

# Insurance Deep Dive

Overview – 13 November 2020



Full presentation slides of the Deep Dive session can be accessed at [www.powerlink.com.au/2023-2027-regulatory-period](http://www.powerlink.com.au/2023-2027-regulatory-period)

Key topic	Key discussion highlights and actions
Context	<ul style="list-style-type: none"><li>• Powerlink has proposed a no real growth target in to total operating expenditure over the 2023-27 regulatory period.</li><li>• This is a challenging target for Powerlink to meet, so we need to explore ways of driving innovative practices and efficiencies and managing potential cost increases, such as in our insurance program.</li><li>• Increased insurance costs are anticipated in the 2023-27 regulatory period. This is driven by global market factors and an increased forecast of extreme weather events, which places upward pressure on insurance premiums across the board. Recent data shows premiums are rising by up to 33% in the Pacific region during Q3 2020.</li><li>• Customers have told us they are concerned about rising insurance premiums and risks and interested to know how Powerlink intends to address these risks.</li><li>• The purpose of the insurance Deep Dive was to help inform Powerlink’s consideration and decision-making on insurance cover over the 2023-27 regulatory period and beyond by building understanding of a reasonable balance of costs and risks for customers and Powerlink.</li></ul>
Powerlink’s risk management and insurance approach	<ul style="list-style-type: none"><li>• Powerlink has a comprehensive approach to managing risk, with insurance typically required where we cannot prudently avoid or mitigate risk.</li><li>• Powerlink’s insurance program includes a combination of insurance policies, self-insurance and pass through arrangements.</li><li>• Powerlink undertakes an extensive annual insurance program review. Our history and risk management practices make Powerlink a ‘good risk’ from an insurer perspective, leading to competitive insurance costs.</li></ul>
Trade off of cost and risk	<ul style="list-style-type: none"><li>• In depth discussion on the trade-offs between cost and risk including:<ul style="list-style-type: none"><li>○ Trading certainty of insurance premium costs with the uncertainty of pass through risk.</li><li>○ The frequency of high cost events (for example network damage caused by a cyclone) has a direct impact on cost benefit for customers – the greater the frequency of high cost events the lower cumulative cost for customers by taking appropriate insurance cover.</li></ul></li></ul>
Key factors to consider	<ul style="list-style-type: none"><li>• Factors for determining a prudent and efficient allocation of cost and risk include:<ul style="list-style-type: none"><li>○ Minimising total cost to customers.</li><li>○ Availability of insurance cover.</li><li>○ Operating environment &amp; claims history; and</li><li>○ AER’s assessment of a prudent and efficient level of insurance.</li></ul></li></ul>
Discussion points from session	<ul style="list-style-type: none"><li>• The risk profile for Powerlink as a Government Owned Corporation and how cost pass throughs are handled.</li><li>• The design of Powerlink’s network assets to withstand extreme weather events.</li><li>• Can we change our view of insurance being a ‘homogenous’ product across all network assets to more of a risk based view dependent on the geographic location of the network assets?</li><li>• Do we treat asset classes differently from an insurance perspective – i.e. regulated v non-regulated assets</li><li>• It is difficult to benchmark insurance costs across Transmission Network Service Providers (TNSPs) due to lack of publicly disclosed data and different risk profiles.</li><li>• Protection against possible class actions from the community (e.g. Powerlink assets cause a bushfire).</li><li>• Details and timing of Powerlink’s annual insurance renewal process and supply chain risk (inventory).</li><li>• Stability and predictability of insurance costs is important to avoid bill shock.</li></ul>
Key actions	<ul style="list-style-type: none"><li>• <i>Consider the potential to move ‘high risk’ assets due to geographic location from insurance coverage and rely more on cost pass through arrangements where prudent and efficient to do so.</i></li><li>• <i>Commitment to engage with Powerlink’s Customer Panel to discuss material changes in insurance costs and any pass through applications prior to lodgement with the AER.</i></li></ul>



More information

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