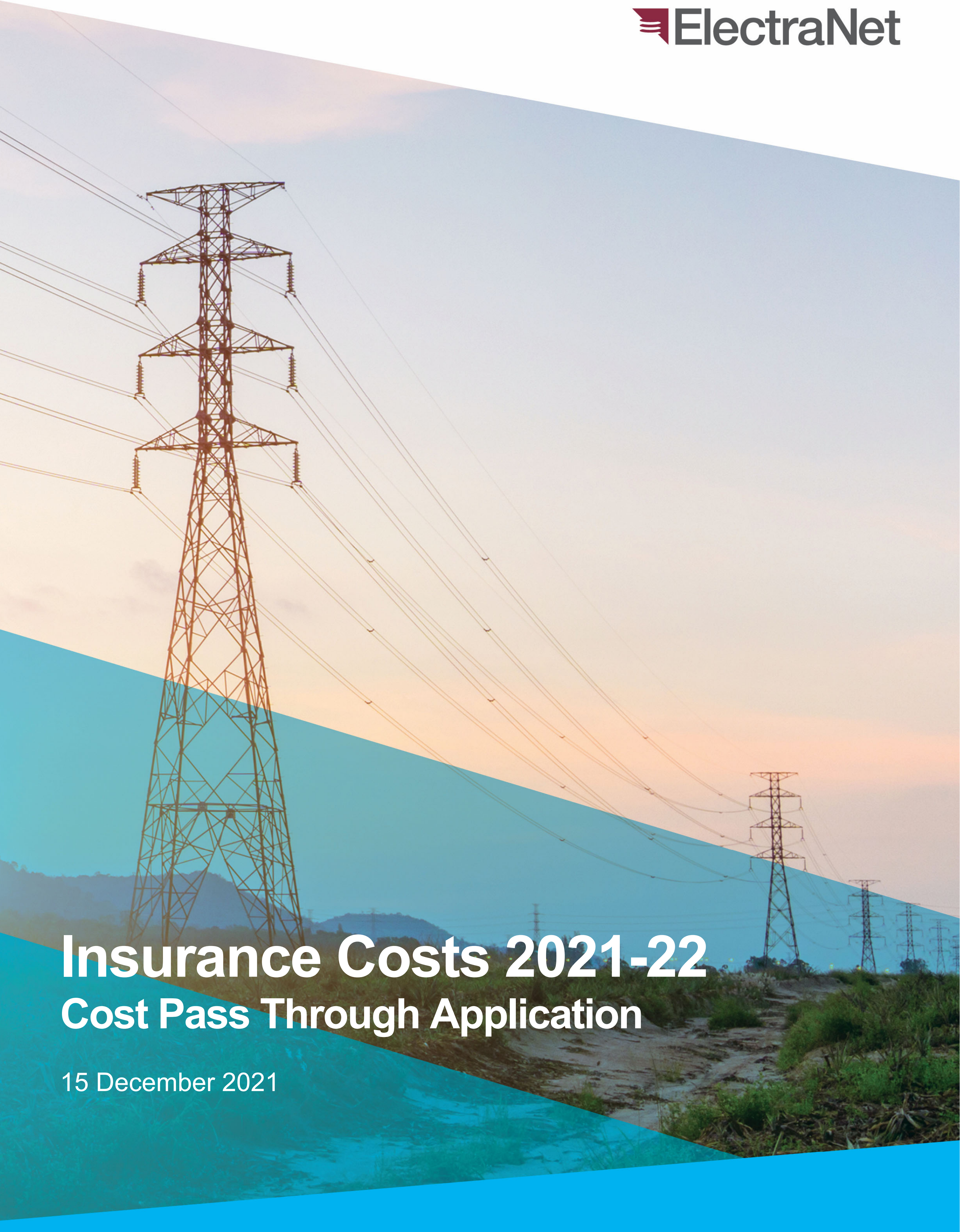


Insurance Costs 2021-22

Cost Pass Through Application

15 December 2021

Executive Summary

This document sets out our cost pass through application (Application) in relation to a significant increase in our insurance premium costs incurred in the 2021-22 regulatory year.

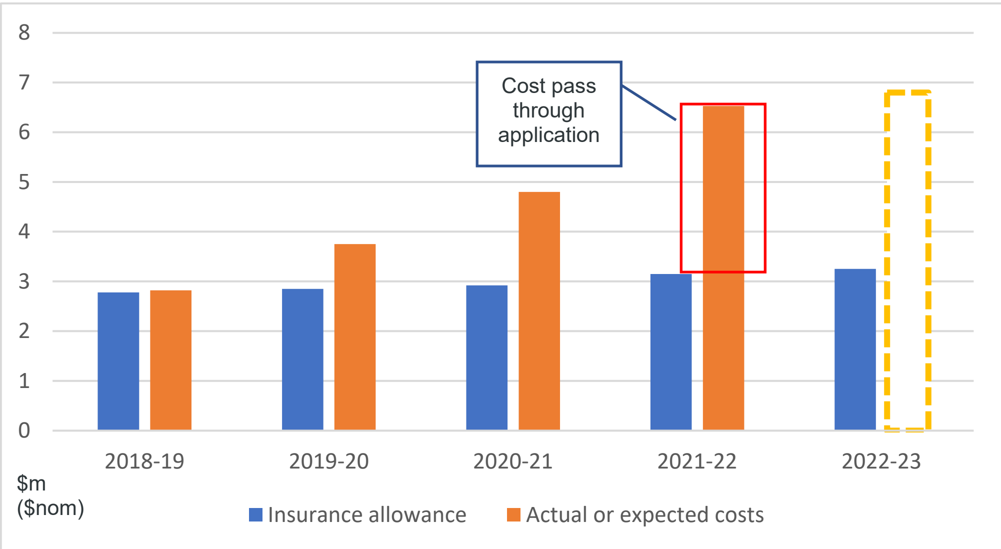
Our insurance premiums were forecast in March 2017 at a time when insurance market conditions were expected to be favourable to buyers. Since that time global insurance markets have hardened considerably in response to significant bushfire losses in 2019-20, increased exposure from cyber-attacks and COVID-19 and the withdrawal of insurance capacity.

As a result, in each year of the current 2018-19 to 2022-23 regulatory control period, the regulatory allowance for our insurance premium costs has proved to be inadequate. While these growing costs have been absorbed by the business to date, these increases have now risen to exceed the materiality threshold that triggers cost pass through in 2021-22.

We are therefore seeking cost recovery in relation to our increased premium costs for the 2021-22 regulatory year, but not for the earlier years in this regulatory period. In total, ElectraNet has incurred additional insurance premium costs exceeding the allowance by approximately $6.3m (or 50%) in the period to date, of which we propose to pass through costs of approximately $3.38m relating to the current year.

These costs only relate to the direct costs of obtaining insurance cover and, therefore, exclude all internal costs associated with the insurance function, the cost of management time relating to insurance and the costs of external advice.

Figure 1: ElectraNet Insurance Premium Costs



Our overall objective is to obtain prudent levels of insurance cover in accordance with our compliance obligations and community expectations, at the lowest total cost. ElectraNet's Board, Audit and Compliance Committee and senior management are actively engaged to ensure that levels of cover, deductibles and premium costs are optimised to minimise long run costs to customers.

We remain confident we have adopted a prudent and efficient approach to our insurance renewals through our active participation in the insurance market, as evidenced by the information provided in this Application, which includes a consideration of how our costs benchmark against our peers.

In preparing this Application, in addition to providing the information required by the National Electricity Rules, we have also considered the AER's Guidance Note on Insurance Coverage Pass Through Events.[1] For example, the Guidance Note highlights the importance of demonstrating that the network service provider has undertaken appropriate analysis to understand its risk exposure and choice of insurance policy, including the level of coverage and deductibles.[2] In light of these requirements, we have obtained a supporting report from our insurance broker, Aon, providing expert opinion on whether our insurance premium costs for 2021-22 can be regarded as prudent and efficient.

We remain conscious of the impact of any increase in our revenue on electricity customers. In this Application, we have calculated that the impact on customers is to add approximately $1.50 or 0.1% pa to a typical household electricity bill. We are continuing to work to minimise the costs of insurance to our customers through our on-going and active engagement with our insurers and Aon.

Our experience of significantly increased insurance costs is shared by our peers and understood by our stakeholders. Our recent engagement with the Working Group of our Consumer Advisory Panel (formed to engage with us in the development of our 2022 Revenue Proposal) has explored the appropriate allocation of risk between customers and the business and considered opportunities to reduce the significant ongoing increase in forecast insurance costs moving forward.

While this engagement has highlighted some alternatives for consideration in future (for example if cyber insurance were to become unavailable) our ability to vary our insurance cover is limited by the requirements of the National Electricity Rules, Electricity Transmission Code, our network lease and other instruments.

This Application is provided in order to enable a decision by the AER in time for the approved costs to be recovered in our transmission prices for 2022-23, which must be published by 15 March 2022. We look forward to engaging with the AER and stakeholders to this end.

1 We note that this Guidance Note is not directly relevant to this Application, as it relates to a different cost pass through provision. Nevertheless, we have taken it into account in preparing this Application.

2 Ibid, page 13.

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Figures

Tables

1. Introduction

1.1 Overview

Our insurance program forms a key part of our overall risk management strategy. Policy terms, conditions and limits of cover are reviewed and negotiated annually to ensure that they address our evolving risk profile, the changing landscape in which we operate and the costs of insurance cover.

We have experienced significant increases in our insurance premiums in recent years, principally because of the repricing of bushfire risk and a significant retraction in available market capacity. These worsening insurance market conditions have affected all buyers of bushfire liability insurance, including generators and network companies. Premium costs for other classes of insurance have also increased, as insurers have responded to emerging risks, such as COVID 19 and cyber security.

The National Electricity Rules (the Rules) recognise the risk that insurance premiums may increase unexpectedly during a regulatory control period. In circumstances where these increases are 'material', the Rules allow our actual premium costs to be recovered from customers. These 'cost pass through' provisions are designed to share risk appropriately between network companies and customers, so that network charges are kept as low as practicable.[3]

While our total insurance premium costs have exceeded the AER's allowance in each of the first four years of the current regulatory control period, the materiality threshold has only been exceeded in relation to the 2021-22 regulatory year. In accordance with the Rules, therefore, this cost pass through application (Application) is seeking recovery of only our actual insurance premiums for 2021-22. We are not seeking cost recovery for the increased premium costs that we have incurred in earlier years, which total approximately $2.9 million.

Clause 6A.7.3(c) of the Rules sets out the information that a TNSP must provide to the AER in order to seek approval for the recovery of its increased insurance costs (referred to as the 'positive pass through amount'). In addition to providing the information required by that provision, this Application also provides background information to explain the steps that we have taken to minimise our insurance costs, given the recent developments in the insurance market.

1.2 Our insurance program

Our insurance program is consistent with the coverage in our Revenue Proposal and the AER's Final Decision for the 2018-19 to 2022-23 regulatory control period, and includes the following categories of insurance:

3 Cost pass through provisions obviate the need to include an allowance to cover the risk that actual costs are much higher than forecast. As a result, network charges are lower than would otherwise be the case.

[redacted]

1.3 Structure of this Application

The remainder of this Application is structured as follows:

- Chapter 2 provides important background information to this Application, including the changing conditions in the insurance market and our insurance strategy, which is focused on minimising total costs to customers while meeting our insurance obligations;
- Chapter 3 describes the regulatory requirements that apply in relation to this Application and how they relate to our particular circumstances;
- Chapter 4 addresses the specific information requirements of the Rules, including the eligible pass through amount; and
- Chapter 5 summarises why our 2021-22 insurance costs are prudent and efficient and, therefore, why the AER should approve the proposed positive pass through amount.

A compliance checklist is included as Appendix A to this Application. We also provide a report from our insurance broker, Aon, which explains why our actual premium costs for 2021-22 are prudent and efficient.

2. Background

The purpose of this chapter is to provide background information that is relevant to understanding why our insurance costs have increased and the measures we have taken to minimise them.

Our insurance program must satisfy our compliance obligations and meet the expectations of our customers and the wider community. Over successive years, we have worked closely with our insurance broker, Aon, and our insurers to minimise our insurance costs, while maintaining appropriate levels of cover in accordance with these drivers.

[redacted]

The hardening insurance market conditions have been recognised by the AER in its recent revenue determinations for the Victorian distribution businesses. In that review, the AER's Consumer Challenge Panel also acknowledged that insurance costs have increased for all network companies. In this regard, our experience of significantly increased insurance costs is one shared by our peers and understood by our stakeholders.

[redacted]

[redacted]

While we have made every effort to minimise our total insurance costs, our actual insurance premiums have exceeded the insurance allowance for the current regulatory control period. For the 2021-22 regulatory year, our insurance premium costs have exceeded the allowance by a 'material amount', which triggers the cost pass through mechanism in relation to our insurance premium costs for this year.

2.1 Insurance market conditions

Our forecast insurance premiums for the current regulatory control period were based on independent expert advice from Finity Consulting. In its report, which we submitted to the AER in March 2017 as part of our Revenue Proposal, Finity Consulting made the following observations regarding the insurance market conditions that it expected to prevail over the 2018-19 to 2022-23 regulatory control period:[4]

> "Generally, premium rates have been falling for most commercial classes of insurance since circa 2004 – i.e. a softening of the market. An absence of any significant catastrophic events and excess capacity in the market means that competition remains strong. This is good news for insurance buyers as:
>
> - The supply of capital and appetite to take on risk remains strong. This means competition for business, particularly in commercial lines, is likely to remain a feature of the market.
> - Insurers are now starting to offer enhanced coverage, lower deductibles and long-term agreements as further incentives for clients to purchase insurance.
> - Financial security of insurers remains strong.
>
> We expect that the insurance market will remain "soft" for the next couple of years (in the absence of any significant catastrophic events) before transitioning to a "harder" market and premium rate increases. On this basis we have assumed modest premium increases during the regulatory period 2018/19 to 2022/23 for most classes of insurance."

While Finity Consulting expected the insurance market conditions to be favourable, which it described as 'good news' for insurance buyers, the actual conditions have proved to be substantially less favourable. In particular:

- [redacted]
- [redacted]

[4] Finity Consulting Pty Ltd, Regulatory Proposal 2018-19 to 2022-23: Self-Insurance Estimates, Premium Forecasts and Nominated Pass Through Events, February 2017, page 41.

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

ElectraNet is not alone in experiencing significant increases in insurance costs. This observation is borne out by the AER's recent determinations for the Victorian electricity distributors, which accepted 'step changes' to accommodate forecast increases in insurance premiums.

The AER's Consumer Challenge Panel has also recognised that the recent changes in insurance market conditions warrant an increased expenditure allowance to cover higher insurance premiums:[5]

> "CCP17 acknowledged that insurance coverage is decreasing while insurance costs are rising rapidly. It viewed the insurance market changes as material and beyond reasonable budget projections (with these changes likely to be sustained over a long period due to climate change). As such, it considered the insurance step changes to be reasonable."

Given the hardening insurance market conditions and the recent experience of other network companies, it is not surprising that our insurance costs for the 2018-19 to 2022-23 regulatory control period have exceeded the allowance, which was estimated in March 2017.

In the next section, we describe our insurance objectives and strategies, including the specific actions we have taken to minimise our insurance costs.

2.2 Insurance objectives and strategies

Our insurance objective is to achieve appropriate levels of cover at the lowest total cost to our customers. A first step in delivering on this objective is to recognise our legal and contractual obligations in relation to the level of our insurance cover, including the following:

- [redacted]
- Our Transmission License requires adequate and appropriate bushfire liability insurance to be maintained, having regard to the nature of the operations conducted under our licence and the risks associated with those operations.
- [redacted]
- As a self-insured employer, we are also required to obtain and maintain an Excess of Loss insurance policy to the satisfaction of Return to Work (SA).

Our strategy for achieving our insurance objective and obtaining the most favourable renewal outcomes for our customers comprises a number of elements, which are summarised below:

- [redacted]

[5] AER, Powercor Distribution Determination 2021 to 2026, Attachment 6 Operating expenditure, April 2021, p10.

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
  - [redacted]

- [redacted]
- [redacted]

Our strategy contains a number of different elements, reflecting the challenge of obtaining the lowest cost outcome and the development of our approach over many years.

2.3 Benchmarking and analysis

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

The AER's Guidance Note on Insurance Coverage Pass Through Events[6] comments that the AER does not intend to benchmark insurance costs because each company's coverage is bespoke and dependent on their individual operating environments, risk appetite and network. Nevertheless, we regard benchmarking as a useful management tool for understanding how our costs compare with our peers – and a driver for focusing effort to explore opportunities for cost savings.

Throughout the current regulatory control period, we are confident that we have adopted a prudent and efficient approach to our insurance renewals. As evidenced in Aon's report, which accompanies this Application, our extensive, strategic engagement with our insurers has undoubtedly delivered favourable outcomes compared to our peers. Unfortunately, despite exercising considerable effort to minimise our insurance costs, the adverse changes in insurance market conditions have led to substantial cost increases in our premiums compared to our allowance, as detailed in the next section.

2.4 Insurance program and costs

In its Draft Decision for our 2018-19 to 2022-23 regulatory period, the AER accepted[7] our proposed operating expenditure, which included the cost allowance for insurance premiums[8], as shown in the table below. In its Final Decision, the AER confirmed that it accepted our forecast operating expenditure (updated from our initial proposal) and noted that the insurance cost pass through provisions would apply for the 2018-19 to 2022-23 regulatory period.[9]

Table 1: Insurance premiums – allowance and actual costs ($m nominal)

Component	2018-19	2019-20	2020-21	2021-22	2022-23
Insurance allowance	2.78	2.85	2.92	3.15	3.25
Actual or expected costs	2.82	3.75	4.8	6.53	TBC
Overspend	0.10	0.90	1.9	$\boxed{3.38}$	TBC

While the overspend amounts in relation to our insurance premium costs have been steadily rising in previous years, the materiality threshold has only been exceeded in relation to 2021-22.[10] As such, this is the first year that a pass through amount may be recovered from customers through an adjustment to our regulated revenue. We are not seeking cost recovery in relation to the additional costs we have incurred in previous years, which total approximately $2.9 million.

It is too early at this stage to determine whether the materiality threshold will be exceeded for 2022-23. If the materiality threshold is reached for 2022-23, we will seek a separate cost pass through application at that time.

6 AER, Guidance Note on Insurance Coverage Pass Through Events, Final Guidance Note, July 2021, page 14.
7 AER, Draft Decision, ElectraNet's transmission revenue determination 2018-23, Attachment 7, October 2017 p6.
8 ElectraNet's Revenue Proposal 2019-23, March 2017, Attachment 7, Table 7.6, page 24.
9 AER, Final Decision, ElectraNet transmission determination, 2018 to 2023, Overview, April 2018, pp 24 and 34.
10 The materiality threshold calculation is presented in Section 4.3 of this Application.

3. Regulatory Requirements

The regulatory requirements for the AER's review and acceptance of a cost pass through application are contained in clause 6A.7.3 of the Rules. In broad terms, the regulatory process involves the following steps:

- Establishing that a positive change event has occurred;[11]
- Quantifying the pass through amount;[12]
- Submitting a pass through application in accordance with the information requirements and timeframes specified in the Rules; and
- Determining the approved pass through amount.

We discuss each of these elements in turn, highlighting how each step should be applied in relation to this Application.

3.1 Positive change event

A positive change event is defined in the Rules as:

> A pass through event which entails the *Transmission Network Service Provider* incurring *materially* higher costs in providing *prescribed transmission services* than it would have incurred but for that event, but does not include a *contingent project* or an associated *trigger event*.

An insurance event is one of seven transmission cost pass through events specified in the Rules. An 'insurance event' is defined as follows:

> An event for which the risk of its occurrence is the subject of insurance taken out by or for a *Transmission Network Service Provider*, for which an allowance is provided in the *total revenue cap* for the *Transmission Network Service Provider* and in respect of which:
>
> (a) the cost of the premium paid or required to be paid by the *Transmission Network Service Provider* in the *regulatory year* in which the cost of the premium changes is higher or lower than the premium that is provided for in the *maximum allowed revenue* for the provider for that *regulatory year* by an amount of more than 1% of the *maximum allowed revenue* for the provider for that *regulatory year*;
>
> (b) the risk eventuates and, as a consequence, the *Transmission Network Service Provider* incurs or will incur all or part of a deductible where the amount so incurred or to be so incurred in a *regulatory year* is higher or lower than the allowance for the deductible (if any) that is provided for in the *maximum allowed revenue* for the provider for that *regulatory year* by an amount of more than 1% of the *maximum allowed revenue* for the provider for that *regulatory year*;
>
> (c) insurance becomes unavailable to the *Transmission Network Service Provider*; or

[11] Clause 6A.7.3(c)(1)

[12] Clause 6A.7.3(c)(1)

(d) insurance becomes available to the *Transmission Network Service Provider* on terms materially different to those existing as at the time the *revenue determination* was made (other than as a result of any act or omission of the provider which is inconsistent with good electricity industry practice).

For the purpose of this Application, clause (a) is the relevant provision as it applies to the cost of the premiums paid or required to be paid in the 2021-22 regulatory year compared to the allowance included in our maximum allowed revenue for that year. The remaining matters listed in paragraphs (b) to (d) are not relevant to this Application.

3.2 Pass through amount

A positive pass through amount is defined in the Rules as:

> For a Transmission Network Service Provider, an amount (not exceeding the eligible pass through amount) proposed by the provider under clause 6A.7.3(c).

An eligible pass through amount is defined in the Rules as:

> In respect of a positive change event for a Transmission Network Service Provider, the increase in costs in the provision of prescribed transmission services that, as a result of that positive change event, the Transmission Network Service Provider has incurred and is likely to incur (as opposed to the revenue impact of that event) until:
>
> (a) unless paragraph (b) applies – the end of the regulatory control period in which the positive change event occurred; or
>
> (b) if the transmission determination for the regulatory control period following that in which the positive change event occurred does not make any allowance for the recovery of that increase in costs (whether or not in the forecast operating expenditure or forecast capital expenditure accepted or substituted by the AER for that regulatory control period) – the end of the regulatory control period following that in which the positive change event occurred.

In principle, it is evident from the above provision that an eligible pass through amount may include costs to the end of the regulatory control period. For this Application, however, the insurance cost pass through event is defined in terms of the cost of the premiums paid or required to be paid compared to the AER's allowance in a regulatory year. Our insurance premium cost is known for the 2021-22 regulatory year, but not for the remainder of the regulatory control period. On that basis, this Application is confined to the cost of premiums for the 2021-22 regulatory year.

A separate pass through application may be submitted in relation to the cost of our insurance premiums for the 2022-23 regulatory year, if the materiality threshold is exceeded for that year. The actual cost of premiums paid or to be paid for that regulatory year is expected to be known by the end of 2022.

3.3 Information requirements for a pass through application

Clause 6A.7.3(c) of the Rules sets out the information that a TNSP must provide to the AER in order to seek approval for the recovery of its increased costs (referred to as the 'positive pass through amount'). The relevant provisions are set out below:

> To seek the approval of the *AER* to pass through a *positive pass through amount*, a *Transmission Network Service Provider* must submit to the *AER*, within 90 *business days* of the relevant *positive change event* occurring, a written statement which specifies:
>
> (1) the details of the *positive change event*;
>
> (2) the date on which the *positive change event occurred*;
>
> (3) the *eligible pass through amount* in respect of that *positive change event*;
>
> (4) the *positive pass through amount* the *Transmission Network Service Provider* proposes in relation to the *positive change event*;
>
> (5) the amount of the *positive pass through amount* that the *Transmission Network Service Provider* proposes should be passed through to *Transmission Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;
>
> (6) evidence:
>
> (i) of the actual and likely increase in costs referred to in subparagraph (3); and
>
> (ii) that such costs occur solely as a consequence of the *positive change event*; and
>
> (7) such other information as may be required pursuant to any relevant *regulatory information instrument*.

These items are addressed in Section 4 below. As explained in Section 1.3, a compliance checklist is also included as an appendix to this Application to verify that each information requirement has been addressed.

3.4 Framework for AER's assessment

If the AER concludes that a positive change event has occurred, it must then determine:[13]

- the approved pass through amount, and
- the recovery of that approved pass through amount in the TNSP's network charges (noting that recovery may occur in regulatory year(s) subsequent to the year in which the pass through event occurred).

In making its determination, the AER must take into account the factors listed in clause 6A.7.3(j) of the Rules. For a positive change event such as that covered in this Application, these include:

[13] Clause 6A.7.3(d)

- the matters and proposals set out in any statement given to the AER by the TNSP;
- the increase in costs in the provision of prescribed transmission services that, as a result of the positive change event, the TNSP has incurred and is likely to incur;
- the efficiency of the provider's decisions and actions in relation to the risk of the positive change event, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount in respect of that positive change event and whether the provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that positive change event;
- the time cost of money based on the allowed rate of return for the TNSP for the regulatory control period in which the pass through event occurred;
- the need to ensure that the TNSP only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of a pass through event;
- whether the costs of the pass through event have already been factored into the calculation of the provider's maximum allowed revenues for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the provider's maximum allowed revenues for a subsequent regulatory control period;
- the extent to which the costs that the TNSP has incurred and is likely to incur are the subject of a previous cost pass through determination made by the AER, and
- any other factors the AER considers relevant.

In addition to considering the above factors, the National Electricity Law (NEL) requires the AER to exercise its powers in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (NEO). The NEL also specifies revenue and pricing principles.

Of relevance to this Application is the principle that a network service provider should be provided with a reasonable opportunity to recover at least the efficient costs it incurs in providing prescribed transmission services and complying with a regulatory obligation or requirement or making a regulatory payment. In this regard, it is worth noting that the pass through provisions relating to an insurance event enables a network service provider to recover material increases in insurance premiums, providing that the costs incurred are efficient.

While the factors listed in clause 6A.7.3(j) are matters for the AER to consider in assessing this Application, our approach is to provide sufficient information in this Application, together with the supporting report from Aon, to enable the AER to form a judgment regarding the prudency and efficiency of our actual premium costs. We regard prudency as an important adjunct to the concept of efficiency, as it captures the need to maintain appropriate levels of insurance cover.

4. Addressing the Rules requirements

This chapter sets out the information requirements specified in the Rules in relation to a pass though application.

4.1 Positive change event

A positive change event, being an insurance event, has occurred because the cost of the premium paid or required to be paid by ElectraNet in the 2021-22 regulatory year exceeds the allowance included in our maximum allowed revenue for that year by more than 1%. The relevant cost information is provided in Section 4.3 below.

4.2 Date on which the positive change event occurred

The final placement of our insurance policies occurred [redacted], at which time our insurance premiums paid or to be paid in respect of the 2021-22 regulatory year exceeded the 1% materiality threshold specified in paragraph (a) of the definition of an insurance event in Chapter 10 of the Rules. This Application has been lodged within 90 business days of this event as required.

4.3 Eligible pass through amount

The table below shows that the cost of our insurance premiums is approximately $3.38 million higher for the 2021-22 regulatory year compared to our insurance allowance. Our maximum allowed revenue for that year is approximately $333.0 million. The additional insurance premium cost incurred for the 2021-22 regulatory year therefore exceeds the 1% materiality threshold. Although significant overspends have occurred in relation to our insurance costs in prior years, the materiality threshold was not met for those years.

Table 2: Eligible pass through amount ($m nominal)

Component	2018-19	2019-20	2020-21	2021-22	2022-23
Insurance allowance	2.78	2.85	2.92	3.15	3.25
Actual or expected costs	2.82	3.75	4.8	6.53	TBC
Overspend	0.10	0.90	1.9	3.38	TBC
Maximum allowed revenue (MAR)	305.3	312.5	322.3	333.0	347.8
Materiality threshold (1% of MAR)	3.05	3.13	3.22	3.33	3.48
Eligible pass through amount	-	-	-	**3.38**	-

In specific terms, the actual or expected costs for 2021-22 total $6,527,995 ($nom) against an insurance allowance of $3,146,525 ($nom) yielding an eligible pass through amount of $3,381,470 ($nom).

Our actual or expected costs only relate to the direct costs of obtaining insurance cover and, therefore, exclude all internal costs associated with the insurance function, the cost of management time relating to insurance and the costs of external advice. It should also be noted that there is no capital expenditure relating to this insurance event, which only relates to the costs of insurance premiums incurred or to be incurred in relation to the 2021-22 regulatory year as prescribed operating expenditure.

4.4 Positive pass through amount

The proposed positive pass through amount is equal to the eligible pass through amount, as detailed in Section 4.3, which is $3,381,470 ($nom).

We have assumed that the positive pass through amount will be recovered during the 2022-23 regulatory control year. This assumption depends on the AER making its determination by mid-February 2022, as our transmission charges for the 2022-23 regulatory year must be published by 15 March 2022. If this timing is not achievable, the recovery of the approved pass through amount will need to be carried over to 2023-24. We would be pleased to discuss this issue with the AER as required, together with any further escalation adjustments required to recover the amount approved.

4.5 Evidence to support the pass through amount

As noted above, the eligible pass through amount reflects the outcome of our insurance placement for the 2021-22 regulatory year and, therefore, is an actual cost. The eligible pass through amount is the regulated portion of our total insurance costs, determined in accordance with ElectraNet's approved Cost Allocation Methodology. A breakdown of the insurance premium costs is provided in Aon's report that accompanies this Application.

ElectraNet confirms that the eligible pass through amount as presented in Table 2 reflects the increase in insurance premium costs and, as such, is caused solely by the positive change event. As explained in Section 2 of this Application, the increase in insurance premium costs is the outcome of hardening conditions in the insurance market. ElectraNet has made concerted efforts throughout this regulatory control period, including the 2021-22 regulatory year, to minimise our insurance costs to the benefit of our customers.

4.6 Customer bill impact

While it is not a regulatory requirement in the Rules to explain how the approval of the cost pass through amount will affect transmission network charges, we consider it appropriate to include this information.

We have calculated that the impact on customers is to add approximately $1.50 or 0.1% pa to a typical household electricity bill. As already noted, this Application does not seek to recover the additional insurance costs that we incurred in earlier years of this regulatory control period. The customer bill impact as a result of this Application is therefore approximately half the amount that would achieve full cost recovery.

5. Prudency and efficiency of our insurance costs

Section 4 of this Application has addressed the information requirements specified by clause 6A.7.3(c)(7) of the Rules. In addition to meeting these information requirements, this Application has had regard to:

- the factors that the AER is required to consider in determining the approved pass through amount, in accordance with clause 6A.7.3(j) of the Rules; and
- The requirements of the AER's Guidance Note in relation to an insurance coverage cost pass through event, noting this Guidance Note is not directly applicable to this Application.

In particular, the background information presented in Section 2 and the accompanying report from Aon, explain the causes of the increase in our insurance premium costs in the 2021-22 regulatory year and why these increased costs were incurred prudently and efficiently. In particular, it is evident from the information provided that:

- ElectraNet's Board, Audit and Compliance Committee and Senior Management are actively engaged in the insurance renewal strategy in accordance with our governance and risk management processes;
- ElectraNet engages independent analysis and strategic advice to ensure that it obtains prudent levels of insurance cover at the lowest total cost;
- For each insurance line, strategic advice is obtained and acted upon, leveraging off long-standing relationships with insurers in the context of existing market conditions; and
- Opportunities are explored to reduce the total costs of insurance, including trading off cover and deductibles for insurance premium savings where it is feasible to do so.

In summary, we consider that the information provided supports the recovery of the proposed pass through amount in our network charges.

Looking forward, we will continue to work with Aon to explore initiatives to minimise our total costs of insurance while maintaining prudent coverage. [redacted]

14 [redacted]

APPENDICES

Appendix A Requirements Checklist

The purpose of this table is to demonstrate compliance with the cost pass through information requirements specified in clause 6A.7.3(c)(1) to (7) of the Rules.

Table 3: Compliance checklist

Rules clause	Requirement of Rules provision	Relevant Section of this Application
6A.7.3(c)(1)	the details of the *positive change event*;	Section 4.1
6A.7.3(c)(2)	the date on which the *positive change event occurred*;	Section 4.2
6A.7.3(c)(3)	the *eligible pass through amount* in respect of that *positive change event*;	Section 4.3
6A.7.3(c)(4)	the *positive pass through amount* the *Transmission Network Service Provider* proposes in relation to the *positive change event*;	Section 4.4
6A.7.3(c)(5)	the amount of the *positive pass through amount* that the *Transmission Network Service Provider* proposes should be passed through to *Transmission Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;	Section 4.4
6A.7.3(c)(6)	evidence: (i) of the actual and likely increase in costs referred to in subparagraph (3); and	Section 4.5
	(ii) that such costs occur solely as a consequence of the *positive change event*	Section 4.5
6A.7.3(c)(7)	such other information as may be required pursuant to any relevant *regulatory information instrument*	No applicable

ElectraNet
electranet.com.au

ElectraNet