Insurance Premium

Operating Expenditure Step Change Proposal

15/12/22

Endeavour Energy

POWER together

Contents

1. Background

One of the risk management strategies adopted by Endeavour is to use insurance policies to transfer an appropriate amount of risk from the balance sheet to third parties (i.e. Insurers) to manage unforeseen losses, maintain profitability and solvency. Most notably, Endeavour Energy's Combined General Liability insurance program covers claims made against Endeavour Energy related to bush fire damage, personal injury and general liability.

As a result of recent large scale bush fires in Australia, the USA and Europe and Insurer's changing appetites in respect of these risks, the insurance market has significantly reduced capacity to cover bushfire-exposed risks and insurance at high levels approaching and exceeding $800 million is no longer available in the market on commercially reasonable terms.

The cost of insurance premiums is forecast to continue to rise. As such, we are proposing a step change to reflect the increase in insurance costs, predominantly driven by the Combined General Liability insurance program, which is around [redacted] over the next regulatory period. The following sections show the key considerations and approach we have undertaken to demonstrate the step change sought to meet operating expenditure objectives is prudent and efficient.

1.1 Rules requirement

The AER considers the Rules governing operating expenditure when deciding whether to accept or reject Endeavour Energy's nominated step changes and pass-through events. In addition, the AER also have regard to the National Electricity Objective (NEO) and the revenue and pricing principles in the NEL.

Clause 6.5.6 of the Rules on Forecast operating expenditure apply for step change proposals for the cost of insurance premium. Specifically, Clause 6.5.6 (c) provides that the AER must accept the forecast of required operating expenditure if it is satisfied that the forecast for the regulatory control period reasonably reflects each of the following (the operating expenditure criteria):

(1) the efficient costs of achieving the operating expenditure objectives; and

(2) the costs that a prudent operator would require to achieve the operating expenditure objectives; and

(3) for a realistic expectation of the demand forecast and cost inputs required to achieve the operating expenditure objectives.

Relevant sections under Clause 6.5.6 (e) provide that AER must have regard to operating expenditure factors in deciding whether it is satisfied that the forecast reasonably reflects the operating expenditure criteria, which includes:

(1) the most recent annual benchmarking report that has been published under rule 6.27 and the benchmark operating expenditure that would be incurred by the distributor over the relevant regulatory control period

(2) the actual and expected operating expenditure of the distributor during any preceding regulatory control periods

(3) the extent to which the operating expenditure forecast includes expenditure to address the concerns of end users as identified by the distributor during its engagement with distribution service end users or groups.

The AER generally assess a business' forecast total opex using a 'base-trend-step approach as summarised in the diagram below:

Figure 1: AER Base-step-trend approach to opex forecast

This involves taking an efficient starting point and adjusting it for reasonably quantifiable changes such as a new obligation and trends such as labour costs and productivity. The value of this approach, combined with the Efficiency Benefit Sharing Scheme (EBSS), is that it incentivises a network to 'reveal' its efficient level of expenditure. From this starting point we intend to apply trend factors in accordance with established AER precedent and step changes that are either regulatory obligations, such as insurance, or capex/opex trade-offs. Our priority is to set an opex allowance that is NPV neutral. That is, it provides an opportunity to recover no more or less than our efficient costs.

1.2 Our Risk Management Policy

Endeavour Energy is committed to the application of prudent asset management strategies to reduce the risk of bushfires caused by network assets and aerial consumer mains to as low as reasonably practicable (ALARP) level. The company is also committed to mitigating the associated risk to network assets and customer supply reliability during times of bushfire whilst achieving practical safety, reliability, quality of supply, efficient investment and environmental outcomes.

Endeavour has a risk management policy[1] in place, based on AS/NZS ISO 31000:2018 Risk management– Guidelines, which outlines the business' appetite for risk and sets out the business' Risk Management Framework. The risk management policy is supported by various plans and policies including:

- **GRM 003 Company Procedure - Risk Management** - to communicate the risk management process, assessment methodology and reporting requirements to enable the consistent management of risk across the business. Risk management performance is assessed and reported to the Executive Audit, Risk & Compliance Committee (EARCC), Board Audit & Risk Committee (ARC) and Board on a periodic basis. Feedback is also sought periodically from key stakeholders including the EARCC, ARC and Board.

- **Bushfire Risk Management Policy** which defines the strategy, framework and principles for ALARP management of network assets and aerial consumer mains that are installed in bushfire prone areas

- **Bushfire Formal Safety Assessment (FSA)** which discusses the hazards and control mechanisms that Endeavour Energy applies to the risk that its network and activities associated with the strategy & planning, design, construction, maintenance, and operation of the network will start a bushfire or other vegetation-related fire. The FSA process is made up of two parts, the Bushfire FSA document, and the Bushfire Risk Register (FRM 0011).

- **Detailed Bush Risk Management Plan** which contains the processes and procedures in managing and responding to bushfire risks.

- **Vegetation Clearance Management Policy and Bushfire Risk Model** to manage vegetation proximate to Network Assets and prioritise defects found within these clearances.

[1] Group Board Policy Risk Management 2.0.5, Approved December 2021

- **Electricity Network Safety Management System (ENSMS) Manual** which is a collection of interrelated strategies, policies, procedures, Formal Safety Assessments (FSAs), plans and standards which govern the activities of Endeavour Energy in relation to the safety and management of its electricity network.

These policies and plans were developed in compliance with relevant acts, regulations and codes including the Electricity Supply (Safety and Network Management) Regulation, the risk management principles outlined in Australian Standard AS 5577:2013 - Electricity network safety management systems and Australian Standard ISO 31000:2018 Risk Management – Guidelines and Endeavour Energy's risk management policy and practices. Consideration has also been given to the requirements of the NSW Independent Pricing and Regulatory Tribunal's (IPART) Electricity Networks Reporting Manual.

Our Risk Appetite Statement states that the business has zero tolerance for:

- loss of life or injuries/ illnesses sustained in the work environment or caused directly or indirectly by Endeavour Energy activities
- Environmental incidents that harm our people or the community

Zero tolerance in this context means we aim to have zero fatalities, injuries/illnesses or environmental incidents, and as such we ensure that:

- adequate policies, systems and risk controls are in place to manage safety-critical and environmental risks effectively.
- all incidents, including incidents that have the potential to result in fatality, injury or damage to the environment are to be thoroughly investigated to prevent recurrence.
- our business activities are legally compliant and effectively identify, assess and control material work health and safety and environmental risks to the extent reasonably practicable.

Endeavour maintains an extensive insurance program to mitigate consequences by transferring financial risk exposure to third parties where commercially appropriate. Growth in the unregulated business may change the Group's insurable exposure.

While insurance can minimise the financial impact of a personal injury event or a major bushfire, it cannot reduce the reputational impacts that are generated. On this basis, additional controls are required to limit the full impact of these large hazardous events.

1.3 Endeavour Energy – Insurance Program

Endeavour Energy will, where appropriate and cost effective, arrange adequate insurance for losses or damages caused by identified insurable risks which could have an adverse impact on the Company achieving its corporate objectives.

Endeavour Energy's Corporate Insurance Program currently includes the following Classes of Insurance:

Key classes of Insurance - classes of insurance with most criticality to Endeavour Energy's business operations, and together being responsible for some ~91% of annual insurance premium expense.

- Group Liability Insurance Scheme (GLIS) - covers the legal liability to third parties for injuries or damages caused by an occurrence in connection with the business. The policy extends to cover General Liability, Products Liability, Bushfire Liability, Professional Indemnity Liability and Directors' and Officers' (D&O) Liability and Company Reimbursement. GLIS comprises around 80% of Endeavour Energy's insurance costs.
- Industrial Special Risks (Property Damage & Business Interruption) Insurance – provides coverage in respect of financial loss resulting from destruction, loss or damage to Endeavour Energy's Insured Property, including both its network and non-network assets. In respect of the network assets insured,

Endeavour Energy has made the decision to exclude its pole & wire assets from its Declared Values. This is in line with treatment by most other regulated network businesses.

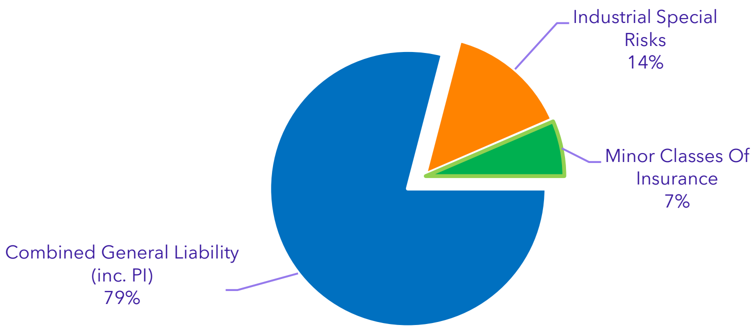

Figure 2: Insurance Policy types

Minor classes of insurance

- Directors & Officers Liability Insurance - insures the directors and officers of Endeavour Energy, or Endeavour Energy itself, against legal action brought for alleged wrongful acts in the management of the organisation.
- Excess Worker's Compensation Insurance - provides cover for Endeavour Energy's workers in the event of a work-related injury or illness. Endeavour Energy is a registered self-insurer with SIRA (the State Insurance Regulatory Authority). It is a requirement of Endeavour Energy's self-insurance accreditation that they obtain and maintain unlimited reinsurance cover to restrict liabilities to a maximum amount for any one event.
- Motor Vehicle Fleet Insurance - provides coverage in respect of financial loss resulting from destruction, loss or damage to Endeavour Energy's Motor Vehicle Assets, including its sizeable portfolio of Heavy Vehicles with permanently mounted Elevated Working Platforms. To minimise premium payable and in line with Endeavour's risk tolerance, a relatively sizeable, self-insured retention (in the form of an annual aggregate deductible) is payable prior to Insurer's liability attaching. In view of the relatively high number of under-deductible claims being incurred, Endeavour have also contracted the administration and management of all Motor Vehicle claims to their Insurer.
- Asbestos Liability Insurance - covers personal injury and or property damage caused by an occurrence that arises from work in respect to the removal/abatement of asbestos and/or the removal of any goods and/or products that contain asbestos.
- Contract Works (Material Damage) Insurance – provides coverage in respect of loss or damage to Works under the course of construction. This policy will generally be a contractually-mandated coverage where Endeavour Energy are performing works on behalf of others.
- Crime Insurance - provides coverage in respect of fraud or theft by employees or third parties.
- Corporate Travel Insurance - provides coverage against unexpected costs in the event of Endeavour Energy's employees encountering issues whilst travelling for business purposes, such as cancelled flights, medical emergencies and evacuation, lost baggage and even political unrest and acts of war or terror.
- Marine Transit Insurance – provides coverage in respect of loss or damage to Insured Property whilst in transit. This policy will generally be a contractually mandated coverage where Endeavour Energy are transporting goods or materials on behalf of others, for example in respect of works being undertaken under contract.

- Mobile Plant & Equipment Insurance – provides coverage in respect of financial loss resulting from destruction, loss or damage to Endeavour Energy's Mobile Plant Assets. Endeavour Energy's policy has also been extended to provide coverage in respect of destruction, loss or damage to Hired in Plant. This policy will generally be a contractually mandated coverage where Endeavour Energy are hiring-in Plant and Equipment or are utilising their own plant & equipment as a part of delivering works under contract.

- Voluntary Worker's Personal Accident Insurance - covers voluntary workers including cadets, interns, work experience personnel and other parties who wouldn't otherwise be eligible for workers compensation insurance. Coverage is provided in respect of volunteers aged between the minimum and maximum age limits of the Policy at the time of an Event as stated in the policy schedule against non-Medicare medical expenses and/or loss of earnings (from another source) caused by their temporary or permanent disablement or death following an injury sustained while volunteering for the organisation.

Key drivers, future insurance cost estimates and options for premium reduction for each insurance class is contained in the BMS Insurance Premium Estimates FY2023-29 report in Appendix **1.**

[redacted]

2. Cost drivers

2.1 Changing global insurance market conditions

Global financial and insurance markets have been in the process of remediating underperforming aspects of their portfolios for some time now – a process which has been overlayed with the need to react to increasingly prominent Environmental, Social and Governance factors and the impact of COVID-19. Recent catastrophic bushfires in Australia, the USA and Europe have also had an impact on the availability and pricing of bushfire liability insurance in the global market, which is of critical importance to Endeavour Energy noting that our Combined General Liability Insurance program accounts for some 72% of total insurance premium spend. By way of example, it has been widely reported in the media that Pacific Gas & Electricity (PG&E) in the USA recently purchased liability insurance with a limit of $1.4b and a sublimit for bushfire claims of $757m at a premium cost of approximately $750m, following claims substantially exceeding their insurance limits being previously incurred.

[redacted]

[redacted]

2.2 Reduction in Bushfire liability capacity

Bushfire Liability remains an increasingly challenging area of the Liability Insurance Market and this environment is expected to continue over the next 12 to 24 months as the Global Liability Insurance Market attempts to correct and stabilise itself.

There has been a significant reduction in bushfire liability capacity over the last 3 to 5 years with an estimated $500m of capacity having been withdrawn from the class, leaving remaining available capacity coming at significantly higher premium rates. There are a variety of factors in the sector driving this climate, including:

- Increased wildfire/bushfire activity and loss quantum both local and globally
- Bushfire activity in Australia during the 2019/20 bushfire season
- California Wildfires in 2020 coupled with broader US social inflation and nuclear verdicts
- Wildfires in Spain in 2022
- Non-bushfire related casualty losses being experienced locally and globally (particularly in the mining sector)
- Consolidation of insurers through merger and acquisition activity
- Increased focus on overall capital deployment and aggregated portfolio exposures
- Closure of Lloyds Syndicates and changes in insurer appetite
- Treaty reinsurers challenging underwriting approaches.

Insurer's perception of Bushfire Liability risk has changed dramatically and there is now significantly increased levels of underwriting scrutiny paired with revised pricing models, with a much greater focus on adequacy of 'pay-back' period. This is resulting in upward pressure on premium outcomes and, equally, pressure on Insured's looking to sustain overall policy limit.

Whilst bushfire losses are well-known peril in Australia, there has been increased global bushfire/wildfire activity recently that is considered a growing concern amongst the broader global climate change topic, with notable losses including:

- 2020-21 East Coast Australian Bushfires
- 2021 Perth Hills Bushfire
- 2020 West Coast (USA) Wildfires: well over 2 million hectares have burned across California, Oregon
- Washington State and neighbouring Idaho
- St Patricks Day Bushfires in Victoria in 2018
- The Black Saturday Bushfires in Victoria in 2009.

The 2019/20 bushfire season was the most devastating in NSW history, Over the course of the season, fires spread south from the Queensland border to the Victorian border, leaving huge numbers of people displaced.

Bush and grass fires burnt more than 5.5 million hectares in NSW – the equivalent of almost seven percent of the state and an area nearly twice the size of Belgium and only slightly smaller than Tasmania. While these fires destroyed 2,448 homes, the hard work of firefighters saw a further 14,519 homes in the line of fire saved. In particular, there were three principal fires and eight others of lesser impact which together caused significant damage to parts of the Endeavour Energy distribution and transmission network and interrupted supply to over 54,000 customers (or 5% of the customer base).

Damage to the network triggered numerous faults that contributed to almost 150 bushfire related interruptions impacting over 54,000 customers during the bushfire events. 62 feeders suffered damage leading to interruptions, including, 51 distribution feeders and 11 transmission feeders.

No major substations were destroyed despite the size, intensity & duration of the fires. Hartley Vale zone substation (Blue Mountains) suffered minor damage and Tomerong sub-transmission substation (South Coast) avoided destruction through its fire wall, maintaining supply to more than 30,000 customers.

The average outage time due to bushfire damage was 2006 minutes (33 hours and 26 minutes) with some affected customers experiencing multiple outages during the December - January period. The interruptions associated with the bushfire event were excluded from the calculation of SAIDI that is reported each year. Notwithstanding this, the impact on organisational SAIDI from the fires would otherwise have totalled around 117 minutes, against a target value for the entire network for the FY20 year of 78 minutes. The energy interrupted is estimated to total 3.0 GWh with an economic value of $91.5 million

Whilst not being attributed to any failures within the Electricity Transmission/Distribution sector, the catastrophic bushfires that occurred in Australia during 2019-2020 led to insurers becoming extremely concerned about their aggregated bushfire liability exposure. To a far greater extent than in the past, insurers are having to justify – internally within their organisations – the risks proposed to be underwritten.

There is an increased focus on due diligence and analysis of profitability of proposed underwritten risks. This has resulted in many insurers having little to no appetite to take on new risk, whilst reducing capacity and to seeking premium increases to recover historical paid losses.

2.3 Insurance coverage

GLIS or Bushfire Liability Insurance comprises the majority share of Endeavour Energy's insurance costs. Changes to this placement can materially improve premium outcomes.

[redacted]

Insurance companies are now restricting cover offered to Endeavour Energy on an annual aggregated basis rather than an unlimited each and every claim basis.

Table 1: GLIS Insurance Limit Chart[2]

[redacted]	Limit/capacity ($m)	Excess ($m)	% Aggregated	$ Aggregated ($m)
[redacted]				

[2] Insurance Update, Audit & Risk Committee, 21 September 2022

[redacted]	Limit/capacity ($m)	Excess ($m)	% Aggregated	$ Aggregated ($m)
[redacted]				

[redacted]

The table below illustrates how the insurance policy would respond in these circumstances, subject to any changes to aggregated limits that may be introduced at this renewal.

Table 2: Event aggregate coverage example

[redacted]	Damage Sustained During the Interval ($m)	Deductible ($m)	Insurance Cover ($m)
[redacted]			

[redacted]

Table 3: Bush-fire event coverage example

Time Period	Damage Sustained in each Fire ($m)	Deductible ($m)	Insurance Cover
[redacted]			

Risk Frontiers[3] was engaged to do a comprehensive modelling exercise to quantify Endeavour Energy's exposure to potential bushfire liability due to fires started by or attributable to Endeavour Energy's electricity assets, to support decision making in relation to risk and insurance. Endeavour Energy's insurance requirements are a multi-year commitment and a material programme within an insurance market that has experienced a number of losses, both locally and internationally, over the past two decades.

The following factors were considered in their report:

- Increase in real estate values in the Endeavour Energy Network area
  Due to the increase in property values over the last 6 years, a bushfire may more easily cause [redacted] in damage now than in the past. For example, in 2016 a bushfire may have needed to destroy 800 homes to cause [redacted] in damage, now it may only need to destroy 400 homes to cause the same amount of damage.
- Increased frequency and magnitude of bushfires due to climate change
  Weather conditions have become more unpredictable which may result in increased rainfall or alternatively more hot and dry conditions. Whilst heavier rainfall may reduce the risk of bushfires occurring, it will also cause increased growth in vegetation and may cause a more severe bushfire if ignition occurs. In years of lower rainfall, there will be less vegetation however, a fire may spread more easily due to the hot and dry conditions.
- Inflation in building costs
  The cost of repairs to buildings have increased considerably since 2016

Table 2 shows the occurrence exceedance probabilities indicating the likelihood of exceeding a range of policy limits, namely: [redacted] The Policy Limit column shows the simulated occurrence losses due to events for which Endeavour Energy is likely liable for with [redacted] Contributory Negligence.

[3] Fire Risk Modelling, Assessment of the risk due to fires within Endeavour Energy's Electricity Netwprk, Risk Frontiers, September 2022

Table 4: Occurrence Exceedance Probability Table for Selected Return Intervals

Average Return Interval (yrs)	Exceedance Probability (%)	Policy Limit ($m)
[redacted]	[redacted]	[redacted]

In view of the above, Endeavour Energy decided to maintain the level of coverage at [redacted] this has been considered more prudent as reducing cover to a limit of [redacted] Options to manage the cost of insurance in future years will continue to be explored to minimise the impact on customers.

Table 5: Insurance Cover estimates

Limit of Cover	Event Probability	Estimated Premium Cost ($FY22)
[redacted]	1:1,461	not available in the market
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

2.4 Increase in Insurance Premium costs

Insurance premiums paid by Endeavour Energy over recent years has increased significantly, from [redacted] in 2018 to [redacted] in FY2023. The increasing trend is expected to continue in the next regulatory period.

[redacted]

Figure 3: Insurance Premium FY18-FY29 ($FY24) – Actuals and forecast

[redacted]

Other classes of insurance have also seen significant increases to premiums over recent years such as Industrial Special Risks ("ISR") that covers property damage and loss of revenue from [redacted] Our Insurance Brokers BMS Risk Solutions ("BMS" and McGill & Partners ("MGP") have independently advised Endeavour Energy to expect premium increases in the range of [redacted] for all insurance placements for FY24.

BMS & MGP have advised that in addition to overall policy limit, the placement/program structure can vary significantly year on year as insurer appetite, capacity and pricing changes. [redacted]

[redacted]

[redacted]

3. Insurance Premium FY25-29 Forecast

3.1 Internal and external factors considered in forecasting premiums

Endeavour Energy's insurance broker, BMS Risk Solutions, identified internal and external factors that bear relevance on future insurance premium costs as follows:

- Sums Insured / Limits of Liability – any increases/decreases in the sums insured due to periodic asset revaluations, amendments to the required sub-limits/limits of liability etc. will have a flow-on effect on insurance premium costs.

- Basis for Declaration – for some insurance policy classes (including Motor Vehicle, Excess Worker's Compensation, Corporate Travel etc.) the premium is substantially based upon the values declared – for example, the number of vehicle units, the number of employees and their wage roll, the number of trips anticipated. As such, year-on-year movement in the values declared can have a marked effect on premiums payable.

- Claims History – claims history has a flow-on effect on the insurance premium costs, which can continue to be felt for several years post-loss. It is important to note that insurers consider claims on a portfolio basis (i.e. across their entire book of clients for a particular sector), and as such premium pricing may be impacted on this basis despite an individual policy not recording claims.

- Risk Profile Changes – any changes to the risk profile (e.g. changes in operational procedures, construction of additional assets, change in service providers, change in maintenance philosophies & service intervals etc.) presented by the insured assets will have a flow-on effect on the insurance premium costs.

- Insurance Market Dynamics – The insurance market is cyclical in nature, alternating between 'hard' (increasing premiums, restricting cover) and 'soft' (decreasing premiums, increasing cover) periods due to various factors both intrinsic and extrinsic. This should be factored into any medium-long term considerations – such as the operation of an asset. At the moment, consensus within Insurers and Insurance Brokers alike is that we are in a 'hard' phase of the insurance market, this being said, competitive pressures are starting to increase brought about by additional capacity entering the market (particularly overseas) and as such we are starting to see a gradual softening in approach from Insurers. However, considering the current inflationary environment, the significant disruptions being seen in the global supply chain and the uncertainty created by the war in Ukraine, there is building consensus that further correction is coming to reinsurance markets in 2023 which will have a flow-on effect to direct insurers.

3.2 Broker's Forecast Increase in Insurance Premium costs

BMS and MGP have provided estimated premium costs for the period to FY2029 across all lines of insurance currently procured by Endeavour Energy as summarised below. In providing these estimates, they have based their calculations on the Limit of liability and deductible structure being maintained in line with current year outcomes. Any reduction in policy limits or increase in deductible levels would have a flow-on effect in potentially reducing premiums. Appendix **1** contain BMS' premium estimates report which explains the rationale behind the below premium estimates (noting this was done in $FY23 terms).

Table 6: Insurance Premium Estimates for ALL Endeavour Energy Insurance Placements (FY23 $m)

Period of Insurance	2022-23 Actual (Annualised)	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Forecast Increase %	[redacted]						
Low Range							
Mid Range							
High Range							

Table 7: Insurance Premium Estimates for Combined General Liability Insurance Placement (FY23 $m)

Period of Insurance	2022-23 Actual (Annualised)	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Forecast Increase %	[redacted]						
Low Range							
Mid Range							
High Range							

Table 8: Insurance Premium Estimates for Industrial Special Risks Insurance Placement (FY23 $m)

Period of Insurance	2022-23 Actual (Annualised)	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Forecast Increase %	[redacted]						
Low Range							
Mid Range							
High Range							

Table 9: Insurance Premium Estimates for ALL OTHER Insurance Placements (FY23 $m)

Period of Insurance	2022-23 Actual (Annualised)	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Forecast Increase %	[redacted]						
Low Range							
Mid Range							
High Range							

4. Step change forecast

We have identified that insurance premiums are likely to continue to increase significantly over the next regulatory control period, based on the forecast in insurance premiums and advice from our insurance broker. Using the analysis for all insurance placements (Table 4), we estimate opex step change to range from a [redacted] for FY25-29. The step change represents the difference in the insurance premium payable each year against the base level of insurance premium costs included in the operating expenditure base year (FY23).

Table 10: Operating expenditure step change for insurance premiums (Real ($FY24m))

Scenario ($m)	FY25	FY26	FY27	FY28	FY29	Total
[redacted]						

The insurance premium is a material and unavoidable cost that is not accounted for elsewhere in the opex allowance. However, we are mindful of the impact of this step change on affordability, and we are adopting a constrained view of $36.6m for FY25-29 based on the potential options to reduce premiums.

5. Options assessment

In view of the increasingly difficult global insurance market conditions in respect of bushfire liability risks, we considered several options to ensure our insurance strategy is sustainable yet prudent in the future. These options are weighed against the risk appetite of customers and shareholders as well as the impacts on our credit rating and expenditure programs.

Based on our zero-risk appetite policy and in assessing the risks and costs of each option below, establishing a captive insurance company (Option 5) or self-insurance appears to be the most prudent and efficient approach in managing public liability insurance risk. Self-insurance generally implies retention of risk within the Endeavour Energy Group with no support from the commercial insurance market. Currently this initiative is under investigation and may impact our debt arrangements or have certain tax implications. A decision on whether to proceed with implementation of a Captive insurance company will be made prior to the GLIS 2023 renewal.

Table 11: Options assessment

OPTIONS	Potential savings	Pros	Cons
1. No policy / rely exclusively on pass throughs	Significant	Annual saving of around [redacted]	[redacted] This is inconsistent with the Board Risk Management Policy and financial risk strategy of maintaining an extensive insurance program to mitigate consequences by transferring financial risk exposure to third parties where commercially appropriate. This can have an adverse impact on our credit rating due to higher credit risks, which would lead to higher costs. Higher cost to customers through pass-throughs
2. Reduction in limit of liability and/or declared values	Significant - moderate	This will mean consumers sharing in the increased costs and risks for the bushfire insurance program. Endeavour Energy can manage its exposure to certain risks such as the Insurance cap by obtaining a pass-through provision	• This would have a significant premium reduction effect, however Endeavour has certain contractual obligations in place around policy limit requirements. Further, any limit reduction would ideally need to be supported by Limit Analysis to give Endeavour's Board and Management confidence in the new (lower) limit selected. • [redacted] • Any Declared Value reduction would ideally need to be supported by updated Asset Valuations and consideration of Endeavour's Risk Transfer philosophy (if electing to self-insure certain assets) to give Endeavour's Board and Management confidence in the new position declared. • A lower limit of liability increases the likelihood of a pass-through event in the event of a bushfire liability loss being incurred.
3. Increase in policy deductibles	Significant	[redacted]	• This would have a significant premium reduction effect, however Endeavour have certain contractual obligations in place around maximum policy deductibles. It is noted that many of Endeavour's peers do carry higher deductibles than those currently held by Endeavour. • The Insurance team is currently working with the Risk team to analyse what impact an increase to the deductible would have on the Endeavour Energy Risk Appetite and financial metrics.

OPTIONS	Potential savings	Pros	Cons
4. Removal and/or reduction of Professional Indemnity from Placement	Moderate	Premium savings may be achieved by reducing the Professional Indemnity Limit currently provided within the Combined General Liability placement, or by removing the coverage entirely and placing in the dedicated Financial Lines Insurance Market.	Coverage would still be required noting Endeavour's business activities, and therefore the coverage could not simply be removed and not replaced elsewhere.
5. Captive Insurance Company	Significant - moderate	[redacted]	• Increased management time and possibly increased costs, over and above the Protected Cell Captive currently in place. [redacted] • Currently this initiative is under investigation and may impact our debt arrangements or have certain tax implications.
6. Reduction in breadth of policy terms and conditions	Minimal	Whilst reductions or limitations in coverage would generally be pushed upon Endeavour by the Insurance Market, Endeavour choosing to take on certain limitations proactively may bring about premium savings through Insurer's increased willingness to support the placement.	Contractual obligations exist under the Network Lease to maintain reasonably adequate insurance. Generally companies buy insurance to prevent an insolvency event, if a company buys insufficient insurance and an insurance claim arises that places the company under financial stress, then the Board and Management could be criticised. This can have an adverse impact on our credit rating due to higher credit risks, which would lead to higher costs.
7. Aggregation of Bushfire Limits throughout entire placement	Minimal	Whilst likely a requirement that will be pushed upon Endeavour by the Insurance Market, Endeavour choosing to take on this limitation proactively may bring about premium savings through Insurer's increased willingness to support the placement.	

Confidential appendices:

Appendix 1 – BMS Insurance Premium Estimates FY23-29 (confidential)

Appendix 2 – Risk Frontiers Fire Modelling Summary Report (confidential)

endeavourenergy.com.au

Endeavour Energy

POWER together