

30 April 2020



Sebastian Roberts
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Australian Energy Regulator
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Dear Mr Roberts

DRAFT GUIDANCE NOTE ON INSURANCE COVERAGE PASS THROUGH EVENTS

Energy Queensland welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) draft guidance note on insurance coverage cost pass through events.

The development of the insurance coverage guidance note will provide greater clarity and guidance to all stakeholders on the key matters the AER is likely to have regard to when assessing an insurance coverage cost pass through event application. In particular, the types of information that should be kept by network businesses and related processes that should be adopted by network businesses, in order to facilitate an insurance coverage cost pass through event application.

While the AER has yet to assess an insurance related cost pass through event, it is highly likely that the AER will be required to assess one in the near future given the rapidly changing global insurance market. Insurance companies are increasingly wary of insuring against catastrophic events as the prevalence and severity of these events increases. The response from insurance companies has included reducing capacity and/or increasing premiums to levels which make it increasingly uneconomic to obtain the insurance cover.

This is of significant concern to Energy Queensland since our network businesses, Energex and Ergon Energy Network, operate in arguably the most challenging environment in Australia, characterised by frequent extreme weather events such as storms, cyclones and floods. In addition, bushfires are an inherent part of the Queensland landscape and environment.

Energy Queensland broadly supports the key information requirements outlined in the AER's draft guidance note. We also support the AER's decision to not establish a formal annual information provision process and pursue benchmarking of insurance policies. We consider that a more ad hoc approach to information provision by network businesses will be more useful as market conditions can alter rapidly. Benchmarking will be meaningless given the bespoke nature of the insurance policies.

However, Energy Queensland has some concerns about the requirement to demonstrate customer engagement as part of an insurance coverage cost pass through event application. We unquestionably value our customers input and are committed to ongoing customer engagement but do not believe that customer engagement should be a key element in the assessment of insurance coverage cost pass through applications. In the most recent distribution determination processes, for Energex and Ergon Energy Network, for the 2020-25 regulatory control period, we engaged with customers on our approach to insurance and allocation of risks. We observed that the discussions were rather limited due to the complexity and confidentiality issues. In this context, Energy Queensland considers there is more merit in the AER, on behalf of customers, playing a more active role in regularly engaging with network businesses.

Should you wish to discuss any aspect of this matter further, please contact

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Yours sincerely

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