



AusNet Services

Insurance Premium Forecast

29 JANUARY 2025

Prepared by

Lockton Companies Australia Pty Ltd

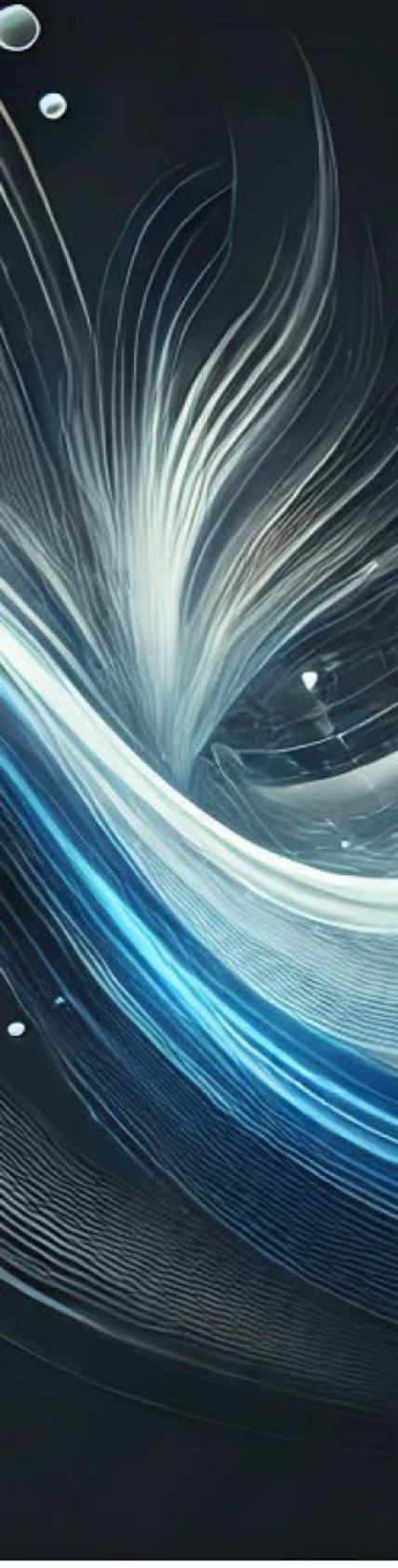
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UNCOMMONLY INDEPENDENT

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Executive Summary

AusNet Electricity Services Pty Ltd (referred to as "**Distribution**") has engaged Lockton Companies Australia ("**Lockton**" or "**We**") to provide an independent forecast of their regulated insurance premiums for the upcoming Electricity Distribution Price Reset (EDPR) period (i.e. 2026 – 2031).

[REDACTED] us segments as
[REDACTED] by AusNet. Table 1.1 below summarised the Distribution allocation methodology.

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Table 1.2 outlines Lockton’s insurance premium forecast for AusNet for the upcoming regulatory period (i.e. 2026 – 2031).

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Estimated Base Premiums incl Charges excl GST (Distribution Allocation)							
Policy	24-25 (Actual)	25-26	26-27	27-28	28-29	29-30	30-31
Liability							

[REDACTED]

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		Base Premiums incl Charges excl GST (Distribution Allocation)						
Policy	24-25	25-26	26-27	27-28	28-29	29-30	30	
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In order to reasonably calculate the above premium forecasts, we have estimated future exposure growth and premium rate growth based on various factors including, but not limited to, historical exposure data, inflationary increases, historical premiums, claims performance and availability of insurer capital.

All exposure and premium calculations can be found in separate documents referred to in the Appendices section.

Project Background and Scope

1.1 BACKGROUND

As requested by AusNet Services (Distribution) Pty Ltd (referred to as "Distribution"), the purpose of this engagement (referred to as "Project" and/or "engagement") is for Lockton Companies Australia Pty Ltd (referred to as "Lockton" or "we") to provide AusNet with:

- A forecast of the anticipated insurance costs for the 2026 – 2031 Electricity Distribution Price Reset (EDPR) period for the regulated electricity distribution business (i.e. Distribution) based on current market conditions and expected future conditions for the following classes of insurance: Combined General Liability, Industrial Special Risks, Cyber Privacy Liability, Construction and ancillary lines.

Depending on the outcome of the review, this report will be used in conjunction with other supporting material to support a regulatory submission for the upcoming 2026-2031 regulatory submission.

1.2 SCOPE OF SERVICES

The scope of services for the Project is to provide an independent forecast of Distribution' insurance premiums for 2026 – 2031.

At completion, Distribution will receive:

- A premium allocation model between the transmission, distribution and unregulated businesses.
- A forecast of insurance premiums for the 2026 – 2031 period.
- A review of the historical premium costs and circumstances that have influenced any changes over the current regulatory period.
- An overview of the premium drivers for each class of insurance.
- Commentary, where applicable, on the reasoning and assumptions made in deriving the estimated premiums with a specific focus on the current Bushfire Liability insurance market.
- [REDACTED]
- An interim report summarizing the above.
- A final report summarizing the above, if changes are required to be made after issuance of above.

1.3 LOCKTON EXPERTISE

Lockton is the largest privately owned broker in the world with over 12,500 employees globally, generating over USD3.55b in revenue for 2024.

In Australia, Lockton Power and Energy has extensive expertise in electricity infrastructure assets, particularly the highly specialized area of liability insurance for electricity distribution and transmission network owners and contractors thereto (typically referred to as "bushfire liability" insurance). The team have, and currently, collectively place some of the largest bushfire liability limits in the country and have been at the forefront of placing innovative solutions to support the industry.

1.4 METHODOLOGY

Approach to Services

The approach to calculate the insurance premium forecast is outlined as follows:

- Provide a historical analysis of the total annual insurance costs for AusNet transmission and distribution business from year's (22-23, 23-24 & 24/25)
- Determine the estimated future changes to exposure and premium costs for all risk classes for the electricity distribution business.
- Utilise estimated future changes to forecast the next regulatory period base premium (i.e. 2026 – 2031);
- Determine the estimated future changes to exposure and premium costs for agreed risk classes for the electricity distribution business.
- Utilise estimated future changes to forecast the next regulatory period base premium (i.e. 2026 – 2031);
- For above period, include estimated statutory charges based on expected rates for the forecast period (Terrorism, Fire Service Levy, Goods & Services Tax, Stamp Duty and any other potential future taxes);
- Calculate policy year premium forecast for each risk class, including statutory charges.
- Remove the costs relating to the non-regulated portion of AusNet.

For the purposes of this report, inflationary increases have been included in our projected increases for each policy calculation.

1.5 FACTORS THAT AFFECT THE COST OF INSURANCE

To accurately forecast insurance premiums into the future we must consider the factors that typically influence insurance premiums.

The pricing of any risk is subject to the individual risk profile of the risk being considered (the 'micro') and the wider economic factors prevailing at the time (the 'macro').

Micro Influencing Factors

With respect to the risk being considered (the "Insured" risk), underwriters will take into consideration the exposure which for major classes is usually the physical asset declaration (including but not limited to construction, occupation, protection, environment (COPE) and values) and exposure to third parties measured by turnover, wages and/or type of activity. Whilst the exposure is largely determined by the insured (i.e. what business they are in and what they choose to insure or not), premium rates are determined by the insurer and are largely determined by the insured, although influenced by the insureds representation of their risk.

Policy limits and deductibles also influence the cost of insurance. Unless otherwise stated, insurance policy limits and deductibles are assumed to remain constant for the purpose of this analysis.

Macro Influencing Factors

Insurance premiums are also subject to external factors, differing to many other operating costs of the Insured. Whilst insurance premiums largely reflect the risk that is being insured, other macro factors have a considerable influence on insurance pricing at any moment in time.

These external factors include but are not limited to:

- Global natural catastrophes
- Local and global recent claims activity (e.g. transformer losses, bushfire liability class actions)
- Underwriter market capacity availability
- Bond yields and interest rate environment e.g. competition with other financial markets in view of the cost-of-capital
- Underwriter appetite and competition
- Underwriter regulation and capital requirements
- The ability of the Underwriter to understand and rate risk

- Government taxes and statutory charges on insurance premiums and changes mid-term (e.g. recent change to the application of fire services levy in Victoria)

Estimated statutory charges have been calculated and clearly itemised but have been based on current rates at the time of writing this report.

1.6 ALLOCATION OF COSTS BETWEEN ELECTRICITY DISTRIBUTION, TRANSMISSION BUSINESSES & UNREGULATED BUSINESS

For all classes of insurance considered in this Project, AusNet purchase a group insurance program providing cover for its entire business which is reasonable and consistent with a similar business as it creates cost and administration efficiencies. The group program includes the electricity distribution, electricity transmission, gas distribution and unregulated assets.

Therefore, this Project allocates a portion of the overall costs to the electricity transmission and distribution businesses. This allocation methodology varies by class of insurance and is a matter for AusNet's internal review and is based on, for example, asset base, turnover, employee salaries, CAPEX and other specific factors.

In Lockton's experience advising clients on premium allocation methodologies and its impact on prudent risk management, we recommend that any decision around allocation should ultimately remain with the business. The proviso is that the allocation amount should not be unreasonable, and the methodology should remain consistent when the regulatory proposal for the Distribution and Transmission businesses are submitted.

1.7 DATA

The following data was relied upon in determining historical and forecast insurance premiums:

- Historical insurance premiums
 - 2019 – 2021 – provided by AusNet
 - 2022 – 2024 – Provided by Lockton summary sheets and reconciled with actual invoices
- Historical exposure by class of insurance:
 - Property, Terrorism and Environmental Impairment Liability: based on historical declared asset schedules which are updated annually by AusNet
 - Motor: based on historical declared asset schedules which are updated annually by AusNet
 - Contract Works: based on historical declared and estimated turnover amounts which are updated annually by AusNet
 - Financial Lines Classes: based on historical declared turnover and employee numbers which are updated annually by AusNet
 - Travel and Group Personal Accident: based on historical declared employees, salaries and trip numbers which are updated annually by AusNet
 - Bushfire Liability: exposure for Bushfire liability is based on a range of tangible and intangible factors and can vary from insurer to insurer. Exposure for this risk class is not as straightforward as using turnover or employee numbers to determine a premium. Insurers will review various factors such as the electricity network location, network specifications, value of third-party assets within the network, bushfire modelling, weather patterns, climate change, international bush/wildfire losses and so forth. Many of these factors have been considered in this Project.
 - Lockton Bushfire Liability Insurance Market Update (Appendix 2)

Base-Year Historical Premium Costs

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Insurance Class breakdown



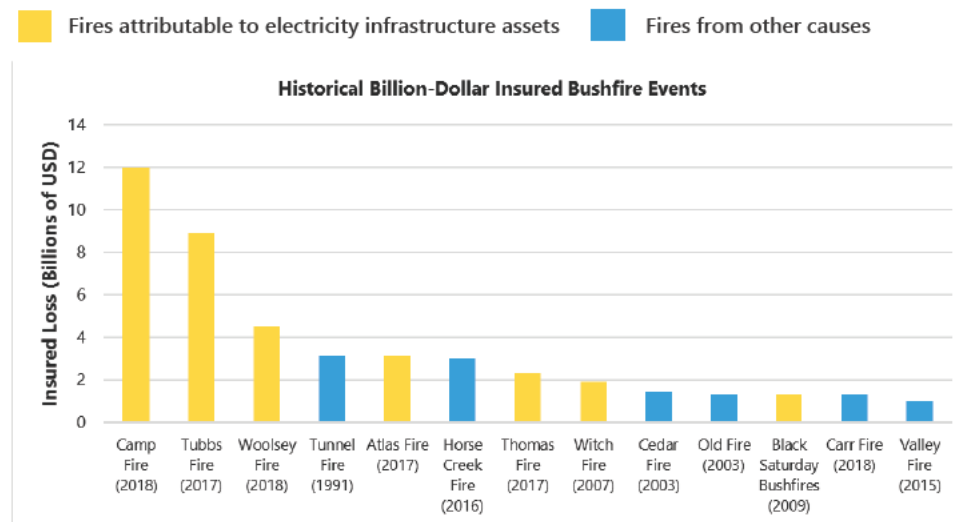
4.1.1 BUSHFIRE LIABILITY MARKET BACKGROUND AND DRIVERS OF PREMIUM

Please refer to Appendix 2 for a comprehensive update of the bushfire liability market, both globally and locally.

In summary, bushfire liability is unique in that it's one of the few natural catastrophes that can be caused by manmade/business activities. The effects of climate change on bushfire conditions have been experienced firsthand in Australia for the last few years as many regions have declared bushfire seasons far earlier than the 'norm'.

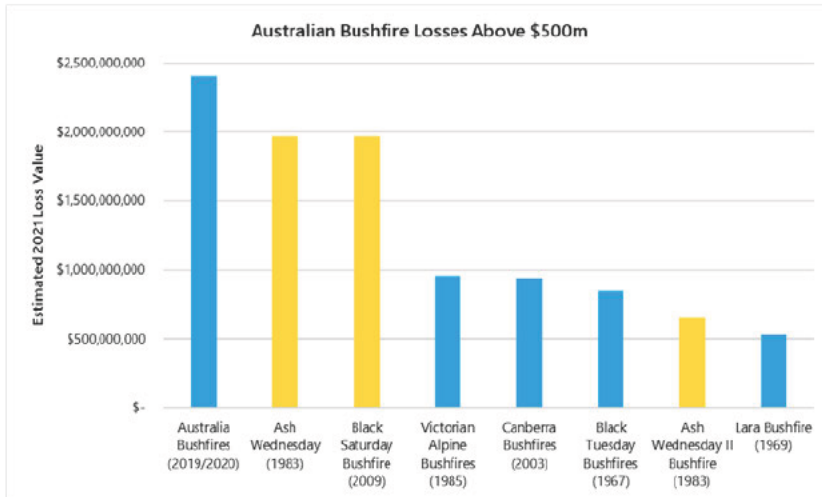
Bushfires continue to occur more frequently and with greater severity. Globally, 7 of the largest 13 bushfire losses (non-CPI adjusted) on record occurred within the last 10 years. What is also exceedingly noteworthy is that of those 13 catastrophic events, 7 were attributable to electricity infrastructure assets (Figure 1 below) that has resulted in major claims handled by the bushfire liability insurance market.

Figure 4.1.1.1 – Largest Bushfire Losses Globally



The Californian Wildfires of 2017 and 2018 have been well documented and these fires contributed largely to a significant re-rating of bushfire liability in high-risk geographic regions, irrespective of whether those regions incurred liability losses or not. In Australia, we haven't seen the magnitude of claims that were settled with respect to the 2009 Black Saturday fires, but there continues to be a frequency of claims activity incurred by electricity infrastructure assets, government bodies and vegetation management operations. The most notable being the 2019 Cuddle Creek class action.

Figure 4.1.1.2 – Australian Bushfire Losses above \$500m



Data Source: Insurance Council Australia

One of the largest Australian bushfire liability insurers has confirmed that its premiums received versus claims paid is running at ~100%, meaning that despite no major catastrophes happening, their premium pool has still been eroded by “attritional” bushfire liability claims and associated legal costs.

As a consequence, insurer capacity continues to shrink, and we forecast this trend will continue for the foreseeable future as insurers will continue to be circumspect about capacity aggregation and exposure for natural catastrophes, particularly bushfire liability.

From an insurer rating perspective the rate of increases has slowed but it would be difficult to foresee long term flat or decreasing premium rate conditions. What is more likely is the continuing pressure from the broader insurance market as long term warm weather forecasts are predicted.

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It is important to note the proposed insurance opex step changes will be reconsidered in the Revised Proposal, following 2025 renewals. Uncertainty in the global market for bushfire liability insurance means forecast costs can change materially year on year, depending on global developments. For example, the current wildfires in LA may impact the market. We continue to closely monitor insurance market developments at a global level.

Please refer to Appendix 2 which details historical market capacity and price movements as well as policy coverage pressure points.

4.1.2 CURRENT AND FORECAST EXPOSURE

Unlike most typical insurance policies, bushfire liability premiums are not typically correlated with any single tangible risk profile characteristic. It’s reasonable to expect that the network size, specifications, revenue,

employee numbers etc may influence premiums, however, the main drivers are the location of the network and external market conditions and factors already discussed, all of which are out of AusNet control.

Distribution's physical network exposure is anticipated to only increase as the network continues to augment.

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CONFIDENTIAL

	24-25 (Actual)	25-26	26-27	27-28	28-29	29-30	30-31
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4.2 PROPERTY

4.2.1 DRIVERS OF PREMIUM

Apart from the external factors discussed in section 1.5, Property insurance premiums are typically a function of the declared insurable asset values which includes Business Interruption revenue declarations.

AusNet's risk profile related premium factors would include:

- Age profile of network assets
- Age profile specifically of transformers
- Claims loss history
- Exposure to natural catastrophe, specifically windstorm, flood and fire for the state of Victoria



Global supply constraints have significantly impacted infrastructure replacement costs, with construction materials like steel experiencing price hikes. Labour costs are also expected to rise faster than general inflation over the coming years, primarily driven by wage pressures in the sectors and the tightness of labour markets. It is difficult to forecast how long the supply chain 'crunch' will last for, but we do not believe it's a reasonable assumption for the upcoming regulatory to be subject to larger than average increases as supply struggles to keep up with demand.

With respect to growth in the network the newly incepted construction policy evidences the enormous amount of investment in networks which will also lead to an increase in insurable values once construction is complete.

4.2.3 ALLOCATION FOR DISTRIBUTION BUSINESS

The allocated split between transmission, distribution and unregulated assets is based on the proportions of declared asset values.

For the 2024 renewal period, the allocation of assets is as follows:

A table with a grid structure is shown, but it is almost entirely redacted with black boxes. Only a few cells are visible, including a header row with three columns and a few data rows, making the specific data points unreadable.

In providing a premium forecast, we have continued to utilise the above proportional split to forecast for the upcoming period.

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4.3 CYBER

4.3.1 DRIVERS OF PREMIUM

Premiums for this class of insurance are typically driven by claims activity, in particular claims caused by ransomware attacks.

Infrastructure assets are increasingly targeted by larger and more sophisticated cyberattacks due to their critical role in national security, economies, and public services. Infrastructure systems, such as power grids, pipelines, and transport networks, are integral to daily life and national stability. This makes them high-value targets for both cybercriminals and state-sponsored actors seeking to cause widespread disruption.

The most notable recent event to the energy sector was the Colonial Pipeline in the United States of America which is the country’s largest fuel pipeline. It was hacked in May 2021 leading to the company halting all pipeline operations to contain the attack. The company reportedly paid a ransom of nearly 75 Bitcoins (USD equivalent \$5m) to hackers. In addition to ransomware attacks, data breaches also continue to have an effect on the cyber insurance market.

Both of these factors can seriously effect AusNet’ business given the risk of critical infrastructure being hacked. The unregulated part of AusNet business and were not considered when forecasting the upcoming regulatory premiums for this class of insurance.

Currently the cyber insurance market in 2024 is characterized by stabilizing premiums, growing risks from AI-driven cybercrime, and increasing focus on underserved sectors. Strong capacity and competition continue to limit the ability of insurers to push for rate increases for most buyers however, how long current conditions can persist in the face of accumulating losses is difficult to predict.

4.3.2 EXPOSURE and FORECAST EXPOSURE

Measurable underwriting exposure is typically irrelevant for cyber risks. While the underlying exposure such as revenue, employee numbers or critical infrastructure may vary from year to year, it does not typically have a flow-on effect to insurance premiums.

From a cyber risk perspective, underwriting exposure is usually intangible and difficult to measure. For example, a company's attitude and approach towards cyber security measures and cyber security controls. Insurers continue to place importance on cyber framework and policies, vulnerability of systems, risk management and governance, operational practices, threat monitoring and mitigation, regulatory compliance, sector specific threats like ransom ware and nation state attack targeting grids and the alike.

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4.5.1 DRIVERS OF PREMIUM

Premiums for these classes are typically driven by the declaration specific to that class (e.g. motor vehicles) insurance market conditions and recent claims experience.

Given that losses for these policies are typically low frequency, premiums can reasonable be expected to be 'flat' (same as prior year) in a claims free year.

The exception to this involves factors that may cause an increase or decrease in premiums. An example of this could include:

- Reduced insurer appetite which would result in a reduction in insurer capacity and therefore place upwards pressure on premiums.
- Global pandemics – the recent COVID-19 pandemic significantly impacted the Accident and Health insurance industry due to high cost/frequency health, cancellation, curtailment and loss of deposit claims.
- Material changes to policy exposure – i.e. declared values, travel numbers, employee numbers and turnover

4.5.2 EXPOSURE AND FORECAST EXPOSURE

Underwriting exposure is typically stable for these types of risks unless there has been a material change in the risk (i.e. significant turnover increases/decreases, number of travel trips increases, declared projects increase or decrease etc.). Whilst the underlying exposure may grow slightly from year to year it does not typically have an impact on the insurance premiums.

Motor vehicles have been increased significantly due to fleet numbers this upcoming 25/26 and we have

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Policy	24-25 (Actual)	Base Premiums incl Charges excl GST (Distribution Allocation)					
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Appendices

APPENDIX 1

DISTRIBUTION AER PRICE RESET ANALYSIS – FORECAST PREMIUM MODEL 2024 - 2031

Refer separate document.

APPENDIX 2

BUSHFIRE MARKET UPDATE

Refer separate document.

APPENDIX 3

LOCKTON GLOBAL MARKET UPDATE

Refer separate document.

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Confidentiality

Acknowledgement of Confidentiality

The RECIPIENT acknowledges and agrees that the Confidential Information is confidential and secret and that unauthorised disclosure of it to any Third Party shall cause substantial loss and damage to the DISCLOSER.

Obligation Not to Disclose Confidential Information

The RECIPIENT agrees to keep the Confidential Information confidential and secret and not to disclose the Confidential Information or any part of it to any Third Party without prior consent of the DISCLOSER.

The RECIPIENT acknowledges and agrees that:

- i) the Confidential Information is secret, confidential and valuable to the DISCLOSER;
- ii) it owes an obligation of confidence to the DISCLOSER concerning the Confidential Information;
- iii) it has no right or interest in any of the Confidential Information other than the right to use and disclose it on the terms of this agreement; and
- iv) all Confidential Information shall be and remain at all times the property of the DISCLOSER and that the receipt and handling of any Confidential Information shall not grant to the RECIPIENT any copyright, intellectual property or trademark rights with regard to such material.

Use of the Information Only For the Purpose

The RECIPIENT agrees to use the Confidential Information for the Purpose and only for the Purpose.

The RECIPIENT agrees that it will not use (for the benefit of the RECIPIENT or any other person or to the detriment of the DISCLOSER) any confidential information other than for the Purpose without the prior written consent of the DISCLOSER.

Obligation Not to Copy

The RECIPIENT acknowledges and agrees that the Confidential Information in all its manifestations and whether such recording be in the "hard copy", electronic or digital form of any kind on tape or on disc or otherwise recorded as in the property of the DISCLOSER and the DISCLOSER owns all right,

title and interest in and to the copyright in such recordings of the information.

The RECIPIENT will not make any copies of the Confidential Information in any form without the prior written consent of the DISCLOSER unless such copies are reasonably required for the Purpose.

Intellectual Property

The supply of Confidential Information by the DISCLOSER to the RECIPIENT shall not be construed as:

- i) Transferring any Relevant Intellectual Property to the RECIPIENT, which Relevant Intellectual Property will remain the property of the DISCLOSER; or
- ii) Granting or conferring any right by way of license or lease in respect of any Relevant Intellectual Property of the DISCLOSER to the RECIPIENT.

All Relevant Intellectual Property will be the sole property of the DISCLOSER and the RECIPIENT will execute such transfers and other documents as the DISCLOSER may require to give effect to the intention of this sub-clause.

The RECIPIENT will not:

- i) Apply for registration for, or any other form of protection of, any Relevant Intellectual Property in any jurisdiction, nor purport to do so;
- ii) Sell, assign, license, lease or otherwise deal with or dispose of any Relevant Intellectual Property, not purport to do so;
- iii) Disclose the existence or any particulars or any Relevant Intellectual Property to the extent that it is connected to the Purpose of this agreement to any person not authorised by the DISCLOSER;
- iv) Publish the existence or any particulars of any Relevant Intellectual Property in any article journal, periodical, magazine, letter, newspaper or any other publication, without the prior written consent of the DISCLOSER which may be given or withheld by the DISCLOSER, as the case may be, in the absolute discretion of the DISCLOSER and if given, subject to such conditions as the DISCLOSER may impose in its absolute discretion.

Definitions

- 1 Where used in this agreement, the following terms will have the following meaning:

Confidential Information means any and all information and documentation whether commercial, financial, technical or otherwise, disclosed to the RECIPIENT in connection with the Purpose, orally or otherwise, in any form whatsoever and whether or not the information is marked as confidential but does not include any information which, without breach of this agreement:

- i) is or becomes public knowledge;
- ii) was available to or which the RECIPIENT or its Representative already knew or had, on a non-confidential basis, prior to its disclosure by the DISCLOSER;
- iii) has been independently developed or acquired by the RECIPIENT or its Representative ; or iv) is or becomes available to the RECIPIENT or its Representative on a non- confidential basis from another source entitled to make such disclosure .

Discloser means a party who gives Confidential Information to the other party, or from whom the other party acquires Confidential Information. References to 'party' include, in each case, a party's Authorised Persons.

Purpose means the purpose of Lockton Companies Australia Pty Ltd providing an independent review and forecast of the insurance premiums for the 2022 – 2029 periods for AusNet Services (Distribution) Pty Ltd(AusNet) in relation to their regulatory price reset.

Recipient means AusNet Services (Distribution) Pty Ltd(AusNet). References to 'party' include, in each case, a party's Authorised Persons.

Representative means any directors, officers, employees, auditors, reinsurers, agents and advisers of the RECIPIENT.

Relevant Intellectual Property means patents, trademarks, designs, copyright and applications

for registration therefor and includes know-how and all other forms of intellectual property.

- i) Of the DISCLOSER;
- ii) Subsisting in Confidential Information; and
- iii) Which may be created by the RECIPIENT while engaged in the Purpose;

Third Party means any person(s) or company(ies) not being party to this agreement.

- 1.1. Words importing the singular will include the plural wherever the context requires and vice versa.
- 1.2. Words importing any particular gender will include a reference to any or all other genders where the context requires.
- 1.3. Every reference to a person will include a corporation, statutory authority or body and vice versa.
- 1.4. The interpretation of any covenant, clause or word herein will not be restricted by reference to any other covenant, clause or word mentioned herein or by the juxtaposition of the same.
- 1.5. Each phrase, sentence, paragraph and clause in this agreement is severable notwithstanding the manner in which the same may be entered of grouped grammatically and if any phrase, sentence, paragraph or clause is found to be defective or unenforceable for any reason whatsoever the remaining phrases, sentences, paragraphs or clauses, as the case may be, will be full force and effect will continue to be of full force and effect.

