

15 December 2021

Mr Sebastian Roberts
General Manager Expenditure
Australian Energy Regulator

Email: [REDACTED]

Dear Sebastian

re: Insurance Cost Pass Through Application 2021-22

Please find enclosed a cost pass through application in relation to insurance premium costs incurred by ElectraNet in 2021-22, submitted under clause 6A.7.3 of the National Electricity Rules.

As the AER has recognised in recent revenue determinations, global insurance markets have hardened significantly in response to a range of pressures including significant bushfire losses in 2019-20, increased exposure from cyberattacks, COVID-19 and the withdrawal of insurance capacity, resulting in substantial increases in insurance costs for network companies.

In this environment, ElectraNet has experienced ongoing increases in its insurance costs which have exceeded the AER's allowance in each of the first four years of the current regulatory period. While these have been absorbed by the business to date, these growing costs have now risen to exceed the materiality threshold that triggers the pass through of these costs in 2021-22.

Accordingly, we are seeking the recovery of additional costs of \$3.38m incurred in the current financial year, but will be absorbing approximately 50% of the insurance premium costs that have exceeded the allowance by approximately \$6.3m in the current period to date.

We have adopted a prudent and efficient approach to our insurance renewals throughout the current regulatory period, guided by our overall objective of obtaining insurance cover in accordance with our compliance obligations and community expectations at the lowest total cost.

Our experience of rising insurance costs is shared by our peers and understood by our stakeholders. Our recent engagement with our Consumer Advisory Panel in the context of our forthcoming Revenue Proposal has explored the appropriate allocation of risk between customers and business in the face of rising insurance costs, and reinforced the importance of ongoing efforts to drive efficient costs.

This application details our active management to ensure that levels of cover, deductibles and premium costs are optimised to minimise long run costs to customers. It also includes expert advice from our broker and adviser AON.

With the placement of our final insurance policies for the year now complete, the total insurance premium to be paid in 2021-22 has now been finalised, and a positive change event has occurred under the Rules, whereby these costs exceed the insurance allowance by more than 1% of our maximum allowed revenue.

This application is therefore submitted now to enable a decision by the AER in time for approved costs to be recovered in our transmission prices for 2022-23, which must be published by 15 March 2022. This also follows a period of pre-lodgement engagement with the AER on a draft application.

Owing to the commercially sensitive nature of some of the supporting information provided, the relevant parts of this application are submitted on a confidential basis, as outlined in Attachment 1. In the interests of transparency both confidential and public versions of the application are enclosed.

We look forward to working with the AER through the assessment of this application.

Please direct any queries to Simon Appleby in the first instance on [REDACTED]

Yours sincerely

[REDACTED]

Rainer Korte
Group Executive Asset Management

ATTACHMENT 1

Confidentiality Template

Title, page and paragraph number of document containing the confidential information	Description of the confidential information.	Topic the confidential information relates to (e.g. capex, opex, the rate of return etc.)	Identify the recognised confidentiality category that the confidential information falls within.	Provide a brief explanation of why the confidential information falls into the selected category. If information falls within 'other' please provide further details on why the information should be treated as confidential.	Specify reasons supporting how and why detriment would be caused from disclosing the confidential information.	Provide any reasons supporting why the identified detriment is not outweighed by the public benefit (especially public benefits such as the effect on the long-term interests of consumers).
ElectraNet, Insurance Costs 2021-22, Cost Pass-Through Application, December 2021	Commercial insurance strategies, insurance coverage and contractual information	Insurance cover	Market sensitive data	The application includes information that would affect ElectraNet's ability to obtain competitive prices in future transactions.	If this information is disclosed, it would adversely affect ElectraNet's ability to negotiate competitive insurance costs in the future.	If published this information will compromise ElectraNet's ability to deliver the lowest possible costs, detrimental to customer interests.
AON, Review of Insurance Premium Costs 2021-22, ElectraNet Pty Ltd, December 2021*	Detailed insurance strategies, premium information, loss history and specific policy data	Insurance cover	Market sensitive data	The report extensively details information that would affect ElectraNet's ability to obtain competitive prices in future transactions.	If this information is disclosed, it would adversely affect ElectraNet's ability to negotiate competitive insurance costs in the future.	If published this information will compromise ElectraNet's ability to deliver the lowest possible costs, detrimental to customer interests.

*A public version of this material is not available given the nature of the information it contains

Proportion of Confidential Material

Document Title	Number of pages of submission that include information subject to a claim of confidentiality	Number of pages of submission that do not include information subject to a claim of confidentiality	Total number of pages of submission	Percentage of pages of submission that include information subject to a claim of confidentiality	Percentage of pages of submission that do not include information subject to a claim of confidentiality
Insurance Cost Pass-Through Application and attachments	29	18	47	62%	38%