

Determination February 2024 storm cost pass through

AusNet Services

November 2024

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aer inquiry@aer.gov.au
Tel: 1300 585 165

AER reference: 17378414

Amendment record

Version	Date	Pages
1	November 2024	26

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Summary of our assessment

During the regulatory control period, AusNet Services (electricity distribution) (AusNet Services) can apply to pass through to its customers, in the form of higher or lower network charges, costs it incurs as a result of pre-defined exogenous events. These events are called cost pass through events.

On 20 June 2024, AusNet Services submitted a cost pass through application (AusNet Services' application) to the AER, seeking to recover costs it incurred as a result of the 13 February 2024 storm in Victoria. AusNet Services stated that this weather event caused widespread damage to about 25% of its distribution network, and that at the peak of the 13 February 2024 storm, 255,000 customers experienced power outages at the same time, around 30% of AusNet Services' customer base.¹

AusNet Services is seeking to recover \$26.5 million (\$2021, smoothed) in revenue relating to costs arising from the 13 February 2024 storm event, of which approximately 70% (\$17.0 million) is related to Guaranteed Service Level (GSL) payments.² The Electricity Distribution Code of Practice requires Victorian distributors to make GSL payments to customers who receive a level of service worse than a specific threshold or level. GSL payments are an acknowledgement of the inconvenience a customer experiences when their distributor does not meet a GSL.³ Some AusNet Services customers who were impacted by the 13 February 2024 storm are entitled to receive GSL payments in accordance with the major event day (MED) interruption provision of the revised Electricity Distribution Code.⁴

Under the National Electricity Rules (NER), AusNet Services may seek approval to pass through to network users a positive pass through amount in respect of certain events (referred to in the NER as positive change events). This can include a natural disaster event.

If the AER determines that a positive change event has occurred in respect of a cost pass through application, the AER is required to determine (within a specified timeframe):

- the approved pass through amount, and
- how much of that amount should be passed through to Distribution Network Users in the regulatory year, and each regulatory year after that in which the positive change event occurred,

taking into account the matters referred to in clause 6.6.1(j) of the NER.⁵

¹ AusNet Services, *2020-21 Storms disaster event cost pass through - Application* - November 2021. p 11.

² This is equivalent to \$26.5 million (\$2021, smoothed) as reflected in AusNet Services' cost pass through application.

³ <https://www.esc.vic.gov.au/electricity-and-gas/information-for-electricity-and-gas-consumers/guaranteed-service-level-payments-energy-outages>

⁴ The revised code introduced a MED payment of \$90 per customer. See: Essential Services Commission, [Final decision - Electricity Distribution Code review – customer service standards](#), 16 November 2020 (amended on 22 December 2020), p. 61.

⁵ NER, cl. 6.6.1(d).

This determination sets out our assessment of AusNet Services' application and addresses those requirements, as set out in clause 6.6.1 of the NER.

On 22 July 2024, we published AusNet Services' application on our website and invited stakeholder submissions for a period of 4 weeks. No submissions were received.

We are satisfied that the 13 February 2024 storm event meets the definition of a natural disaster pass through event as set out in AusNet Services' 2021–26 revenue determination. Based on our consideration of the factors set out in clause 6.6.1(j) of the NER, we determine to allow the pass through of the costs proposed by AusNet Services in its cost pass through application. However, we have amended AusNet's proposed nominal to real CPI conversion factor in its cost build up model and made adjustments to the total pass through costs to reflect this change. These adjustments have decreased the pass through amount by \$0.4 million (\$2021, smoothed), from \$26.5 million (\$June 2021, smoothed) to \$26.1 million (\$June 2021, smoothed).⁶ Our adjustment is discussed in greater detail in section 4.4 of this report.

We are satisfied that the materiality threshold to constitute a positive change event has been met and that the costs incurred by AusNet Services as a direct result of the 13 February 2024 storm were prudent and efficient. Our decision is discussed in greater detail in sections 3 and 4 of this report.

Our determination is to approve a positive pass through amount of \$30.1 million (\$nominal, smoothed)⁷ to be recovered over the final year of the 2021–26 regulatory control period (2025–26) and the first two years of the 2026–31 regulatory control period (2026–27 and 2027–28), as follows:

- \$9.6 million to be recovered in 2025–26
- \$10.0 million to be recovered in 2026–27
- \$10.4 million to be recovered in 2027–28.

This is higher than the pass through amount proposed by AusNet Services in nominal terms because it accounts for the time value of money as discussed in section 4.4.

We estimate that the approved cost pass through amount will add approximately \$8 to the average AusNet Services residential customer's bills and \$25 to the average small business's bills each year from 1 July 2025 to 30 June 2028.⁸

⁶ This adjusted amount of \$26.1 million (\$2021, smoothed) is equivalent to \$28.89 million (nominal, smoothed) reported in table 3 (section 4.4). It is based on the assumption that total incremental revenue is recovered in one year, the final year of the 2021-26 regulatory control period (2025-26). However, when it is spread across three years, taking the time value of money into account, the total incremental revenue we approve becomes \$30.1 million (nominal, smoothed).

⁷ Our cost pass through amount is higher than AusNet Services' cost pass through amount because we have applied an adjustment to account for the time value of money. This is further discussed in section 2 and table 5 of this report.

⁸ AusNet's bill impact analysis is based on revenue per customer, while our bill impact calculation is based on revenue per unit of energy. We consider that our standard revenue per unit of energy approach is appropriate for businesses operating under a revenue cap. We have conducted our bill impact assessments in a consistent manner across regulatory decisions.

1 Introduction

We received a cost pass through application from AusNet Services for additional expenditure related to restoring electricity supply and repairing damage to its network caused by the 13 February 2024 storm in Victoria.

AusNet Services' application proposed to recover \$26.5 million (\$2021, smoothed) from electricity users through an increase in distribution prices, including \$8.8 million in the final regulatory year from 1 July 2025 to 30 June 2026 and the rest (\$17.7 million) early in the 2026–31 regulatory period.

This section sets out the AER's role in assessing cost pass through applications from electricity Distribution Network Service Providers (DNSPs), as well as information on AusNet Services' application.

1.1 Who we are and our role in this process

We, the AER, exist to ensure all Australian energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia. We are the economic regulator for electricity distribution and transmission services in the National Electricity Market (NEM). Our electricity-related powers and functions are set out in the National Electricity Law (NEL) and NER.

The AER regulates AusNet Services' revenues through five-year distribution revenue determinations. AusNet Services' current revenue determination for the 2021–26 regulatory control period runs from 1 July 2021 to 30 June 2026.

We are responsible for assessing cost pass through applications.⁹ Under the NER, a distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if predefined events occur as specified in either the NER or in its respective revenue determination.¹⁰

1.2 AusNet Services' application

On 20 June 2024, AusNet Services submitted a cost pass through application seeking to recover the costs it has incurred as a result of the 13 February 2024 storm in Victoria.¹¹

AusNet Services submitted that the 13 February 2024 storm caused damage to around 25% of the distribution network. At the peak of the February storm, AusNet Services had 255,000 people off at the same time, around 30% of its total customer base.¹²

⁹ NER, cl. 6.6.1.

¹⁰ NER, cl. 6.6.1(a).

¹¹ AusNet Services, *2024 February Storm cost pass through – Application*, June 2024.

¹² AusNet Services, *2024 February Storm cost pass through – Application*, June 2024, p. 3.

AusNet Services stated that this was the most impactful weather event in its history. AusNet Services incurred \$32.7 million (\$2021) in incremental costs as a result of the 13 February 2024 storm, apportioned as follows:

- \$8.2 million in capital expenditure (capex) covering emergency capital works
- \$7.6 million in operating expenditure (opex) for emergency corrective works and vegetation management
- \$17.0 million in opex for GSL payments required to be made to eligible AusNet Services customers who experienced supply interruptions greater than 12 hours as a result of the storm.¹³

Table 1 shows a breakdown of the additional costs incurred by AusNet Services as a result of the 13 February 2024 storm.

Table 1: AusNet Services – costs related to the 13 February 2024 storm (\$2021, million, unsmoothed)

\$million, (June 2021)	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Opex excluding GSL	-	-	7.6	-	-	7.6
GSL payments (opex)	-	-	17.0	-	-	17.0
Capex	-	-	8.2	-	-	8.2
Total expenditure	-	-	32.7	-	-	32.7

Source: AusNet Services, *2024 February Storm cost pass through – Application*, June 2024.

Note: '0.0' and '-0.0' represent small nonzero number and '-' represents zero

AusNet Services submitted the revenue impact of the incremental costs incurred as a result of the event is \$25.3 million (\$2021, unsmoothed) or \$26.5 million (\$2021, smoothed).

1.3 Structure of determination

This document sets out our assessment and determination, amongst other things, on whether a cost pass through event has occurred, the pass through amount, the time period for the recovery of the pass through amount, and our reasons for the determination.

The decision is structured as follows.

- Section 2 sets out our determination on AusNet Services' cost pass through application.
- Section 3 outlines relevant regulatory requirements and our assessment approach. It also sets out our assessment of AusNet Services' cost pass through application against the NER requirements, including whether the materiality threshold is met.
- Section 4 sets out our reasons for the determination, including our assessment of the proposed positive pass through amount.

¹³ Since 1 July 2021, the Victorian GSL scheme has included a \$90 payment for customers off supply for more than 12 hours on a major event day. See Clause 14.6 of the [Electricity Distribution Code of Practice](#) (version 2). The Code of Practice does not provide for distributors to be excused from making MED GSL payments.

2 Determination

Based on our consideration of all the matters set out in this decision, we consider that AusNet Services' application, as submitted on 20 June 2024, establishes that a pass through event has occurred in respect of the 13 February 2024 storm, being a natural disaster pass through event as specified in AusNet Services' 2021–26 revenue determination.

Our assessment against the requirements of a positive change event is summarised in section 3 (Table 3). We are satisfied that the 13 February 2024 storm constitutes a positive change event as defined under the NER. In particular, we are satisfied that AusNet Services incurred a material increase in the costs of providing direct control services in the 2023–24 regulatory year as a result of this pass through event.

Our determination is to approve a positive pass through amount of \$30,056,392 (\$nominal, smoothed), to be recovered over three regulatory years, commencing from the last year of the 2021–26 regulatory control period (i.e. 2025–26), including the first two regulatory years of the 2026–30 regulatory control period (i.e. 2026–27 and 2027–28) as follows:

- \$ 9,620,007 (\$ nominal) to be recovered in 2025–26
- \$ 10,013,434 (\$ nominal) to be recovered in 2026–27
- \$ 10,422,951 (\$ nominal) to be recovered in 2027–28

We have corrected AusNet Services' cost build up to reflect the relevant CPI. We also applied an adjustment to account for the time value of money as required under the NER.¹⁴ The above values are presented in nominal terms rather than dollar values at June 2021.

We consider allowing the positive pass through amount to be recovered over three regulatory years rather than solely within the current regulatory control period will act to smooth the cost impact of this event on AusNet Services' customers.

Sections 3 and 4 set out our assessment of AusNet Services' cost pass through application and the positive pass through amount.

¹⁴ Cl. 6.6.1(j)(4) of the NER.

3 Relevant regulatory requirements and assessment approach

The pass through mechanism recognises that an efficient revenue allowance cannot account for certain types of matters that are uncertain and outside the control of the business and which cannot be prevented or mitigated by prudent operational risk management. A cost pass through enables a network service provider to recover (or pass through) the costs of defined unpredictable, high-cost events that are not factored into our five-year revenue determination for the business.

Clause 6.6.1(a1) of the NER defines a pass through event as one of the following prescribed pass through events for all DNSPs:

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

The first step in our assessment is to determine whether a pass through event has occurred and examine timing matters, e.g. whether an application is submitted within the timeframe set out in the NER. Once we have determined that a pass through event has occurred, we determine whether it is a positive (or negative) change event.

The NER defines a positive change event for a DNSP as:

“a pass through event...which entails the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for that event...”¹⁵

We undertake this assessment with reference to the NER and the revenue determination applicable to AusNet Services when the 13 February 2024 storm occurred, which is AusNet Services’ distribution determination for the 2021–26 regulatory control period.¹⁶

As part of this process, we examine whether AusNet Services’ application has addressed matters specified in clause 6.6.1(c) of the NER (see Table 2 and Table 3). We also determine the materiality of the proposed pass through amount.

Clause 6.6.1(d) of the NER provides that if the AER determines that a positive change event has occurred, the AER must determine the approved pass through amount, and the amount that should be passed through to distribution network users in the regulatory year, and each regulatory year after that, in which the positive change event occurred, taking into account the factors referred to in clause 6.6.1(j) of the NER.

¹⁵ NER, chapter 10.

¹⁶ See: <https://www.aer.gov.au/node/72919>

3.1 Timing matters

To seek the approval of the AER to pass through a positive pass through amount, clause 6.6.1(c) of the NER requires a DNSP to submit to the AER a written statement specifying a range of details relating to the event within 90 business days of the relevant positive change event occurring.

The NER requires us to make a determination within the timeframe specified in clause 6.6.1(e). That is, within 40 business days from the later of the date the AER received AusNet Services' cost pass through application and the date it received any additional information required by it through a notice issued under clause 6.6.1(e1) of the NER.

However, we extended the time of our review in accordance clause 6.6.1(k1) of the NER, adding an additional 60 business days for a total determination period of 100 business days. We made this determination within this extended timeframe (by 6 November 2024).

3.2 NER requirements

For a cost pass through to be determined, there must be a positive change event that results in an eligible pass through amount. AusNet Services can then submit a pass through application, that must address certain matters specified in the NER.¹⁷ We make a determination on AusNet Services' cost pass through application, and determine the approved pass through amount and the regulatory years in which that pass through amount is to be recovered.¹⁸ For the reasons set out in Table 2 below, we are satisfied that a positive change event has occurred, and that AusNet Services' application relating to the 13 February 2024 storm specifies the necessary matters required by the NER.

Table 2: Requirements for determining a positive change event has occurred

Requirement of the NER	Our consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event? ¹⁹	No.
Is the pass through event a contingent project or a trigger event associated with a contingent project? ²⁰	No.
Does the pass through relate to any other event specified in AusNet Services' 2021–26 distribution determination as a	Yes. We consider that the 13 February 2024 storm event satisfies the natural disaster pass through event specified in AusNet Services' determination, which is defined as including cyclone, fire, flood, or other event, provided the event was not a consequence of the acts or omissions of the service provider.

¹⁷ NER, cl. 6.6.1(c).

¹⁸ NER, cl. 6.6.1 (d).

¹⁹ NER, cll. 6.6.1(a1)(1) through 6.6.1(a1)(4); and chapter 10.

²⁰ See the definition of "positive change event" in chapter 10 of the NER.

Requirement of the NER	Our consideration
pass through event for that determination? ²¹	
Was the pass through event a consequence of acts or omissions of AusNet Services? ²²	No, there is no evidence that AusNet Services' acts or omissions caused the 13 February 2024 storm. As discussed in section 4.1.1.2, we have reviewed the material submitted by AusNet Services including the ESV's Safety Performance report dated December 2023. ²³
Did the 13 February 2024 storm pass through event entail AusNet Services incurring materially higher costs in providing direct control services than it would have incurred but for the event? ²⁴	Yes. As discussed in section 4.2, we consider the additional costs incurred by AusNet Services in providing direct control services as a result of the 13 February 2024 storm meets the materiality threshold. AusNet Services' annual revenue requirement (unsmoothed) for the 2023-24 regulatory year during which the storm occurred was \$659.3 million (\$nominal), 1% of which is \$6.6 million. We consider that an efficient amount of opex and capex incurred as a result of the 13 February 2024 storm in that year exceeds this amount, and therefore the increase in costs incurred in providing direct control services as a result of the event exceeds the materiality threshold.
What is the date on which the positive change event occurred?	For the purpose of complying with 6.6.1(c), AusNet Services indicated that the storm occurred on 13 February 2024. We agree with AusNet Services as the Victorian and Federal Governments recognised this date in providing assistance packages to affected individuals and communities. ²⁵
Did AusNet Services submit a written statement of its pass through application within 90 business days of the positive change event occurring? ²⁶	Yes. As discussed in section 4.3, AusNet Services submitted its written statement on 20 June 2024. We consider that AusNet Services submitted its written statement within the allowed timeframe.
Did AusNet Services specify details of the positive change event, including the date on	Yes. AusNet Services' written statement is available on our website. ²⁸

²¹ NER, cl. 6.6.1(a1)(5)

²² AER, *Final decision AusNet distribution determination - Attachment 15 - Pass through events* - April 2021, p. 4.

²³ This is further discussed in section 4.1.1.2.

²⁴ That is, does it meet the definition of a "positive change event" as defined in chapter 10 of the Rules.

²⁵ <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/jointly-funded-assistance-for-storm-bushfire-impacted-vic.aspx>, viewed 14 October 2024.

²⁶ NER, cl. 6.6.1(c).

²⁸ <https://www.aer.gov.au/industry/networks/cost-pass-throughs/ausnet-services-cost-pass-through-february-2024-storm/initiation>

Requirement of the NER	Our consideration
which the event occurred, in its written statement? ²⁷	
Did AusNet Services specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year? ²⁹	<p>Yes. AusNet Services proposed an eligible, positive pass through amount of \$25.3 million (\$2021, unsmoothed) or \$26.5 million (\$2021, smoothed) to be recovered from consumers in the final year of the 2021–26 regulatory control period (2025–26) and the early years of the 2026-31 regulatory control period.</p> <p>Following the adjustments discussed in section 4.4, we determine that an approved pass through amount of \$30.1 million (\$nominal, smoothed) is to be recovered over three regulatory years.³⁰</p>
Did AusNet Services specify in its written statement evidence of the actual and likely increase in costs that occurred solely as a consequence of the positive change event? ³¹	Yes. AusNet Services’ pass through application (that is, its written statement) set out the costs it incurred as a result of the 13 February 2024 storm, as well as how it calculated its proposed pass through amount.
Was there a regulatory information instrument applicable to the pass through application? ³²	No.
Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset? ³³	No.

In making our determination on AusNet Services’ proposed pass through amount, we must take into account certain matters specified in the NER (see Table 3). After having regard to all the matters in Table 3 below and throughout this decision, we make the determination set out in section 2 above.

Table 3: Factors that the AER is to consider under the NER when determining a positive pass through amount

Relevant factors under cl. 6.6.1(j)	AER consideration
In making the pass through determination we must take into account the matters	This decision sets out how we have taken into account the matters and proposals set out in AusNet Services’ pass through application (written statement).

²⁷ NER, cl. 6.6.1(c)(1) and 6.6.1(c)(2).

²⁹ NER, cl. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5).

³⁰ Section 4.1.1.2 also discusses our review of a range of material we reviewed as part of our assessment.

³¹ NER, cl. 6.6.1(c)(6).

³² 6.6.1(c)(7).

³³ NER, cl. 6.6.1(c1) and (d2).

Relevant factors under cl. 6.6.1(j)	AER consideration
and proposals set out in AusNet Services' written statement. ³⁴	
We must take into account the incremental increase in costs in providing direct control services resulting from the pass through event. ³⁵	In section 4.4 below we set out our assessment of the costs incurred by AusNet Services due to the 13 February 2024 storm. We have considered the costs that AusNet Services incurred as a result of the event as well as the likely cost savings to AusNet Services' business-as-usual activities as a result of its expenditure related to the 13 February 2024 storm.
We must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the event. ³⁶	<p>In making this determination, we must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the positive change event, including whether AusNet Services has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount, or omitted to take any action where such action has increased the magnitude of the amount.</p> <p>Based on our review of the information available, we did not find evidence suggesting that AusNet Services' decisions and actions in relation to the risk of the positive change events were inefficient.</p> <p>There does not appear to be any action that AusNet Services has failed to take, that it could reasonably have taken, to materially reduce the magnitude of the storm repair costs or MED GSL payments, or that it took or omitted to take which has increased the magnitude of these payments.</p> <p>Therefore, we do not consider that AusNet Services' actions increased the magnitude of the pass through amount.</p>
We must take into account the time cost of money. ³⁷	<p>In making this determination, we must take into account the time cost of money based on the allowed rate of return for AusNet Services for the years in which the pass through amount is to be recovered.</p> <p>To account for the recovery of the pass through amount over three years commencing from 2025–26, we have used the nominal weighted average cost of capital, as determined in AusNet Services' 2021–26 distribution determination, incorporating the annual update on return on debt for 2024–25, as well as a forecast inflation of 2 per cent to calculate the approved pass through amount in nominal terms.</p>
We must take into account the need to ensure that the pass through amount	We have examined the costs proposed by AusNet Services in its proposal. We found no evidence to suggest that the costs included in

³⁴ NER, cl. 6.6.1(j)(1).

³⁵ NER, cl. 6.6.1(j)(2).

³⁶ NER, cl. 6.6.1(j)(3).

³⁷ NER, cl. 6.6.1(j)(4).

Relevant factors under cl. 6.6.1(j)	AER consideration
reflects only costs incurred solely as a consequence of the event. ³⁸	AusNet Services' application were not solely incurred because of the 13 February 2024 storm.
The AER will have regard to whether AusNet Services has insurance against the event, and whether it is the level of insurance that an efficient and prudent network operator would obtain? ³⁹	<p>AusNet Services submitted that none of the costs in this application is related to insured structures. AusNet Services also submitted that it did not have insurance covering poles and wires of its network, and the insurance was limited to structures such as substations and buildings. AusNet Services stated that not insuring poles and wires is consistent with the practice of other network businesses. It explained that obtaining this insurance product is difficult and expensive as few insurers are willing to provide this high-risk product. The associated premiums would consequently result in consistently high network charges for customers.⁴⁰</p> <p>We note that this approach to managing this risk is generally consistent with comparable peer NEM networks including those also impacted by other natural disasters (e.g., bushfires). As such, we are satisfied that it was prudent and efficient for AusNet Services to not hold insurance cover for its poles and wires assets.</p>
We must take into account whether the costs of the pass through event have already been factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for a subsequent regulatory control period ⁴¹	<p>We do not consider the costs, including GSL payments, that AusNet Services is proposing to recover have already been factored into AusNet Services' annual revenue requirement for the regulatory control period in which the pass through event occurred (i.e. 2021–26).</p> <p>We include forecast GSL payments in annual revenue allowances when determining total opex forecast as part our distribution revenue determinations. However, GSL payments for events similar to the 13 February 2024 storm (major event days) were not accounted for in our 2021–26 determination. The costs of defined unpredictable, high-cost events are not factored into our five-year revenue determinations, but rather are typically recovered through the cost pass through framework under the NER. The 13 February 2024 storm was such an event.</p>
We must take into account the extent to which AusNet Services' costs have already been funded by	AusNet Services submitted that it undertook temporary solutions to re-establish supply to some customers. This included deploying mobile generators and working directly with local councils to set up community hubs in some areas. ⁴³

³⁸ NER, cl. 6.6.1 (j)(5).

³⁹ AER, *Final decision AusNet distribution determination - Attachment 15 - Pass through events* – April 2021, p. 4.

⁴⁰ AusNet Services, *2024 February Storm cost pass through – Application*, June 2024, p. 17.

⁴¹ NER, cl. 6.6.1(j)(7).

⁴³ AusNet Services, *2024 February Storm cost pass through – Application*, June 2024, p. 11.

Relevant factors under cl. 6.6.1(j)	AER consideration
previous pass through determinations. ⁴²	There is no evidence to suggest that costs included in AusNet Services' application have already been funded by previous pass through determinations.
We must take into account any other factors that we consider relevant. ⁴⁴	<p>The other factors we took into account in our assessment of AusNet Services' application are set out below.</p> <p>The AER must exercise its power in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (NEO).</p> <p>The AER may take into account the revenue and pricing principles set out in section 7A of the NEL.⁴⁵ In this matter, the principle that a regulated network service provider should be provided with a reasonable opportunity to recover efficient costs is applicable.</p> <p>We also considered it relevant to have regard to the outcome of other review processes relating to the impact of the 13 February 2024 on the distribution network of AusNet Services. Specifically, the final report of the review commissioned by the Minister for Energy and Resources directly following the storm in February 2024. While the matters considered during this review were not directly linked to our cost pass through review, we note that this touched on the MED GSL payments. The final report of this review was critical of the MED GSL payment regime as the payments were considered too small, not timely, and not a direct monetary payment.⁴⁶ The report noted the regulatory framework allows MED GSL costs to be passed through to customers if approved by the AER, but that this does not incentivise distribution businesses to respond effectively to prolonged power outages because they are not financially accountable.</p> <p>The final report observed (Observation 4) that the MED GSL should be reviewed by the Essential Services Commission (ESC) to determine an appropriate value given the likelihood of more frequent prolonged power outages and in the context of the recommended Extended Loss of Supply Support Payment Scheme (ELOSS Scheme).⁴⁷</p> <p>In our future reviews of natural disaster related cost pass through applications, we will continue to scrutinise DNSP's actions in relation to how they affect MED GSL payments incurred, and have regard to any relevant changes to GSL payment obligations.</p>

Source: AER analysis

⁴² NER, cl. 6.6.1(j)(7A).

⁴⁴ NER, cl. 6.6.1(j)(8).

⁴⁵ NEL, s. 16(2)(b).

⁴⁶ [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 9.

⁴⁷ [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 37.

4 Reasons for determination

The sections below set out the reasons for our determination.

4.1 Occurrence of a natural disaster

This determination relates to a nominated pass through event, being a natural disaster event as specified in AusNet Services' 2021–26 revenue determination.

A natural disaster event is defined in AusNet Services' 2021–26 revenue determination as:⁴⁸

“Natural disaster event means 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.

Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:

(1) whether AusNet Services has insurance against the event;

(2) the level of insurance that an efficient and prudent NSP would obtain in respect of the event.”

4.1.1 Natural disaster event

We consider the 13 February 2024 storm satisfies the definition of a natural disaster pass through event as specified in AusNet Services' determination. In particular, the 13 February 2024 storm was:

- responded to by State and Federal Governments as a natural disaster;
- unexpected; and
- caused severe damage to property.

For example, disaster assistance, jointly funded by the Australian and Victorian Governments under the Commonwealth-State Disaster Recovery Funding Arrangements (DRFA), was made available to communities impacted by storms in Victoria that commenced on

⁴⁸ AER, Final decision AusNet distribution determination - Attachment 15 - Pass through events - April 2021, pp. 17-18.

13 February 2024.⁴⁹ Further, a range of other sources including the Insurance Council of Australia and the Bureau of Meteorology also highlighted the severe impact of the storm.⁵⁰

The Victorian Minister for Energy and Resources commissioned an independent review relating to the operational response of transmission and distribution businesses to the storm event (including AusNet Services) following the storm in February 2024.⁵¹

The 13 February 2024 storm increased the costs to AusNet Services in providing direct control services and the event was not a consequence of an act or omission of AusNet Services – it was outside of AusNet Services’ control, and it was unforeseeable. Section 4.4.2 sets out further details of our assessment supporting this view.

4.2 Positive change event

If we are satisfied that a pass through event has occurred, we must determine whether the pass through event qualifies as a “positive change event”. That is, whether AusNet Services incurred materially higher costs in providing direct control services than it would have incurred but for the pass through event.

The NER defines “materially” as:

“For the purposes of the application of clause 6.6.1, an event results in a DNSP incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the DNSP has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the annual revenue requirement for the DNSP for that regulatory year.”

As is evidenced in Table 4 below, we consider the additional costs incurred, including the MED GSL payments, by AusNet Services in providing direct control services as a result of the 13 February 2024 storm meet the materiality threshold.

Table 4: AER – Materiality assessment of the October 2021 storm event (\$million, nominal)

	2021–22	2022–23	2023–24	2024-25	2025–26	Total
AER Opex expenditure (\$million 2021)	-	-	24.22	-	-	24.22
AER Capex expenditure (\$million 2021)	-	-	8.07	-	-	8.07

⁴⁹ <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/jointly-funded-assistance-for-storm-bushfire-impacted-vic.aspx>

⁵⁰ Insurance Council of Australia, [Insurance Catastrophe Resilience Report 2023–24](#), August 2024, pp. 12-13.

⁵¹ The Review conducted an extensive investigation into the planning, preparedness, resource employment and restoration of power to the hardest hit communities in AusNet Services’ distribution areas of Cockatoo, Emerald, Gembrook, Monbulk, Upper Beaconsfield, Mirboo North and surrounding areas. See [Network Outage Review](#), p. 3. The final report of this review was published in August 2024.

AER Total expenditure (\$million 2021)	-	-	32.30	-	-	32.30
Approved unsmoothed revenue (\$million 2021)	729.44	672.30	659.27	655.10	620.74	3,336.85
Materiality (%)	-	-	4.90	-	-	0.97

4.3 Timing of AusNet Services’ application

Clause 6.6.1(c) of the NER requires a DNSP to submit a pass through application to us within 90 business days of the positive change event occurring.

We consider the storm event to have occurred on 13 February 2024. We received AusNet Services’ pass through application on 20 June 2024, which was within the 90 business days provided for in the NER.

Following our initial assessment of AusNet Services’ application, we issued a notice of time extension to AusNet Services on 30 July 2024 under clause 6.6.1(k1) of the NER, extending the 40 business day period of an additional 60 business days.⁵²

4.4 Assessment of the pass through amount

In assessing a pass through application, the NER requires us to take into account a range of relevant factors,⁵³ including the need to ensure that AusNet Services only recovers any actual or likely increment in costs, to the extent that such an increment is solely as a consequence of the pass through event,⁵⁴ and that AusNet Services does not recover costs that have or will be factored into AusNet Services’ annual revenue requirement.⁵⁵

We approach this assessment by ensuring, amongst other factors, that:

- the pass through amount reflects only those costs incurred as a result of the 13 February 2024 storm natural disaster event, and not costs incurred as a result of other positive change events, business-as-usual costs, or costs of increasing the scope of network services provided by AusNet Services
- the costs incurred are prudent and efficient costs required to rectify the damage caused by the storm;
- the pass through amount reflects only the incremental cost of the 13 February 2024 storm, taking into account deductions for actual and expected cost savings that will occur as a result of works undertaken to address the storm. For example, the

⁵² <https://www.aer.gov.au/industry/networks/cost-pass-throughs/ausnet-services-cost-pass-through-february-2024-storm/initiation>

⁵³ NER, cl. 6.6.1(j).

⁵⁴ NER, cl. 6.6.1(j)(5).

⁵⁵ NER, cl. 6.6.1(j)(7).

replacement of older assets damaged by the storm with new assets may result in lower future inspection and maintenance costs, which should be deducted from the costs to be passed through.

4.4.1 Incremental revenue and pass through amount calculations

We are satisfied that AusNet Services' estimates of the increase in capex and opex costs due to the 13 February 2024 storm, accounting for the identified avoided costs, are prudent and efficient. Our reasons for this are discussed below. However, we have amended AusNet Services' real to nominal CPI conversion factor in the cost build up model. As such, our determination of the approved incremental revenue for the 13 February 2024 storm event is \$28.9 million (\$nominal).⁵⁶ Table 5 details our determination on incremental revenue.

Table 5: AER approved incremental revenue for the February 2024 storm (\$million, nominal)

\$million, nominal	2021–22	2022–23	2023–24	2024-25	2025–26	Total
Return on capital	-	-	-	0.42	0.36	0.78
Return of capital (regulatory depreciation)	-	-	-	0.00	0.01	0.01
Operating expenditure	-	-	25.70	-	-	25.70
Net tax amount	-	-	-	-	-	-
Incremental annual revenue requirement (unsmoothed)	-	-	25.70	0.43	0.36	26.49
Incremental annual expected revenue (smoothed)	-	-	-	-	28.86	28.86

Source: AER analysis

Note: When time value of money is applied to spread recovery across three regulatory years, \$28.89 million becomes \$30.1 million as stated earlier in this determination.

AusNet Services' application included \$32.7 million (\$2021) of additional capital and operating costs (total expenditure or totex) required as a result of the 13 February 2024 storm. We assessed AusNet's proposed costs, and amended the proposed nominal to real CPI conversion factor. As a result, we have reduced the proposed incremental costs by \$0.4 million (\$June 2021) to ensure that only the efficient costs required as a result of the February 2024 storm cost pass through are recovered, as shown in Table 6 below.

⁵⁶ Note this is equivalent to the adjusted amount of \$26.1 million (\$2021, smoothed) stated earlier in this document.

Table 6: AER approved incremental capex and opex expenditure for the February 2024 storm cost pass through

\$million, (June 2021)	2021–22	2022-23	2023-24	2024-25	2025-26	Total
Proposed cost pass through totex	-	-	32.74	-	-	32.74
Approved cost pass through totex	-	-	32.30	-	-	32.30
Difference	-	-	-0.45	-	-	-0.45

Source: AER analysis

4.4.2 Costs reflect only incremental 13 February 2024 storm-related costs and not business-as-usual costs

We are satisfied that the costs AusNet Services has incurred are costs incurred as a consequence of the 13 February 2024 storm and do not include business-as-usual costs.

AusNet Services stated that it has included only the incremental costs for those activities that were incurred solely as a result of the positive change event.⁵⁷ Some of these costs related to contractual arrangements with providers of field delivery services and vegetation management services, while others relate to AusNet Services own internal labour costs. AusNet Services' contractual arrangements include surge capacity for large scale events of this nature. For internal labour, AusNet Services established cost codes for each business unit to capture the incremental cost incurred as part of the storm recovery effort. AusNet Services noted that it did not include costs for office-based staff unless they received overtime for their role in the storm response, so that the pass through costs represent only incremental labour which is not captured in its existing opex allowance.⁵⁸

AusNet Services' application also accounts for expected savings in the 2021–26 regulatory period from avoided works that would have been required in future years, but were brought forward and carried out as a necessary part of the storm restoration activities. AusNet Services demonstrated the exclusion of such savings (\$0.2 million, \$2021) in its cost build up model.⁵⁹

This includes:⁶⁰

- replacement of assets as a result of damage caused by the storm that were due for end-of-life replacement in the near term, such that the work undertaken in the aftermath of the 13 February 2024 storm will reduce future asset replacement activity

⁵⁷ AusNet Services, *2024 February Storm cost pass through - Application - June 2024*, p. 16.

⁵⁸ AusNet Services, *2024 February Storm cost pass through - Application - June 2024*, p. 11.

⁵⁹ The savings are already excluded from the \$26.5 million (\$2021, smoothed) referred to in section 1.2.

⁶⁰ AusNet Services, *2024 February Storm cost pass through - Application - June 2024*, p. 14.

- the removal of hazardous trees resulting in 42 spans that will no longer require clearing in the 2024 cyclic program works - this would have been required in future years and is part of the on-going cost of maintaining the network but was brought forward and carried out as a necessary part of the storm restoration activities.⁶¹

We have also examined AusNet Services' cost built up model to confirm that it does not include the cost of the \$12 million Community Energy Resilience Fund that AusNet Services undertook to provide as part of its Enforceable Undertaking with the Essential Services Commission.⁶²

In relation to the MED GSL component of the proposed pass through costs, AusNet Services submitted that these costs were not funded through its 2021–26 period GSL opex forecast, which accounted for a historical level of expenditure not reflective of such events. The cost pass through regime is in place to manage unexpected, material costs of this nature when they occur, rather than consumers paying on an ongoing basis through higher capex and opex forecasts for each regulatory period. We are satisfied that AusNet Services demonstrated the MED GSL payments resulting from the 13 February 2024 storm are incremental, and not already provided for in its 2021–26 GSL opex allowance.⁶³

Based on the above we consider that the costs included in the AusNet Services cost pass through amount have been demonstrated to be incremental costs and separate to the business-as-usual costs of operating the distribution network.

4.4.3 The 13 February 2024 storm-related costs reflect the prudent and efficient costs required as a result of the event

We have examined the scope of actions and works AusNet Services undertook in response to the 13 February 2024 storm event. We are satisfied the level of costs AusNet Services has incurred as a result of the 13 February 2024 storm reasonably reflects efficient costs.

We consider the decisions and actions of AusNet Services in response to the event were efficient, and that the 13 February 2024 storm event could not have been prevented or mitigated through prudent operational risk management.

AusNet Services submitted that, in preparing for and responding to the 13 February 2024 event, it applied procedures and practices similar to that it applied following the June 2021 and October 2021 storms, including lessons of its Post Incident Reviews of those events.⁶⁴ AusNet Services submitted that it had governance procedures and practices in place to efficiently manage its exposure to risks it faces as an owner and operator of a distribution

⁶¹ AusNet Services, *2024 February Storm cost pass through - Application - June 2024*, p. 14.

⁶² The Essential Services Commission accepted a court enforceable undertaking from AusNet Services after it failed to maintain its outage tracker during unplanned interruptions on 13 February 2024. On 13 February 2024, AusNet Services' web-based outage tracker became unavailable because high traffic volumes on the outage tracker website caused loading issues. See: [AusNet's enforceable undertaking for failing to maintain outage tracker during February 2024 storm event](#).

⁶³ AusNet Services, *2024 February Storm cost pass through - Application - June 2024*, p. 12.

⁶⁴ AusNet Services, *2024 February Storm cost pass through – Application*, June 2024, p. 11.

network, as well as its approach to storms. In particular, AusNet Services submitted its current emergency response protocol, Strategic Plan for Integrated Response and Contingency System (SPIRACS). SPIRACS outlines criteria for assessing the severity of an event and offers advice on preventative and mitigation controls aimed at reducing the consequences of crisis events. This emergency response protocol formed the response framework by which AusNet Services coordinated and prioritised activities across its network to restore customer supply in response to the 13 February 2024 storm.⁶⁵

AusNet Services submitted the following information, which we have reviewed in assessing the cost pass through application:

- its asset management plan relating to poles, pole top structures and overhead lines that was effective at the time of the 13 February 2024 storm, as well as previous versions covering the five years prior to the storm
- its Vegetation Management Plan that was effective at the time of the 13 February 2024 storm as well as previous versions covering the five years prior to the storm
- details of the most recent vegetation clearance work carried out prior to the 13 February 2024 storm, including the cost and sections of the network cleared; and
- details of the vegetation management program as well as any bushfire management programs applicable to the area impacted by the storm.

We have reviewed the relevant sections of this material, and we accept that AusNet Services' asset management and vegetation management plans were appropriate and consider that AusNet Services practices are unlikely to have contributed to an increase in the pass through amount.

We have also reviewed the ESV safety performance report dated December 2023 to assess if there is anything that AusNet Services failed to do prior to the storm event, that might have contributed to the extent of the storm related costs.⁶⁶ The field audits (inspections) undertaken by ESV as part of its report identified some non-compliances in regard to line clearances, vegetation management, and hazardous span defects.⁶⁷ The ESV audit considered work practices, asset and vegetation management practices and standards, as well as a field audit of 4,205 spans. The ESV issued five infringement notices, totalling \$23,115 in fines, to incentivise AusNet Services to compliance.⁶⁸ However, none of the non-compliances identified specifically related to the distribution network storm damage or is likely to have contributed to a material increase in the storm related costs incurred.

⁶⁵ AusNet Services, *AusNet Services - October 2021 Storm cost pass through – Application*, March 2022, p 11; AusNet Services, *AusNet Services - 2020-21 Storms disaster event cost pass through – Application*, November 2021, p 13.

⁶⁶ Energy Safe Victoria, [Safety performance report on Victorian electricity networks](#), December 2023.

⁶⁷ Energy Safe Victoria, [Safety performance report on Victorian electricity networks](#), December 2023, pp. 35-36.

⁶⁸ Energy Safe Victoria, [Safety performance report on Victorian electricity networks](#), December 2023, p. 36.

Based on our review, we consider it unlikely that AusNet Services did or failed to do anything prior to the storm event that materially contributed to additional costs related to the 13 February 2024 storm pass-through event.

We have also reviewed the cost build up model provided by AusNet Services and found no material issues. This model shows, as stated in section 1.2, the costs relating to:

- capital expenditure (capex) covering emergency capital works, and
- operating expenditure (opex), the bulk of which are the major event day (MED) GSL payments to its customers and the remainder, emergency corrective works and vegetation management.⁶⁹

However, we have amended AusNet Services' proposed nominal to real CPI conversion factor in its cost build up model. We note that AusNet Services' CPI conversion factor used to convert its costs incurred over February–May 2024 to June 2021 terms is consistent with the CPI AusNet used in its earlier VEBM cost pass through to convert the December 2023 costs to June 2021 terms. We consider an additional quarter year of CPI is required to de-escalate these early 2024 nominal values to June 2021 values. As stated earlier, our amendment has reduced total approved costs by \$0.4 million (\$June 2021).

As discussed above, we are satisfied that AusNet Services' pass through amount reflects deductions for savings to business-as-usual costs resulting from its 13 February 2024 storm expenditure. We have examined how AusNet Services identified and deducted cost savings in the build up to the proposed cost pass through amount and have not identified any issues of concern.

4.4.3.1 Major Event Day (MED) Guaranteed Service Level (GSL) payments

The Electricity Distribution Code requires Victorian distribution businesses to make GSL payments to customers who receive a level of service worse than a specific threshold or level.⁷⁰

Since 1 July 2021, the GSL scheme includes a \$90 payment for customers off supply for longer than 12 hours on a MED.⁷¹ AusNet Services identified 206,902 customers eligible for MED payments in relation to the 13 February 2024 storm. These payments are made by way of a credit to a future electricity bill.

⁶⁹ Since 1 July 2021, the GSL scheme has included a \$90 payment for customers off supply for more than 12 hours on a major event day. See Clause 14.6 of [Electricity Distribution Code of Practice](#) (version 2). The Code of Practice does not provide for distributors to be excused from making MED GSL payments.

⁷⁰ See <https://www.esc.vic.gov.au/electricity-and-gas/information-for-electricity-and-gas-consumers/guaranteed-service-level-payments-energy-outages>

⁷¹ The Electricity distribution Code of Practice defines 'major event day a day classified as a Major Event Day by the Institute of Electrical and Electronic Engineers (IEEE) standard 1366-2012: IEEE Guide for Electric Power Distribution Reliability Indices, where the "reporting period" referred to in that classification comprises a regulatory year. See [The Electricity distribution Code of Practice version 28](#), p. 15; : Essential Services Commission, [Final decision - Electricity Distribution Code review – customer service standards](#), 16 November 2020 (amended on 22 December 2020), p. iv.

The GSL scheme acknowledges the inconvenience and potential damage customers experience when their distributor does not meet the required service obligations and requires distributors to pay customers directly as a result.⁷² It is not designed to incentivise investment in the network; that is, it is not an incentive scheme.⁷³

In assessing AusNet Services' application, we have considered the extent to which AusNet Services' decisions and actions in responding to the event have contributed to it incurring only prudent and efficient costs in the circumstances. This includes the costs for MED GSL payments.

The MED GSL component of AusNet's proposed pass through costs are for payments which must be made to customers who experience an unplanned sustained interruption of more than 12 hours on a major event day. Any action that could be taken to directly reduce the quantum of these payments must therefore occur before or within the first 12 hours following a customer outage. The key factors which determine a DNSP's ability to restore power within this timeframe relate to its preparedness for the event, the nature of the network damage incurred, and then the performance of the DNSP's resources, systems, technology, processes and governance during and following the event to support prompt and safe restoration of supply.

We recognise that an event which caused a prolonged customer outage could continue to occur for some part of the initial 12 hour outage period. It may therefore be unsafe or impractical to commence restoration activities within the 12 hour period for some customers or locations. In the early stages of an event, field crews and resources may also need to be deployed to resolve incidents which may not lead directly to power restoration, but rather will ensure community safety.

Based on our review of the information available, as noted above, we have not identified that AusNet Services has taken, or failed to take, any specific action to materially contribute to the extent of the MED GSL costs arising from the 13 February 2024 storm event.

For this cost pass through application, we consider that the MED GSL payments relating to the 13 February 2024 represent a material regulatory cost (approximately 2.8% of allowed annual revenue) that AusNet Services has incurred. Including the GSL payments in AusNet Services cost pass through amount is therefore consistent with the revenue and pricing principles set out in section 7A of the NEL.⁷⁴

We are satisfied that the MED GSL costs included in AusNet Services cost pass through application reflect the number of customers impacted by the 13 February 2024 event who were off supply for longer than 12 hours, and therefore were entitled to receive these payments.

⁷² Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 123.

⁷³ Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 62.

⁷⁴ A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in making a regulatory payment; NEL, s. 16(2)(b).

We note that AusNet Services commissioned Nous Group to undertake an independent post incident review of its response to the February 2024 storm events. We expect that AusNet Services will implement recommendations arising from that review to further improve its capacity and operations in responding to this type of event, to ensure customer outage times (and therefore MED GSL payments) are not unnecessarily extended following storm events.

We also note that the final report of the independent review commissioned by the Minister for Energy and Resources directly following the storm in February 2024 observed that (Observation 4) the MED GSL should be reviewed by the Essential Services Commission (ESC) to determine an appropriate value given the likelihood of more frequent prolonged power outages.⁷⁵ Going forward, we will monitor any changes to GSL scheme obligations and reflect them accordingly in our future reviews of relevant cost pass through applications.

4.4.4 Submissions from stakeholders

We published AusNet Services' cost pass through application and sought submissions from interested stakeholders. We did not receive any submissions.

4.5 Timing of cost pass through recovery

In its application, AusNet Services proposed to recover 33% of the incremental revenue arising from its cost pass through application over the final year (2025-26) of the 2021–26 regulatory control period and the remaining 67% over the early years of the 2026–31 regulatory control period.

Given the timing of this determination, we have determined that AusNet should recover the approved pass through amount over a three year period (2025–26, 2026–27 and 2027–28). That is, the approved pass through amount will be recovered across both the 2021–26 and 2026–31 regulatory periods. We are satisfied that this approach will minimise volatility in AusNet Services' revenue and prices, while still allowing it to recover its efficient costs in a timely way. This will add approximately \$8 to the average AusNet Services residential customer's bills and \$25 to the average small business's bills each year from 1 July 2025 to 30 June 2028.

⁷⁵ [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 37.

Glossary

Term	Definition
AER	Australian Energy Regulator
Capex	Capital Expenditure
DNSP	Distribution Network Service Provider
DRFA	Disaster Recovery Funding Arrangements
ELOSS	Extended Loss of Supply Support Payment Scheme
ESC	Essential Services Commission
ESV	Energy Safe Victoria
GSL	Guaranteed Service Level
MED	Major Event Day
Minister	the Victorian Minister for Energy and Resources
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
Opex	Operating Expenditure
SPIRACS	Strategic Plan for Integrated Response and Contingency System
