



PO Box 4136  
East Richmond VIC 3121  
T 131 806  
F 1300 661 086  
W redenergy.com.au

PO Box 4136  
East Richmond VIC 3121  
T 1300 115 866  
F 1300 136 891  
W lumoenergy.com.au



30 October 2020

Mr Sebastian Roberts  
General Manager - Transmission and Gas Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted electronically [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Mr Roberts,

**Re: Consultation Paper: Guidance note on key matters the AER is likely to have regard to when assessing insurance coverage event application**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Regulator (the AER) regarding the consultation paper on developing a guidance note on matters the AER is likely to have regard to when assessing an insurance coverage event application.

We support the AER's decision to publish a guidance note which provides additional clarity to Network Service Providers (NSPs) on the assessment of insurance coverage event applications. In general, NSPs will benefit from an improved understanding of how the AER intends to assess these events in the future. While the guidance note does not have a direct impact on retailers, it does raise some important issues for us that could have a serious impact. In the remaining part of this submission, we discuss some of these issues for the AER's consideration.

**NSPs should not rely on insurance coverage events to recover losses where they fail to obtain a prudent level of insurance**

The regulatory framework provides incentives to NSPs to underspend their insurance allowance and share any savings with consumers based on a carry over formula. The regulatory framework also provides a positive pass through mechanism for the NSPs to recover additional costs that are uncovered by insurance. This has the potential to create the conditions for NSPs to underspend on insurance exposing them to uninsured risk. If this occurs, NSPs should not be permitted to recover losses through an insurance coverage application where they have failed to obtain a level of insurance that an efficient and prudent NSP would obtain.

Therefore, when assessing an insurance coverage event the AER must:

- ensure that an NSP has obtained a level of insurance that an efficient and prudent NSP would obtain;
- only permit recovery of any material costs incurred above that of which a prudent and efficient NSP would have been insured for; and
- demonstrate the circumstances that apply to an event were extreme and outside of their control.

This assessment process will protect consumers from paying for insurance losses where NSPs have failed to obtain a level of insurance that an efficient and prudent NSP would obtain. Therefore, shielding consumers from underwriting these losses that will result in higher electricity prices in the long run.

Finally, insurance coverage pass through events should not lead to tariff shock. Therefore, it is important that any cost recovery is predictable to both retailer and consumer. Where costs are recovered from an insurance pass through event are significant, it makes sense to recover these amounts coinciding with annual price resets and over a longer period to ensure consumers are protected.

### **Insurance coverage event costs should only be recovered through annual pricing proposal**

NSPs should only be permitted to recover the costs of an insurance coverage event as part of the annual pricing proposal. They should not be permitted to recover these costs immediately. With extreme weather events occurring more often as climate change gathers pace, insurance coverage events will become more frequent and costly. Any automatic pass through of costs for these events may lead to unintended financial consequences for retailers, given they will not be accounted for in the regulated price set by the AER.

### **Regulated retail pricing must include the costs of all insurance coverage events**

When the AER sets the Default Market Offer (DMO), it should include the costs of any insurance coverage events. The misalignment of dates and time frames in the DMO Code and the National Energy Rules means the AER is not always able to include all network costs or the most recent forecasts into the final DMO. This can create financial exposure for retailers.

The AER must ensure that any new network charges as a result of the insurance coverage event are included in the DMO, and commence at the same time as any network cost re-sets (i.e. 1 July).

### **About Red and Lumo**

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in New South Wales, Victoria, South Australia, Queensland, and the ACT to over 1 million customers.

Should the AER wish to discuss or have any enquiries regarding this submission, please contact

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou".

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
**Red Energy Pty Ltd**  
**Lumo Energy (Australia) Pty Ltd**