



ASD – AusNet - Insurance Submission – 1 Dec 2025

**Revised Proposal: Electricity Distribution Price Review
2026-31**

Monday, 1 December 2025

Table of contents

1.	Executive Summary	3
2.	Background	5
2.1.	Insurance Premiums in our 2021-26 Regulatory Proposal	5
2.2.	Insurance Premiums in our 2026-31 Regulatory Proposal	5
2.3.	AER Draft Decision	6
3.	Revised Proposal	7
3.1.	Summary of Revised Proposal	7
3.2.	Insurance broker report	8
3.3.	Houston Kemp report	9
3.4.	Legal Opinion	12
3.5.	Insurance premiums in revised proposal	14

1. Executive Summary

AusNet Electricity Services Pty Ltd (AusNet) is a regulated Victorian Distribution Network Service Provider (DNSP) that supplies electricity distribution services to more than 845,000 customers. AusNet's electricity distribution network services eastern regional Victoria and the outer northern and eastern Melbourne metropolitan area.

In its draft decision, the AER proposed three adjustments relating to our insurance premiums, as follows:

- A non-recurrent gain is included in its base year opex, which increase our opex allowance in each year of the 2026-31 regulatory control period (RCP) in an amount equal to our underspend in insurance premiums in the base year (i.e. actual insurance premiums less than the premium allowance in the base year).
- a negative step change adjustment, calculated as the difference between the premium allowance and actual premium in the final year, that decreases our opex allowance in each year of the 2026 – 2031 RCP; and
- an adjustment to the calculation of the EBSS carryover amounts arising from the application of the EBSS during the 2021 – 2026 RCP to reflect the non-recurrent efficiency gain adjustment made to base opex.

We understand that these adjustments are intended by the AER to:

- ensure the AER's alternative estimate of total forecast opex satisfies the opex criteria set out in clause 6.5.6(c) of the NER, by setting a forecast opex allowance equal to that required by a prudent operator.
- remove the expected over forecasting of insurance premiums in the final year, so ensuring this over forecasting does not impact forecast opex for the 2026 – 2031 RCP; and
- return all the 2021 – 2026 insurance premium underspends to customers through EBSS decrements 6 years later, in a manner consistent with all insurance underspends in 2021 - 2026 being non-recurrent efficiency gains, while ensuring we retain our share of insurance premiums underspends in the form of the time value of holding the underspends for 6 years.

Our revised proposal does not accept the AER's draft decision in respect of insurance premiums, rather we:

- retain the approach to determining forecast opex, including for insurance premiums, for the 2026 – 2031 RCP proposed in our original regulatory proposal (adjusted to reflect any proposed amendments to the rate of change)

In our Initial Proposal, we proposed a \$10.5 million (\$, real 2025-26) step change for insurance premiums-related opex.

Since we submitted this proposal, we re-visited our step change for bushfire liability insurance due to the volatility of market conditions which can materially impact insurance premium forecasts, this has also been accompanied by the recent renewal of our premium in October 2025.

(C-I-C), our insurance broker has provided an updated expert report and forecast of premium increases during the 2026-31 period (attached as **ASD – AusNet – Insurance Report and Forecast – Dec 2025**) Based on these forecasts, we have decided to remove this step change.

In particular, we consider that the AER's draft approach should not be reflected in its final decision, rather, a standard base-step-trend approach should be used to forecast opex, including for insurance premiums, without the AER's proposed adjustments outlined above.

This is because:

1. The approach set out in the AER's draft decision is unlawful. We refer to a legal opinion provided by the Hon. John Middleton AM KC, Senior Advisor at DLA Piper (attached as **ASD - DLA Piper - John Middleton Legal Opinion - Nov 2025**) in which he concludes that the AER's draft decision is contrary to law, as follows:
 - a) The AER's draft decision, which treats our underspend on insurance premiums as a non-recurrent efficiency gain, is not authorised by any statutory provision. In other words, the AER does not have the power to make the adjustments set out in its draft decision.
 - b) The AER's draft decision, which effects a clawback of our underspend on insurance premiums in the 2021 – 2026 RCP, is contrary to the scheme of Chapter 6 of the NER.

- c) The AER's draft decision contravenes section 16(1) of the NEL. The AER is not exercising its economic regulatory function or power in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (NEO).
 - d) The reasoning of, and rationale for, the AER's Draft Decisions are unreasonable.
2. The approach set out in the AER's draft decision creates perverse incentives for DNSPs and undermines the objectives and intent of the NEL/NER economic regulatory regime. We refer to an independent report from Brendan Quach, Senior Economist at Houston Kemp (attached as **ASD - HoustonKemp - Victorian DNSP insurance premiums - Nov 2025**) in which he sets out his expert opinion that:
- a) the approach taken in the draft decision undermines the objectives and intent of the total opex regime, the EBSS and the NEL/NER economic regulatory regime; and
 - b) aside from the merits and legality of the AER's approach, the revenue outcomes that occur under the AER's draft decision are not consistent with its stated intention in the draft decision.

Our response to the AER's draft decision is discussed in further detail below, and includes the attached supporting documents:

- a report from our insurance broker, (C-I-C).
- the independent expert report from Brendan Quach of Houston Kemp; and
- the legal opinion from the Hon. John Middleton AM KC of DLA Piper.

2. Background

2.1. Insurance Premiums in our 2021-26 Regulatory Proposal

In our 2021-2026 distribution determination, the AER inserted a step change of \$45.1 million (\$, real 2020-21). This step change was based on forecasts from our insurance broker ((C-I-C)), which anticipated a material increase in premiums in the 2021-26 RCP, compared to the previous RCP.

The AER acknowledged that there was some uncertainty associated with forecasting insurance premium increases but ultimately used the forecasts to include an opex step change for insurance premiums in its final decision. The AER noted that it considered the long-term interests of consumers is better served if the appropriate incentives remain with the business to actively work to moderate expected increase in insurance premiums over the next regulatory control period.¹

The AER declined to accept a nominated pass-through event for insurance premiums, which would have provided greater flexibility in respect of our recovery of insurance premiums, and in the event that actual costs were different to forecast.

We now have a visibility of our actual spend in each year of the 2021-2026 RCP (noting that final year costs are currently an estimate). Our actual spend on insurance premiums over the 2021-26 RCP is lower than the forecasts reflected in our 2021-26 distribution determination. There are a range of reasons for this underspend, as identified by our insurance broker, (C-I-C), in its attached report.²

2.2. Insurance Premiums in our 2026-31 Regulatory Proposal

We proposed a \$10.5 million (\$, real 2025-26) step change for insurance premium-related opex in our 2026-31 regulatory proposal. Accordingly, our proposed insurance costs were equal to our actual insurance costs in the base year of the 2021-26 RCP, adjusted to provide an estimate of opex for the final year of the RCP, trended forward for 2026-31, and adding the requested step change amount. We also proposed EBSS carryover amounts arising from the application of the EBSS published by the AER in November 2013 (Version 2 EBSS), in the 2021-26 regulatory period.

¹ AER, *Final Decision, AusNet Distribution Determination 2021 to 2026, Attachment 6 Operating Expenditure*, April 2021, at p. 53

² ASD – AusNet – Insurance Report and Forecast – Dec 2025

2.3. AER Draft Decision

In its draft decision, the AER did not accept our proposed step change for insurance premiums. Additionally, the AER proposed three adjustments relating to our insurance premiums, as follows:

- A non-recurrent efficiency gain of \$23.4 million (\$, real 2025-26) is included in base year opex, which increases our opex allowances in each year of the 2026-31 regulatory period in an amount equal to our underspend on insurance premiums in the base year (i.e. the premium allowance in the base year less actual insurance premiums);
- A negative step change adjustment of -\$58.1 million (\$, real 2025-26), calculated as the difference between the premium allowance and actual premium in the final year, that decreases our opex allowance in each year of the 2026-31 period; and
- An adjustment to the calculation of the EBSS carryover amounts (of -\$23.4 million (\$, real 2025-26)) arising from the application of the EBSS during the 2021-26 period to reflect the non-recurrent efficiency gain adjustment made to base opex.

We understand these adjustments are intended by the AER to:

- ensure the AER's alternative estimate of total forecast opex satisfies the opex criteria set out in clause 6.5.6(c) of the NER, by setting a forecast opex allowance equal to that required by a prudent operator;
- remove the expected over forecasting of insurance premiums in the final year, so ensuring this over forecasting does not impact forecast opex for the 2026 – 2031 RCP; and
- return all the 2021 – 2026 insurance premium underspends to customers through EBSS decrements 6 years later, in a manner consistent with all insurance underspends in 2021 - 2026 being non-recurrent efficiency gains, while ensuring we retain our share of insurance premiums underspends in the form of the time value of holding the underspends for 6 years.

The AER stated³ :

To remove the insurance premium component of the final year increment, our alternative estimate for the draft decision includes a combination of a negative insurance step change and a non-recurrent efficiency gain. This ensures our alternative estimate of total forecast opex meets the opex criteria and the EBSS that provides a fair sharing of efficiency gains and losses between NSPs and network users.

The negative step change, calculated as the difference between the final year premium allowance and actual premium, removes the expected over forecasting of insurance premiums in 2025–26, thus ensuring this over forecasting isn't continued into the 2026–31 period. It then sets the non-recurrent efficiency gain in the base year equal to the insurance underspend in the base year. Together, this results in:

- *Forecast opex equal to that required by a prudent operator.*
- *NSPs returning all the 2021–26 insurance premium underspends through EBSS decrements six years later (treating the underspends as non-recurrent efficiency gains).*

³ AER, Draft Decision 2026-2031 – AusNet Services – Attachment 3 – Operating expenditure, September 2025, p. 34

3. Revised Proposal

3.1. Summary of Revised Proposal

For the reasons set out above, our revised proposal does not accept the AER's draft decision in respect of insurance premiums. Rather we:

- retain the approach to determining forecast opex, including for insurance premiums, for the 2026 – 2031 RCP proposed in our original regulatory proposal (adjusted to reflect any proposed amendments to the rate of change)

In our Initial Proposal, we proposed a \$10.5 million (\$, real 2025-26) step change for insurance premiums-related opex.

Since we submitted this proposal, we re-visited our step change for bushfire liability insurance due to the volatility of market conditions which can materially impact insurance premium forecasts, this has also been accompanied by the recent renewal of our premium in October 2025.

(C-I-C), our insurance broker has provided an updated expert report and forecast of premium increases during the 2026-31 period⁴. Based on these forecasts, we have decided to remove this step change.

Our revised proposal is informed by an independent expert report from Houston Kemp, a legal opinion from the Hon. John Middleton AM KC, and a report from our insurance broker. These documents are discussed further below and support our position that the AER's approach in its draft decision should not be reflected in its final decision.

⁴ ASD – AusNet – Insurance Report and Forecast – Dec 2025

3.2. Insurance broker report

We attach a report from our insurance broker, (C-I-C).⁵ This report provides a forecast of our insurance premiums for the 2026-31 regulatory period, which supports the proposition that we are able to sustain the underspend on insurance premiums incurred in our base year, i.e. that our underspends do not reflect a temporary or one-off reduction in our expenditure on insurance premiums.

Further, this report details the measures that we have taken to reduce our insurance premiums in the 2021 – 2026 RCP and confirms that these measures contributed to our insurance underspends in the 2021 – 2026 RCP, a consideration that the AER did not consider in its draft decision.

⁵ ASD – AusNet – Insurance Report and Forecast – Dec 2025

3.3. Houston Kemp report

Brendan Quach, Senior Economist at Houston Kemp, was engaged on behalf of AusNet, Jemena, Powercor and United Energy (the **Victorian DNSPs**) to prepare an independent report⁶ setting out his expert opinion on the AER's decision, including an assessment of:

- a) the approach the AER purports to have taken to determining the Victorian DNSPs' insurance opex in the draft decision, and whether the outcomes under the draft decision are consistent with the AER's stated intention; and
- b) the merits of the AER's stated approach as set out in the draft decisions.

A summary of HoustonKemp's key findings on the merits of the AER's approach is set out below.

3.3.1. The AER's approach ignores any efficient cost management by the DNSPs

The AER's draft decision implicitly attributes the Victorian DNSPs' insurance premium underspend to external factors outside of the control of the business, and not the result, in whole or in part, of the DNSPs' efforts to manage insurance premium costs.

The failure to recognise and rewards DNSP efforts to manage costs undermines regulatory incentives and encourages the businesses not to make any effort to mitigate cost increases, by introducing the risk that these efforts will be 'clawed back' in setting revenue allowances in subsequent regulatory determinations.

Houston Kemp points to a series of measures undertaken by each of the Victorian DNSPs to mitigate insurance costs over the 2021-26 regulatory period.

3.3.2. The AER's approach undermines the objective and intent of the regulatory regime

The AER's approach undermines the objective and intent of the regulatory regime. In particular:

- the AER's adjustments are inconsistent with the intent of the EBSS;
- the use of ex post adjustments for ex ante forecasting inaccuracies undermines the incentives regime;
- the AER's approach does not allow for reasonable cost recovery;
- the draft decisions undermine the total opex regime; and
- the draft decisions do not provide for a fair sharing of temporary efficiency gains.

3.3.2.1. The AER's adjustments are inconsistent with the intent of the EBSS

The non-recurrent efficiency gain mechanism was introduced into the EBSS to deal with circumstances where a DNSP experiences efficiency gains in the base year that are in the nature of a reduced level of actual opex that will not persist into the future. If, in calculating base year opex, the amount of such gains are not included, then this would result in an opex allowance that did not reflect the DNSP's expected efficient operating costs over the forthcoming RCP. The intention of the non-recurrent efficiency gain mechanism was to change the optics of the opex decision but not its revenue outcome.

In the draft decisions, the AER's non-recurrent efficiency adjustment mechanism:

- did not reflect a finding that actual insurance costs in the base year would not persist into the future;
- was intended to remove the insurance premium component of the final year increment; and
- in combination with the negative step change, effected a material reduction to the DNSP's allowed revenue, rather than merely changing the optics of the decision.

⁶ ASD - HoustonKemp - Victorian DNSP insurance premiums - Nov 2025

Accordingly, the AER's adjustments are inconsistent with the intent of the EBSS.

3.3.2.2. The use of ex post adjustments for ex ante forecasting 'errors' undermines the incentive regime

The AER's reasoning in its draft decisions suggests that it is seeking to make a retrospective adjustment for overestimating insurance premium increases in the 2021 – 2026 RCP. This ex-post clawback of insurance premiums in the 2021 – 2026 RCP is inconsistent with the ex-ante regulatory framework, under which DNSPs are encouraged to reduce costs so as to retain any difference between actual costs and forecast costs (or to wear the financial penalty when forecast costs are lower than actual costs).

In making its 2021 – 2026 decisions, the AER observed that there was some uncertainty associated with forecasting insurance costs for that RCP. However, the AER found that, on balance, the long-term interests of consumers is better served if the appropriate incentives remain with the businesses to actively work to moderate expected increases in insurance premiums over the RCP.

In other words, despite the uncertainty of future insurance premiums, the AER affirmed at the beginning of the 2021 – 2026 RCP that:

- the usual incentives regime would apply to insurance costs; and
- the Victorian DNSPs would be:
 - rewarded if their operating costs were lower than implicit allowance; and
 - penalised if their operating costs were higher than forecast.

Thus, the AER's decision to claw back past insurance gains:

- is inconsistent with the forecast opex and EBSS provisions in the NER, which do not allow for retrospective adjustments for a DNSP's past gains or losses.
- Is inconsistent with the stated rationale for, and objectives of, the AER's 2021 – 2026 final decisions, which acknowledged the uncertainty of forecasting insurance premiums for that RCP, but ultimately determined it was appropriate to accept those forecasts and have the incentives regime apply, in order to deliver incentives for the Victorian DNSPs to outperform those forecasts; and
- undermines the regulatory ex ante incentives, as DNSPs will no longer have the certainty they will be rewarded for outperforming their opex allowance.

3.3.2.3. The AER's approach does not allow for reasonable cost recovery

The AER has retrospectively reclassified insurance cost outperformance as temporary, without establishing a clear principle for when material variances between actual and forecast costs will be treated as temporary. In particular, the AER does not specify whether it will reclassify expenditure that was materially higher than forecast as a temporary efficiency loss.

A regulatory framework that can retrospectively lower the rewards for outperformance but does not retrospectively lower the penalties for underperformance introduces a downward bias in outcomes. In other words, the expected value of the incentive mechanism decreases, with the effect that DNSPs are not provided with a reasonable opportunity to recover their efficient costs.

3.3.2.4. The draft decisions undermine the total opex regime

The NER requires DNSPs to propose the total forecast opex required to achieve the opex objectives for the RCP. The AER must accept a DNSP's opex forecast if it is satisfied that the total opex forecast for the RCP reasonably reflects the opex criteria. In other words, the AER is required to form a view on total opex for the forthcoming RCP, rather than on subcomponents such as individual projects or programs.

As a consequence, DNSPs receive a total opex allowance, rather than several allowances for different subcomponents such as individual projects or programs. This tacitly accepts that there is uncertainty in forecasting individual opex subcomponent costs and, while for some opex subcomponents costs may be higher than forecast, for others they will be lower than forecast.

The AER's draft decision effectively establishes a subcomponent allowance for insurance costs specifically, which:

- ignores the uncertainty of forecasting costs for individual opex subcomponents and that DNSPs will outperform on some opex subcomponents but underperform on others, but must manage their overall opex within their budget; and
- diminishes the incentives DNSPs have to efficiently reduce costs.

Incentives are diminished because DNSPs will be disincentivised from managing their risk/efficiency as a whole. For example, insurance premium costs are interrelated with bushfire mitigation costs. Instituting an allowance for the insurance subcomponent will mean that a DNSP will be hesitant to reduce bushfire insurance costs by investing in mitigation measures, through incurring additional costs on the bushfire mitigation subcomponent, even when it is efficient to do so. DNSPs will fear that the expected benefits of reducing their insurance costs may be lost while also bearing the full cost of the other mitigation measures and any associated underperformance of their opex allowances.

3.3.2.5. The draft decision does not provide for a fair sharing of temporary efficiency gains

Houston Kemp has determined what a fair sharing of efficiency gains would look like, in circumstances where our insurance underspends in the 2021 – 2026 RCP is treated as temporary (i.e. putting aside the fact that our insurance underspends cannot properly be characterised as a non-recurrent efficiency gain).

The financial impacts of the draft decisions are inconsistent with the AER's stated objective of treating insurance outperformance as a temporary efficiency gain. As a result, the AER's draft decision does not provide for a fair sharing of efficiency gains, even where the insurance underspend is treated as temporary. Rather, the Victorian DNSPs are penalised for their underspends by the AER adjustments in the draft decisions, in circumstances where Houston Kemp has determined that they should have received some reward if the EBSS's treatment of temporary efficiency gains were applied to them in the manner contemplated by the AER's stated reasons for decision.

3.4. Legal Opinion

The Victorian DNSPs engaged the Hon. John Middleton AM KC to consider the legality of the AER's approach to assessing our insurance premiums, as set out in its draft decision. The opinion identified four legal issues with the AER's approach, each of which, of itself, has the effect that the AER's approach is unlawful. These are summarised below, and the full opinion is provided as **ASD - DLA Piper - John Middleton Legal Opinion - Nov 2025**.

3.4.1. Issue 1: The AER's draft decisions to treat insurance premium underspends as a non-recurrent efficiency gain is not authorised by the NER

The NER provides that the AER must, as part of its final distribution determination for a DNSP, specify how the EBSS will apply to the DNSP in the forthcoming RCP. The AER's decision on the application of the EBSS is binding; the NER does not permit the retrospective amendment of the operation of the EBSS at the end of an RCP, for the purposes of calculating EBSS carryover amounts. This is well established and has been accepted by the AER previously.

The AER's draft decisions treat the Victorian DNSPs' insurance premium underspends in their respective base years as a 'non-recurrent efficiency gain', used in combination with a negative step change, to 'clawback' the Victorian DNSPs' underspend on insurance premiums in the 2021 – 2026 RCP. The Version 2 EBSS does not define the term 'non-recurrent efficiency gain', nor does it provide any meaningful commentary on what that term means, and how it should be applied.

However, further detail is found in the AER's accompanying Explanatory Statement, where non-recurrent efficiency gains are discussed under the heading 'one-off factors in the base year'. In particular, the Explanatory Statement provides that:⁷

- expenditure should be treated as a non-recurrent efficiency gain in circumstances where a DNSP cannot sustain the level of expenditure that it incurred in the base year, as a result of a one-off factor that led to an underspend relative to forecast opex in that base year; and
- the purpose of the non-recurrent efficiency gain adjustment is to enable revenue to be shifted from the EBSS carryover to the opex allowance, rather than to effect a reduction in overall allowed revenue.

It is clear from the Explanatory Statement that the AER is permitted by the Version 2 EBSS, and thus the NER, to treat an opex underspend in the base year as a non-recurrent efficiency gain in limited circumstances, and that DNSPs should not be left worse off in their total revenue allowance as a result of any base year non-recurrent efficiency gain. The EBSS does not provide for the non-recurrent efficiency gain concept to be used as a mechanism to recover opex underspends from DNSPs. Nor was any provision made, by the AER's decision on how the Version 2 EBSS was to apply to the Victorian DNSPs in the 2021 – 2026 RCP, for any supplementary or expanded use of this non-recurrent efficiency gain concept.

The AER's three step approach to assessing insurance premiums is not authorised by the Version 2 EBSS or the NER. This is because:

- the insurance premium underspend in the base year cannot properly be characterised as a non-recurrent efficiency gain in that year. The underspend did not occur only in the base year, as a result of a one-off factor. Each Victorian DNSP underspent in multiple years of the RCP, and they are able to sustain this reduced level of expenditure going forward;⁸ and
- by treating the insurance premiums underspend in the base year as a non-recurrent efficiency gain, in combination with a negative step change, the AER is not merely shifting revenue from the EBSS carryover to the opex allowance. Rather, the AER is reducing the Victorian DNSPs' overall revenue allowance. This is demonstrated in Houston Kemp's report.

On this basis, the AER's draft decisions make an adjustment to the calculation of the EBSS negative carryover amounts for the 2026 – 2031 RCP that the AER does not have the power to make. The AER is bound to apply the Version 2 EBSS when calculating the Victorian DNSPs' EBSS carryover amounts for that RCP. The AER has not followed the Version 2 EBSS, as applied by its distribution determinations for the 2021 – 2026 RCP, when calculating the

⁷ AER, *AER explanatory statement – efficiency benefit sharing scheme*, November 2013, at p. 20.

⁸ ASD – AusNet – Insurance Report and Forecast – Dec 2025

Victorian DNSPs' carryover amounts, as it purports to make adjustments which are outside the scope of the Version 2 EBSS, and are not provided for in those distribution determination in applying that EBSS in the 2021 – 2026 RCP.

3.4.2. Issue 2: The AER's draft decisions are contrary to the scheme of the NEL and NER

The Chapter 6 economic regulatory regime is an incentives based, ex ante regime. Under this regime, DNSPs are not guaranteed to recover their actual costs of providing direct control services, rather, they are remunerated in respect of their forecast costs. As DNSPs are able to keep a proportion of the benefits of any unanticipated cost reductions (relative to forecast) that occur during an RCP, they are incentivised to make cost savings and incur only their efficient costs. The converse of this is that DNSPs must also absorb a proportion of unanticipated cost increases.

Together, clauses 6.5.6 and 6.4.3 of the NER give effect to these principles in respect of opex. Neither clause 6.5.6 nor clause 6.4.3 provides for the AER to revisit opex incurred in a previous RCP, other than for the purposes of calculating any revenue increments or decrements arising from the application of a relevant scheme (including the EBSS) or a control mechanism.

The Australian Competition Tribunal has recognised that this is the way in which the regulatory regime operates (in *Application by EnergyAustralia and Others* [2009] ACompT8). In particular, the Tribunal observed that, generally, no adjustment is made to revenue after the event to reflect changed circumstances.⁹

The AER's draft decisions:

- effectively 'clawback' the Victorian DNSPs' underspend on insurance premiums in the 2021 – 2026 RCP, relative to the forecast determined at the outset of that RCP; and
- as a result, are inconsistent with the scheme of the NER, being that of incentive based, ex ante regulation. The AER's decisions seek to ensure that the Victorian DNSPs are only able to recover their actual costs for insurance premiums.

3.4.3. Issue 3: The AER's draft decisions contravene section 16(1) of the NEL

Section 16(1) of the NEL requires the AER to, in performing or exercising an AER economic regulatory function or power, perform or exercise that function or power in a manner that will or is likely to contribute to the achievement of the NEO. The AER's making of a distribution determination is an 'AER economic regulatory function or power'.

Section 7A of the NEL sets out the revenue and pricing principles. The Australian Competition Tribunal has recognised that a decision which is inconsistent with the revenue and pricing principles cannot be a decision that will or is likely to contribute to the achievement of the NEO.¹⁰ Relevantly, the revenue and pricing principles provide that a regulated network service provider should be provided with effective incentives in order to promote economic efficiency with respect to direct control services the operator provides.¹¹

The AER's draft decisions, if finalised, will:

- not provide the Victorian DNSPs with a reasonable opportunity to recover at least the efficient costs they incur in providing direct control services
- have the effect of distorting the Victorian DNSPs' incentives to provide their direct control services in a manner that promotes economic efficiency, as described in the Houston Kemp report.

It is clear, from the Houston Kemp report, that the AER's draft decisions are inconsistent with the revenue and pricing principles, as they do not provide the Victorian DNSPs with an effective incentive to promote economic efficiency when providing direct control services. Accordingly, consistent with the Australian Competition Tribunal's previous decisions, the AER's draft decision cannot be a decision that will or is likely to contribute to the achievement of the NEO. As a result, the AER's decisions contravene section 16(1) of the NEL.

3.4.4. Issue 4: The reasoning of, and rationale for, the AER's draft decision, is reasonable

⁹ *Application by EnergyAustralia and Others* [2009] ACompT8 at [77] – [78] (own emphasis added).

¹⁰ *Re Application by ElectraNet Pty Limited (No 3)* [2008] ACompT 3 at [15].

¹¹ National Electricity Law, Section 7A(2).

For the reasons set out in the independent report of Houston Kemp, the reasoning and rationale for the AER's draft decisions are unreasonable and not rational.

3.5. Insurance premiums in revised proposal

For the reasons set out above, our revised proposal does not accept the AER's draft decision in respect of insurance premiums. Rather we:

- retain the approach to determining forecast opex, including for insurance premiums, for the 2026 – 2031 RCP proposed in our original regulatory proposal (adjusted to reflect any proposed amendments to the rate of change)

In our Initial Proposal, we proposed a \$10.5 million (\$, real 2025-26) step change for insurance premiums-related opex.

Since we submitted this proposal, we re-visited our step change for bushfire liability insurance due to the volatility of market conditions which can materially impact insurance premium forecasts, this has also been accompanied by the recent renewal of our premium in October 2025.

(C-I-C), our insurance broker has provided an updated expert report and forecast of premium increases during the 2026-31 period¹². Based on these forecasts, we have decided to remove this step change.

In particular, we consider that the AER's draft approach should not be reflected in its final decision, rather, a standard base-step-trend approach should be used to forecast opex, including for insurance premiums, without the AER's proposed adjustments outlined above.

¹² ASD – AusNet – Insurance Report and Forecast – Dec 2025

3.6. Supporting Documentation

We have included the following documents to support this appendix:

- ASD – AusNet – Insurance Report and Forecast – Dec 2025
- ASD - HoustonKemp - Victorian DNSP insurance premiums - Nov 2025
- ASD - DLA Piper - John Middleton Legal Opinion - Nov 2025

AusNet

AusNet

Level 31
2 Southbank Boulevard
Southbank VIC 3006

T 1300 360 795

Locked Bag 14051
Melbourne City Mail Centre
Melbourne VIC 8001

Follow us on

 @AusNet.Energy

 @AusNet

ausnet.com.au

