



30 April 2021

Mr S Roberts
General Manager Transmission and Gas
Australian Energy Regulator

By email: AERInquiry@aer.gov.au

Dear Mr Roberts

Draft guidance note on insurance coverage pass through events

CitiPower, Powercor, United Energy and SA Power Networks welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft guidance note on insurance coverage pass through events.

We largely support the AER's draft guidance note as described below.

The information requirements are broadly reasonable, however they should not be prescriptive

We consider the proposed information requirements are generally reasonable and broadly reflect the type of information a prudent network should document and record regarding their insurance coverage and the process of obtaining a policy. Due to the very complex nature of the general liability insurance products for electricity networks, it is reasonable to expect evidence of a decision-making process for key elements of the insurance cover and how it relates to the different risk profiles and risk appetites of each business.

However, it is important there is sufficient flexibility in information requirements to allow for each network's situation and circumstances at the time of obtaining insurance, particularly regarding expectations of options analysis and the level of customer engagement.

We caution against expectations of detailed cost-benefit options analysis for general liability insurance products. All electricity networks, regardless of their individual risk profile, are price takers in the tight specialised insurance market. This is particularly evident in the current market where networks are losing coverage while premiums are increasing. As price takers, the options analysis of insurance products will be limited to options presented to each network by insurance providers, and in some cases that may only be one.

We recommend the options analysis be focussed on the key elements and decision points in the overall insurance package, for example decisions on deductible options, top level of cover and gaps in coverage. Given the way insurance cover is built up through a stack of various and numerous different insurance products, there are potentially hundreds of variants in any options analysis. It would be unduly cumbersome to expect networks to consider every feasible option. Similarly, the information required to be presented to Board and Executive Management should be focussed on key elements and decision points for the insurance cover. It would be unreasonable to expect Boards and Senior Executives to dive into the full detail and analysis of numerous insurance options – this depth of detail is reasonably delegated to management level decision making, particularly given the speed at which insurance decisions may be required.

We also caution against putting significant weight on customer and stakeholder input for insurance coverage decisions in a given policy year, given the high complexity of the matter, the confidential nature of particular aspects of insurance arrangements and the speed at which insurance offers are undertaken (sometimes within 24-48 hours to the expiry of the policy). However, we support the need to better educate our customers and stakeholders on the matters of insurance and seek their high-level input on the typical cost-risk trade-offs of obtaining insurance coverage.

Annual information provisions are not necessary for the AER’s decision making

We agree with the AER that there is no merit in establishing an annual information provision process for insurance policies, as the information would not serve a purpose in the AER’s decision making. However, in the interest of ‘no surprises’ early engagement, we consider networks should still be able to initiate voluntary updates to the AER and should be encouraged to do so if there are significant shifts in their annual policy.

Benchmarking of general liability insurance will not result in reliable outcomes

We support the AER’s decision to not introduce benchmarking of networks’ insurance policies, due to the bespoke nature of general liability insurance products, and heavy dependence on networks’ individual operating environments, risk profiles, risk appetites, and similar.

Should you have any queries about this submission please do not hesitate to contact

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Yours sincerely

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