Gladstone Area Water Board

Insurance Pricing Report for the Period Commencing 1 July 2025

16 May, 2024

Contents

Section 1

Reliance and Distribution

Marsh Pty Limited (Marsh) has been engaged by Gladstone Area Water Board ("GAWB") to provide insurance premium projections in relation to GAWB for the period effective from 1 July 2025 to 30 June 2030.

Reliance and Limitations

We have assumed that the information provided to and contemplated by us is accurate and complete in all material aspects. We have considered the reasonableness of the data but have not undertaken a complete review to verify the accuracy.

The opinions and estimates contained in this report constitute our best judgement as of the date of this report and are subject to change without notice. In our judgement, we have employed techniques and assumptions that are appropriate, and the conclusions presented herein are reasonable, given the information currently available.

In carrying out our investigations and providing the report, we have acted solely and exclusively for GAWB, and we have assumed no duty to advise the Queensland Competition Authority ("QCA") or any other entity or person. By consenting to the report being given to QCA as part of the regulatory submission, we are not taken to have assumed any duty to advise you or to consider your circumstances or position. The report is provided to GAWB only for the purpose of assisting in the formulation of GAWB's QCA proposal.

Except insofar as liability under statute cannot be excluded, Marsh, its directors, employees and agents will not be held liable for any loss or damage of any kind arising as a consequence of any use of this report or purported reliance on the report including any errors in, or omissions from, the utilised models.

This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other. In particular, the opinions expressed in this report are based on a number of assumptions and qualifications which are set out in full in the report.

Disclosure

Marsh act's as the appointed insurance broker for certain classes of insurance for GAWB and as such we may have advised, designed or placed the insurance program to which this report refers.

Section 2
Introduction

We would like to thank GAWB for engaging Marsh Pty Ltd (Marsh) to assist with the forecasting of insurance costs for the period commencing 1 July 2025.

The benefits of utilising Marsh to provide these services includes:

- A depth of knowledge within its Power and Energy Practice Group
- Current insurance advisor to other clients similar (in operation) to GAWB;
- A carefully selected project team with extensive experience in the water utilities sector and with this type of undertaking.

The services Marsh have been asked to provide is an insurance market outlook ("Report") over the FY26 to FY30 period, having regard to the nature of GAWB's business activities and asset base, and the key classes of insurance cover it procures, this is intended to address two key outputs, being

A. Provide an opinion in respect of GAWB's estimated annual growth of insurance premiums (in excess of CPI); and

B. Contemplate the extent to which the Industrial Special Risk ("ISR") premium (as a cost) can be expected to correlate with the growth of the GAWB asset base.

In order to form and communicate our opinion, we have broken this Report into the following sections:

A. Extrinsic insurance market conditions;

B. Summary of GAWB from a risk perspective;

C. Validation of current expected outlook (in respect of annual growth in insurance premiums above CPI);

D. Commentary on the impact of GAWB's asset base growth on the ISR/Liability premium

We would like to acknowledge Kristine Palm and the insurance team at GAWB for providing assistance and the information necessary to complete this report.

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DATE OF ISSUE

16 May 2024

Section 3

Insurance Market Conditions

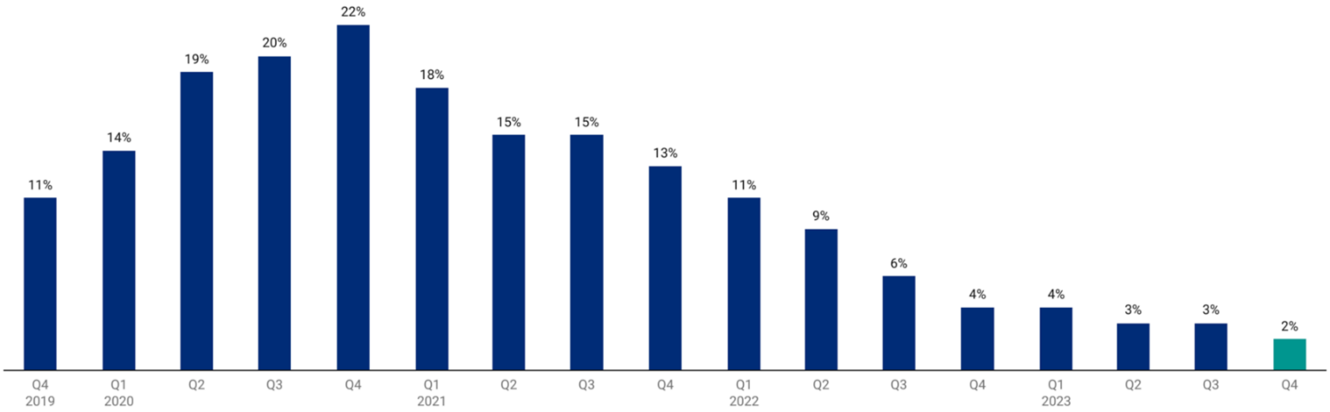
Global Insurance Market

Global commercial insurance pricing rose 2% in the fourth quarter of 2023, compared to 3% in the prior quarter, according to the *Marsh Global Insurance Market Index* ("GIMI") This was the twenty-fifth consecutive quarter in which composite pricing rose, continuing the longest run of increases since the inception of the index in 2012. Increases peaked at 22% in the fourth quarter of 2020.

Composite rates regionally ranged from flat in the Pacific, UK and Canada, to an increase of 8% in the Latin America and Caribbean region.

Property insurance experienced increases in every region excluding the Pacific, while cyber and financial and professional lines pricing generally decreased or showed moderating increases.

Below shows the Global Insurance Composite Pricing Change from this index.



Source: Marsh Specialty and Global Placement • Created with Datawrapper

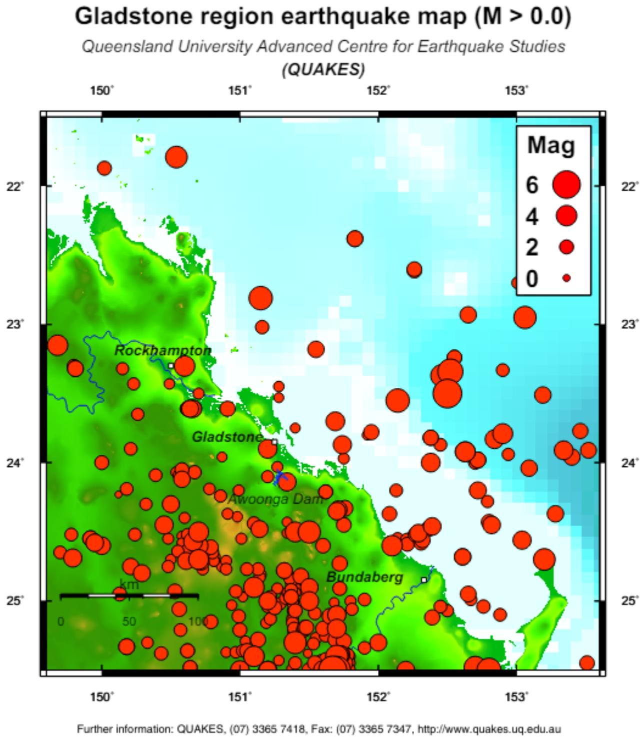
Global Natural Catastrophe Market

According to data from Swiss RE, 2022 delivered USD108bn of natural catastrophe ("NatCat") derived insured losses, the 4th consecutive year (and 6th out of 7) where insured losses exceeded USD100bn. This has pushed the 5 year average to USD105bn (up from the 10 year average of USD89bn), with this trend indicating an annual increase in insured losses of between 5% - 7%. Though no 'outlier' (peak loss) events were recorded, 31 'medium' severity disasters (events resulting in losses of USD1-5bn) accounted for most of the full year recorded total for all perils.

With natural catastrophe losses fluctuating due to natural variability, we considered the 30 year trend for these types of claims (chart below), which examined earthquake/weather related losses and is supportive of the forward-looking estimate for insured loss increases.

In consideration of the GAWB operation, flooding (as well as precipitation following tropical cyclone) will always be relevant, and thus our focus on these natural catastrophe perils will always be higher. Pleasingly, following 2022 which generated significant flooding events in Australia, 2023 was milder in comparison locally, that being said on the global market, large flooding events were identified in New Zealand, Hong Kong, India, Italy, Greece, and Slovenia. Additionally, the April 2024 flooding event in Dubai has placed this peril at the forefront of insurers minds.

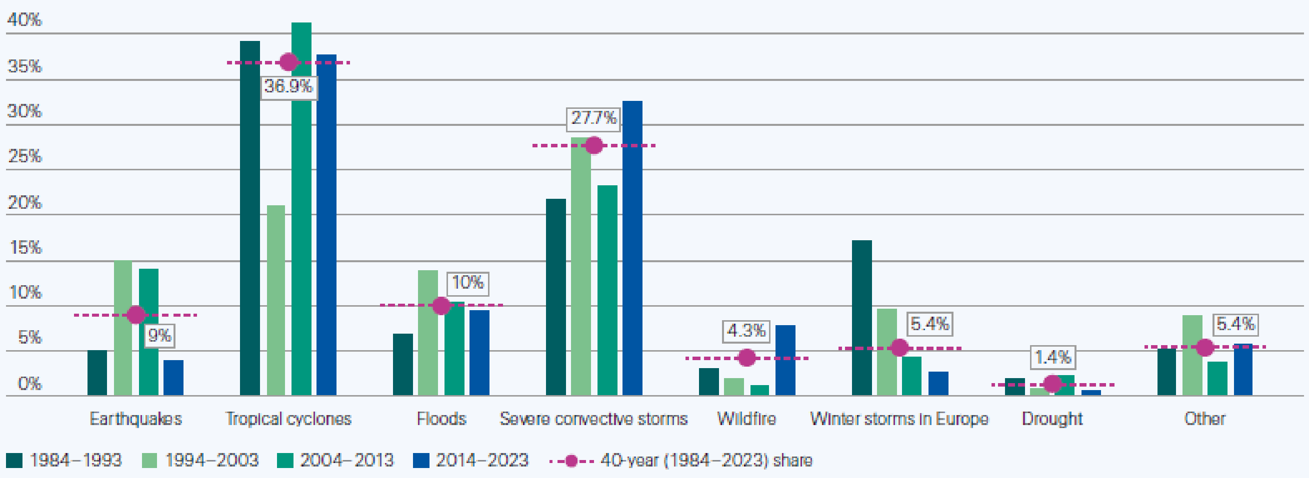
Gladstone is also located at the northern edge of a high seismicity belt (stretching up from Brisbane) and, according to University of Queensland data, there have been 409 catalogued Earthquake events in the area (refer below map). Pleasingly despite the volume of activity, the actual impact appears to have been limited (according to the study), with capacity for greater damage (Modified Mercalli Intensity of VII – VIII) being restricted to sites built on Quaternary floodplain alluvium in the Rockhampton area.



Thus in consideration of the GAWB (primary) location, considered in the context of asset mix (as not all assets are particularly vulnerable to all perils), we expect excessive water perils (Flood, but also the increased precipitation following tropical cyclones) to be the most applicable event, followed by earthquake. Though we are unable to confirm detailed quantum (as a percentage of the global insured NatCat losses), based on the Swiss Re data (refer below infographic), Floods and Earthquakes combined represent 19% of insured NatCat losses (on a 40 year average).

Tropical Cyclones are also a significant contributor to NatCat insured losses (and GAWB is primarily located in an exposed area), however this is primarily due to the 'wind' element of an event, unfortunately we were not able to identify more granular data (which focuses only on the 'flood' element of Tropical Cyclones), though there are known circumstances where dam failure has occurred post cyclone (or *cyclonic event*) due to resultant flood/overtopping of asset – such as post Hurricane Katrina and Harvey. As such it is difficult to validate the proportion of the 36.9% (40 year average) below which would be relevant to GAWB, but we can confidently assume it is not the entirety of the allocation.

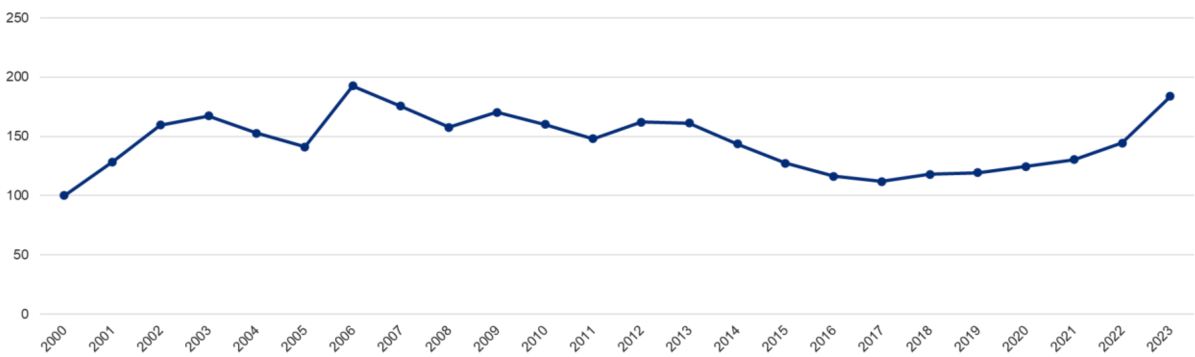
Figure 3
Share of insured losses by peril type by decade, and 40-year average



Source: Swiss Re Institute

Global Reinsurance Market

Global NatCat activity has created some headwinds in the reinsurance market (which is highly globalised), according to a recent Guy Carpenter *State of the reinsurance market* update, rates are also being challenged by inflation, rising interest rates, supply chain disruptions, and climate change anxiety. The Guy Carpenter update identified a ROL Index increase of 27.2% for Global Property Catastrophe business coming into 2023, primarily driven by pricing and attachment point adjustments in the USA/Europe (Note: ROL is *Rate on Line*, and is a measure of the change in dollars paid for coverage 'year-on-year' as a consistent program base).



Source: Guy Carpenter 'State of the Reinsurance Market' update

The Guy Carpenter update did note a material difference between *loss impacted* v *non-loss impacted* events, with the former seeing a general 20%-40% increase compared to 10%-30% for the latter in the Asia Pacific region.

As recently as January 2024, Fitch Ratings reiterated their expectation that Reinsurance capacity will rise in 2024, prompting softer market conditions coming into 2025, and there is currently at least one traditional reinsurer looking to write direct insurance lines in the Australian market, thus keeping competition active (for preferred risks) and achieved outcomes more nuanced.

It is important to note that Reinsurance cost is a factor for insurance pricing, however it is not the entirety of the cost to insurers, and thus it should not be assumed (for example) that a 10% increase in Reinsurance costs will create a 10% overall increase. We further note that many reinsurance treaties renew in Q1 of each year, and thus there is a delay in collated global reporting (typically global analysis of performance is released annually ~May.

Pacific Property Market

The Property insurance market has transitioned rapidly from mid-2017, resulting from poor insurer profitability with both increased claims activity and associated insurer cost in deploying the same levels of coverage.

Consequently, after years of sustained unsatisfactory results and under mandate from insurer head offices, there has been a concerted effort to return to profitability. Insurers are now reverting to technical pricing, aggressively scrutinising policy coverage and scaling back their capacity line sizes as they seek a return to profitable underwriting.

Underwriters have now returned to a reasonable level of profitability following many years of successive rate rises however are still being challenged by more frequent and severe weather events.

We remain in the "Hard Market" section of the insurance market cycle (as illustrated). However, given the much improved profitability it would appear that we should soon be moving into a transition phase where capital flows back into the market to capture the stronger underwriting returns. This should then lead to rates stabilising and beginning to fall in the near future but this will be subject to global factors, in particular reinsurance costs.

Key features of the current Australian market include:

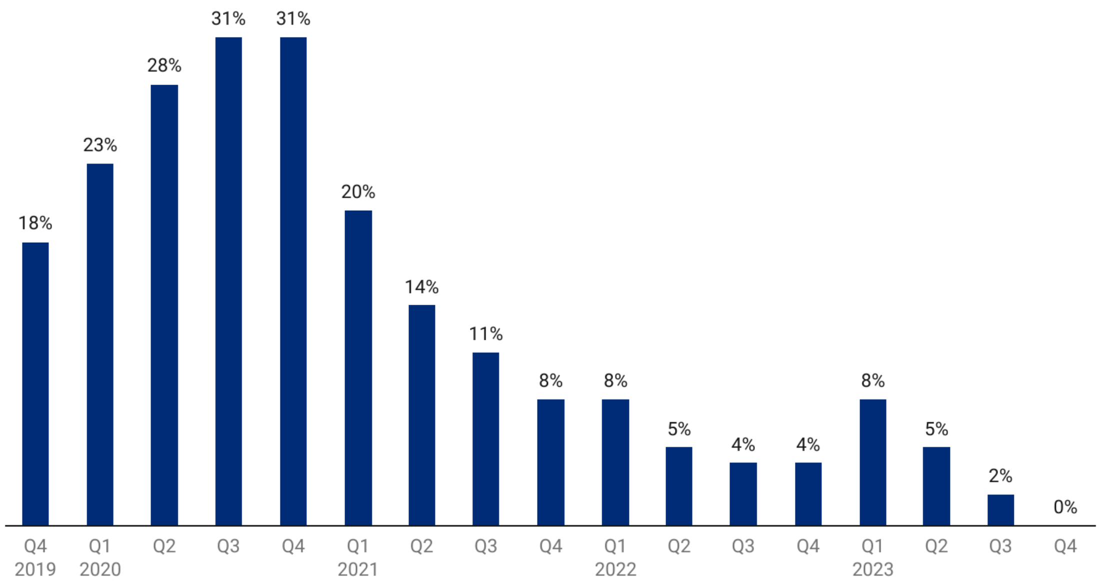
- Loss-impacted and CAT-exposed organisations typically experienced higher scrutiny.

  [Note: Applicable to GAWB**]**

- Underwriters continued to focus on general catastrophe and secondary CAT perils.
- A commitment to continual improvement in risk management remained critical to renewal success.
- Ensuring that current valuations supported declared values was a major underwriting focus, due to global inflation.

April 2024 Estimate

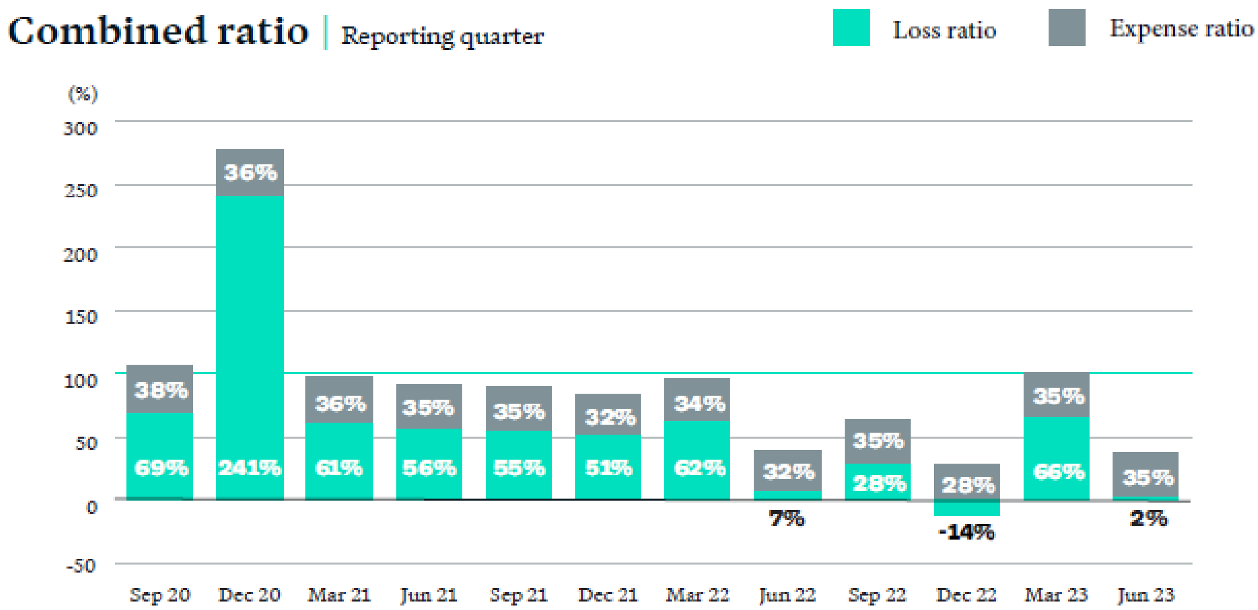
Our estimated position in relation to the insurance cycle for Property rates is supported by the Q4 2023 GIMI data, which indicates a downward trend to the rate of increases noted in recent quarters, as follows:



Source: Marsh Specialty and Global Placement • Created with Datawrapper

Where we reference a focus on the *concerted effort to return to profitability*, a key metric of this is an insurers 'Combined Operating Ratio' ("CoR"), which compares an insurers fixed (expenses) and variable (claims) costs against premiums to determine estimated profitability (e.g. a CoR of <100% indicates profit for an insurer, but >100% indicates an underwriting loss).

The following chart shows that the Commercial Property market in Australia has been profitable since March 2021 following several poor quarters. It illustrates the Combined Ratio (claims plus expenses divided by premium) of those insurers regulated by the Australian Prudential and Regulatory Authority.



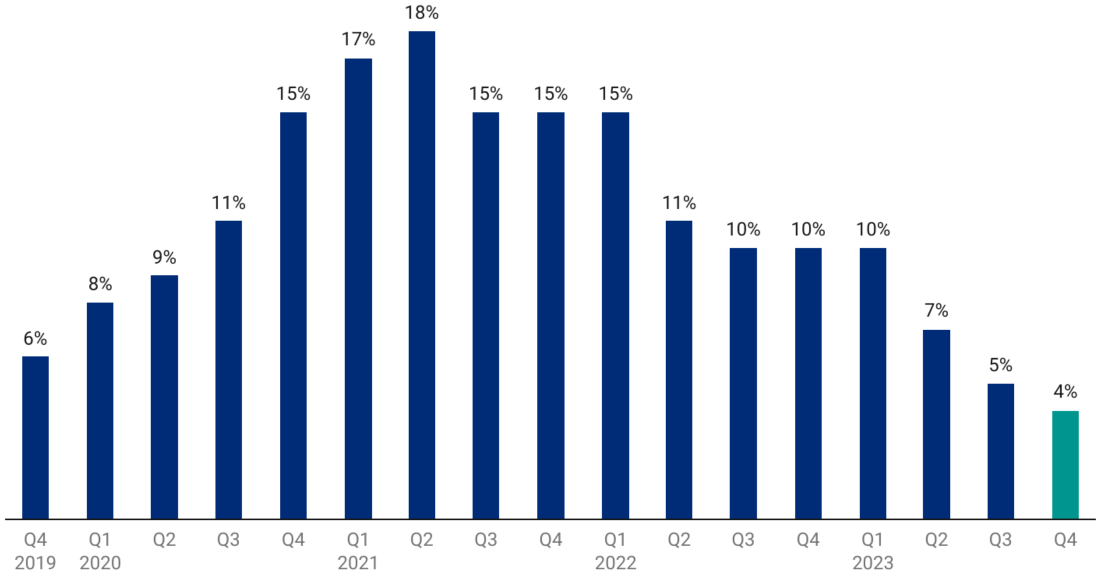
Source: Taylor Fry RADAR 2023

Pacific Liability Market

Challenging market conditions continued well into the first half of 2023 for the Australian Liability (alternatively *Casualty*) insurance market.

At the end of 2023 however, the market showed signs of improvement in rate increases. However, a combination of increased reinsurance costs at the start of 2023 and claims inflation (reflected in an upward trend in liability claims severity and payouts) has led to year-on-year premium increases in the range of 5-15% across the Australian liability market.

Whilst segments of the global insurance market are easing, according to the *Marsh Global Insurance* Market Index for Q4 2023, casualty pricing increases in the Pacific region have maintained momentum albeit less than that seen in 2022. As shown below, Casualty insurance pricing in Q4 2023 rose 4%, compared to 5% in the prior quarter.

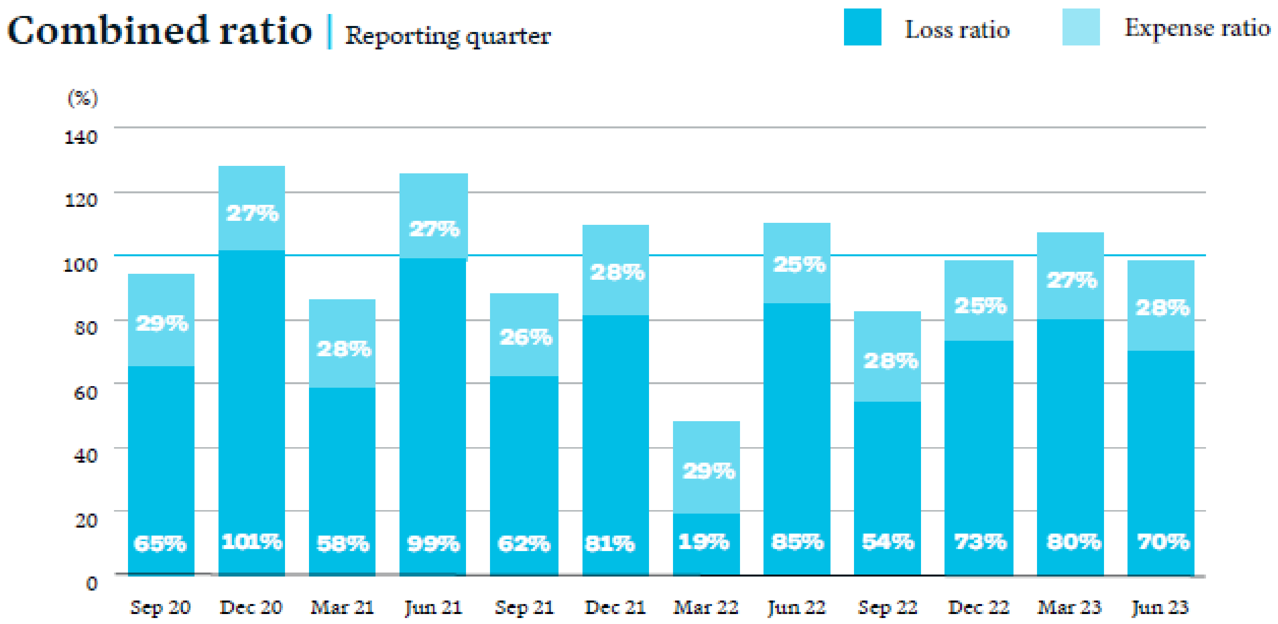


Source: Marsh Specialty and Global Placement • Created with Datawrapper

Risk selection and pricing adequacy continues to be critical, with varied results for higher hazard sectors, particularly on excess lines. **[Note**: Applicable to GAWB**]**, quixotically despite the CoR data below, there were some new entrants in the Liability market, and some incumbent insurers deployed new capacity which otherwise offset potential increases in premium.

Insurers remain focused on social inflation on claims costs, resulting from litigation trends and material costs. Additionally, areas such as contractor injury and ESG remain a core focus for insurers, and risk from polyfluoroalkyl substances (PFS's) is becoming a general exclusion under liability policies.

The following chart shows that the Liability market in Australia has struggled to achieve consistent profitability since Q3 2020. It illustrates the Combined Ratio (claims plus expenses divided by premium) of those insurers regulated by the Australian Prudential and Regulatory Authority.



Insurance Market Conditions Summary

Summarising our research of the current factors impacting insurance availability, we note the following observations which hold implications for GAWB:

1. Following a period of market hardening (price increases), there is strong evidence that the market is now transitioning to a period of flat insurance rates, albeit not necessarily rate decreases; that being said
2. Natural Catastrophe events have been increasing in quantum, which is having an effect on
3. Global Reinsurance markets (the cost for insurers to assume large risk). Therefore
4. It is our expectation that businesses perceived as 'higher than average' risk (of which we would consider GAWB), are expected to continue to experience premium increases, albeit at a more moderate level than the preceding 5 years.

Section 4
GAWB from a Risk Perspective

General Information

GAWB was established in 1973 to assist the two local Authorities (Gladstone Town Council, and Calliope Shire Council) at that time with managing the financial demands imposed due to the continued need to upgrade the local water supply system due to industrial growth.

GAWB's purpose is to ensure both the short, and long term water needs of local customers in ways that are environmentally, socially, and commercially sustainable, through continually changing and developing the supporting infrastructure.

GAWB currently owns and operates the Awoonga Dam, alongside a large network of delivery pipelines, water treatment plants, a fish hatchery, and other bulk water distribution infrastructure within the Gladstone Region of Central Queensland. Additionally, the Queensland Government has approved the construction of the $983 Fitzroy to Gladstone Pipeline (FGP). This will mitigate the single source water supply risk (currently the Awoonga Dam) and provide long term water security for GAWB's customers, as well as enabling Gladstone's emerging renewable energy industry. The FGP is currently being constructed by GAWB, who will own and operate the pipeline. Whilst the FGP remains under construction, Awoonga Dam is the most visible and highly valued asset for GAWB.

Details of Awoonga Dam

Source: GAWB Website

Source: GAWB Website

Located on the Boyne River, approximately 30km South of Gladstone, the Awoonga dam is constructed with a 658m embankment, reaching 54.4m in height creating a 777,000 megalitre capacity lake.

Awoonga Dam was originally constructed in the early 1950's and has had its wall height raised on three separate occasions since, now providing GAWB with a 78,000ML per annum allocation of water for distribution to its customers.

Awoonga Dam represents (from an insurance perspective) GAWB's most significant consideration, and during the 2023-24 insurance period comprised over 61% of GAWB's total insured value (even excluding ancillary pipelines).

We note that all of the above informs the insurance market position with respect to GAWB, that the most material risk is as a dam operator (for both Material Damage, and Liability risk), and that the insurance market **considers this occupation to be of an above average insurance risk** – meaning some markets will not provide insurance and the remainder of markets will rate the risk accordingly.

Loss History

Over the past 5 years GAWB has had a positive loss history, with no losses that we would consider material (from an insurance perspective) during that time. There are some notifications reported by GAWB, however these appear to be out of an abundance of caution, and to our knowledge have not developed into material losses.

For the avoidance of doubt, we consider material losses as those single losses which exceed $150,000, or those that are indicative of potential underlying systemic issues.

It is important to note that, from an insurable risk perspective, the GAWB operation leans heavier into 'catastrophic loss' exposure (as opposed to smaller attritional losses), and insurers will consider this when reviewing GAWB. This is based on the business (being a dam owner), as well as the location (Tropical coast) – both of which considerations are inherent to GAWB and though they can be mitigated, cannot be eliminated without fundamentally changing the GAWB operation.

Based on this review, we do not believe that GAWB's specific loss history will create an additional imposition on insurance cost.

Risk Improvements implemented in past 5 years

GAWB's primary material damage insurer undertook a risk review ~2021, and identified a rolling list of recommendations (initially 70, adding 6 more following an updated review ~2023). GAWB was aware of these and we have worked with GAWB to track this list (and any progress in respect to addressing the recommendations).

We are pleased to confirm that, as of the latest disclosure received from GAWB on 10/04/2024, all of the items have now been marked completed/addressed, having been worked upon by GAWB following their initial receipt of notification. In our experience this is a better than typical position for a utilities client to achieve.

Based on this review, and provided of course GAWB continue to make improvements consistent with ANCOLD/ALARP standards, we have not noted any open risk improvements which would be expected to have an imposition on insurance cost.

Section 5

Validation of Insurance Outlook

Based on our dialogue with GAWB up to and including Tuesday April 16, it is our understanding that GAWB's price review team were required to, and have developed, cost assumptions with respect to their insurance premiums (annually) for the FY period of 2025, to 2030, as a part of their obligations to the QCA.

In compliance with this requirement, GAWB have projected based on "CPI, + 2%" per annum; noting this assumption is based upon 'market cost' (being the consistent cost of insurance, and excluding policy changes such as variation in sums insured, or increased/decreased retentions/deductibles).

Within Section 3 of this Report, we have contemplated extrinsic insurance market factors, and subsequently in Section 4 we contemplated the factors specific to GAWB. We note that market data is strongly indicative that the 'hard insurance market' peaked in Q4 2020/Q1 2021 (Property/Casualty respectively), and that, though still a hard market, average premium increases have reduced, and pricing will potentially be flat once Q1 2024 data is analysed and released. Based on historic precedence (typical minimum 7 year insurance market cycle), importantly, we would not expect the market to revert to a hardening phase in the FY2025 – FY2030 period. Accordingly, our expectation remains that it is reasonable to anticipate general market cost of insurance will roughly revert to CPI for low-medium risk businesses, and above CPI for higher risk businesses.

As noted above, it remains our position that the GAWB operation presents to the insurance market an 'above market average risk' (major asset being a dam, primarily operating in a NatCat zone), would historically lead to above market average insurance pricing. We expect GAWB's positive claims history and relationship with the insurance market to temper this impact somewhat.. This is the basis for our prior recommendation that insurance 'market cost' forecasts include a buffer for 'above CPI' increases, as insurers attempt to allocate some of their increased NatCat costs onto their higher risk clients, but GAWB's specific position presents as somewhat less than typical 'high risk'. We indicated to GAWB in mid March 2024 that a 2% buffer would be a reasonable loading (to CPI), and are pleased to confirm that we have not identified any data since which would cause us to amend this position.

We would of course note that our position is based on the current ('as is') market data, and GAWB position, and that we reserve our right to change this position in the event that there is a deterioration of the market (e.g. an unexpected hardening of the insurance market following severe global NatCat claims experience) or within GAWB (e.g. a change in the GAWB operation, or adverse claims experience); finally and out of an abundance of caution, we note that changes to statutory charges (separate from the cost of insurance procurement) may also impact the insurance cost – such as if Australian GST increased to 15%, or if Stamp Duty in QLD reduced to 5%.

Section 6

Impact of GAWB's Asset Base Growth

In section 5 above, we contemplated the insurance outlook on a 'market cost' basis, which assumes consistency in both sums insured, and policy terms and conditions; this provides a good foundation to perform 'apples for apples' comparisons, however, fails to account for variation due to changes in a business.

On that basis, GAWB have also requested that we additionally opine on the extent that their Industrial Special Risks premium can be expected to correlate with growth in the asset base (due to projected capital investments, including the incorporation of the *Fitzroy to Gladstone Pipeline* once completed).

Industrial Special Risks

In order to anticipate the impact of insurance limit changes, it is crucial to understand how ISR policies are priced.
Effectively an insurer will review the positives and negatives of a risk in order to determine an insurance rate, which is then multiplied by the sum insured to determine the insurance cost. For example,

> if the rate is 0.05 (or 5%), and the sum insured for ISR is $1,000,000, the insurance cost (exclusive of fees and charges) would be $50,000.

Expanding upon this concept, we note that an insurance <u>rate</u> does not correlate to the <u>sum insured</u> – that is to say that, where the sum insured changes (but the underlying business operation remains consistent, such as a result of an updated asset valuation), we expect that the sum insured change would have no bearing on the rate. Exceptions exist typically where a business is at a <u>low size</u> threshold (e.g. if a sum insured reduced from $12m to $5m) due to limitations of an ISR policy, or where a business operation fundamentally changed (e.g. a professional services firm commences manufacturing).

On this basis, and on our understanding that the GAWB business is not anticipating a fundamental change during the FY2025 – FY2030 period that would impact the rate, it is our expectation that any changes that GAWB makes to their sum insured during this period will have a correlating impact upon their cost of insurance. For example, in the example given in paragraph 1 above,

> If the rate is 0.05 and the sum insured increases by 20% from $1,000,000 to $1,200,000, the premium paid would increase by 20%
>
> 1) Scenario 1 - $1,000,000 – cost is $50,000 (1,000,000 * .05) (+ Fees and charges);
> 2) Scenario 2 - $1,200,000 – cost is $60,000 (1,200,000 * .05) (+ Fees and charges)

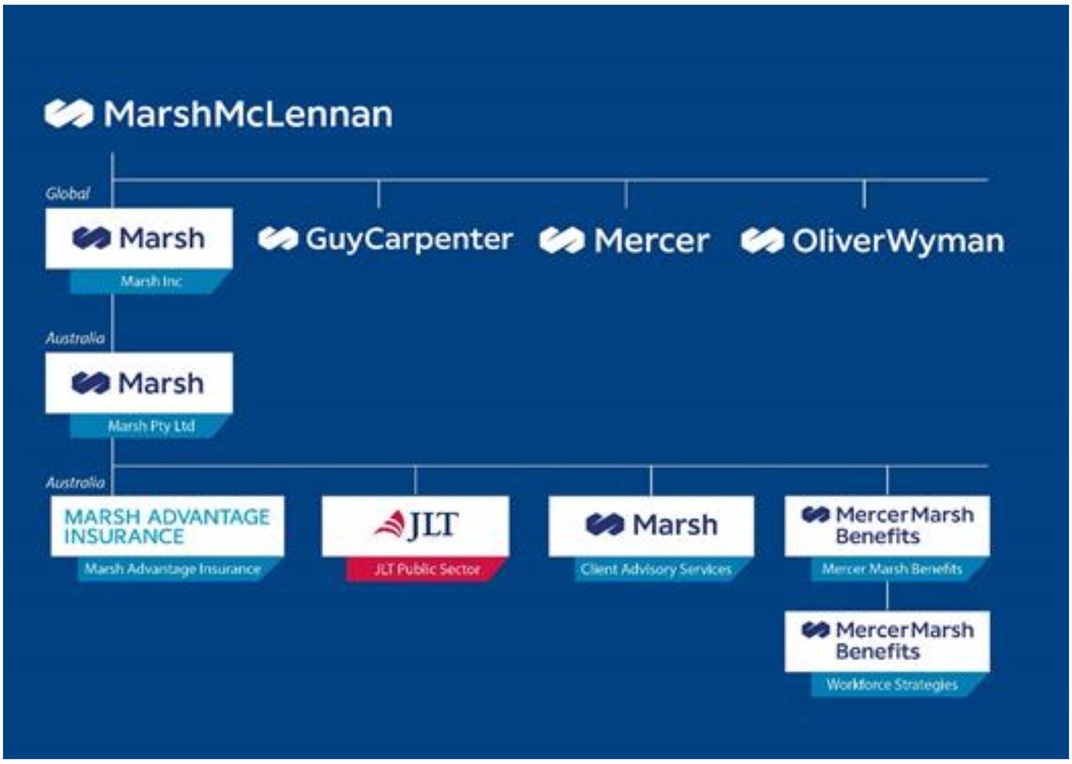
It goes without saying that the above is a simplification of the process, and there is potential for changes to the sum insured during the period significant enough to impact upon the rate (such as the incorporation of the FGP assets), that being said, our position is that an asset such as this is overall <u>complimentary</u> to the program (and the declared limit increase would not necessarily correlate with the *maximum foreseeable loss* due to its inherent geographic scope) rather than presenting as an adverse change to fundamental business operation. Therefore we would not make any additional recommendations where GAWB budgets for cost changes (derived from anticipated sum insured changes) during the period.

Section 7

About Marsh

Marsh is the world's leading insurance broker and risk advisor. With around 40,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services.

Established in Australia in 1953, Marsh has over 1400 colleagues across Australia, servicing clients from offices in every State and Territory.



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Our Website

Visit our website at http://www.marsh.com.aufor information about our extensive range of products and services.

Section 8
Consultant’s CV

Luke Verhoef

Managing Principal – Energy & Power

Experience

Luke is a Managing Principal within Marsh’s Energy and Power Practice in Queensland with ~18 years’ experience in the insurance industry, his role involves working with key Marsh clients to ensure the overall delivery and high level of client satisfaction is provided in respect to their risk needs.

Luke has 7 years’ experience working with global insurance brokerages, working with energy and power clients, as well as infrastructure developments and mergers/acquisitions. Prior to insurance broking, Luke worked for global insurers in Financial Risk, where he underwrote Professional Indemnity, Construction, and cyber insurance policies focusing on the energy and infrastructure sectors, as well as holding a Pacific region training role. Luke also has a strong understanding of property and casualty risk.

Luke places a high value on customer service and engagement, having managed a number of large and complex transactions and infrastructure projects he appreciates the importance of prompt and accurate advice. Luke is passionate about risk, and strives to achieve consistently positive outcomes for his clients, with a keen eye for providing pragmatic and commercially sound insurance advice.

Relevant Qualifications

- ANZIIF – Fellow
- Master of Business Administration
- Diploma of Financial Services (Insurance Broking)
- Diploma in General Insurance
- PRINCE2 Certified

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