

30 April 2021
Mr Sebastian Roberts
General Manager | Transmission and Gas
Australian Energy Regulator

Sent via email

Dear Mr Roberts,

Draft Guidance Note – Insurance coverage pass through events

Energy Networks Australia welcomes the opportunity to provide feedback on the Australian Energy Regulator's (AER) draft guidance note on insurance coverage pass through events.¹

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA welcomes the development of an AER guidance note to provide stakeholders with upfront clarity on the key matters that the AER is likely to have regard to when assessing an insurance coverage event cost pass through application. Putting in place a comprehensive framework before the need arises provides customers and Network Service Providers (NSPs) with greater certainty and reduces costs in the long run.

Tightening of the insurance market

ENA welcomes the AER's recognition of changing market conditions. Due to a range of factors, most particularly the growing impact of climate change-related events, insurance coverage is becoming more expensive and difficult to procure. It is expected with rising climate risk and more insurance losses, premiums will increase further in the future and access to some types of insurance could substantially reduce as insurers continue to exit the market.

The refinement of the AER's insurance pass through definition in the most recent round of price reviews allows for gaps in a network's insurance coverage that may occur if it is unable to find suitable providers to fill withdrawn capacity or cannot commercially justify higher premiums.

Insurance cost pass through applications

ENA supports the AER's position that insurance coverage cost pass through applications will need to be considered on a case-by-case basis, and that a broad range of factors should be taken into consideration to determine the outcome of its assessment. The development of the guidance note is a welcomed positive step, but it should still allow for flexibility in assessments, taking into account individual networks' operating environment at the time of purchasing insurance and making claims.

ENA is broadly supportive of the proposed information that should be included in an insurance cost pass through event application. However, detailed modelling analysis of numerous options is unlikely to be possible in the specialised insurance market where NSPs are price takers.

¹ Australian Energy Regulator, *Draft Guidance Note: Guidance note on insurance coverage pass through events*, February 2021.

In insurance markets, insurers typically measure various risk factors and potential claims against a premium payback period to derive pricing and decide whether to offer insurance. Increased claims activity is pushing insurers to focus on more measurable and known risks. This is contributing to a more selective approach from insurers covering energy infrastructure assets on where they will provide capacity, how much capacity they will provide, and the cost of that capacity.

In addition, ENA is strongly supportive of the role of consumer engagement in network regulation, and NSPs recognise the need to engage with customers about how risks are appropriately managed, which can take place in the lead up to a NSP submitting its regulatory proposal. However, the insurance market for NSPs is highly complex and is subject to highly confidential and commercially sensitive information. This can restrict the ability of NSPs to undertake meaningful consumer engagement about appropriate levels of insurance, and the terms of such cover. These engagement limitations, including the interaction with the role of Board directors, should be taken into consideration when the AER is assessing insurance cost pass through applications.

Annual information provision and benchmarking

ENA supports the AER's position that the establishment of a formal annual process for information provision is not necessary. There are material differences between NSPs that will considerably reduce the usefulness of standardised data templates that do not allow for operating context.

NSPs, however, do welcome collaborative insurance consultation with the AER, particularly during these current volatile market circumstances. NSPs recognise that the purpose is not for the AER to form an ex-ante assessment on the appropriateness of insurance coverage but rather ongoing meaningful and confidential engagement between individual NSPs and the regulator. This will help develop a shared understanding of the ongoing insurance challenges NSPs are facing and the internal processes that have been put in place by the NSP. The formalisation of a particular process is not necessary to allow for this collaborative engagement approach.

ENA supports the AER's draft decision not to benchmark insurance policies across NSPs due to the bespoke nature of insurance arrangements. The decisions around how to manage the risks and costs of possibly catastrophic circumstances, and the prudent and efficient level of insurance cover, will vary materially between NSPs and will involve consideration of the context in which each individual NSP operates. Insurance benchmarking therefore will not provide meaningful results.

ENA reiterates our support for the development of the guidance note and welcomes ongoing engagement with the AER on the challenges of the changing insurance market conditions. If you would like to discuss this submission in further detail, please contact [REDACTED]

Yours sincerely,



Andrew Dillon
CEO