Ergon Energy

Tropical Cyclone Jasper
Cost Pass Through Application

October 2024

Part of Energy Queensland

ABOUT ERGON ENERGY

Ergon Energy Corporation Limited (Ergon Energy) is a subsidiary company of Energy Queensland Limited (Energy Queensland), a Queensland Government Owned Corporation, and is the electricity distribution network service provider (DNSP) for regional Queensland. We own, operate, and maintain the 'poles and wires' that deliver power to 761,000 homes and businesses from the State's expanding coastal and rural population centres to the remote communities of outback Queensland and the Torres Strait.

Our electricity network consists of approximately 183,000 kilometres of powerlines and 1.05 million power poles, along with associated infrastructure such as major substations and power transformers. We also own and operate 33 stand-alone power stations that provide supply to isolated communities across Queensland which are not connected to the main electricity grid.

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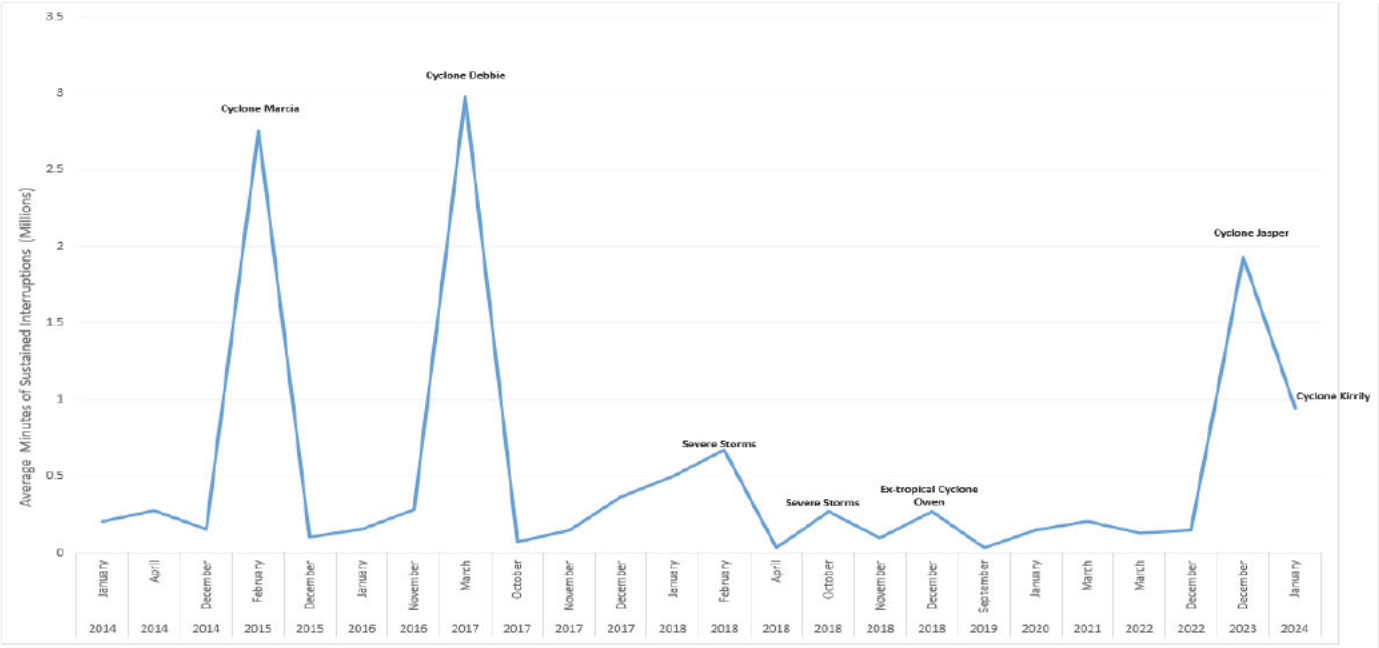
EXECUTIVE SUMMARY

This application seeks approval from the Australian Energy Regulator (AER) to pass through to customers the additional costs incurred by Ergon Energy in responding to damage caused to its distribution network following Tropical Cyclone Jasper in December 2023.

On 13 December 2023, Tropical Cyclone Jasper crossed the far north Queensland coast as a category two cyclone system, causing extensive flooding and widespread power outages. Ergon Energy's network sustained significant damage during and in the wake of Tropical Cyclone Jasper, which also resulted in approximately 50,000 customers losing electricity supply. A significant, coordinated field response was required to repair damage and restore supply to customers as quickly and as safely as possible in difficult operating conditions.

Tropical Cyclone Jasper impacted a significant area of Ergon Energy's network with the most significant impacts felt in the Wujal Wujal and Yarrabah Aboriginal Shire Councils, and the Douglas, Mareeba, Cairns Regional and Tablelands Regional Council areas. The magnitude of this event is demonstrated in Figure 1 which shows the summation of the average duration of minutes of interrupted supply experienced by customers, including major event day and other exclusions, relative to previous large events. It is further reflected in the Queensland Reconstruction Authority's (QRA's) activation of disaster relief assistance for communities across northern Queensland impacted by the event.

Figure 1: Average duration of minutes of outages, major event day and other exclusions (2014- 2024)



Source: Ergon Energy Category Analysis RIN, Rosetta Analytics

Ergon Energy is seeking approval from the AER to recover $23.20 million ($2023-24) in incremental costs (capital and operating expenditure) that was not allowed for in Ergon Energy's distribution determination for the 2020-25 regulatory control period. This equates to Ergon Energy proposing a positive cost pass through amount of $22.08 million ($nominal, smoothed) to be recovered in 2025-26, the first year of its next regulatory control period. The cost pass through application addresses specific matters, including:

- Tropical Cyclone Jasper meets the requirements to qualify as a natural disaster pass-through event, approved by the AER as a nominated pass through event in Ergon Energy's 2020-2025 distribution determination
- The costs incurred as a result of Tropical Cyclone Jasper satisfy the one per cent materiality threshold in the National Electricity Rules (NER), and the pass through is considered a positive change event[1]
- This application addresses each of the relevant requirements outlined in clause 6.6.1(c) of the NER, and
- This application is submitted prior to 29 November 2024, being the date of the extension granted by the AER on 1 October 2024, in accordance with clause 6.6.1(k) of the NER.

The incremental expenditure had a material impact on the cost of providing direct control services in Ergon Energy's distribution area. Accordingly, Ergon Energy seeks to recover the positive cost pass through amount in accordance with the provisions of the NER.[2]

Ergon Energy's positive cost pass through amount consists of actual costs that were incurred within the current regulatory control period solely as a consequence of the cyclone. The materiality threshold ($12.12 million) to constitute a positive change event has been met and this application demonstrates costs were incurred by Ergon Energy as a direct result of Tropical Cyclone Jasper and were prudent and efficient.

We estimate the cost pass through amount will add approximately $12.91 to the average residential customer's network charges and $27.62 to the average small business customer's network charges.

[1] NER Chapter 10, definition of "materiality".

[2] See clause 6.6.1.

1 INTRODUCTION

On 13 December 2023, Tropical Cyclone Jasper crossed the far north Queensland coast as a category two cyclone system, bringing dangerous winds and intense rainfall, and causing, significant damage to the region. Despite weakening after making landfall, over the coming days, the weather system continued to produce intense rainfall across the north Queensland coast which, coupled with the rainfall already sustained when Jasper made landfall, resulted in widespread flooding throughout the region. This tropical cyclone event significantly impacted Ergon Energy's distribution network, the recovery from which resulted in substantial expenditure beyond that allowed for in its 2020-2025 distribution determination.

Some examples of the damage to Ergon Energy's network as a result of Tropical Cyclone Jasper are included in Figures 2 and 3 below.

Figure 2: Network damage and fallen powerlines in Cairns

Figure 3: Broken HV Pole in Port Douglas

Tropical Cyclone Jasper had three significant consequences for Ergon Energy's network, specifically:

- Considerable damage to network assets, including 255 broken crossarms, 65 kilometres of damaged cable/conductor, 97 poles requiring replacement and 15 damaged transformers
- Interruption of supply to approximately 40,000 customers as a direct result of Tropical Cyclone Jasper, and an additional 10,000 customers further interrupted because of subsequent flooding over the following days, and
- Significant access issues, limiting safe repair and restoration works, with many roads and highways throughout the region damaged, inundated, or inaccessible due to landslides.

This application is made pursuant to clause 6.6.1(a) of the NER and Ergon Energy seeks to pass through the positive cost pass through amount associated with Tropical Cyclone Jasper, which Ergon Energy submits qualifies as a positive change event. This event has materially increased the cost to Ergon Energy of providing direct control services, with the associated total incremental cost

being $23.20 million, comprising of operating and capital expenditure of $21.79 million and $1.41 million respectively.

The remainder of this pass through application is structured as follows:

- Section 2 provides an overview of Tropical Cyclone Jasper, including the key events that had a direct adverse effect on Ergon Energy's network
- Section 3 summarises the relevant provisions of the NER, the legislative basis for the application and demonstrates how Tropical Cyclone Jasper meets the cost pass through provisions
- Section 4 provides an overview of Ergon Energy's governance arrangements for its planning and management of emergency situations
- Section 5 outlines the key elements of Ergon Energy's response to Tropical Cyclone Jasper
- Section 6 provides details of the incremental costs associated with the response to Tropical Cyclone Jasper, and
- Section 7 provides details of the eligible and positive cost pass through amount.

Further included, are the supporting documents:

- Attachment 1 - Energy Queensland's Natural Hazards Strategy 2023-24
- Attachment 2a - Emergency Management Plan Distribution Network 2023 (public version)
- Attachment 2b - Emergency Management Plan Distribution Network 2023 (confidential version)
- Attachment 3 - Use of polygons to identify affected areas and assets
- Attachment 4 - Build-up of Costs
- Attachment 5(a) - 2020-25 Ergon Energy Cost Pass Through Post Tax Revenue Model
- Attachment 5(b) - 2025-30 Ergon Energy Cost Pass Through Post Tax Revenue Model
- Attachment 6 - Ergon Energy Tropical Cyclone Jasper Event CPT Compliance Checklist
- Attachment 7 - Ergon Energy Cost Pass Through Confidentiality Claim October 2024.

2 TROPICAL CYCLONE JASPER EVENT IN NORTH QUEENSLAND

On 2 December 2023 a tropical low formed east of the Solomon Islands. Over the following days the weather system continued to move and develop before reaching tropical cyclone intensity on 5 December 2023. The newly formed Tropical Cyclone Jasper continued to rapidly develop, reaching category three strength on 6 December 2023. Shifts in the environment caused Tropical Cyclone Jasper to alternately strengthen and weaken before ultimately reducing to a category one intensity. However, as Jasper moved towards the far north tropical coast, the system again intensified to a category two tropical cyclone. On 13 December 2023, Tropical Cyclone Jasper made landfall northwest of Cairns, near the community of Wujal Wujal.

Soon after making landfall, the system weakened to below tropical cyclone intensity. Ex-tropical Cyclone Jasper then stalled over Far North Queensland for several days until a surface trough developed, extending from ex-tropical Cyclone Jasper into the Coral Sea, resulting in intense rainfall over the north tropical coast area and producing widespread flooding throughout the region.

As a direct result of Tropical Cyclone Jasper and the subsequent ex-tropical cyclone conditions, approximately 50,000 customers lost electricity supply and Ergon Energy sustained the following damage to its network:

- 65 kilometres of cable/conductor damaged
- 97 poles replaced
- 255 broken cross arms, and
- 15 Transformers damaged.

In the days preceding Tropical Cyclone Jasper making landfall, Ergon Energy's field crews and operational teams from Central and North Queensland were mobilised to Townsville to ensure availability when/if needed. Additional field crews from throughout Queensland, including from South East Queensland, Darling Downs and Bundaberg were mobilised to Rockhampton in preparation to respond to outages and emergency events where it was safe to do so. In the wake of Tropical Cyclone Jasper, crews faced difficult working conditions including continuing rainfall, challenging terrain, and access issues due to damaged infrastructure, fallen trees and flooding. Figure 4 provides an example of Ergon Energy's crews responding to and working to repair damage to the network. Figure 5 and Figure 6 illustrates the type of access issues encountered by field crews when responding to this event.

Figure 4: Ergon Energy crews completiong post-cyclone repairs in difficult conditions

Figure 5: Road damage and flooding in Cooktown

Figure 6: Flooding and Infrastructure damage in Holloways Beach

Tropical Cyclones are not unheard of in North Queensland. However, Tropical Cyclone Jasper was unique in its presentation with the Australian Government's National Emergency Agency declaring it the wettest tropical cyclone in Australian history.[3] As Tropical Cyclone Jasper reduced in intensity and moved to an ex-tropical cyclone weather system, its slow movement across Queensland produced record levels of rainfall over already devastated and inundated areas. As a result of ex-tropical Cyclone Jasper, some areas in North Queensland are estimated to have received almost a metre of rain in as little as 24 hours.[4]

[3] National Emergency Management (NEMA).

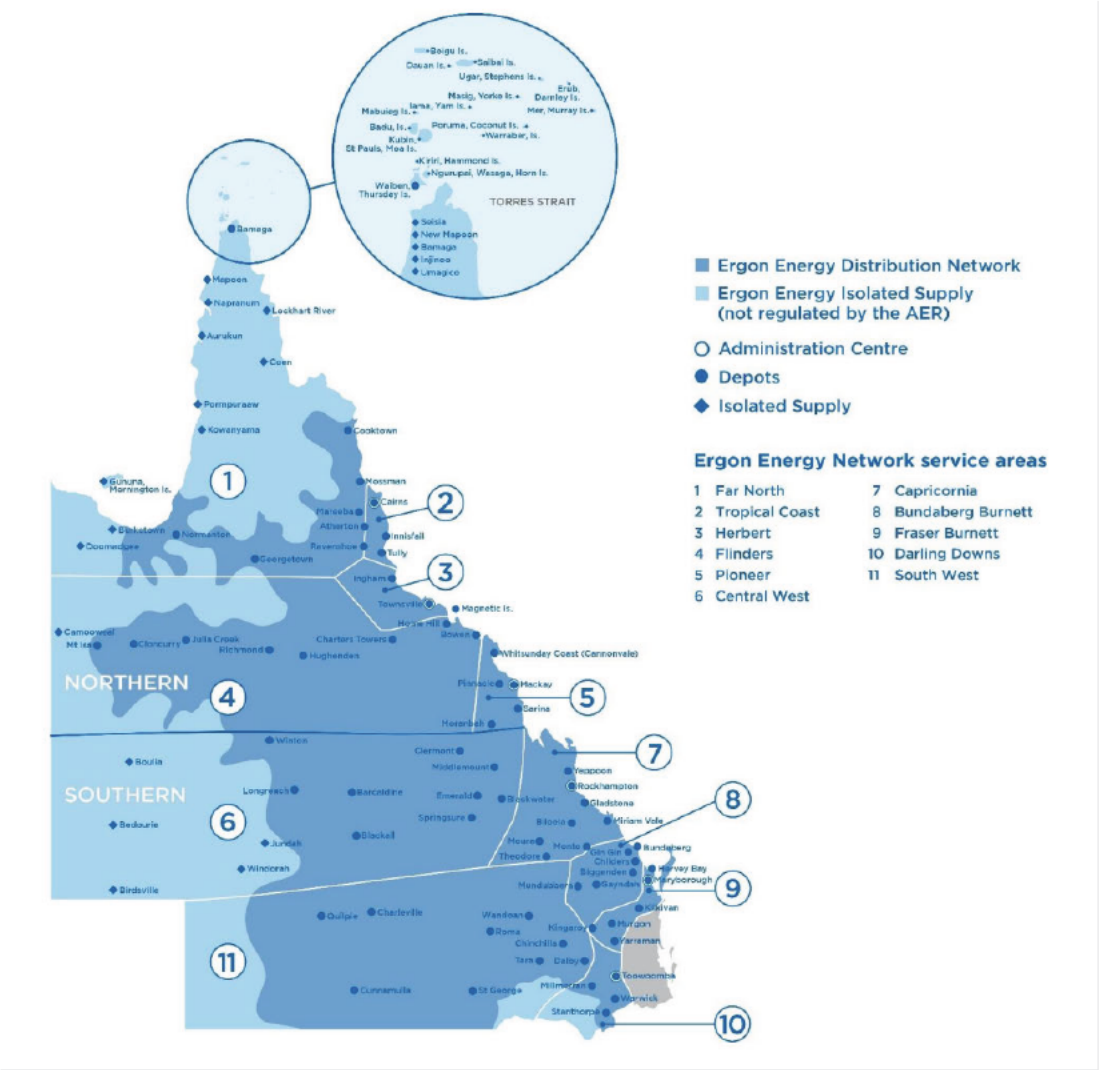
[4] Two Qld locations register Australia's 3rd and 4th wettest day on record, provisional data shows (weatherzone.com.au).

3 LEGISLATIVE AND REGULATORY PROVISIONS

3.1 Legislative framework

Ergon Energy is a distribution authority holder under the Queensland *Electricity Act 1994* and is responsible for the safe and reliable supply of electricity to customers within its distribution area in Queensland which covers approximately 97% of the State, as shown in Figure 7 below.

Figure 7: Ergon Energy's Distribution area



Ergon Energy is required to provide connection services.[5] However, this obligation does not apply in certain circumstances:

- In an emergency (or to prevent an emergency occurring)
- Where the connection, reconnection or supply to the premises would breach technical requirements, or
- Where the connection, reconnection or supply to the premises would unreasonably interfere with the connection, reconnection, or supply of electricity to the premises of another customer.

Ergon Energy's obligations in terms of its management of the distribution network, performance requirements and the services provided to retailers are contained in several legislative instruments, including:

- *Electricity Act 1994* (Qld)
- *Electrical Safety Act 2002* (Qld)
- National Electricity Law and NER
- National Energy Retail Law and National Energy Retail Rules, and
- Queensland Electricity Distribution Network Code (EDNC).

The Standard Connection Contract (SCC), a deemed contract between the electricity distributor and customer for ongoing supply regarding the delivery of electricity, defines the terms under which a premises is connected to the electricity distribution network. For example, in accordance with clause 13.1 of the SCC, Ergon Energy may disconnect a customer under the following circumstances:

- There is an emergency or for health and safety reasons, or
- It is required to do so at the direction of a relevant authority, or
- It is otherwise permitted by the energy laws to disconnect the premises.

[5] Section 66 National Energy Retail Law (Queensland).

All customer connection services provided by Ergon Energy are performed in accordance with electrical safety legislation and applicable industry standards.

All actions taken by Ergon Energy during and after Tropical Cyclone Jasper were undertaken in accordance with electricity legislative provisions.

3.2 Regulatory framework

The AER is responsible for setting the maximum revenue that Ergon Energy can recover from consumers for the use of its electricity distribution network in North Queensland. Every five years, the AER assesses Ergon Energy's proposed expenditure forecasts to determine whether they reflect prudent and efficient spending.

The AER employs a "building block" approach to setting Ergon Energy's revenue allowance which is intended to provide enough revenue to cover its capital, operating, finance and other costs. In June 2020, the AER set Ergon Energy's revenue for the five-year regulatory control period from 1 July 2020 to 30 June 2025.

3.3 NER cost pass through provisions

Clause 6.6.1(a1) specifies that a pass through event may include any one of the following defined events:

- A regulatory change event
- A service standard event
- A tax change event
- A retailer insolvency event, or
- Any other event specified in a distribution determination as a pass through event for the determination.

Clause 6.6.1(c) of the NER sets out the mechanism for a distribution network service provider (DNSP) to seek the approval from the AER to pass through to Distribution Network Users materially higher costs in providing direct control services incurred as a result of a positive pass through event, where those costs would not have been incurred but for that event.

The AER approved the following nominated pass through events in Ergon Energy's 2020-2025 distribution determination:

- Natural disaster event,
- Terrorism event,

- Insurance coverage event, and
- Insurer credit risk event.[6]

In its final decision, the AER defined "natural disaster" to mean:

> "any natural disaster including but not limited to cyclone, fire, flood, or earthquake that occurs during the 2020–25 regulatory control period that increases the costs to Ergon Energy in providing direct control services, provided the fire, flood or other event was:
>
> - 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
> - 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:*
>
> - whether Ergon Energy has insurance against the event, and
> - the level of insurance that an efficient and prudent NSP would obtain in respect of the event."[7]

3.3.1.1 Tropical Cyclone Jasper is a natural disaster pass-through event

The severe weather experienced as a result of Tropical Cyclone Jasper, and subsequently ex-tropical cyclone Jasper, between 13 and 28 December 2023 resulted in catastrophic damage throughout North Queensland. This was an uncontrollable natural disaster event, the occurrence of which could not have been prevented or mitigated by Ergon Energy. The Queensland Government activated Disaster Recovery Funding Arrangements (DRFA) in northern Queensland from 13 to 28 December 2023 for communities across northern Queensland affected by Tropical Cyclone Jasper. Ergon Energy refers to 13 December 2023 as the commencement date of the event, being the date Tropical Cyclone Jasper made landfall and the date specified in the DRFA activation summary.

[6] AER Final Decision, *Ergon Energy Distribution Determination 2020-25*, Attachment 14 - Pass through events, June 2020, p. 14-4.

[7] Ibid., p. 14-6.

Ergon Energy submits that Tropical Cyclone Jasper meets the conditions of a pass through event, being a natural disaster nominated pass through event as defined in Ergon Energy's 2020-2025 distribution determination.

3.3.2 Positive Change Events

Clause 6.6.1(a) of the NER provides that if a positive change event occurs, a Distribution Network Service Provider (DNSP) may seek approval from the AER to pass through to Distribution Network Users a positive pass through amount.

A "*positive change event*" for a DNSP is defined as:

"(a) a pass through event, other than a retailer insolvency event, which entails the Distribution Network Service Provider incurring materially higher costs in providing direct control services than it would have incurred but for that event, but does not include a contingent project or an associated trigger event, or

(b) a retailer insolvency event",

where "*materially*" is defined as:

"For the purposes of the application of clause 6.6.1, an event results in a Distribution Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Distribution Network Service Provider 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 Distribution Network Service Provider for that regulatory year."

In assessing a cost pass through application for a positive change event, the AER is to take account of the matters listed in clause 6.6.1(j)(1)-(8) of the NER. These include:

- The increase in costs in the provision of direct control services that Ergon Energy has incurred and is likely to incur until the end of the regulatory control period in which the positive change event occurred, or the end of the regulatory control period following that in which the positive change event occurred
- The efficiency of Ergon Energy's decisions and actions in relation to the risk of the event occurring, including whether it has failed to take any action that could reasonably have reduced the magnitude of the pass through amount or has taken or omitted to take any action where such action or omission has increased the magnitude of the amount
- The time cost of money based on the allowed rate of return for Ergon Energy for the regulatory control period in which the event occurred

- The need to ensure that Ergon Energy only recovers any actual or likely increment in costs to the extent that such an increment is solely attributable to a pass through event, and
- Whether the costs of the pass through event have already been factored into the calculation of Ergon Energy's annual revenue requirement for the regulatory control period in which the pass-through event occurred or will be factored into the annual revenue requirements for a subsequent regulatory control period.

3.3.2.1 Tropical Cyclone Jasper is a positive change event

For a pass through event to be considered a positive change event for which a DNSP can apply to the AER to pass through the associated incremental costs to consumers, the event must result in the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for that event. That is, for Tropical Cyclone Jasper to be considered a positive change event, Ergon Energy must have incurred, or be likely to incur, a change in costs (as opposed to the revenue impact) in any regulatory year of a regulatory control period, as a result of the event, that exceeds one percent of Ergon Energy's annual revenue requirement for that regulatory year.

Under the NER, *annual revenue requirement* is defined as:

> "An amount representing revenue for a *Distribution Network Service Provider*, for each *regulatory year* of a *regulatory control period*, calculated in accordance with Part C of Chapter 6".[8]

Due to its unpredictable nature and the scale of damage caused to Ergon Energy's network assets, the network costs brought about by this event could not reasonably have been factored into the approved capital and operating expenditure forecasts included in the 2020-2025 distribution determination. As outlined in detail later in this application, the incremental costs associated with Ergon Energy's response to Tropical Cyclone Jasper of $23.20 million ($2023-24) are material and exceed the one per cent materiality threshold $12.12 million of Ergon Energy's unsmoothed revenue allowance for 2023-24 updated for the cost of debt. Moreover, we note that the operating expenditure component of the incremental costs of $21.79 million alone exceeds the one per cent materiality threshold.

Therefore, Ergon Energy submits that Tropical Cyclone Jasper meets the conditions to be classified as a positive change event, meeting the one per cent materiality threshold for the purposes of the NER.

[8] NER Chapter 10.

3.4 Insurance arrangements

Energy Queensland has a range of insurance policies designed to mitigate risk for the Energy Queensland Group. However, we do not hold insurance coverage for damage to the "poles and wires" network caused by a natural disaster. The cost of transferring this risk to another party via payment of a premium outweighs the benefits of eliminating or substantially mitigating against the cost impact of natural disasters.

Standard practice requires regular reviews of our insurance coverage where policies such as "weather derivative coverage" (i.e., a financial instrument used by companies or individuals to hedge against the risk of weather-related losses when certain pre-determined conditions are met) or "captives" have been assessed to be not economically viable due to:

- Insurance market pressures resulting in cost prohibitive premiums
- Premium cost increases once a claim is made and insurance arrangements are renegotiated, along with further exclusions making future claims more onerous to pursue, and
- Substantial initial set up costs for "captives".

The insurance market appetite to offer coverage for "poles and wires" assets is challenging, with most concern focused on catastrophic weather events such as flood, cyclone, and storm, which could potentially result in large insurance losses for these types of assets. As a result, underwriters look to price the coverage accordingly, and are likely to impose limitations on the coverage and large deductibles.

In past years, Energy Queensland has worked with its insurer to complete a detailed risk assessment process addressing "poles and wires" assets. This review included natural catastrophe loss modelling, risk profiling, maximum foreseeable loss scenarios, impact on business assessment, regulatory factors, development of go-to-market strategies, insurer presentations (in Australia, London, and Singapore), consideration of alternative risk transfer options (e.g. parametric solutions, use of captive structures) and market indications for a range of risk transfer solutions. After following this process, Energy Queensland made the decision not to insure "poles and wires" assets given the premium cost impact is not economically feasible.

4 GOVERNANCE ARRANGEMENTS

Each year Ergon Energy, as part of the Energy Queensland group, undertakes thorough preparation and planning activities to ensure it is prepared for the potential impact of the various natural hazards that can occur in Regional Queensland. Ergon Energy needs to ensure its network is resilient, able to withstand the impact of natural hazards and that its response capability is efficient and effective.

As part of its business-as-usual activities, Ergon Energy maintains several preparedness plans, policies, and procedures to ensure it can respond effectively to significant weather and emergency events. The importance of these measures is reinforced through legislative and regulatory obligations, corporate governance arrangements, internal policies, and procedures (for example, work practice documents) and staff training. In some cases, these measures are made publicly available, thereby providing confidence that Ergon Energy is appropriately prepared.

Ergon Energy's approach is structured hierarchically under Energy Queensland's Organisational Resilience Strategy, which features a Natural Hazards Strategy, and supporting response documents to be used when planning for and responding to natural hazards and other emergencies. An Emergency and Business Disruption Framework is used to assist the organisation in the management of crisis, emergency, and business continuity events. This framework is comprised of a suite of documents designed to guide Ergon Energy in its prevention, preparedness, response, and recovery for emergencies, including natural hazard events.

The Emergency and Business Disruption Framework is modelled on the Queensland Government's Emergency Risk Management Framework and the principles of the Australasian Interservice Incident Management System to align with emergency services and other response agencies and organisations. Ergon Energy also maintains representation on the following groups and committees to ensure appropriate collaboration and interagency information sharing with emergency services. These groups and committees are convened throughout the year (both during and outside emergency events):

- Queensland Disaster Management Committee
- State Disaster Co-ordination Group
- District Disaster Management Groups
- Local Disaster Management Groups
- State Bushfire Committee, and
- Regional Bushfire Committee.

4.1 Natural Hazards Strategy

The Natural Hazards Strategy (Attachment 1) details our planning and preparation activities critical to providing Regional Queensland with a reliable network where disruptions are minimised during natural hazard events. When disruptions do occur, we ensure that we respond as quickly as possible to restore supply safely. This Strategy provides a summary of natural hazards, including

severe storms, tropical cyclones, bushfires, heatwaves, tsunamis, floods, earthquakes, landslides, pandemics, and space weather.[9]

Acknowledging the changing climate, an expanded view of natural hazards and the additional preparation, planning and response now required outside the typical summer period, the Natural Hazards Strategy includes Ergon Energy's Summer Preparedness Overview for the 2023-24 season.

To minimise the impacts of exposure to the elements and severe weather events on its network operations and customers, Ergon Energy regularly undertakes critical maintenance activities including various asset maintenance and inspection, vegetation management and asset improvement initiatives, capital investment programs, and preparedness training. An annual cycle of dedicated activities commences in May and continues throughout the year to prepare for the start of the bushfire season (typically from August) and the summer storm and cyclone period (from October). These activities include planning and documentation updates, training in the Emergency and Business Disruption Framework, familiarisation of emergency management plans, emergency response exercises, emergency response refresher training for all field personnel and online training to all employees involved in emergency management.

Several memoranda of understanding (MoU) are maintained with other DNSPs and supporting bodies to assist with our ability to prepare, plan for and respond to emergency events. As part of the annual preparation, a review of these MoUs is conducted. Arrangements are also in place for assistance from approved contractors and suppliers.

The Natural Hazards Strategy also sets out the governance framework which features the following elements:

- **Reporting**

  A Summer Preparedness Working Group operates to ensure our business divisions have conducted preparations throughout the year and in the lead up to the summer storm season. In addition, there are hazard specific committees and technical advisory groups covering bushfire, flood, heatwave, space weather and pandemic hazards. This assures a safe and robust network, sound emergency response procedures and safety awareness of employees and the broader community.

[9] Refer to Energy Queensland Natural Hazards Strategy, Inc. Summer Preparedness Overview for 2023/24, pg. 10 for detailed descriptions of each of these hazards.

- **Roles and Responsibilities**

  A dedicated organisational structure has been developed for oversight and emergency management teams. Charters and role statement handbooks outline each role and the associated responsibilities required for an emergency response.

- **Processes**

  Detailed guidelines, processes and checklists have been developed to assist roles during events.

- **Reviews and Updates**

  The Natural Hazard Strategy and Summer Preparedness Overview are reviewed annually to ensure currency and application of learnings from previous events and to identify improvement opportunities.

- **Continuous Improvement**

  Regular assurance checks are conducted of the framework, procedures, processes, and work practices to ensure we maintain a current and effective emergency management framework to safely support the community. Hazard-specific reviews are conducted to identify the risk and exposure to business continuity, its functions and assets and the potential effect on customers and the community. Following the activation of escalated emergency response functions, debriefs are undertaken to identify both success and improvement opportunities for application in future events.

The Natural Hazards Strategy also sets out Ergon Energy's Resilience Approach (Planning, Preparation, Response and Recovery) which includes the following key components:

- **Risk Management**

  Natural hazard risks are managed in accordance with Energy Queensland's Risk Management Policy and Framework. The Risk Management process aligns with the internationally recognised Standard AS/NZ ISO 31000:2018 Risk Management – Principles and Guidelines. Management of risk is critical to effective asset management and is integral to the ISO 55000 Asset Management suite of Standards. Inherent and emerging risks as a result of operations, are therefore regularly reviewed.

- **Preparation**

  The specific activities undertaken to prepare the network and improve resilience against natural hazards include appropriate design and location of assets, inspection and

maintenance programs, network capacity and security improvement programs, safety net requirements, plant emergency rating information, strategic spare components, peak load monitoring, temporary load support, and demand management and inspection programs. Natural Hazard profiles detailing the potential impacts and protocols of specific natural hazards, including tropical cyclones, describe the major elements of our preparation for these events.

- **Contingency**

  Network contingency plans detail the load transfer and load management options available to restore supply following a single contingency event affecting bulk supply substations, zone substations and sub-transmission feeders. Each year, the entire network is reviewed to ensure that all substations and feeders can supply forecast peak load under system normal conditions. A process has been implemented to monitor loads during the summer peak period so that as hot weather develops, emerging “hot spots” where demand growth may have exceeded the previous annual forecasts are identified. In these cases, corrective action to avoid an overload is taken well before a capacity constraint occurs.

- **Response**

  A standard fault response and emergency escalation framework is employed to respond to incidents. An initial assessment of potential damage determines whether the response is managed using local operational arrangements (Level 1) or escalated to a Level 2 or Level 3 Emergency Management structure. The response is managed within a tiered escalation process that increases resource capabilities and coordination, drawing across regions as required to meet the response requirements in the impacted area.

  The main priority immediately following the impact of an event is the safety of employees and the community, identifying the number of customers affected, the extent of damage, and types of customers impacted and the availability of response teams. Making the network safe for staff and the public occurs before restoration activities commence. We then respond as quickly as possible to restore supply safely, with the priority for restoration focused on emergency services, critical infrastructure, and community assets.

- **Recovery**

  Recovery is the coordinated process to permanently restore operational capability, the network infrastructure and/or electricity supply to the community. Ergon Energy plays a key role in immediate recovery activities, as well as working with government agencies on infrastructure resilience, business continuity, reliability and community and customer support.

  Also attached, for the AER’s information, is Ergon Energy’s (and Energex’s) Emergency Management Plan Distribution Network 2023 (Attachment 2a (public version) and 2b (confidential version)).

5 RESPONSE TO TROPICAL CYCLONE JASPER

5.1 Operational response to Tropical Cyclone Jasper

On 8 December 2023, Ergon Energy activated its emergency management plan and placed crews and support staff on standby in preparation to respond to the anticipated damage to its network and power outages from Tropical Cyclone Jasper. Ergon Energy was committed to safely restoring electricity supply to customers impacted by Tropical Cyclone Jasper as soon as it was safe to do so.

There were widespread impacts on communities and significant damage to property, infrastructure, and Ergon Energy's network, with continuing heavy rainfall in the days following Tropical Cyclone Jasper's landfall presenting restoration challenges and delays. Damaged roads, felled vegetation and flooding presented the greatest obstacles with whole sections of the region inaccessible or unsafe to reconnect until flood waters receded. While Ergon Energy initially set a target to restore supply to all customers by 19 December 2023, where it was safe to do so, dangers due to ongoing flooding and severe weather in the region required a revision of these targets to ensure the safety of crews and communities as the weather event continued to evolve.

Approximately 940 field resources, being a combination of Ergon Energy and Energex field crews from South East Queensland mobilised to assist with restoration work. Contact Centres and Network Control Centres were also staffed in a similar way to ensure appropriate resourcing was in place. Ergon Energy and Energex teams from across Queensland worked together in extremely challenging conditions in devastated communities to ensure supply was restored or made available via mobile generation support[10] by Christmas Eve.[11] Figures 8 and 9 provide examples of crews and equipment assemblies in preparation for response efforts.

[10] As a result of significant damage there were some areas of Ergon Energy's network that required a rebuild. Supply via generation was offered to these customers while the main grid supply was rebuilt.

[11] The exception being the Wujal Wujal Community where the isolated network was later restored in partnership with emergency services directions for that community. Network supply was restored in January 2024.

Figure 8: Crews and equipment assembling in Rockhampton in preparation for the Tropical Cyclone Jasper response

Figure 9: Townsville equipment muster and preparations

5.2 Communications and safety messaging

Community safety was a key focus of both proactive and reactive public communication activity during Tropical Cyclone Jasper and the associated flooding event. Ergon Energy's messages via traditional news media (television, radio, print and online) as well as social media included network impact and restoration updates as well as key safety messages regarding general severe weather safety, fallen powerlines, solar photovoltaic (PV) safety, flood safety, generator safety and reconnecting power.

During the storm event there were:

- Approximately 550 media enquiries managed, including many live to air interviews, which produced more than 1,000 media mentions (online, print, radio, and television), with a total audience of approximately 78 million people
- Social media posts which reached more than 260,000 people across Facebook and X (formerly Twitter), with an overall positive sentiment of 65 percent
- More than 1.5 million visits to Ergon Energy's online Outage Finder providing live network restoration updates
- More than 61,000 calls to our customer contact centre loss of supply line, with an interactive voice response satisfaction rate of 80 per cent, and
- More than 11,000 calls answered by contact centre operators with an average speed of answer of 74 seconds.

Ergon Energy also provided regular updates to external stakeholders (including relevant Government Departments and the State Disaster Coordination Centre) on the response, key safety messages, and network restoration efforts. In total, 25 situation reports were provided to the State Disaster Coordination Centre and all response agencies and departments. In addition, representatives liaised with each relevant local disaster management group to provide updates on the network impact and restoration activities, and assisted the coordinated local disaster response effort.

Ergon Energy fielded many requests from response agencies and departments for information during the event to assist with the response and recovery effort, particularly around network outage and restoration information for prioritised critical infrastructure such as schools, water pumping stations, aged care nursing homes, emergency services facilities and telecommunication sites. Ergon Energy also supplied data to assist the facilitation of government assistance payments.

5.3 Restoration of supply

Following initial network damage assessments, Ergon Energy followed a network restoration hierarchy response, commencing with make safe, and then prioritising supply restoration for core network assets and critical community infrastructure, such as hospitals, aged care facilities, evacuation centres, police, ambulance and fire brigade services, water treatment, and pumping stations. The next priority was to restore power to the largest number of customers as quickly as possible, typically by way of repairing distribution powerlines which connect individual locations, such as powerlines in local streets. Following this, repairs were made to distribution transformers and service wires to residential homes and businesses.

Estimated restoration times for impacted customers were made available and regularly updated on Ergon Energy's online Outage Finder tool. The availability of the Outage Finder tool was advertised across all communication channels as a means for customers to self-serve and stay updated on restoration progress. In some areas, where Tropical Cyclone Jasper had caused major flooding and/or landslides that altered the landscape and caused catastrophic damage to electricity assets and infrastructure, Ergon Energy's distribution network needed to be redesigned and rebuilt. Customers in these areas were supported by mobile generation while rebuild plans were assessed.

On Friday 15 December 2023, Ergon Energy released a public Restoration Plan outlining key information regarding the repair of the network and the reconnection of impacted customers. By Saturday 16 December 2023, crews had restored supply to 90% of those customers who lost power when Tropical Cyclone Jasper made landfall. However, on Monday 18 December 2023 Ergon Energy was forced to revise these plans considering the evolving flood emergency presenting in the wake of Tropical Cyclone Jasper and the dangers this presented. Restoration activities were postponed until flood waters in the impacted areas receded. Electricity supply was subsequently restored or made available by mobile generation for all customers by Christmas Eve.

6 INCREMENTAL COSTS INCURRED

This section outlines the incremental costs Ergon Energy incurred in responding to damage to the network sustained because of Tropical Cyclone Jasper. It includes immediate response and post event expenditure incurred from the cyclone.

6.1 Use of polygons to identify affected areas and assets

In accordance with the AER's requirement under s 6.6.1 (j)(5), Ergon Energy employed the use of spatial and operational analysis to determine if program of works activities scheduled during the 2020-2025 regulatory control period were brought forward because of Tropical Cyclone Jasper for removal from incremental costs.

The spatial analysis (see Attachment 3) involved the generation of spatially explicit shapes (or polygons) which represent a geographic location and are composed of vertices which were a set of

a series of x and y coordinates or spatial points that encompassed network assets damaged during Tropical Cyclone Jasper, resulting in unplanned power outages (Event impacted polygon (EIP)).

The EIP was then compared to the geographic locations of our planned programs of work (operational polygons) for network replacement or refurbishment capital expenditure. These EIP locations were also compared against our operating expenditure vegetation clearance and maintenance planned activities.

The overlap of EIPs and operational polygons would indicate areas for further investigation to determine if assets located within the overlap area had been previously identified for planned replacement or refurbishment works or were due for planned inspection or maintenance in the period immediately following Tropical Cyclone Jasper. If either planned operational activity was associated with assets in these locations this may have indicated that Ergon Energy might expect a reduction in planned expenditure for the same period and therefore, this would be reflected in our forward program of works activity and costings.

The results of the spatial polygon analysis confirmed that there was no overlap of unplanned emergency works performed in areas where planned repair and replacement works were scheduled. Similarly, the emergency vegetation clearance following Tropical Cyclone Jasper was not in Ergon Energy's forward maintenance plans. Therefore, all the restoration costs incurred were entirely incremental costs.

The timeframe applied to event restoration efforts was a 30-day period which commenced from the date when storm damage, or power outages, was initially reported and recorded in Energy Queensland's Outage Management System or Damage Assessment Tool.

Ergon Energy has implemented systems to retain records of these spatial information assets to provide a reference for future storm-related damage assessments. This data can be used to optimise future planned operational efforts and contribute towards enhancing grid resilience.

6.2 Material changes in the costs of providing direct control services

Ergon Energy's response to Tropical Cyclone Jasper resulted in additional capital and operating costs (total expenditure or totex) of $23.20 million ($2023-24). Tables 6.1 to 6.3 below break down the incremental costs by financial year and element (e.g., Labour - Overtime, Contractors) and excludes those expenses that were funded in Ergon Energy's 2020-2025 distribution determination.

Table 6.1: Incremental operating expenditure by element

$ million (2023-24)	2023-24
Labour - Ordinary Time Opex	6.15
Labour Overtime	5.17
Contractors	4.70
Other Operating Costs	5.51
GSL's	0.26
Sub-Total	**21.79**

Table 6.2: Incremental capital expenditure by element

$ million (2023-24)	2023-24
Labour - Ordinary Time Capex	0.42
Labour Overtime	0.32
Materials	0.20
Material Oncost	0.03
Contractors	0.29
Other Costs	0.16
Sub-Total	**1.41**

Table 6.3: Total Incremental expenditure (incremental totex)

$ million (2023-24)	2023-24
Incremental operating expenditure	21.79
Incremental capital Expenditure	1.41
Total incremental expenditure (TOTEX)	**23.20**

The nature of the response to Tropical Cyclone Jasper included both operating expenditure ($21.78 million), and capital expenditure ($1.410 million) with the classification determined in accordance with appropriate accounting standards and our agreed cost allocation method.

Table 6.4 below summarises the incremental expenditure by the three major activities of expenditure.

Table 6.4: Incremental totex by activity

$ million (2023-24)	2023-24
Emergency (replacement) capital works	1.41
Emergency corrective works (opex)	21.53
Other operating costs (GSL)	0.26
Total	**23.20**

As shown in Table 6.5 below, this amount meets the calculated pass through trigger of $12.12 million (nominal). Total incremental costs are $23.20 million in 2023-24 dollars which is 1.91% of the AER approved unsmoothed revenue and above the 1% materiality threshold.

Table 6.5 Materiality assessment for Tropical Cyclone Jasper

$ million (nominal, smoothed)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Incremental operating expenditure	0.00	0.00	0.00	21.79	0.00	21.79
Incremental capital expenditure	0.00	0.00	0.00	1.41	0.00	1.41
Total incremental expenditure	0.00	0.00	0.00	23.20	0.00	23.20
AER approved unsmoothed revenue per 2023/24 RoD updated PTRM	0.00	0.00	0.00	**1,212.29**	0.00	**1,212.29**
Materiality	0.00	0.00	0.00	**1.91%**	0.00	**1.91%**

6.3 Network Repair and Restoration Services

In response to the Tropical Cyclone Jasper, Ergon Energy incurred $21.788 million in additional operating costs relating to the provision of network repair and restoration services. These operating costs are summarised in Table 6.6 below.

Table 6.6: Eligible pass through amount Opex (Emergency Response, Corrective)

$ million	2023-24
Planning and Intelligence Response	4.18
Communication and Stakeholder Response	0.09
Logistics Response	1.19
Safety Response	0.11
Operations Response	15.96
Sub-total	**21.53**
Other Operating Costs GSL	**0.26**
TOTAL	**21.79**

The response is dominated by operations response which includes coordination of various field teams, damage assessment and repairs and network operations.

Planning and Intelligence Response activities includes the cost of employees from:

- Restoration Planning (Restoration Planners and Network Operations, Customer Market Operations and Asset Management lead personnel)
- Labour Resource Planning (Resource, External Entity, Contractor, and Aircraft coordinators)
- Information and Data (Damage Assessment Coordinators and Packagers and Data Coordinators), and

- Finance.

These costs are confined to additional overtime effort required during response efforts related to Tropical Cyclone Jasper, and incremental operating expenses.

Communications and Stakeholder Response activities includes the cost of employees from:

- Liaison (State Disaster Coordination, District Disaster Management, Local Disaster Management and Government Liaison representatives)
- Reporting (Internal, External and Board Reporting), and
- Community Media (Media and Social Media representatives, Visitor Management and Community Engagement Coordinator).

These costs are confined to additional overtime effort required during response efforts related to Tropical Cyclone Jasper, and incremental operating expenses.

Logistics Response includes the cost of employees from:

- Fleet (Fleet supervisors and representatives)
- Stores (Stores field supervisors and representatives)
- Mobilisation (Travel and Accommodation team, Catering Supervisor and Staging Managers), and
- Administration, Infrastructure and Security (Property and Security Coordinators, Digital Support and Field Force Automation representatives).

These costs are mostly confined to additional overtime required during response efforts related to Tropical Cyclone Jasper, and incremental operating expenses.

Safety Response includes the cost of employees from:

- Health, Safety and Environment (Field Safety and Environmental representatives, nurses and fatigue advisors)
- Pastoral Care and Welfare (Human Resources representatives and mental health advocates), and
- Investigation (Regulatory Reporting officer and Incident Investigators).

These costs are confined to additional overtime required during response efforts related to Tropical Cyclone Jasper, and incremental operating expenses.

The tables below highlight response expenditure by element and frontline and support response.

Table 6.7 Operating Emergency Response Expenditure

$ million	2023-24
Frontline Response:	
Operations Response	**15.96**
Support Services	
Planning and Intelligence Response	4.18
Communication and Stakeholder Response	0.09
Logistics Response	1.19
Safety Response	0.11
Sub-total	**5.57**
Other Operating Costs GSL	**0.26**
TOTAL	**21.79**

Table 6.8 Operating Emergency Response Expenditure by frontline and support response

$ million (2023-24)	Ord Labour	Overtime	Materials	Contractor	Other	Total
Front Line Response	6.15	4.73	1.43	2.80	0.86	15.96
Support Services		0.45	0.60	1.90	2.63	5.57
Sub-total						
GSLs					0.26	0.26
Total	**6.15**	**5.17**	**2.03**	**4.70**	**3.74**	**21.79**

6.3.1 Expenditure by Element

Expenditure by element is as follows:

- **Labour**

  Ergon Energy's response to Tropical Cyclone Jasper was extremely labour intensive, not only requiring the assignment of internal labour field resources to the affected areas but also Energex and contract labour. The use of internal labour resources was managed in compliance with Ergon Energy's safety and fatigue management policies.

  Labour incurred during the cyclone was costed based on Ergon Energy's standard labour costing processes. The rates vary between the type of resource deployed by Ergon Energy or Energex and, while the rates are standard across the distribution business, they vary according to the ten labour resource types. The rate is designed to be inclusive of allowance and labour on-cost.

- **Contractors**

  As a Government Owned Corporation, Ergon Energy must comply with the strategies and objectives of the Queensland State Purchasing Policy. This Policy requires Ergon Energy to adopt a strategic and considered approach to procurement management to achieve value for money and ensure probity and accountability for its procurement outcomes.

  Ergon Energy manages a significant proportion of its contractor engagement through formal procurement arrangements. Under these arrangements Ergon Energy engages in market-based tendering and assessment of contractors to establish long-term, flexible, and lowest supply chain cost contracts. The majority of contractor expenditure incurred during the event was for contractors covered by these arrangements.

  Due to the time-critical and safety-focused nature of Ergon Energy's emergency response, the remaining contractor expenditure was incurred on an "as needed" basis, with invoices reviewed for reasonableness prior to payment.

  Typical contractor spends deployed for the event included aerial surveillance, traffic control, security arrangements, vegetation, and earthmoving contractors.

- **Materials**

  Materials primarily represent Ergon Energy's Stores issue of materials used by field resources in cleaning, repairing, and maintaining network assets. Minor purchases of materials not readily available from the Stores were sourced directly from suppliers due to the urgency of requirement. Materials requisitioned included:

  - Generator maintenance parts and consumables required to operate mobile generators during the event
  - Relays used in the restoration of substations
  - Cross-arms and cable used in repairing distribution assets, and
  - Cleaning materials.

6.4 Expenditure by Function

Expenditure by function is as follows:

- **Frontline Response**

  When cyclones impact Ergon Energy's network, appropriately qualified employees are required to address safety risks and restore supply to customers. The response required a significant deployment of Ergon Energy crews and assistance from Energex.

Typical service response included:

- Network switching operating activities from control centres and appropriate frontline support
- Restringing and repair of fallen conductor (downed powerlines)
- Damage assessment and hazard reductions
- Attendance to high voltage lockouts
- De-energisation of assets due to safety concerns, and
- Cleanout of water inundation to underground pillars, pad mount transformers and ground substations and ring switching units.

These key operating tasks are labour intensive and not of a capital nature.

- **Field Services**

With the onset and passing of the cyclone and following the flooding, field crews began restoration works where possible, pre-emptively de-energising electricity assets that were at risk of inundation or needed to be de-energised to ensure the safety of the community. This activity resulted in a significant amount of labour incurred as overtime. However, it was considered prudent to ensure the safe and timely restoration of electricity supply to customers consistent with community expectations.

Post the event, inspection activities occurred to assess the extent of the impact and to effectively plan specific targeted responses by feeder and area to maximise the effectiveness of and assist in the overall prioritisation of restoration efforts.

Following the cyclone and subsequent flooding, significant effort was required to restore electricity supply to customers. This effort included:

- Inspection (including foot, car, and helicopter patrols)
- Basic restoration and debris clearance
- Maintenance of inundated distribution network equipment (draining, cleaning, and drying of distribution assets and isolation and re-energisation of the distribution network), and
- Network data validation.

In addition to the extensive internal labour used throughout the response to the event, field contract services were contracted to provide the following services:

- Civil construction
- Customer services – connections
- Distribution network overhead and underground services
- Earthmoving and debris removal
- Equipment and stores transport
- Equipment hires
- Generator support
- Helicopter hire
- Property repair and landscaping
- Streetlight maintenance
- Towing and equipment recovery
- Traffic control, and
- Vegetation clearance and disposal.

- **Network Operations and Control**

  Network Operations was responsible for the coordination of Ergon Energy's response. The labour costs represent staff involved in coordinating the emergency event room and managing the high-level response, including:

  - Monitoring and operating the network
  - Receiving and prioritising work requests
  - Requesting dispatch of field crews
  - Network switching, and
  - Reporting of outage and other relevant information.

- **Coordination, backup office support and customer engagement**

  Additional coordination, back-office support and customer engagement activities were performed as part of the response to Tropical Cyclone Jasper. These support areas include

conducting planning and intelligence functions, safety support, logistics and customer and external stakeholder engagement. Only the incremental costs, such as overtime, have been included in this application.

- **Materials Warehouse & Logistics**

  Ergon Energy's materials warehouse operated 24 hours a day during the cyclone and flood event to ensure materials were provided quickly and efficiently to crews working in the affected areas.

  Due to the volume of goods being transported and the need for urgent delivery, Ergon Energy did not have the manpower or available vehicles to cater for the evolving requirements. As a result, contractors were engaged to provide transport of materials to depots and field crews.

- **Media, Community and Government Liaison**

  Ergon Energy's Corporate Communications staff provided 24 hours a day access for television, radio and print media to ensure customers, the community and government agencies were constantly informed of safety issues, the impact of the event on Ergon Energy's network and ongoing response to restoration.

  Approximately 550 media enquiries were managed throughout the event, with many live to air news interviews and 25 situation reports provided to key stakeholders.

- **Safety and Records Management**

  Overtime was incurred in relation to the testing of safety and live line equipment and updating meter and meter reading records for meters replaced during the event.

6.5 Guaranteed Service Level Payments

Ergon Energy is subject to the EDNC in Queensland which requires it to make GSL payments to small customers where service levels are not met. The payments relate to, for instance, the duration and frequency of customer outages, wrongful disconnections, the timeliness of connections and reconnections, and notification of planned interruptions.

The EDNC requires the Queensland Competition Authority to review the GSL measures, thresholds and payment amounts that will apply at the beginning of each regulatory control period. The regulatory control periods coincide with the regulatory periods for the distributor's revenue determinations set by the AER, with the current period running from 1 July 2020 to 30 June 2025.

The GSL payments that have been included in the incremental costs are for late connections. An ordinary monthly performance average was deducted from what was incurred between the impacted dates in December 2023 to calculate an incremental impact.

6.6 Emergency Capital Works

Ergon Energy was required to undertake some key capital works to complete recovery from Tropical Cyclone Jasper. The response to the event was mostly operating in nature but there were a small number of feeders whose damage was such to require a rebuild and there was replacement of high voltage equipment replaced under emergency conditions. A summary of these costs is provided below.

Table 6.9: Emergency Incremental Capex

$ million	2023-24
Labour - Ordinary Time Capex	0.42
Labour Overtime	0.32
Materials	0.20
Material Oncost	0.03
Contractors	0.29
Other Costs	0.16
Sub-Total	**1.41**

Table 6.10: Emergency Incremental Capex

$ million	Ord Labour	Overtime	Materials	Contractor	Other	Total
Front Line Response	0.42	0.32	0.23	0.29	0.16	1.41

6.7 Cost Capture

To ensure accurate identification and segregations from other program of works, a works request (unique number) and subsidiary parent work orders (also unique numbers linked to the works request were created within the Ergon Energy's works system, a Mincom Ellipse ERP product. More detailed work orders are also created linked to these parent work orders. This facilitates accurate cost capture and reporting capabilities for Tropical Cyclone Jasper.

The parent works orders allow identification of costs by major type of emergency response activity directed by the anointed Emergency Event Team. The parent work orders are as follows:

1. Operations Response (Frontline)
2. Planning and Intelligence Response Support
3. Communications and Stakeholder Response Support
4. Logistics Response Support
5. Safety Response Support, and
6. Emergency Manager Response Support

Operations Response Support function is considered the frontline support. The majority of costs in response to Tropical Cyclone Jasper were operating. The only incremental costs sourced outside the cost structure were GSL payments. Overhead expenditure (inclusive of fleet allocation) and ordinary time of labour of support functions was deducted from total expenditure to calculate incremental costs.

7 ELIGIBLE AND PROPOSED COST THROUGH AMOUNTS

In the context of the Tropical Cyclone Jasper, clause 6.6.1(c) of the NER requires Ergon Energy to identify:

- The eligible pass through amount in respect of this positive change event, and
- The positive pass through amount Ergon Energy proposes to pass through to Distribution Network Users in the 2025-26 regulatory year

7.1 Eligible pass through amount

Ergon Energy's eligible pass through amount is the increase in costs incurred in the provision of direct control services as a result of the positive change event. Although an eligible pass through amount allows for costs that Ergon Energy is likely to incur as a result of the event, no future costs have been included in the claim. The eligible pass through amount of $23.20 million ($2023-24) consists of incremental operating and capital expenditure (as opposed to the revenue impact) incurred in 2023-24 in the year the positive change event occurred.

Table 7.1 details the eligible cost pass through amounts for Tropical Cyclone Jasper.

Table 7.1: Eligible pass through amount

$ million	2020-21	2021-22	2022-23	2023-24	2024-25
Emergency replacement Capital Works				1.40	
Emergency corrective works opex				21.53	
Other Operating Costs (GSL)				0.26	
Total				**23.20**	

Ergon Energy's incremental costs were identified in section 6 of this application. In determining the eligible pass through amount, only incremental costs attributable were included. The actual costs incurred were extracted from our enterprise resource planning tool and accounting system.

Attachment 4 provides a build-up of the costs incurred to determine the eligible pass through amount.

7.2 Costs included in eligible pass through amount are solely as a consequence of the positive change event

As previously stated, Ergon Energy must only seek to recover the incremental costs incurred from the pass through event, Tropical Cyclone Jasper. In section 6, Ergon Energy has described the incremental costs incurred because of the cyclone, focusing on the additional work undertaken.

In deriving the eligible pass through amount, Ergon Energy included only the incremental costs for those activities that were incurred solely because of the positive change event. All expenditure incurred by Ergon Energy in responding to Tropical Cyclone Jasper has been reviewed to ensure that it:

- Can be specifically attributed to Ergon Energy's response to Tropical Cyclone Jasper in North Queensland
- Has been conservatively adjusted to remove overlaps between "business as usual" operations funded through Ergon Energy's distribution determination and those activities undertaken as a result of Tropical Cyclone Jasper, and
- Reflects prudent and efficient expenditure in the context of the significant operational challenges presented by the cyclone and flood event.

Specifically, Ergon Energy excluded the following costs from this application, given the difficulties in clearly distinguishing the incremental nature of the costs:

- Corporate overheads
- Ordinary time for support resources, and
- Fleet allocation charges for operating costs and depreciation.

Ergon Energy captured expenditures that were in response to Tropical Cyclone Jasper in a manner consistent with our accounting framework, creating specific projects and work orders to clearly record and track the costs incurred due to the cyclone. Our accounting structure allowed us to record costs as business-as-usual or cyclone-specific, and into capital and operating expenditure categories.

7.3 Efficiency of eligible pass through amount

Clause 6.6.1(j)(3) of the NER requires the AER to consider the efficiency of our "decisions and actions" in relation to the risks presented by Tropical Cyclone Jasper. This must include "whether we failed to take any action that could have been reasonably taken to reduce the magnitude of the eligible pass through amount".

Ergon Energy's preparedness for natural hazards affecting the network and our actions to restore services, as outlined in section 5, after the impact of the cyclone and flood event ensured an efficient response.

The measures Ergon Energy adopts to efficiently manage risk from the potential impact of numerous natural hazards are set out in section 4 "Governance Arrangements". Information about the efficiency and prudence of our approach to insurance is discussed in section 3.4.

7.4 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.

Ergon Energy proposes a positive pass through amount of $22.08 million ($nominal, smoothed) arising in incremental revenue, to be recovered in 2025-26, the first year of the next regulatory control period. The positive pass through amount does not exceed the eligible pass through amount. Refer to Table 7.2 and Table 7.3 below:

Table 7.2: Positive pass through amount (2020-25 Post Tax Revenue Model)

$ million (nominal, smoothed)	2023-24	2024-25	Total
Return on Capital	0.00	0.07	0.07
Return of Capital (regulatory depreciation)	**0.00**	**0.00**	**0.00**
Operating Expenditure	20.39	0.00	20.39
Revenue Adjustments	**0.00**	**0.00**	**0.00**
Net Tax Allowance	0.00	0.00	0.00
Annual Revenue Requirement	20.39	0.06	20.45

Table 7.3 Positive pass through amount (2025-30 Post Tax Revenue Model)

$ million (nominal, smoothed)	2025-26
Return on Capital	
Return of Capital (regulatory depreciation)	
Operating Expenditure	
Revenue Adjustments	22.08
Net Tax Allowance	
Annual Revenue Requirement (unsmoothed)	22.08

The proposed positive pass through amount has been calculated as the change in our required revenues for the 2020-25 regulatory control period due to the positive change event. That is, our proposed positive pass through amount incorporates the operating expenditure and return on capital and return of capital for the 2020-25 regulatory control period arising from the incremental expenditure from Tropical Cyclone Jasper. The Post Tax Revenue Models used to calculate the pass through amount for this application are provided as Attachment 5(a) and Attachment 5(b).

7.5 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 recover the positive pass through amount of $22.08 million ($nominal, smoothed) in 2025-26, the first year of the next regulatory control period. We estimate the cost pass through amount will add approximately $12.91 to the average residential customer's network charges and $27.62 to the average small business customer's network charges.