

10 February 2020

Ms C Preston
Director, Network Expenditure
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Email: SAPN2020@aer.gov.au

Dear Ms Preston

SA Power Networks 2020-25 Distribution Determination - Bushfire Liability Insurance Premiums Step Change Submission

I refer to SA Power Networks' revised proposal for the 2020-25 regulatory control period (2020-25 RCP) submitted on 10 December 2019 (Revised Proposal).

Enclosed with this letter is an addendum to Attachment 6 - Operating expenditure of our Revised Proposal (Addendum). The Addendum includes a confidential annexure (Annexure A), as well as a number of other confidential documents which form the appendices to the Addendum.

This letter and the Addendum, Annexure A and associated appendices together comprise our further submission concerning our Revised Proposal and, in particular, our proposal to seek an additional step change with respect to the material increase in our bushfire liability insurance premiums for the 2020-25 RCP that we have been advised will occur later in 2020 (Bushfire Step Change Submission).

As outlined in recent discussions with the AER concerning the expected impact of the recent catastrophic bushfire events on our future bushfire liability insurance program, the purpose of this Bushfire Step Change Submission is to:

- formally advise the AER and other stakeholders of new information we have recently received which clearly indicates that bushfire liability insurance premiums during the 2020-25 RCP will be materially higher than the bushfire liability insurance premiums which were included within our 2018/19 base year operating expenditure (opex); and
- seek an additional step change to our forecast opex for the 2020-25 RCP to take into account that material increase in bushfire liability insurance premiums.

We of course apologise for the lateness of this submission. However, we only became aware of this possibility in late January and only received confirmation from our insurance broker concerning the likely quantum of the expected increase in bushfire liability insurance premiums in the last fortnight.

As you are aware, we contacted the AER as soon as we became aware of this possibility and provided the AER with preliminary details concerning the likely impact of the recent catastrophic bushfire events on our future bushfire liability insurance program and, in particular, the expected level of premiums during the 2020-25 RCP. We then sought urgent expert advice from our insurance broker concerning the likely level of this expected increase in insurance premiums and whether that increase would continue during the 2020-25 RCP. This expert advice has been provided in full to the AER and forms a central part of our Bushfire Step Change Submission.

- Notwithstanding these considerations, SA Power Networks appreciates the AER concerns with respect to providing stakeholders with an adequate opportunity to consider and comment on our Bushfire Step Change Submission. In that regard, we note that clause 6.10.4 of the National Electricity Rules:
- gives the AER the option to invite further submissions in relation to the submissions it has received concerning our Revised Proposal; and
- requires the consultation period to be at least 15 business day in duration.

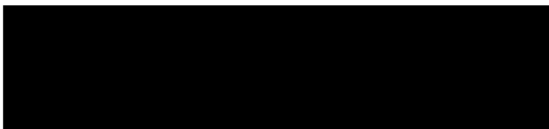
We would obviously be happy to fully and actively support any consultation process which is proposed by the AER. We recognise that the issues raised by this submission are quite complex and we will do everything within our power to facilitate the consultation process and explain to stakeholders the intricacies of the international bushfire liability insurance market and the recent issues which have impacted on that market and have led to the need to make this late step change submission.

Next steps

Ensuring that we are entitled to recover the efficient and prudent costs of meeting our regulatory obligation to maintain adequate and appropriate bushfire liability insurance is critical for SA Power Networks, and is required in order for us to deliver standard control services for the long term interests of consumers. We will only be able to achieve this aim if the AER approves our bushfire risk insurance premium step change.

Please let me know if you require any further information or have any questions.

Yours sincerely



Patrick Makinson
GENERAL MANAGER GOVERNANCE AND REGULATION

