

Ausgrid Submission

AER Insurance coverage event application draft guidance

April 2021

30 April 2021



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Australian Energy Regulator
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Dear Mr Roberts

Ausgrid appreciates the opportunity to provide its submission to the AER's draft guidance note on insurance coverage event pass through applications. We commend the AER for developing the draft guidance note, providing clarity to Network Service Providers (**NSP**) about the information requirements and pass through process well before an actual insurance coverage event occurs.

We support the guiding principles underlying the draft guidance and agree that these rely on established regulatory frameworks and good corporate governance and practices. On this basis, we believe that the proposed information requirements under the guidelines should not result in an additional compliance burden on an NSP over and above what a prudent and efficient NSP would normally have done to manage its risks associated with insurance triggering events, such as bushfires.

We fully support the AER's draft decision not to benchmark insurance policies across NSPs. As previously submitted, our view is that each NSP's network and risk profile is different and therefore the premium cost for transferring this risk to an insurance provider will vary. This would make benchmarking unhelpful and potentially ineffective.

The AER's draft decision to not have an annual information provision process is a sensible outcome given that this information will provide only limited value prior to a pass through event actually occurring. We note that providing historical information and market conditions prior to an actual insurance coverage event will effectively provide the AER with an annual view of the NSP's insurance position. Given the level of detail required in the proposed information to be provided by NSPs under the draft guidance note, the provision of such information on an annual basis would have unnecessarily increased the reporting burden to NSPs, for limited benefit.

We set out below our responses to the specific questions raised by the AER for each category of information proposed to be provided by an NSP to support an insurance coverage event application.

If you would like to discuss our submission in more detail, please contact [REDACTED]

Yours sincerely

[REDACTED]

Alex McPherson
Head of Regulation & Pricing

Consultation questions


1. For each of the following categories of information, do stakeholders agree they are relevant? Please provide details about why or why not.

Categories of information	Ausgrid's response
Historical information and market conditions prior to the event	<p>Yes, this information is relevant. We agree with the purpose of the information which is to enable the AER to understand significant changes to an NSP's insurance policy and the rationale for these movements. This information will also provide the AER with some understanding of the prevailing insurance market conditions prior to the occurrence of the cost pass through event.</p> <p>It is important for the AER to understand the prevailing market conditions at the time of insurance coverage, and their impact on renewal decisions by NSPs. As provided in our October 2020 submission, Ausgrid renewed its bushfire insurance limit with the commercial insurance market earlier than usual in 2020 to mitigate the risk of rising general liability (including bushfire) premiums and to lock in capacity offered by insurers.</p>
Modelling analysis of possible losses from insured events	<p>Yes, this information is relevant to demonstrate that the NSP has acted prudently and efficiently.</p> <p>As provided in our October 2020 submission, quantitative analysis of the probability of a fire start by an NSP and the value of bushfire consequence should be an integral part of an NSP's assessment of whether it is prudent to provide coverage by insurance market products. This should be considered to determine if the benefit and potential risk mitigation of an insurance product and subsequent premium outweighs the benefit to customers.</p>
Risk mitigation considerations and actions	<p>Yes, this information is relevant to demonstrate that the NSP has undertaken adequate levels of risk mitigation actions and measures to manage its overall risk with bushfires.</p> <p>As proposed in our submission and adopted in the draft guidance note, this information should include bushfire preparedness program, vegetation maintenance program and any technical solutions that have been implemented to mitigate any bushfire risk.</p> <p>Ausgrid appointed an independent industry expert to conduct a high-level overview of its bushfire related strategies, plans, practices and task completion to assess the business' overall level of preparedness leading into the 2019/20 summer bushfire season. Reviews of this type fall within this category of information.</p>
Customer engagement	<p>The draft guidance note proposed that customer engagement could be undertaken during the reset process or when there are material changes in the insurance market (such as withdrawal of capacity from the market).</p>

	<p>While customer engagement is desirable if there is a material change in insurance market conditions, it may be impracticable to do so given time constraints with the insurance renewal process.</p> <p>This is because the insurance renewal is an annual process, conducted over a short window of time, that reflects changing market conditions year to year and includes sensitive insurance pricing information during negotiations.</p> <p>As previously submitted, we support engaging with customers during the process of developing a five year regulatory proposal.</p>
<p>Appropriateness of cover, structure and premiums</p>	<p>Yes, we agree some of this information is relevant. This information could enable the AER to understand the rationale behind an NSP's ability to demonstrate that the NSP has acted prudently and efficiently in deciding its chosen cover, given its operating environment.</p> <p>We note that the AER expects that the NSP's insurance broker should provide a report about the reasonableness of the NSP's insurance policy based on the market conditions at the time with a level of detail that is capable of being reviewed by an independent expert. Ausgrid thinks it appropriate that the independent broker is agreed to by the NSP.</p> <p>In the event of an insurance pass through application, we would seek to provide our insurance broker's report and we support the AER procuring an independent review (on a confidential basis) to facilitate the assessment of the insurance pass through application. We expect that such a review would be provided to the NSP as part of the pass through process.</p>
<p>Corporate and risk governance</p>	<p>Yes, we agree this information is relevant to understand the NSP's corporate governance and risk management framework and demonstrate that the NSP has appropriate processes to review and manage insurance liability exposure.</p> <p>It is important to understand the NSP's overarching governance and risk management framework to inform the assessment of the NSP's choice of insurance cover.</p> <p>Ausgrid has maintained a low risk tolerance when obtaining insurance, in line with our Risk Appetite Statement, where environmental and safety risks, such as bushfire risk, is characterised as 'risk-sensitive'.</p>

2. Is there any other related information or processes in each category that stakeholders consider relevant for the outlined purpose? Please detail any additional information that you consider should be taken into account.

The information and processes outlined by the AER under each category of information is comprehensive and has considered the information proposed in our submission. We have no other information to add.

A scenic landscape at sunset. A paved road with a dashed white line curves through a wooded area. A utility pole with power lines stands in the middle ground. The sky is a mix of blue and orange, with the sun setting behind distant hills. The trees are silhouetted against the bright sky.

Thank you

