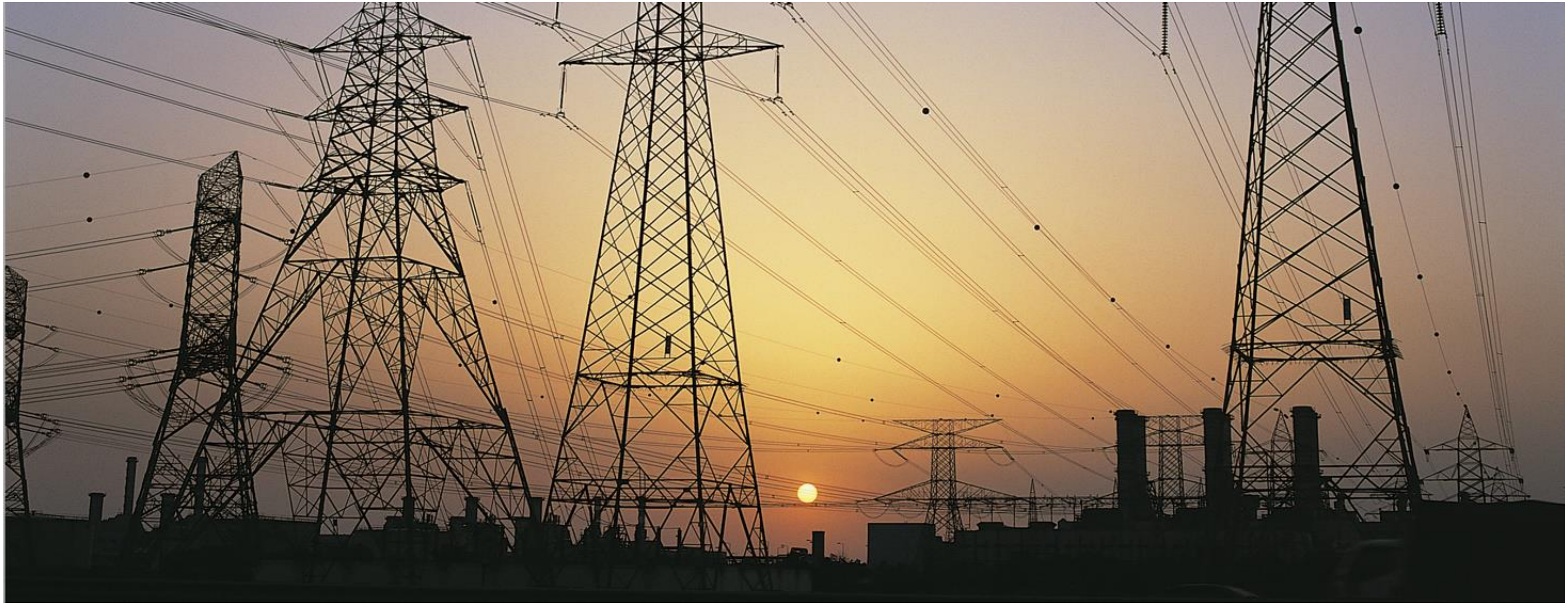

TRANSGRID

QNI INSURANCE REPORT

DATE: 29th November 2019

AON
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1. Executive Summary

Aon is pleased to assist TransGrid through overviewing and detailing high level insurability, risk allocation and insurance financing solutions for the Queensland to NSW Interconnector **'QNI project'.**

Focus of this Report

As agreed with TransGrid, the focus of this report has been to undertake a review of the information received and provide commentary based on industry practice and peer comparison with respect to:

1. Estimates of the incremental premium costs payable by TransGrid relating to QNI, for:
    a. the remainder of the **current** (2017-18 to 2022-23) regulatory period – while the assets are under construction, with separate estimates for each year, and
    b. **next** (2023-24 to 2027-28) regulatory period, once the asset are complete with separate estimates for each year;
2. An explanation of the approach (and techniques), reliances and assumptions made in estimating the incremental premium costs;
3. An explanation of the factors influencing the incremental premium costs. These could include for example:
    - Forecasts of risk exposure and Insurers' perception of this risk exposure
    - Expected market outlook
    - Other historical market factors.

A key deliverable of this report is to provide insurance cost estimations for TransGrid's financial modelling purposes without approaching insurers

Prudence and Good Practice

Our comments and recommendations in this report represent the standard of prudence and good practice that we would expect for clients in the prescribed and unregulated electricity industry in relation to procurement of insurances to adequately address the identified risks and interests of TransGrid, its equity investors including the Contractors (to the extent that insurance is commercially available to do this).

Indicative Insurance Program Costs

We have designed the Indicative Insurance Program for this Project based on our insurance knowledge and expertise, industry benchmarking against projects of a similar standing and nature internationally, and review of the information provided by TransGrid to us. We believe that premium costs for the minimum recommended insurances could range between the estimations noted below:

Construction Phase - total estimated costs for the entire project, with incremental cost estimates for each year provided in Section 3 of this report.

Class of Insurance	Total Estimated Premium (incl statutory charges excl GST)	
	High	Low
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
Total	**$909,955**	**$793,678**

[redacted]

[redacted]	[redacted]	
	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Premium costs for Construction Phase represents an estimation in nominal dollars for the entire project. A breakdown of these estimation for the reminder of the regulatory period is provided under Section 3 of this report for TransGrid's financial modelling purposes only.

[redacted]

Please note the above does not include pricing for Professional Indemnity Insurance required during the Construction and Defects Phases of this Project. Based on discussion with TransGrid we understand that Professional activities such as design works in relation to this Project is likely to be contracted out and the obligation to procure professional indemnity insurance transferred to the Contractor.

There are substantial considerations as to the address of responsibility for PI. Owing to the state of the Professional Indemnity Insurance market, such an insurance whether procured by TransGrid or the Contractor is likely to be prohibitive.

There have been constraints on the level of analysis we have been able to undertake due to gaps in information at this early stage of the Project. As a result, several assumptions have been made in the design and overview of the insurance requirement. These are outlined in the Insurance Program Analysis section of this report.

Please note this excludes any insurance broker costs / fees for the placement of these program.

We have provided commentary with respect to the design, costing and underlying assumptions relating to the Indicative Insurance Costs in the Program Analysis section of this report. These costings have been developed in consultation with Aon's Subject Matter Experts in the Construction National Placement team and industry benchmarking.

It is important to note that:

- indicative costings have been developed for TransGrid in support of its application to AER;
- the cost has been estimated from a scope of work determined by a limited review of the project consequently, significant assumptions have been utilised in developing the indicative costing range;
- at this stage, it is unclear whether TransGrid will procure Project Delay or "Delay in Start Up' insurance to protect any financial loss exposure arising out of QNI Project. Consequently, no costs allowance has been made in relation to this insurance cover.
- any additional insurance costs (other than that included in the report) that may arise during the operations of the Project have not been considered;
- cost estimates are based on insurance market conditions and insurer appetite at date. These conditions have been particularly dynamic in recent times.
- statutory charges (where applicable) have been included based on rates applicable as at date.
- final costings will be subject to receipt of additional underwriting information and negotiation of terms in the global insurance market.

2. Designing a fit for purpose Insurance Program

Project Snapshot

The **QNI project** is a proposed upgrade to the transmission transfer capacity between New South Wales and Queensland.

This project consists of the following separable potions or scope of works:

- Substation Design & Construct services
- Transmission Line Design & Construction services
- SVC supply and install contract
- Cap bank supply and install contract;

It is anticipated that major construction will commence following planning approvals in **March 2020** with the asset fully commissioned and in service by **September 2021.**

It is understood, the QNI project will be underwritten by the NSW Government in order to accelerate the project delivery to meet the September 2021 in service requirement which is ahead of the final regulatory determination of the project by the Australian Energy Regulator.

Source of Information

Aon's findings and analysis are based upon information provided by TransGrid. In particular, the Option Feasibility Study (OFS), OFS-000000001529-2E revision 3.0 document and conversations held with the project team.

Description of Approach and Methodology

Risk and Insurance Methodology

Owing to the nature of separable portions contained within QNI, a carefully determined insurance program under the control of TransGrid is essential as a basis of protection for this project.

An insurance program under the control of TransGrid will allow greater understanding of what is at stake in the financial sense, as well as deal with issues correctly within contractual arrangements.

As a result, we recommend that TransGrid consider an insurance solution for QNI using a seamless "Cradle to Grave" program methodology covering each phase of the project life cycle which is most effectively arranged by the principal using a **Principal Arranged Insurance approach (PAI).**

By controlling and placing the insurances, the party sponsoring the project (i.e. TransGrid) can have confidence and transparency that appropriate cover is in place for the project life cycle. Furthermore, additional covers to protect TransGrid's financial loss, in particular, Project Delay Insurance or Delay in Start Up (DSU) cover or Principal Contingency PI cover can also be effected, if required.

A PAI approach does not relieve the contractor(s) of responsibility for loss or damage to the works, but merely moves the requirement to insure those risks to the Principal and ensures control of the program.

“Cradle to Grave” Insurance Solution

In constructing the appropriate policy to cover the life span of the project, it is important that a seamless program structure over Marine (Transit), Construction and Operational phases is designed to ensure the policies dovetail into each to avoid any potential gaps in cover.

Unlike other projects, due to commitments to the NSW Government, multiple separable portions of works will be undertaken concurrently to ensure that the project is completed and in service by September 2021.This means that there will be an overlap of separate insurance covers between each phase which can lead to gaps in cover if policies are not arranged in conjunction with each other.

In addition, we understand that following commissioning activities of each separable portion by individual contractors, TransGrid will undertake a full load testing of the entire project. Based on our experience, it is unlikely that individual contractor arranges insurance will extent to cover risk beyond their own commissioning activities, unless specifically agreed.

The project program is also based on the assumption that the overall program will be determined by the time required to design, manufacture, install and commission two SVCs at two locations and that all other works will continue in tandem.

A “Cradle to Grave” insurance solution would not only ensure a seamless program structure but would also augment TransGrid objectives by providing value for money, transparency of coverage and fitness for purpose in designing a bespoke placement strategy for the Project.

Leveraging against TransGrid’s existing Operational Insurance Program

TransGrid maintains substantial operational insurance program which has been serviced by Aon since their privatisation by NSW State. Over this period, TransGrid has developed meaningful relationships with its key insurers including a “bank” of claims-free trust with these markets.

Many of the incumbent operational insurers hold the appetite and capacity for major infrastructure construction projects and, importantly, the ability to insure bushfire liabilities which is a segment of the insurance market that has taken substantial losses locally and internationally over recent years.

Aon believes that these existing relationships can help in the development of QNI PAI Program, whilst building market competitive tension through strategic use of alternative competing markets and capacity for the Project to optimise the total cost of insurable risk for this Project.

Ultimately, and subject to the nature of separable portions contained within QNI, it is logical that key construction insurers are also heavily associated with your operational program aligned to respective PC dates. This is especially critical should any inherent defect evolve post completion of the Project works.

Some other benefits of PAI approach include the following.

Disputes

Avoid conflict between insurers on claims where multiple insurance policies have been affected by Contractors and or Subcontractors.

Interaction and transition to the operational program

Where TransGrid has arranged the insurance program for the construction phase, it is easier to plan the proper transfer of coverage into an operational insurance program to fit with the handover of the Project, addressing separable portions of the works.

Deductible vs premium

When insurance is arranged by the Contractor, those costs are passed on to the Principal/Owner. It is therefore in the Contractors interest to keep the deductible low at the expense of higher premiums. A PAI Program will enable TransGrid to set the deductible at a level that result in the best value for money whilst keeping the Contractor accountable for good risk management practices through a balanced self-insured retention.

Control of Claims

TransGrid's assets and funds are at risk and it is paramount you control any proceeds from insurance claims given your interest in the project being completed in time and without incident.

Utilising the PAI approach ensures that claims are controlled by TransGrid and paid directly to you, thus avoiding delays which can easily occur where individual contractors are allowed to arrange their own Insurance Programs.

Value for TransGrid

With many Principals looking for greater control over the placement of their insurance and seeking tighter risk management procedures, significant saving has been observed by Aon's clients on major projects using the PAI approach.

Furthermore, additional savings are achieved with the removal of margins and overheads typically passed on by EPC / D&C Contractors. When placement of the insurance is strategically balanced with insurers who can participate in the operational insurance program once the assets are commissioned, competitive tension can be created resulting in a better outcome for TransGrid.

By comparison Contractor Controlled Insurance Programs (CCIP) are arranged by the Contractors for their interest as required under an EPC / D&C contract where factoring of the principal's interests may simply result in contractual compliance undertakings.

Some other considerations when insurance is arranged by the Contractor, include:

Insolvency

Most insurance policies contain an exclusion whereby the insurance becomes void if the policy holder goes insolvent.

Insurance Margin

It has been our observation that the Contractors margin on insurance is typically as much as 30-50% of the actual insurance costs.

Settlement of claims/loss payee

Under a CCIP, the Principal does not have control over the settlement of a claim or how the proceeds are allocated. Principals relying on Contractors policies also have to deal with insurers that they have very little or no relationship with resulting is potential delay in finalisation of insurance claims.

Phased handover and separable portions

Contractors' policies commonly cease once handover or occupation has occurred, but Practical Completion has not yet been issued. This can cause a 'gap' in cover particularly in circumstances where minor works are still to be completed and the property (Industrial Special Risk) insurer has not accepted risk of the new asset.

Insurance Program Analysis

This Insurance Program analysis does not purport to be an exhaustive list of insurance, rather, it endeavours to focus on the more significant and traditionally available insurances, which can be procured from commercial insurers.

Dependent upon Project risk profile other classes of insurance may be also came under consideration such as Environmental Liability and Cyber

Class of Insurance	Principal (TransGrid)	Contractor	Engineers, Suppliers and Consultants	Subcontractors
Contract Works - Material Damage	Insures	✓	✓ but only for site activities and ex. PI	✓
Third Party Liability	Insures	✓	✓	✓
Project Delay / Delay in Start Up	Insures (if required)	×	×	×
Marine Transit	Insures	✓	✓ ex shipowners / freight forwarders etc.	✓
Marine Delay in Start Up	Insures (if required)	×	×	×
Professional Indemnity	Insures (if required)	Insures own	Insures own	Insures own, where appropriate
Workers Compensation	Insures own	Insures own	Insures own	Insures own
Motor Vehicle	Insures own	Insures own	Insures own	Insures own
Plant and Equipment	Insures own	Insures own	Insures own	Insures own

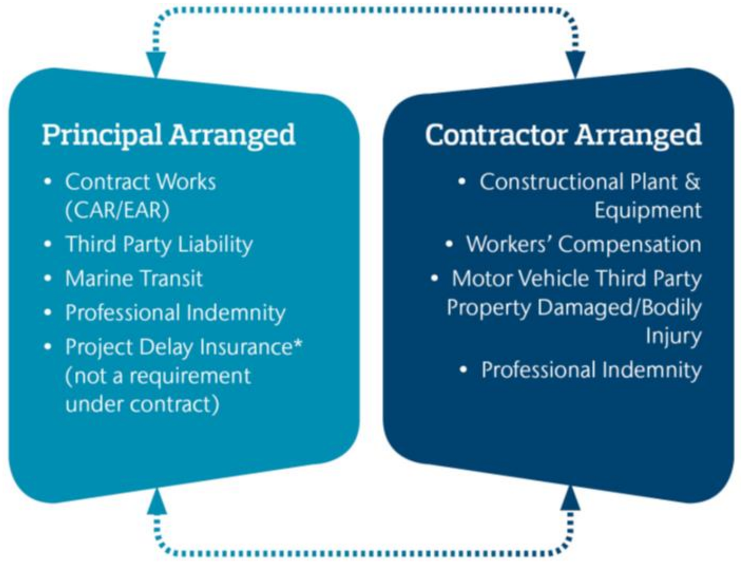
Key

Insures	TransGrid to arrange the insurance.
✓	A party to be included as an Insured in the policy arranged
×	No insurance required.

Recommended Allocation of Insurance Responsibilities under the EPC Contract

It is important from the outset that the responsibility to insure is clearly defined in the EPC contract and agreed by both parties.

We recommend that TransGrid consider the following allocation of responsibilities to insurance under the EPC contract based on the PAI approach discussed in this report:



* Project delay cover can only be arranged by the Principal if arranged in conjunction with the Contract Works and Marine Transit policies

This approach ensures that the key project insurances are aligned to the Project's risk profile and lifecycle, are of a nature that addresses and satisfies insurable risks through appropriate and tailored scope of coverage, ensures competitive terms and provides a common but comprehensive basis of key insurance coverage for all Project stakeholders including Contractors of every description and tier engaged on the Project.

Contractor arranged insurance identified above are commonly held by Contractors and are typically available under a Contractor's annual insurance program arrangements. They also include those classes of insurance that are statutory and compulsory in nature for any business.

We understand that agreements with the Contractors and other parties are presently being finalised and we would be happy to assist TransGrid in finalising these agreements to ensure they are compliant with the recommended insurance program structure.

The summary of insurances which follow represent the coverage requirements for the insurance to adequately and effectively address and protect the interests of TransGrid, its equity investors including the Contractors (to the extent that insurance is commercially available to do this).

Contract Works (Material Damage) Insurance

The Contract Works (Material Damage) policy will provide cover up to the Estimated Contract Value (ECV) of the Project and for Additional Cost Limits, Escalation and Contingencies plus the maintenance period in relation to the project.

The policy will provide coverage for physical loss or physical damage to project works arising within the project period declared within the ECV including but not limited to: -

- Preliminary (Early) Works
- Construction Works

- Existing Structures
- Construction Plant (if required)

This Principal arranged policy will cover the interests of all parties, i.e. TransGrid, Contractors, sub-contractors, financiers etc under a single Policy. TransGrid can determine the extent and level of cover to be arranged and can draft the necessary insurance policies prior to awarding contracts or commencing work to meet the exact requirements of the project.

Third Party Liability Insurance

This policy will provide cover to TransGrid, Contractors, Subcontractors etc for third party liability for bodily injury and physical damage arising from the project works, whilst they are being carried out.

The policy will also cover liability arising from the works from the date of on-site commencement to the date of practical completion, followed by the defects liability period (cover during the defects liability period will be on a limited basis as the ongoing operational insurances covered by TransGrid will take up the majority of risks).

This Principal arranged policy has distinct advantage, in that the project will have a uniform liability limit and coverage benefit. In this respect, the level of liability that your Contractors carry will vary depending on their size and the value of their contract.

Marine Transit Insurance

Marine Transit policy will provide cover for loss of or damage to goods whilst in transit. Transits for the project within Australia will be covered by the Contract Works policy. Transits relating to equipment's procured from overseas suppliers can be covered under a Project Specific Marine Transit Policy.

A Project Specific Marine policy procured by TransGrid can ensure that claims are controlled by TransGrid and paid directly to them, thus avoiding delays, which can easily occur where individual suppliers are allowed to arrange their own insurance program.

Project Delay Insurance / Delay in Start Up

Delay in Start-up (DSU) insurance will provide protection in respect of financial losses suffered by TransGrid resulting from the delayed completion of the project (and therefore the delayed commencement of operations), provided the delay is caused by an occurrence for which there is indemnity under the Contract Works policy.

This policy can also be set up to only cover any additional extra cost incurred during the delay period, if there are no financing requirements.

Based on our experience, completion of projects like QNI are reliant on numerous moving parts/parties. Each part or party represents a differing risk and impact to completion. Should a risk eventuate, given the forecast costs of the project, the potential period of interruption associated with some of those risk, the financial loss could be significant.

Typically, a Principal will seek relief from contractors in the form of liquidated damages (LADs) due to any delay. However, this form of relief is conditional. For example, if damage to the works arises as result of a “force majeure" peril (i.e. a cause outside the control of the contractor(s)), the contractor(s) will generally be granted an extension of time for completion of the works. Damages (liquidated or otherwise) will not apply.

This insurance can only be underwritten in conjunction with the Contract Works (Material Damage) policy.

Marine Delay in Start Up Insurance

There may also be the need to consider insuring for consequential losses incurred in circumstances where lost, damaged or delayed delivery of hi-tech, long lead specialised equipment or materials could give rise to a deferred completion. This is another form of the Delay in Start Up insurance referred to earlier.

Marine Delay in Start-up will provide protection for loss of or damage to goods whilst in transit and any financial loss suffered by TransGrid resulting in the delayed completion of the project.

This insurance can only be underwritten in conjunction with a Marine Transit policy.

Professional Indemnity (PI) Insurance

This policy provides cover for Contractor’s liability for acts of errors and/or omission of the Contractor and/or their Consultants / Subcontractors arising out of a breach of their Professional duties.

Due to cost considerations, it will be preferable for the Contractors /Subcontractors / Consultants to provide this cover from their annual policies rather than arranging a project-specific policy, which would only be available at significant cost to the Project. The key issue when relying on contractor’s PI policies is having a strong obligation on these parties to carry this type of insurance and for TransGrid to have a strong system for checking compliance with this not just at the outset of the project but throughout its term. Many companies continue to do so until 6 years after completion in view of the “claims made” nature of this policy.

Workers Compensation Insurance

TransGrid must insure their liability at law against injury to their employees in accordance with the laws of state or country that the employment contract is entered into. Similarly, there should be a requirement that Contractors and Subcontractors maintain their own workers compensation insurance.

Motor Vehicle (Including Third Party Property Damage) Insurance

Providing liability insurance for property damage arising from the use of any registered vehicles. Such insurance is typically the responsibility of each party involved in the project.

3. Insurance cost estimations for TransGrid's financial modelling purposes

Indicative Insurance Program Costs

Based on our insurance knowledge, expertise and industry benchmarking information we have designed the Indicative Insurance Program for the Project using a "Cradle to Grave" program structure.

These costings have been developed on the basis that TransGrid would have the obligation to arrange these insurances using the PAI approach, and where a deduction of the same cost may be extracted from the EPC Contractor(s) bid estimate.

At this stage, given the EPC nature of liabilities / indemnities, we have not included any costing for PI. We expect that Professional activities such as design works in relation to this project is likely to be contracted out and the obligation to procure professional indemnity insurance transferred to the Contractor. Also, we have not included any costing for delay in start-up insurance as presently we do not have visibility / understanding of any revenue exposure for this project. We have also not considered insurance for Environmental Liability or Cyber.

A breakdown of the costs including statutory charges, for the minimum recommended insurance to be placed by TransGrid is provided under Section 5 - Appendices.

Please note this excludes any insurance broker costs / fees for the placement of these program, all premiums are indicative of "net of brokerage" placement structure.

Insurance Program Limits / Retentions

Limits described in this report and used for the purposes of our costing are based on information supplied by TransGrid and Aon's review of the minimum requirements of this project, benchmarked against other like projects.

Deductibles and/or Excesses applying to the respective PAI insurance policies used in this report has been benchmarked against projects of a similar standing and nature internationally. The levels of such respective self-insured retentions will need to be addressed with Contractors, as per the Contract terms and conditions, to ensure Contractors remain cognizant of their ongoing risk management responsibilities associated with the safe delivery of services to the Project.

We recommend an insurable risk workshop in order to ensure that the proposed program, its limit, coverage and excesses are appropriate.

Assumptions made in estimating the incremental premium costs

It is important to note that:

- indicative costings have been developed for TransGrid in support of its application to AER;
- the cost has been estimated from a scope of work determined by a limited review of the project consequently, significant assumptions have been utilised in developing the indicative costing range;

- at this stage, it is unclear whether TransGrid will procure Project Delay or "Delay in Start Up' insurance to protect any financial loss exposure arising out of QNI Project. Consequently, no costs allowance has been made in relation to this insurance cover.
- any additional insurance costs (other than that included in the report) that may arise during the operations of the Project have not been considered;
- cost estimates are based on insurance market conditions and insurer appetite as at date.
- statutory charges (where applicable) have been included based on rates applicable as at date.
- final costings will be subject to receipt of additional underwriting information and negotiation of terms and coverage conditions in the global insurance market.

Factors that affect the cost of Insurance

One of the major issues likely to impact the procurement of the key insurances is the changing insurance market conditions in relation to Construction Risk.

We have included a snapshot of the current Contract Works and Construction Liability marketplace to illustrate how it continues to change and we expect further movement prior to an insurance program being placed for this Project: These are summarised as below:

- 2019 has seen the continuation of a hardening Contract Works market with rate increases sitting between 10%-30% for clean risks and 50%-200% for poor performing renewable accounts.
- Insurers appetite for certain disciplines has decreased. Large civil, pipeline and utility projects are becoming increasingly harder to place.
- The increasing Contract Works claims trend from 2018 has continued with a number of major claims hitting the market. The key areas of continued losses were: Pipeline Projects, LNG Projects and Sprinkler and defects failures in buildings.
- AXA XL have withdrawn from the Australian Construction Market. In addition, a number of insurers continue to raise concerns and we would not be surprised if more capacity withdrew from the Australian market. Hence, major projects are becoming increasingly harder to secure capacity and place.
- The first half of 2019 saw the first signs of a hardening Construction Liability market with average price increases from 10%-20% across the board.
- Overall increases in deductibles, with Worker to Worker and Water Damage Claims receiving significant increases.
- There were no major construction liability losses in the first half of 2019, however major losses in the mining sector have impacted insurer appetite in this sector. Claim for injury to subcontractors (Worker to Worker) and damage to third party services continue to occur frequently.
- We do not expect to see any material coverage restrictions. Instead insurers will focus on increases in deductible or price.

We will continue to provide market updates to TransGrid for construction insurances as the Project progresses.

Other factor that may influence the cost of insurance are:

- Contractor performance in delivery of recent project and claims activity
- Construction scheduling and contingency built in, for example, is it a compressed schedule?
- Construction methodology
- NAT CAT exposures
- Risk Management

Summary of Premium Estimates

Construction Phase – total estimated cost for the entire project

Class of Insurance	Policy Coverage	Rating Variable	Insured Amount	Methodology for determining insured amount	Deductible	Premium (incl charges excl GST)	
						High	Low
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]				[redacted]	[redacted]
[redacted]	[redacted]	[redacted]				[redacted]	[redacted]
Total						**$909,955**	**$793,678**

Construction Phase - separate estimates for each regulatory year, provided for TransGrid's financial modelling purposes only.

Class of Insurance	Total Estimated Premium (incl statutory charges excl GST)		2019-2020		2020-2021		2021-2022	
	High	Low	High	Low	High	Low	High	Low
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total	**$909,955**	**$793,678**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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[redacted]	[redacted]		[redacted]		[redacted]		[redacted]		[redacted]		[redacted]		[redacted]		[redacted]	
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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4. Identifying and linking project risk to insurable risk

A key to identifying risks associated with the Project is undertake an insurable risk profiling process which will assist in developing a more detailed understanding of insurable project risks and creating tailored insurance solutions that are 'fit for purpose'.

Based on our understanding of the project, major risk exposures faced by TransGrid with respect to the financing, design and construction of the Project, arise from four broad areas. These are:

1) risks of loss, damage and destruction of property (including during Early Works, and reliance on offshore manufacturing and transits)
2) risks of financial loss associated with the delay in completion by the date of operational readiness (including reliance upon the timely completion of affiliated Projects);
3) risks assumed under contract; and
4) potential liabilities to third parties incurred as a result of breach of statute or common law.

Aon understands that TransGrid is in the process of completing a broader project risk assessment which will cover risks across all relevant categories. Aon's proposed Insurable Risk Profiling exercise will look to capitalise on this work and provide a deep dive into the insurable risks attached to the project. Outcomes can be linked back into the project risk work and can be dovetailed into risk action planning.

The proposed insurable risk profiling exercise will also provide TransGrid with a linkage between project risk and insurance by providing a comprehensive understanding of:

- ✓ The significant risks of the project;
- ✓ Setting Maximum Foreseeable Loss (MFL) Limits (Both for Material Damage and Liability)
- ✓ Which risks are insurable;
- ✓ The options and availability of insurance cover;
- ✓ Insurance limits and sub-limits (workshop to determine adequacy);
- ✓ The risk tolerance and appetite of project participants; and
- ✓ The commercial availability of the specified insurance regime

This process is commonly adopted by our clients across a broad variety of infrastructure and commercial projects and we believe will also assist TransGrid in optimising the total costs of insurable risks for this Project as TransGrid will be able to better 'sell the risk profile and its mitigation' to insurance markets.

Insurable Risk Profiling Scope and Deliverables

The following describes Aon's 4 stage insurable risk profiling process

Source Data

Obtaining and reviewing existing project risk registers and other risk data reviewing major contractual obligations understanding TransGrid's risk appetite

Develop Insurable Risk Profile

This stage will assist in:

- capturing of events and their consequences on a qualitative level to help with setting and validating the scope of insurance cover
- developing quantitative models to establish Maximum Foreseeable Loss (MFL) values and;
- combining the outputs of risk analysis reports with Aon's risk library

Insurance Gap Analysis

At this stage, Aon will undertake:

- quantitative risk assessment – what happens in a 'worst case' scenario?
- Rank the significant risks in terms of severity? What is the financial impact of the risk materialising?
- determine the maximum foreseeable loss (MFL) for those scenarios

Develop Optimum Program

The outputs of the insurable risk profile exercise will then be utilised in developing a tailored insurance solution that are 'fit for purpose'.

It should be understood that insurance is not the "panacea to all ills". TransGrid may be exposed to a number of residual risks associated with the Project – exchange rate variation, for instance, being one area where insurance has traditionally not responded. Furthermore, the existence of policy exclusions and conditions means that insurance will not respond to all losses within the broad categories.

We recommend that an Insurable Risk Profiling and gap analysis exercise is undertaken in order to ensure that the proposed program, its limit, coverage and excesses are appropriate.

5. Appendices

Construction Phase (high)

Class of Insurance	Policy Coverage	Rating Variable	Insured Amount	Methodology for determining insured amount	Deductible	Gross Premium Rate	Base Premium	Terrorism Levy	Base Premium + Terrorism	FSL	GST	Stamp Duty	Total Premium	Total Premium (excl GST)
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]					[redacted]				[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]					[redacted]				[redacted]	[redacted]	[redacted]	[redacted]
							$ 643,973.33	$ 13,916.50	$ 657,889.83	$ 161,889.12	$ 81,977.89	$ 90,175.68	$ 991,932.52	$ 909,954.63

Construction Phase (low)

Class of Insurance	Policy Coverage	Rating Variable	Insured Amount	Methodology for determining insured amount	Deductible	Gross Premium Rate	Base Premium	Terrorism Levy	Base Premium + Terrorism	FSL	GST	Stamp Duty	Total Premium	Total Premium (excl GST)
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	To be included under TransGrid existing Workers Compensation Policy					[redacted]				[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	To be included under TransGrid's existing Motor Vehicle Policy					[redacted]				[redacted]	[redacted]	[redacted]	[redacted]
							$ 556,800.00	$ 12,524.85	$ 569,324.85	$ 145,700.21	$ 71,502.51	$ 78,652.76	$ 865,180.31	$ 793,677.81

About Aon

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