hr/>
	\$ 26,000
	<hr/>

5.8 Central Estimate

You will appreciate that the processes used in reaching the estimate are statistical in nature and, as such, there can be variation from the results. The estimates made on the available information are in the nature of a central estimate which has an equal chance of eventually proving to be too high or too low. That is, our outstanding liability estimate of **\$26,000** is neither deliberately over stated nor understated.

6. Bank Guarantee

6.1 Level of the Guarantee

The amount to be guaranteed under Section 10 of the Fourth Schedule of the Regulations to the Act is determined by the Corporation and comprises 175% of:-

- (i) the outstanding claims liability as at 30 June 2006, plus
- (ii) the projected liabilities in respect of incurred claims for the year ending 30 June 2007, less
- (iii) the projected claim payments made during the year ending 30 June 2007 in respect of all claims incurred up to 30 June 2007.

The guarantee amount is subject to a minimum of \$650,000.

6.2 Expected Incurred Claims for Year Ending 30 June 2007

Under WorkCover, the Electranet portfolio has averaged 2.5 claims per year at an average claim cost of \$10,800, in current dollars. Since becoming self insured Electranet has averaged 3.9 claims per year (including early intervention claims) at an average claim cost of \$11,049, in current dollars (refer section 5.2).

Therefore, we consider the expected incurred claims cost for the year ending 30 June 2007 will be 3 claims at an average cost of \$11,000, that is, \$33,000.

Adding an 8% allowance for claim administration expenses increases the amount to **\$36,000**.

6.3 Expected Claim Payments for Year Ending 30 June 2007

6.3.1 There were no open claims as at 30 June 2006.

6.3.2 Our estimate for IBNR claims, in current dollars, is \$27,000 (refer section 5.4). We consider 10% of this amount will be paid during the year ending 30 June 2007, that is, \$3,000.

6.3.3 Our estimate of the claims costs to be incurred during the year ending 30 June 2007 is \$36,000, including claims administration expenses (refer section 6.2). Based on our experience of the payment patterns of a large number of exempt employers, we consider 20% of this cost will be paid during the year ending 30 June 2007, that is, \$7,000.

The total expected claim payments for the year ending 30 June 2007, including allowance for claims administration expenses is therefore, **\$10,000**.

6.3.4 In our report of 23 August 2005, we projected claim payments including 8% for administration costs for the year ending 30 June 2006 to be \$13,000. The actual payments were \$1,324 (refer Appendix B), or \$1,430 when 8% is added for claims administration costs.

6.4 Amount of the Guarantee

The amount of the Bank Guarantee is therefore **\$650,000**, determined as follows:-

Outstanding liability as at 30 June 2006 (refer Section 5.8), plus	\$ 26,000
Projected liabilities for the year ending 30 June 2007 (refer Section 6.2), less	\$ 36,000
Projected claim payments for the year ending 30 June 2007 (refer Section 6.3)	\$ 10,000
	<hr/>
	\$ 52,000
Plus 75%	\$ 39,000
	<hr/>
	\$ 91,000
	<hr/>

Subject to a minimum of \$650,000.

7. Conclusions

- 7.1 The outstanding liability as at 30 June 2006 is estimated to be **\$26,000**.
- 7.2 The level of the required Bank Guarantee as at 30 June 2006 is estimated to be **\$650,000**.
- 7.3 Our assessment of the liability for outstanding claims has been made with difficulty due to the small numbers of claims outstanding and the uncertainty as to the ultimate cost of individual claims. In addition, changes to legislation, economic conditions, the employers attitude, business environment, court decisions and other external influences may affect claimants attitudes to claiming and ultimately future payments. Actual future payments may therefore vary significantly from our assessment. Nevertheless, we believe the conclusions contained in this report are based on assumptions which are reasonable in current circumstances.
- 7.4 This report has been prepared in accordance with the guidelines for actuarial assessments as set out by the WorkCover Corporation and in our opinion complies with the Institute of Actuaries professional standard PS300 concerning the estimation of liabilities for general insurance and related entities.

Yours sincerely,

L C Brett
Fellow of the Institute of Actuaries of Australia

APPENDIX A : CLAIMS DATA SUPPLIED

Year Ending 30 June	Status	Number of Claims^	Amount Paid to 30.06.2006	Outstanding Estimates at 30.06.2006
			\$	\$
1988*	Closed	0	0	0
	Open	0	0	0
	Total	0	0	0
1989	Closed	6	32,491	0
	Open	0	0	0
	Total	6	32,491	0
1990	Closed	3	44,489	0
	Open	0	0	0
	Total	3	44,489	0
1991	Closed	1	851	0
	Open	0	0	0
	Total	1	851	0
1992	Closed	3	21,679	0
	Open	0	0	0
	Total	3	21,679	0
1993	Closed	1	57	0
	Open	0	0	0
	Total	1	57	0
1994	Closed	2	14,474	0
	Open	0	0	0
	Total	2	14,474	0
1995	Closed	3	24,252	0
	Open	0	0	0
	Total	3	24,252	0
1996	Closed	0	0	0
	Open	0	0	0
	Total	0	0	0
1997	Closed	3	38,966	0
	Open	0	0	0
	Total	3	38,966	0
1998	Closed	1	86	0
	Open	0	0	0
	Total	1	86	0
1999	Closed	0	0	0
	Open	0	0	0
	Total	0	0	0
2000	Closed	1	2,717	0
	Open	0	0	0
	Total	1	2,717	0
2001	Closed	4	200,799	0
	Open	0	0	0
	Total	4	200,799	0
2002	Closed	2	1,042	0
	Open	0	0	0
	Total	2	1,042	0
2003	Closed	9	4,428	0

	Open	0	0	0
	Total	9	4,428	0
2004	Closed	2	450	0
	Open	0	0	0
	Total	2	450	0
2005	Closed	4	3,048	0
	Open	0	0	0
	Total	4	3,048	0
2006	Closed	2	198	0
	Open	0	0	0
	Total	2	198	0
Totals	Closed	47	390,027	0
	Open	0	0	0
	Total	47	390,027	0

^ Excludes claims closed for no cost

* Nine months to 30 June 1988

APPENDIX B : CLAIMS DATA SUPPLIED

Injury Year Ending 30 June	PAYMENTS BY DEVELOPMENT YEAR						TOTAL
	0	1	2	3	4	5	
	\$	\$	\$	\$	\$	\$	\$
2001*	252	9,166	181,627	8,728	938	0	200,711
2002	1,042	0	0	0	0		1,042
2003	4,289	82	57	0			4,428
2004	327	123	0				450
2005	1,922	1,126					3,048
2006	198						198
Total							209,877

Payment Year Ending 30 June	Net Amount Paid
	\$
2001*	252
2002	10,208
2003	185,916
2004	9,137
2005	3,040
2006	1,324
	209,877

* From 1 November 2000 to 30 June 2001