AusNet

13 February 2024 Storm

Cost pass through application

Thursday, 20 June 2024

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1. Executive summary

On 13 February 2024, Victoria experienced extreme weather that caused widespread damage to many households, businesses and infrastructure (**February storm**). This was the most impactful weather event in AusNet's history, causing damage to transmission towers and impacting around 25% of the distribution network. At the peak of the February storm, AusNet had 255,000 people off at the same time, around 30% of our total customer base. 94% of impacted customers were restored within the first 72 hours with some customers experiencing prolonged outages of up to two weeks.

This application is in respect of a nominated pass through event under clause 6.6.1(a1)(5) of the National Electricity Rules (**NER**). The February storm classifies as a natural disaster event as defined in our the 2021–26 final determination.

AusNet has incurred a material increase in costs in response to the February storm which are higher than the cost pass through threshold and therefore are subject to the cost pass through provisions of the NER. Accordingly, we submit this pass through application in respect of the increase for determination by the Australian Energy Regulator (**AER**).

We are seeking pass through revenue of $26.5 million ($2021, smoothed), largely driven by an incremental increase in labour required for our emergency response (internal and contracted) and Guaranteed Service Level (**GSL**) payments. Specifically, the material drivers of incremental cost are summarised below:

- **$16.5m for emergency response** by our internal teams and delivery partners during and after the event, including managing our emergency response, attending to network incidents and performing repair jobs, and vegetation management.
- **$18.6m of Guaranteed Service Level (GSL)** payments. Since 1 July 2021 the scheme includes a $90 payment for customers off supply for >12 hours on a Major Event Day (**MED**). For the February storm, we paid 206,902 MED payments to customers.

Table 1 summarises the proposed pass through revenue until the end of the current regulatory period.

Table 1: Proposed pass through revenue in response to the storms ($m Jun 2021, unsmoothed)

$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Building block revenue			$ 24.6	$ 0.4	$ 0.3	$ 25.3

Source: AusNet.

AusNet has only one regulatory year in the current period to recover the pass through amount, regulatory year 2025-26 and we note that we have also submitted a pass through application for costs associated with complying the Victorian Emergency Backstop Mechanism (VEBM). We have considered the total impact of both pass through amounts on customers bills.

We have conducted network bill impact analysis to analyse options for the recovery profile of the storm pass through, assuming the VEBM pass through is recovered in full in 2025-26. We have identified that we can keep revenue per customer flat in real terms if we recover one third of the pass through amount 2025-26 ($8.8 million). We propose to recover the remaining revenue of $17.7 million early in the 2026-31 regulatory period to allow us to better manage cash flow by more accurately matching costs and revenue given most of the costs will be incurred in the first half of the calendar year 2024. We think this proposed recovery profile is in the best interest of customers as it will help smooth the price increase and will insulate our customers from a large one-off price increase in 2025.

2. Cost pass through framework

2.1. Requirements under the framework

The pass through provisions in Chapter 6 of the NER allow Distribution Network Service Providers (**DNSP**) to seek approval from the AER to recover (by passing through to customers) a material increase in the costs of providing direct control services, where the increase is the result of an event specified in clause 6.6.1(a1) of the NER.

To seek approval from the AER to pass through those costs, the NER require a DNSP to submit a written statement to the AER within 90 business days of the relevant positive change event occurring[1], or such longer period as agreed to by the AER[2].

The written statement must address the matters outlined in clause 6.6.1(c), namely:

- the details of the positive change event;
- the date on which the positive change event occurred;
- the eligible pass through amount in respect of the positive change event;
- the positive pass through amount we are proposing in relation to the positive change event;
- the amount of the positive pass through amount that we propose should be passed through to distribution network users in the regulatory year in which, and each regulatory year after that in which, the positive change event occurred;
- evidence[3]:
    - of the actual and likely increase in costs referred to in clause 6.6.1(c)(3) of the Rules; and
    - that such costs occur solely as a consequence of the positive change event; and
- such other information as may be required under any relevant regulatory information instrument.

If the AER determines that a positive change event has occurred, it must determine:

- the approved pass through amount; and
- the amount of the approved pass through amount that should be passed through to distribution network users in the regulatory year in which, and each regulatory year after that in which, the positive change event occurred.

In making this decision, the AER must consider the factors listed in clause 6.6.1(j) of the NER.

In addition, the National Electricity Law (**NEL**) requires the AER, in exercising its economic regulatory functions and powers, to do so in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (**NEO**).

The NEL also specifies the revenue and pricing principles[4]. Of relevance to this application is the principle that a regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control services and complying with a regulatory obligation or requirement or making a regulatory payment[5].

2.2. AusNet written statement

This application[6], comprising this document and its attachments, is our written statement to the AER[7] to recover a positive pass through amount of $26.5 million ($2021, smoothed). This application was submitted to the AER on or before 24 June 2024, being within 90 business days of the relevant positive change event occurring on 13 February 2024, in accordance with NER clause 6.6.1(c). Therefore, the requirement to submit the written statement by the requisite date is satisfied.

It complies with the requirements of clause 6.6.1(c) of the NER and addresses these matters in the following sections:

- **Section 3:** the relevant details to enable the AER to determine that a positive change event has occurred in accordance with clauses 6.6.1(c)(1) and (2)

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[1] Clause 6.6.1(c).
[2] Clause 6.6.1(k).
[3] We have not recited clause 6.6.1(c)(6)(iii) as it relates to a retailer insolvency event and is not applicable.
[4] Section 7A.
[5] National Electricity Law, section 7A(2).
[6] At times referred to in this document as 'statement' or 'application'. These terms should be read interchangeably and inclusive of all appendices and supporting attachments accompanying this application.
[7] See clause 6.6.1(c) of the NER.

- **Section 4:** details and evidence of the increase in costs in accordance with clauses 6.6.1(c)(6)(i) and (ii)
- **Section 5:** the eligible and proposed pass through amount in accordance with clauses 6.6.1(c)(3), (4) and (5).

This application also addresses the matters listed in clause 6.6.1(j) of the NER which the AER must take into account in deciding the approved pass through amounts[8].

As part of our application we have also provided:

- a cost build up model;
- a 2021-26 Post-tax Revenue Model (**PTRM**) update to incorporate the pass through amount. This update was based on the approved version of our PTRM model "AER - AusNet Services distribution PTRM - 2023-24 Return on debt update - March 2023", which incorporates the 2024-25 return on debt update;
- a review of our actual costs conducted by Ernst & Young; and
- a confidentiality template in accordance with the AER's confidentiality guidelines.

[8] We note clause 6.6.1(c)(7) requires us to provide such other information as may be required under any relevant regulatory information instrument. No such instrument has been issued by the AER at the time of submitting this statement. However, clause 6.6.1(e1) provides scope for the AER to request additional information to help it make its determination. We will welcome any such engagement if it will assist the AER in its deliberations.

3. Positive change pass through event

3.1. Event summary

On 13 February 2024, Victoria experienced a catastrophic storm that caused widespread damage to many households, businesses and infrastructure. The Bureau of Meteorology (**BOM**) and VicEmergency issued weather warnings on 13 February describing severe thunderstorms and damaging winds in areas of our network. At times, wind gusts exceeded 100 km/h in areas of our distribution network on the afternoon of 13 February 2024[9]. South west of Melbourne, winds gust speeds of 122 km/hour[10] lead to the collapse of six transmission towers on the Moorabool to Sydenham 500kV transmission lines near Anakie. The severity of the February storm resulted in the largest storm outage event in Victoria, with half a million Victorians without power largely due to storm damage to distribution networks, in addition to the impact of load shedding initiated following the collapse of six transmission towers[11].

Figure 1: VicEmergency Warnings on 13th February

Note: the warning signs on the first map indicate areas of waning on VicEmergency site, where people can expand to get more details.

Source: https://www.emergency.vic.gov.au/respond/

A BOM spokesperson said that "Thunderstorms over west, south and east Gippsland developed in an atmospheric environment that was conducive to producing severe thunderstorms. This included warm conditions, ample amounts of atmospheric moisture and enough wind shear to allow thunderstorms to become organised[12]". In Mirboo North, the storm was described as "tornado like[13]" given "the thunderstorm was so severe and strong on a small scale with a front of only 500 metres wide[14]". More than 500,000 lightning strikes were recorded within a 600km radius of Melbourne on the 13 February[15].

The State Emergency Services (SES) received 3,000 calls for help, and 37 homes were left uninhabitable from the destruction[16]. The Insurance Council of Australia (ICA) declared the storms a "significant event" and was declared an insurance catastrophe. ICA CEO Andrew Hall said the storms "caused extensive damage across Victoria and show us just how quickly and unexpectedly extreme weather events can occur. The significant number of claims reflects the severity of the event, and insurers are working hard to support customers impacted[17]."

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[9] Bureau of Meteorology, *Bairnsdale, Victoria February 2024 Daily Weather Observations*, link: Bairnsdale, Vic - February 2024 - Daily Weather Observations (bom.gov.au)
[10] Bureau of Meteorology, *Avalon February 2024 Daily Weather Observations*, link: Avalon, Vic - February 2024 - Daily Weather Observations (bom.gov.au)
[11] AEMO, *Power system event in Victoria press release*, 13 February 2024 5.30pm, link: AEMO | Power system event in Victoria
[12] ABC News, *South Gippsland residents start clean-up after 'terrifying' thunderstorm savages Victorian towns*, 15 February 2024, link: South Gippsland residents start clean-up after 'terrifying' thunderstorm savages Victorian towns - ABC News
[13] Sentinel Times, *Mirboo North in ruins as deadly storm leaves trail of destruction and despair*, 15 February 2024, link: Mirboo North in ruins as deadly storm leaves trail of destruction and despair (sgst.com.au)
[14] LaTrobe Valley Express, *Record winds in recent super storm*, link: Record winds in recent super storm | Latrobe Valley Express
[15] Weatherzone, *High impact weather lashes Victoria, igniting fires and leaving 500,000 without power*, 13 February 2024, link: High impact weather lashes Victoria, igniting fires and leaving 500,000 without power (weatherzone.com.au)
[16] ABS News, *Victoria's power outage caught thousands by surprise — here's how it happened*, 14 February 2024, link: Victoria's power outage caught thousands by surprise — here's how it happened - ABC News
[17] Insurancenews.com.au, *Victoria storm damage passes $100 million, 8 March 2024*, link: Victoria storm damage passes $100 million - Insurance News - insuranceNEWS.com.au

The extreme weather resulted in fallen trees and poles, and significant damage to overhead power lines. This, in turn, caused widespread power outages throughout our network. The pictures below illustrate the extent of the damage that we had to address before crews could enter affected areas to assess damage and restore electricity supply to our customers as safely and quickly as possible.

Figure 2: Examples of damage to our networks as a result of the February storm

Source: AusNet

This was the most impactful weather event in AusNet's history, causing unprecedented storm damage to our network and impacting around 25% of the distribution network. At the peak of the February storm, AusNet had 255,000 people off at the same time, around 30% of our total customer base. 94% of impacted customers were restored within the first 72 hours with some customers experiencing prolonged outages of up to two weeks. Figure 3 shows that this event was the largest, as determined by total System Minutes off supply on Day 1 of the event, experienced by our network.

Figure 3: Comparison of system minutes for the lost for recent storm events

Source: AusNet

AusNet customers were also unable to quickly and easily obtain information on their outages and expected restoration time, due to the failure of the AusNet Outage Tracker on the same day. Understandably this resulted in significant frustration and added to disruption caused by the storm event; an outcome we do not view as acceptable. The outage map view was restored on 21 February and we have commissioned an independent Post Incident Review (PIR) into the issue. Costs associated with the outage tracker failure are excluded from this application.

We launched a $10m Community Energy Resilience Fund (later extended to $12m as part of an Enforceable Undertaking with the ESC) which recognises communities severely impacted by the storm events in February this year and other electricity reliability challenges.

The Energy Resilience Community Fund aims to:

- provide immediate support to individuals and small businesses most impacted by the recent storm-related power outages who are not eligible for other relief payments (applications now open)
- support existing community facilities used during and after extreme weather events
- collaborate with small businesses on support programs and energy storage solutions to aid business continuity during future weather events.

This is funded directly by AusNet, and not by customers and the funding is also excluded from this application.

3.2. Natural disaster event

A 'pass through event' means, for a distribution determination, an event specified in clause 6.6.1(a1).[18] The clause specifies that each of the following are a pass through event:

1) a regulatory change event;
2) a service standard event;
3) a tax change event;
4) a retailer insolvency event[19]; and
5) any other event specified in a distribution determination as a pass-through event for the determination.

This application is in respect of a nominated pass through event under clause 6.6.1 (a1)(5).

The relevant distribution determination during which the February storm occurred is our 2021-26 determination.[20] The AER's Final Decision confirmed that a 'natural disaster event' will apply to as a nominated pass through event for the 2021–26 regulatory period.

A 'natural disaster event' is defined as:

> *"any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2021–26 regulatory control period that changes the costs to AusNet Services in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:*
>
> *(a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or*
>
> *(b) not a consequence of any other act or omission of the service provider".* [21]

3.3. Materiality

Another of the thresholds that must be satisfied for the AER to approve a positive pass through application is that the cost to the DNSP of providing direct control services must increase "materially" as a result of the pass through event.

The event impacted AusNet's operations during and in the following weeks after the event, resulting in additional resources including labour and materials needed in response to the February storm. Specifically, the impacts of the February storm required us to incur additional material costs, including:

- **$16.5m for Emergency response** by our internal teams and delivery partners during and after the event, including managing our emergency response, attending to network incidents and performing repair jobs, and vegetation management.
- **$18.6m of Guaranteed Service Level (GSL) payments.** Since 1 July 2021 the scheme includes a $90 payment for customers off supply for >12 hours on a Major Event Day (MED). For the February storm, we paid 206,902 MED payments to customers.

The costs associated with the storm is discussed in Section 3.

[18] NER, cl 6.6.1(a1) and Chapter 10 (definition of *'pass through event'*).
[19] This event definition is not applicable in Victoria as Victoria is not a NECF jurisdiction.
[20] Available at: https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2021-26/final-decision (accessed 20/12/2021).
[21] AER, AusNet Services distribution determination final decision 2021–26, Attachment 15 – Pass through events, pp. 15-17 to 15-18.

Table 2: Materiality of pass through

$M ($2021)	2023-24
2023-24 Annual revenue requirement (ARR) (smoothed)	$657m
2023-24 Costs associated with the February Storm	$33m
Materiality of the pass through	**4.98%**

Source: AusNet.

An increase in costs is material if the change in costs (as opposed to the revenue impact) that a DNSP has incurred, and is likely to incur, in any year of a regulatory period, as a result of the event, exceeds 1% of the annual revenue requirement (**ARR**) for the DNSP for that regulatory year[22].

The additional opex and capex incurred in response to the storm event is material as it exceeds an amount equal to 1% of the ARR established in the PTRM from the AER's revenue determination. Therefore, we have shown that we have incurred a material change in costs due to the February Storm.

3.4. Exclusion of contingent projects and expenditure for restricted assets

A pass-through event must not be a contingent project or an associated trigger event. A contingent project is a contingent project proposed by the DNSP that is approved by the AER in accordance with clause 6.6A.1(b) of the NER. A trigger event is a specific condition or event described in clause 6.6A.1(c) of the NER, the occurrence of which, during the relevant regulatory period, may result in the amendment of a distribution determination under clause 6.6A.2 of the NER.

The AER's Final Decision for our 2021-26 regulatory period did not include any contingent projects. As such, we did not propose, and the AER did not approve, a contingent project for capital expenditure of the kind required by the February storm.

Clause 6.6.1(c)(c1) of the NER requires that the positive pass through amount proposed not include any expenditure for a restricted asset, unless in conjunction with a request for asset exemption. The expenditure associated with this pass through application is not related to restricted assets and, therefore, this is not applicable.

Therefore, the February storm is not precluded from being a positive pass through event by virtue of the matters contained in clauses 6.6A.1(b) or 6.6.1(c)(c1) of the NER.

[22] Definition of "materially", chapter 10 of the National Electricity Rules.

4. Costs incurred

Table 3 summarises the total cost incurred in response to the February storm. The table breaks down the costs between the drivers of capex and opex, which are described in this section. All expenditure was incurred in regulatory year 2023-24. A model demonstrating the cost build up is attached as Attachment 1.

Table 3: Total incremental expenditure incurred as a result of the February Storm ($ nominal)

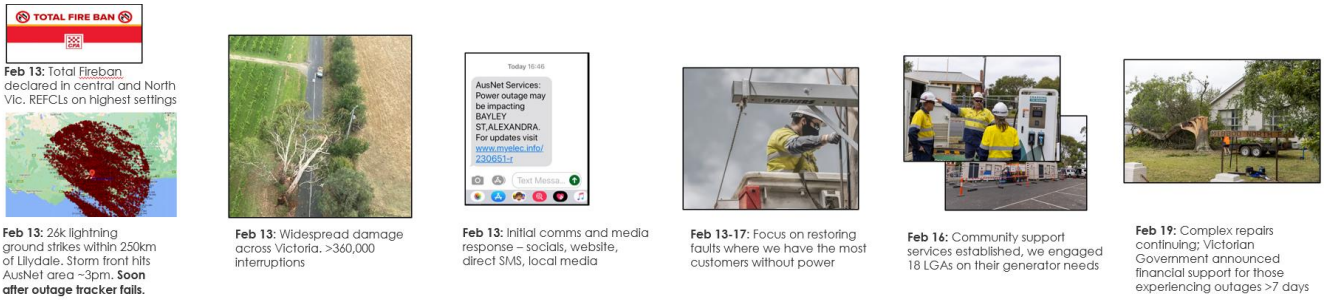
	Capex	Opex	Total
Internal Labour		$785,024	$785,024
Contracts - emergency works	$7,391,330	$5,067,206	$12,458,536
Contracts - vegetation management	$841,038	$604,450	$1,445,488
GSLs		$18,621,180	$18,621,180
Other		$1,859,990	$1,859,990
Total	**$8,232,368**	**$26,937,851**	**$35,170,218**

Source: AusNet.

4.1. Overview of costs resulting from the February storm

Restoring powerlines in the storm-affected areas and ensuring safe operation has resulted in a significant increase in costs to provide direct control services to customers in the regions affected by the February storm. Figure 4 summarises the course of events relating to the weather event and this pass through application. The following sections demonstrate that the increase in costs attributable to carrying out relevant activities meets the materiality threshold.

Figure 4: Event timeline and AusNet response



* Strategic Plan for Integrated Response and Contingency Systems (SPIRACS)

Source: AusNet.

The costs in our pass through application represent only incremental costs. It is noted that a proportion of the increased costs were incurred directly by us, whereas others were passed on to us by third party contractors engaged to perform the work on our behalf.

Our material actual costs to 30 April 2024 have been independently reviewed by Ernst & Young (Attachment 3). The independent review follows the same process as carried out for our June and October 2021 storm pass through applications. A small portion (1.5%) of costs have been incurred in May 2024 and were therefore outside the scope of the independent review.

As part of our review process, we have also identified offsetting savings in the current regulatory period. We have netted off costs from our pass through application where we have identified expected savings in the 2023-24, 2024-25 and 2025-26 regulatory years due to avoided vegetation management and replacement that is no longer required as a result of these assets being replaced as part of storm restoration works.

We will also remove any avoided costs from our forecasts for the 2026-31 regulatory period, prior to submitting our Revenue Proposal to the AER in January 2025.

4.2. Internal labour involved in the emergency response

During the 13 February 2024 event, AusNet stood up an emergency response team, which included internal staff carrying out various roles and responsibilities. These roles are stood up as soon as the event is categorised as a Level 3 (which occurred on 13 February) and are active until the event is finalised, with rostered staff filling in rotating shifts.

In addition to the Crisis Management Team, during the February storm outages, our control room required 6 additional resources at its peak (up from 8-10 on an average day), requiring us to open our disaster recovery site to accommodate additional resources. We also had employees supporting our customer and community response during the event.

Consistent with the approach we adopted for the June and October 2021 Storms, we established cost codes for each of our business units to capture the incremental cost we incurred as part of the storm recovery effort. We have determined the cost of internal labour based on time sheeting for those individuals who work on the February storm event. Where relevant staff did not time sheet, we manually collect their time and associated payroll costs. This is the same practice AusNet followed as part of its June and October 2021 storm pass through applications. We have not included costs for office-based staff unless they have received overtime for their role in the storm response and, therefore, this pass through element represents only incremental labour which is not captured in our opex allowance.

4.3. Inspection and restoration of supply

Our field delivery team is responsible for carrying out repairs and restoration work, including establishing temporary generation, to reconnect AusNet's customers. Our field delivery services are provided by a third-party contractor, [redacted] a fully integrated services provider with whom we have surge capacity arrangements for large scale events. AusNet also has access to additional surge delivery partners that support AusNet in delivery of other programs of work outside of the operations and maintenance contract delivered by [redacted] During the February 2024 event, AusNet was able to rapidly scale up fault field resources, from 60 on an average day to 456 resources at peak on 15 February. Majority of the surge resources were provided by [redacted] (323 during the peak), with the remainder provided through surge resourcing and mutual aid ([redacted]

Restoration works, including during storm events, are sequential in nature and typically follow a process including initial inspection and patrols, planning, materials management, site clearance/access, vegetation management, construction works and customer restoration.

Initial inspection

The first activity in the recovery effort was to patrol the affected distribution lines to ascertain the extent of the asset damage. This is a critical first step field response, as it also enables an assessment of the relative difficulty in restoring customers' electricity supply. This work was conducted as soon as it was safe to do so. The costs we incurred during this initial inspection phase include timesheet costs for asset inspectors, helicopter hire for aerial inspections and fuel costs for vehicles.

Restoration of supply

Once safe access was obtained, construction work could commence to clear vegetation, repair the network and replace damaged assets. Cost associated with this work are largely labour (contracts) and purchasing additional materials where necessary (e.g. poles, conductors). We also rolled-out some mobile generation to locations forecast to be off supply for several days, including Mirboo North and the Dandenongs. Where it was not possible for us to restore supply via the grid quickly, restoration activities remained a top priority.

4.4. Vegetation management

Our network covers areas that are heavily treed and the February storm caused significant damage from fallen trees and power lines, including damage to our power lines and other assets. The February storm caused unprecedented damage to vegetation in the Belgrave, Emerald, Cockatoo and surrounding areas, as well as significant impacts to the township of Mirboo North. In these areas the damage was extensive, with trees uprooted and large branches failing and becoming airborne in the extreme conditions. Many of these branches originated from outside of the regulated clearance space.

Vegetation crews attended 183 faults where trees and branches had damaged infrastructure or where trees were damaged to the extent that they posed a significant risk to the electrical network. In addition, arborist identified 886 trees that were impacted, which were outside the clearance space.

Vegetation management crews are responsible for clearing vegetation from AusNet's assets to enable repair work to be undertaken by the field delivery team. Our vegetation management services are provided by two contracted service providers, with whom we have surge capacity arrangements for large scale events. During the February

storm, dispatch of the vegetation management crews commenced on 14 February 2024, with the majority of the jobs being carried out during 16-20 February 2024. At the peak, there were 76 jobs dispatched in one day.

4.5. Guaranteed Service Level scheme

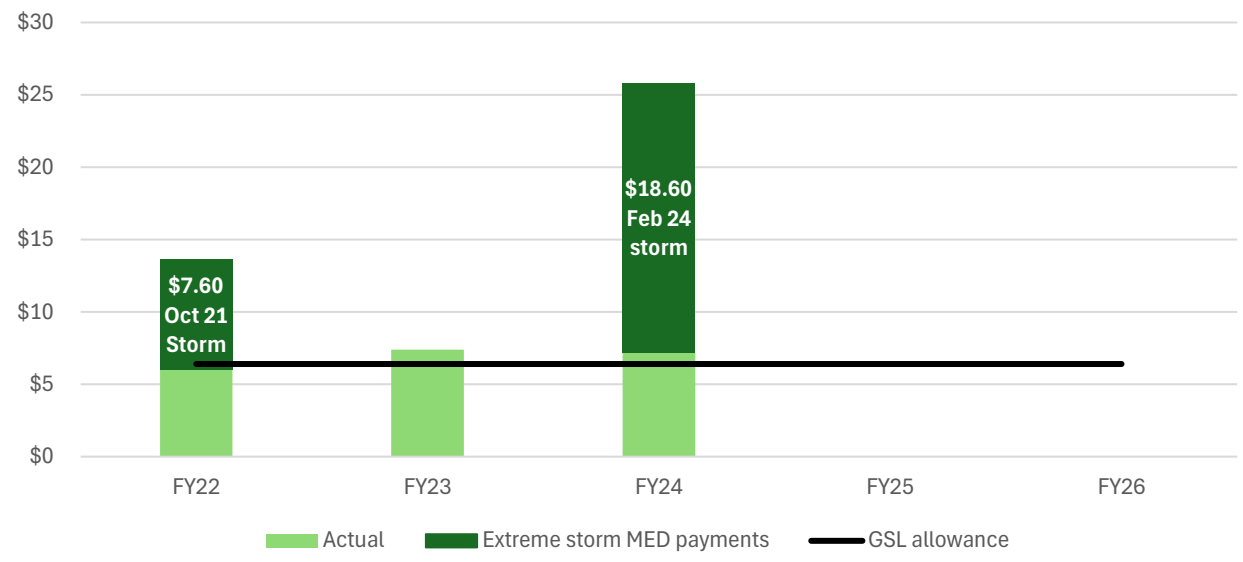
The Electricity Distribution Code of Practice (**Code of Practice**) requires Victorian distributors to make GSL payments to customers who receive a level of service that falls below a specific minimum threshold. GSL payments are designed to acknowledge the inconvenience and potential damage customers experience for interruptions to their service.

Since 1 July 2021, the GSL scheme has included a $90 payment for customers off supply for more than12 hours on a MED[23]. The Code of Practice does not make provision for distributors to be excused from making MED GSL payments.

For the February storm, we were required to pay 206,902 MED GSL payments to customers, costing $18.6m (**MED Payment**). The MED Payment meets the cost pass through criteria for the following reasons:

- it was triggered by a natural disaster event, being the 13 February storm event; and
- it is not funded through our 2021-26 GSL opex. This is because:
    - while our allowance included a MED component, the forecast was based on recasting historical outages from 2015-19. As confirmed by Figure 3 (above), the storm events in October 2021 and February 2024 were far more severe than any weather event that occurred in 2015-19; and
    - our actual GSL expenditure almost perfectly matches the forecast, aside from the October 2021 and February 2024 storm events, as shown in the charts below. When the GSL payments attributable to these events are included, our expenditure from 1 July 2021 to 31 March 2024 is:
        - $45m, compared to a pro-rated allowance of $18m for MEDs and non-MEDs; and
        - $31m, compared to a pro-rated allowance of $6m for MED payments alone.

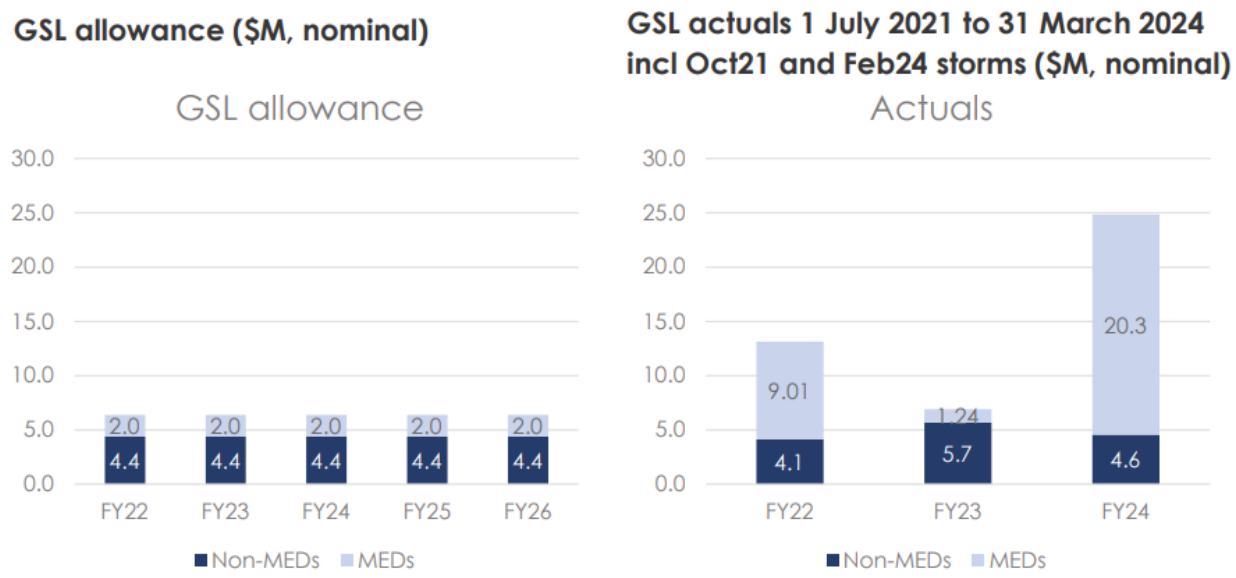
Figure 5: Forecast / actual GSLs v allowance ($m, nominal)



Source: AusNet

[23] Clause 14.6 of Electricity Distribution Code of Practice (version 2)

Figure 6: AusNet GSL allowance and actuals broken down by MEDs and non-MEDs



Source: AusNet.

GSL payments alone (excluding all other costs in this application) meet the 1% materiality threshold required to submit a pass through application. This demonstrates the material and unexpected impact of MED GSL payments following extreme storm events have on our costs. The cost pass through regime is designed to manage unexpected, material costs like this.

We propose to recover GSLs for the February storm through the pass through regime as the enormity of the impact of the February storm, including on GSL MED payments, is exactly the situation the cost pass through mechanism is designed to account for. Taking this approach means we do not need to accommodate such costs in the capex and opex forecasts for the next regulatory period. If the AER accept this approach, we will remove GSLs from the February storm from our 2026-31 GSL MED forecast.

4.6. Other costs

Additional costs sought in this pass through application include:

- various other expenses required for the storm response such as fuel and meal costs;
- cost to undertake a Post Incident Review (PIR) into our storm response, consistent with our SPIRACs process;
- processing customer claims, including the Victorian Governments' Prolonged Power Outage Payments (PPOP). Due to a high volume of claims that were required to be processed in a short period, we were required to purchase additional software licenses for the purpose of reviewing PPOP applications from customers; and
- customers communications uplift required in response to the storms, including:
    - **SMS**: Due to the volume of outages during the February storm, a large volume of notifications was required to customers off supply which resulted in a substantive increase in SMS messaging volumes to provide these customers with unplanned outage notifications and estimated restoration times. The February storm resulted in AusNet utilising significantly more message volumes than anticipated during the January to April period and requiring us to effectively "top up" the number of messages available to AusNet. We sent approximately 622,200 automated messages between 13 and 14 February 2024;
    - **Contact centre**: The size of the February storm, combined with the failure of our outage tracker, meant that our contact centre experienced an unprecedented number of inbound calls—including 43,000 inbound calls on 13 February 2024. We scaled up resourcing of the contact centre to handle the volume of calls, increasing resourcing by 20 additional agents (double the usual capacity).

We note that we have excluded costs associated with restoring our outage tracker (which failed during the February storm) from this pass through application. The costs associated with the $10m Community Energy Resilience Fund

(later extended to $12m as part of an Enforceable Undertaking with the ESC)[24] are funded directly by AusNet, and not by customers and are also excluded from this through application.

4.7. Offsetting savings in the 2022-26 regulatory period

As well as incurring additional costs, some work that would have been required in future years and is part of the on-going cost of maintaining the network was brought forward and carried out as a necessary part of the storm restoration activities. This reduction in future work will reduce our costs during the 2021-26 regulatory period. The forecast savings in this regulatory period are shown in Table 4 below.

Table 4: Estimated offset savings in 2022-26 period ($2021)

	ESTIMATED SAVINGS
Capital replacement (capex)	$182,039
Vegetation management (opex)	$17,640

Source: AusNet.

In particular, we expect some assets replaced as a result of damage caused by the were due for end-of-life replacement in the near term and the work undertaken in the aftermath of the February storm will reduce future asset replacement activity.

We have identified that the removal of hazardous trees resulted in 42 spans that will no longer require clearing in the 2024 cyclic program. The value of this work equates to $17,640 (42 spans at a unit cost of $420 per span) in costs that will be avoided this calendar year.

24 AusNet Electricity Services Pty Ltd alleged failure to maintain outage tracker during February 2024 storm event | Essential Services Commission

5. Eligible and proposed pass through amount

5.1. Eligible pass through amount

Clause 6.6.1(c)(3) of the NER requires us to specify the eligible pass through amount.

The eligible pass through amount is the increase in costs incurred in the provision of direct control services as a result of the pass through event[25]. It covers all expenditure, including the capex and opex incurred and likely to be incurred, until either the end of the regulatory period in which the positive change event occurred or, if cost recovery is to continue into the next period, the end of that regulatory period.

In determining the eligible pass through amount, only incremental costs attributable to the February storm have been included; no costs that would have been incurred under a business-as-usual (**BAU**) scenario form part of this application.

5.2. Evidence of the costs for the eligible pass through amount

Clause 6.6.1(c)(6)(i) of the NER requires us to provide evidence of the actual and likely increase in costs included in the eligible pass through amount.

Tables 5 and 6 below provide a breakdown of the capex and opex included in the eligible pass through amount.

Table 5: Total proposed pass through expenditure ($M, $2021)

$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Distribution systems assets Capex			$8.2			
Feb 2024 storm incremental Opex			$24.6			
Total			**$32.7**			

Source: AusNet.

Table 6: Eligible pass through amount ($M, $2021, unsmoothed)

$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Return on capital				$ 0.4	$ 0.3	$ 0.7
Return of capital				$ 0.0	$ 0.0	$ 0.0
Operating expenditure			$24.6			$ 24.6
Revenue adjustments						
Tax						
Building block revenue			**$24.6**	**$0.4**	**$0.3**	**$25.3**

Source: AusNet.

5.3. Costs as a consequence of the positive change event

Clause 6.6.1(c)(6)(ii) of the NER requires us to provide evidence that the actual and likely increase in costs included in the eligible pass through amount occurred solely as a consequence of the positive change event. Similarly, clause 6.6.1(j)(5) of the NER requires the AER, in determining the approved pass through amount and the amount to be passed through to users in each regulatory year, to take into account the need to ensure the DNSP only recovers any actual or likely increment in costs that are incurred solely as a consequence of the positive change event.

[25] Definition of 'eligible pass through amount', chapter 10 of the National Electricity Rules.

In calculating the eligible pass through amount, we have included only the incremental costs for those activities that were incurred solely as a result of the positive change event.

As discussed in section 3, we have only included incremental costs in our application. We note that some of the expenditure undertaken in response to the February storm was forecast in our 2021-26 allowance. Accordingly, we have deducted this amount from this pass-through application.

5.4. Prudency and efficiency of pass through amount

Clause 6.6.1(j)(3) of the NER requires the AER, in determining the approved pass through amount and the amount to be passed through to users in each regulatory year, to take into account the efficiency of our decisions and actions in relation to the risk of the positive change event. This includes whether our actions minimised the magnitude of the eligible pass through amount.

The February storm was a severe and unexpected event, with a large number of faults caused by the impact of fallen trees on our network, including trees falling from beyond areas we would consider clearing (e.g. trees not close enough to our poles to be considered a risk and scheduled for BAU clearing). We consider there were no material actions that could have been taken to minimise the pass through amount, given the nature of the event, its scale and the stage we, and other networks, are at in identifying and investing in proactive resilience-driven investment programs to address increasing climate change risk.

Since the June and October 2021 storms we have trialled resilience-driven investments, including 17 Standalone Power Systems (**SAPS**). This trial has allowed us to learn about customer experience and acceptance of SAPS and their performance including during extreme events. We plan to install more SAPs in the next regulatory period, once the regulatory framework for networks to own SAPs is fully in place in Victoria.

We are also focused on meeting the requirements of the AER's Resilience Guidance note to ensure material proactive investments reflect customer preferences, and our funding proposal in the upcoming Electricity Distribution Price Review for 2026-31 is supported by evidence, including through:

- undertaking risk and climate analysis;
- forming and assessing investment proposals, via cost benefit analysis; and
- understanding customer's preferences through research and engagement.

While this work commenced following the June and October 2021 storms, the February storm has impacted our assessment of climate risk, which has been fed into our work program. As the AER highlights in its Resilience Guidance note, and supported by feedback from customers as part of our engagement program, it is important to strike the right balance between proactive investment and cost pass through funding. Accordingly, the analysis and engagement we are currently undertaking, which will culminate in a regulatory proposal to the AER, which will determine the efficient investment we will make in the network in 2026-31.

We have established, well documented and proven strategies and plans to be able to respond to incidents of varying causes and scales that may impact the network and our customers. These strategies include the setting up of an Emergency Management Team and, where appropriate, Critical Management teams to centralise decision making and ensure efficient timely collection and dissemination of information in real time. Our incident response processes also allow us to establish hubs of additional community support capability to facilitate efficient response according to the circumstances.

We routinely conduct PIRs of our operational responses to major events. Following the June and October 2021 storms, these have led to the following significant changes to our operational response, including:

- our response preparedness, including changes to how different incidents are classified and updated triggers to escalation of events
- the introduction of a weather analytics tool, which allows us to mobilise additional resources prior to an event, to increase the speed of respond
- a substantive uplift in training and resource capability, to allow for higher levels of surge capacity during large events.

The impact of these actions on the efficiency of our response, and therefore any impact on our costs, will be reflected in the actual costs we are seeking to pass through. We also note that the February storm was unprecedented in scale and tested the capacity of various processes. As such, we have identified opportunities to further improve our response, including through an independent PIR undertaken by Nous. We will implement these opportunities to continuously improve our response to significant events.

As discussed in Section 4.7, we have also identified and deducted expected savings in the final years of this regulatory period as a result of the storm restoration work, to ensure there is no overlap within this application and our current allowance. We consider that we have taken all appropriate steps to minimise the magnitude of the pass

through amount and that the proposed cost pass through reflects the prudent and efficient costs associated with responding to the February storm.

Insurance considerations

In accepting a 'natural disaster event' as a nominated pass through event in our distribution determination for the extended 2021-26 regulatory period, the AER's Final Decision noted that:

> In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:
>
> (i) whether AusNet Services has insurance against the event; and
>
> (ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event[26].

We do not hold insurance cover for damage caused to the 'poles and wires' of the network by a natural disaster. The cost of holding this insurance is assessed when we routinely review our insurance needs and renegotiate insurance arrangements.

Through these reviews and by keeping abreast of trends in insurability, we can confirm that insurance cover for poles and wires is not an efficient approach to managing the risk of damage to, or loss of, these assets. There are several contributing reasons:

• the insurance cap available is extremely low in comparison to the value of the assets and the value that may be impacted by one natural disaster event. The value (merit) is incomparable to the value of insuring assets located within our network;

• the premium for including this risk is a significant proportion of the payout cap, as is the deductible; and

• if a claim was made under such cover, it is expected that the premium would increase significantly. This reflects the insurer's assessment of the likelihood of this risk being realised.

Insurance cover for the poles and wires is not readily available at economic rates. This was previously confirmed by our insurance broker, who confirmed that none of its utility clients within Australia hold this form of cover. The broker explained that underwriters attempting to write this form of cover experience difficulty reinsuring the risk, as reinsurers do not have appetite for this type of risk. It is understood that, absent reinsurance, the underwriters' concern stems from loss scenarios due to catastrophic weather events (fire, storm and cyclone), which may result in large insurance pay-outs. Thus, the few underwriters who have previously quoted this form of cover provide small aggregate limits with prohibitively expensive premiums.

Other DNSPs face similar whole of network insurance considerations, even though the nature of the local environment for some networks will differ. We have previously checked the approaches of some of our peer network operators on a confidential basis and can confirm that our practice of not insuring for this risk is consistent with those operators contacted.

5.5. Proposed positive pass through amount

Clause 6.6.1(c)(4) of the NER requires us to specify the positive pass through amount that we propose in relation to the positive change event. The positive pass through amount is defined as an amount not exceeding the eligible pass through amount. We propose a positive pass through amount of $25.3 million ($2021, unsmoothed). We have calculated the proposed positive pass amount as the change in our required revenues for the 2021-26 regulatory period due to the positive change event. That is, our proposed positive pass through amount incorporates the opex and return on capital and return of capital for the 2021-26 regulatory period arising from the incremental expenditure from the February storm.

The PTRM used to calculate the pass through amount with this application is provided as Attachment 2[27].

5.6. Pass through amount in each regulatory year

Clause 6.6.1(c)(5) of the NER requires that we specify the amount that we propose to pass through to customers in the year, and each regulatory year after that, in which the positive change event occurred. We propose to smooth the recovery over the remaining one year of this regulatory period and early in the next regulatory period, and recover approximately $8.8 million of the total prosed proposed pass through amount of 26.5 million ($2021, smoothed) in the final regulatory year from 1 July 2025 to 30 June 2026. This represents one third of the proposed pass through amount.

AusNet has only one regulatory year in the current period to recover the pass through amount, regulatory year 2025-26 and we note that we have also submitted a pass through application for costs associated with complying the

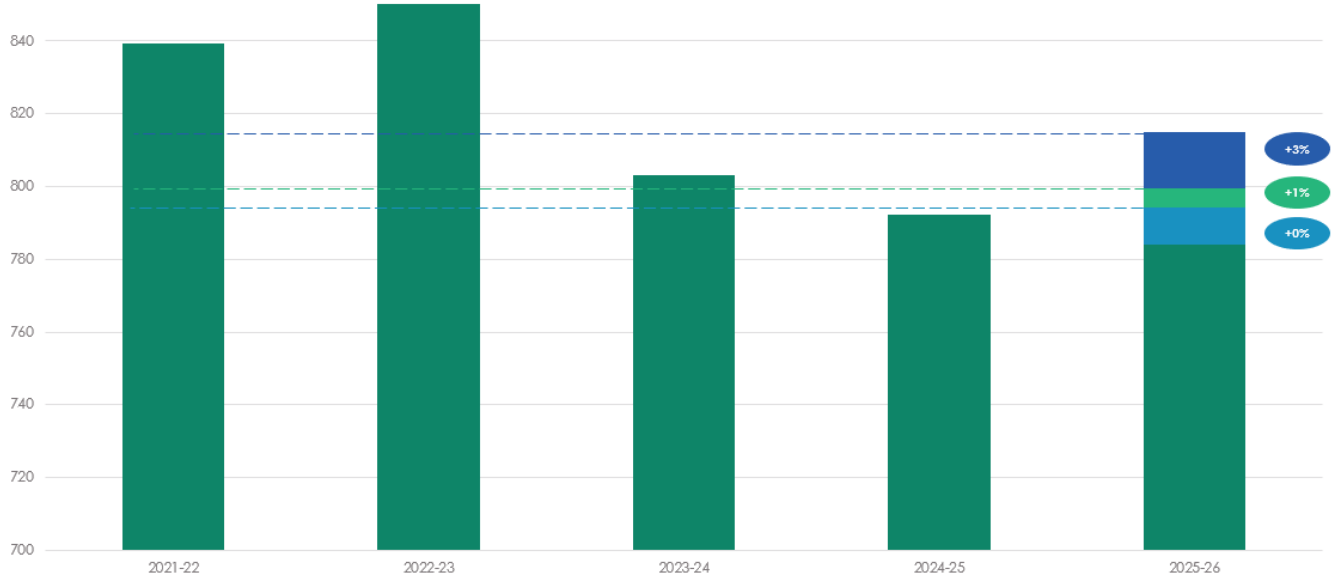
[26] AER, AusNet Services distribution determination final decision 2021–26, Attachment 15 – Pass through events, p. 15-18

[27] This PTRM is based on the approved version of our PTRM model "AER - AusNet Services distribution PTRM - 2023-24 Return on debt update - March 2023", which incorporates the 2024-25 return on debt update, and does not include our proposed VEBM pass through amount.

Victorian Emergency Backstop Mechanism (VEBM). We have considered the total impact of both pass through amounts on customers bills.

We have conducted network bill impact analysis to analyse options for the recovery profile of the storm pass through, assuming the VEBM pass through is recovered in full in 2025-26. We have identified that we can keep revenue per customer flat in real terms if we recover one third of the pass through amount 2025-26 ($8.8 million). We propose to recover the remaining revenue of $17.7 million early in the 2026-31 regulatory period. This balances price impact with allowing us to better manage cash flow by more accurately matching costs (mostly incurred in the first half of the calendar year 2024) with revenue compared to recovery over a longs time period be . We consider this proposed recovery profile is in the best interest of customers as it will help smooth the price increase and will insulate our customers from a large one-off price increase in 2025.

Figure 6: Revenue per customer ($2021)



		2021-22	2022-23	2023-24	2024-25	2025-26	% change from 2024-25
	Current PTRM (including VEBM)	$ 839	$ 908	$ 803	$ 792	$ 784	-1%
	Revenue +100% storm recovery in 2025-26					$ 815	3%
	Revenue +50% recovery in 2025-26					$ 799	1%
	Revenue +33% recovery in 2025-26					$ 794	0%

6. Attachments

ATTATCHMENT
1 Feb 24 Storm Distribution Pass Through Build up of costs – Confidential
2 PTRM update
3. EY Independent review of AusNet's costs - Confidential
4. Confidentiality template

7. Compliance checklist

This attachment provides information on the compliance of AusNet's pass through application with the NER pass through provisions (as set out in Cl 6.6.1), and to the location of the relevant information in our application.

NER Clause	Requirement	Information provided	Section of application
6.6.1(a1)	Identification as a pass through event An event allowing for pass through of costs may be specified in the distribution determination (sub 5)	The application confirms that the February storm is a 'natural disaster event' as specified in our 2021-2026 Determination	3.2
6.6.1 (a)	A DNSP may seek AER approval for the pass through for a positive change event To qualify as a positive change event the DNSP must have incurrent materially higher costs (NER defined) in providing direct control services	The application confirms that AusNet incurred materially higher costs in providing direct control services, and accordingly the event qualifies as a positive pass through event	3.3
6.6.1 (c)	A DNSP must submit a statement (interchangeable term being application) within 90 business days of the relevant positive change event occurring	This application was submitted before the 21st of June, and within 90 days of the event occurring	2.2
6.6.1(c)(1)	The statement must specify: • The details of the positive change event	The details of the positive change event, being the nature and impact on AusNet, is set out in the application	3.1
6.6.1(c)(2)	• The date on which the positive change event occurred	As referenced above (see row 6.6.1 (c)) this date and its rationale is provided	2.2
6.6.1(c)(3)	• The eligible pass through amount, being the increase costs in the provision of direct control services as a result of the positive change event	The application provides detail on the sources of cost increases and the cost attributed for each, which constitutes the eligible pass through amount	5.2
6.6.1(c)(4)	• The positive pass-through amount proposed	The application proposes a positive pass through amount	5.5
6.6.1(c)(5)	• The amount proposed to be passed through in the regulatory year in which the event occurred in subsequent regulatory years	We have proposed a recovery profile beginning with $8.7m in regulatory year 2025-26 and the remainder early in the upcoming 2026-31 regulatory period	5.6
6.6.1(c)(6)(i)	Evidence of: • the actual and likely increases	Provided in build up of costs model and summarised in the application	Section 4 and supporting attachments
6.6.1(c)(6)(ii)	• that the costs occur solely as a consequence of the positive change event	The application describes the data sources and processes to determine the costs solely occurring as a consequence of the positive change event	5.3

6.6.1(c)(6)(iii)	• relates to the circumstances where the cause of costs is a retailer insolvency event	Not applicable. Noted in the application	2.1
6.6.1(c)(7)	• other information as required under any relevant regulatory instrument	Not applicable. Noted in the application	2.2
(6) (c1)	• relates to the pass through amount including expenditure for a restricted asset	AusNet has explored this, as noted in the application.	3.4

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