

PREMIUM PROJECTIONS (2013/14 TO 2017/18) - EXTRACT

ELECTRANET PTY LTD

25 MAY 2012

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Executive Summary

We have estimated ElectraNet's insurance premiums for the five year period spanning 2013/14 to 2017/18. These estimates are to support ElectraNet's Revenue Proposal to the Australian Energy Regulator (**AER**).

We have estimated the total base premium for the forthcoming regulatory period to be:

2013/14	2014/15	2015/16	2016/17	2017/18	Total
2.5	2.6	2.9	3.1	3.3	14.4

The above table considers the following insurance lines:

- Industrial Special Risks (**ISR**)
- Primary and Excess Liability (**Liability**)
- Excess Workers' Compensation
- Corporate Travel
- Group Personal Accident
- Motor Vehicle
- Marine Transit
- Inpatriate Health
- Directors' and Officers' Liability (**D&O**)
- Employment Practices Liability (**EPL**)
- Directors' and Officers' Supplementary Legal Expenses (**SLE**)
- Statutory Liability (**SL**)

Our premium estimates consider inflationary pressures as well as changes in ElectraNet's risk profile and the broader insurance market.

The following table shows the average impact that each of these factors has on the annual change in the total base premium over the regulatory period.

Table 2: Drivers of Premium Changes

Driver	% Contribution
Change in Exposure	3.6%
Inflation	2.8%
Market/Other Factors	3.6%
Total	10.1%

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Purpose and Scope

Marsh Pty Ltd (Marsh) is pleased to respond to ElectraNet's request for the provision of consultancy services in estimating the annual premium costs of all existing insurance lines during the five (5) years of the new AER reset period 2013/2014 to 2017/2018. We understand that this advice is intended to support ElectraNet's Revenue Proposal for this period.

The "Premium Projections (2013/14 to 2017/18) ElectraNet Pty Ltd" report (**the Report**) has been prepared by Marsh for the sole use of ElectraNet in relation to the purpose described above. The report is not intended to be used for any other purpose and may not be suitable for any other use.

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, including the Executive Summary or extracts 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.

Whilst this report does not contain comments on the reasonableness of the programme structure we note that Marsh considers this as part of the annual renewal process.

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Reliances and Limitations

We have assumed that the information provided to us is accurate and complete in all material aspects. We have considered the reasonableness of the data but have not undertaken a complete review to verify the accuracy. In particular, we have relied on the forecasts provided by ElectraNet as indicators of future exposure. To the extent that exposure deviates from forecasts provided, our estimates will also differ.

We have utilised the future economic inflation figures provided by ElectraNet. We consider these to be reasonable.

We have projected premiums for the lines of business as requested. We have not made allowance for additional insurance which ElectraNet may consider during the reset period. To extent that additional insurance is required, our total forecast will be underestimated.

The Expected premium forecasts constitute our best estimates of how premiums are likely to move given the information provided. While we provide a range within which we anticipate premiums to fall (Low, High), it is possible that premiums may fall outside of these values.

We note that our estimates assume coverage for each line of business is unchanged from the expiring 2011/12 structure – e.g. deductibles, limits of liability, extent of coverage, lead insurer. To the extent that these aspects change, our forecasts will deviate from quoted premiums.

The projections relate to base premiums and do not include charges and levies such as GST, stamp duty and terrorism levies which will increase the total premium spend.

The opinions and estimates contained in the 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 herein are reasonable, given the information currently available.

Although Marsh has made use of generally accepted actuarial techniques, this Report does not comply with the Institute of Actuaries of Australia Professional Standard 300: Valuations of General Insurance Claims (PS 300) or APRA GPS 310.

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Data

4.1 Historical Premiums

ElectraNet has provided historical premiums for all lines of business for policy years 2007/08 to 2011/12.

Premium schedules detail the base premium, terrorism levies, GST and stamp duty totalling to the total premium. For the purposes of our analysis, we have considered only base premiums.

4.2 Historical Claims

We have been provided with claims histories for each class of business over policy years 2007/08 to 2011/12.

4.3 Historical Insurance Cover

We received detail around the current limits and deductibles for each line of business along with any changes over the past five years.

We also received information about changes to the insurance program in the recent history.

4.4 Historical Exposure Indicators

For years 2007/08 to 2011/12 we have obtained:

- Total Revenue
- Total Regulated Assets
- Total Insurable Assets
- Regulated Insurable Assets
- Number of Employees

4.5 Forecast Exposure Indicators

For years 2012/13 to 2017/18, we have been provided with:

- Total Revenue
- Total Regulated Assets
- Total Regulated Insurable Assets

4.6 Forecast Economic Indicators

ElectraNet has provided the inflation forecasts expected to be used throughout the full AER submission. The figures are based on the forecasted outlook according the Reserve Bank of Australia (**RBA**) and Commonwealth Treasury.

Forecasts have been provided for expected increases in:

- the Consumer Price Index (**CPI**) (3.1% per annum for 2012/13 and 2.5% thereafter)
- Wages (4.5% per annum between 2013/14 to 2015/16 and 5.4% thereafter).

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Methodology

Our approach to estimating premiums is not identical for each line of business. However, in deriving our estimate for each line of business we considered the following:

- Historical premium movements
- Historical variation in exposure
- Historical claims experience
- Forecasts of exposure
- Inflationary impacts
- Expected market outlook
- Impact of plausible future claims scenarios
- Other historical market factors (e.g. changes in insurers, expansion of insurance cover, changes in insurer profit margins, industry claims experience, etc.) to the extent that historical premium trends are observed which cannot be attributable to other factors

Based on consideration of these factors, we have then made assumptions about the impact of insurance premiums going forward.

We have estimated nominal base premiums for the reset period, so where required, the information above has been adjusted for historical and forecast inflation.

In addition to the Expected figures, we also estimated Low and High scenarios to indicate a range for future premiums which we would consider to be likely.

We have considered the relationship between historical premium movements and loss experience, loss exposure and changes in the broader insurance market.

5.1 Loss Experience

We have considered historical loss experience and the extent to which this has had an impact on historical premiums. In addition to insurance claims data we have also considered losses, notifications and near misses.

5.2 Loss Exposure

We have considered the relationship between ElectraNet's historical exposure to loss (as measured by indices such as revenue and assets) and historical premiums. Our choice of exposure measure differs by line of business depending on which measure(s) we consider to be most reflective of loss exposure for that particular line of business. Where a clear relationship between an exposure measure and premium is identified, we have linked our premium forecast directly to forecast changes in the relevant exposure measure.

In addition to exposure measures we have considered loss scenario information for both ElectraNet and the industry and the impact that these scenarios have on potential premiums. These scenarios are also indicative of the level of loss exposure and this is reflected in future premium levels.

5.3 Insurance market

Our forecast insurance premiums incorporate information about the current state of the market and our expectations for changes over the course of the forecast period.

We have relied on three published reports including:

- Finity, "Commercial Lines Market – Performance and Outlook" (May 2011)
- Deloitte/J.P. Morgan "General Insurance Industry Survey" (Jan 2012)
- Marsh, "Pacific Insurance Market Report" (2012)

We have utilised Marsh's own expertise to translate the information contained within these reports into impacts on ElectraNet's insurance spend.

We note that the market impacts include consideration of the capacity and competition of the specific markets in which ElectraNet's insurance is placed.

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Appendix

6.1 Definitions

The following definitions and abbreviations are used throughout this report.

AER means the Australian Energy Regulator

CPI means Consumer Price Index

D&O insurance means a Directors' & Officers' Liability insurance policy

ElectraNet means ElectraNet Pty Ltd

EPL means an Employment Practices Liability Insurance policy

Financial Lines insurances refers to the collective D&O, EPL insurance, SL and SLE

FINPRO means the Financial and Professional Services division which manages the financial lines classes of insurances at Marsh

ISR means an Industrial Special Risks insurance policy

Marsh means Marsh Pty Ltd

Other Lines insurances refers to the collective Excess Workers' Compensation, Corporate Travel, Group Personal Accident, Motor Vehicle, Marine Transit and Inpatriate Health insurance lines

RBA means Reserve Bank of Australia

Report means this report titled "Premium Projections (2013/14 to 2017/18) ElectraNet Pty Ltd"

SL insurance means a Statutory Liability insurance policy

SLE insurance means a Supplementary Legal Expenses insurance policy



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