24 Feb 2020

Dear Mr Anderson,

Thank you for the opportunity to comment on SA Power Networks' proposed Contingent Project and Insurance Step Change. I believe these proposals should be amended in order to best serve energy consumers.

If the State asks SA Power Networks to provide bushfire mitigation services, who should pay?

I don't see a "contingent project" here, but rather an opportunity for SA Power Networks to contract with the State for a *negotiated service*. SA Power Networks has not shown there to be any benefit to energy consumers in terms of reduced liabilities or insurance premiums, so the benefits of these projects do not appear to flow to energy consumers.

One would imagine that urgent projects should be worth much more than their investment value overall, so where is this value going?

Insurance premiums should be affected by any mitigation project worth its investment value at this time. The urgency of bushfire mitigation is strongly related to the investment value of these critical projects. If there is no value to energy consumers, then there is no urgency from SA Power Networks' perspective. This suggests that the State is receiving all of the benefits of mitigation projects, and should therefore foot the bill.

Step change (ongoing) or pass through event (one-off)?

In its proposal for a step change in insurance premiums, SA Power Networks notes that its allowance for 2020-2025 is deemed based on 2018/19 costs. If this methodology continues into the next period, SA Power Networks' allowance for insurance would be based on 2023/24 costs (the assumed base year for next period). Therefore, regardless of the amount by which SA Power Networks' insurance costs decrease due to bushfire mitigation projects, energy consumers will continue to pay full insurance costs as if those projects did nothing. The AER should not pay networks based on actual insurance premiums unless it is also collecting revenue from consumers based on actual insurance premiums. Allowing this to be a step change would clearly overcharge energy consumers for insurance in 2025-2030.

What is missing from current insurance?

Along with price inflation, SA Power Networks also alludes to the potential for having less than full coverage. This raises a more serious problem with accounting for these proposals, because if SA Power Networks is taking on risk rather than its insurer, the benefits of these projects will not be entirely seen in reductions to insurance premiums. It is even possible that SA Power Networks could target projects which reduce its self-insured liability without materially affecting its insurance premiums, resulting in unfair profits.

Would SA Power Networks spend over $200M of customer money to reduce their actual insurance premiums, only to then charge customers as if they still paid full premiums? It appears to me that this was the intention of SA Power Networks' original proposal. The amount of money at stake is much more reasonable, but the "have your cake and eat it too" problem with these proposals still applies.

Best regards,

John Herbst

Adelaide