
September 2024 Storm

Cost pass through application PUBLIC

Monday, 23 December 2024



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1. Executive summary

In the late evening on the 1st September and continuing until the 2nd September, Victoria experienced an extreme storm that caused widespread damage to many households, businesses and infrastructure (**September storm**). The extreme weather resulted in severe damage to our network, including fallen and damaged powerlines, power poles and transformers as a result of fallen trees and branches. This, in turn, caused widespread power outages throughout our network. The most affected areas were Baw Baw Shire, South Gippsland and Latrobe Valley, with the towns of More and Warragul some of the worst impacted. Following the event, some customers experienced prolonged outages, with the final customers impacted by the storm being restored one week after the event.

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

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

We are seeking pass through revenue of \$11.4 million (\$2021, smoothed), largely driven by an incremental increase in labour required for our emergency response (internal and contracted) and Guaranteed Service Level (**GSL**) payments. Specifically, the material drivers of incremental cost are summarised below:

- **\$13.8m for emergency response** by our internal teams and delivery partners during and after the event, including managing our emergency response, attending to network incidents and performing repair jobs, and vegetation management.
- **\$7.0m of Guaranteed Service Level (GSL) payments**. Since 1 July 2021 the scheme includes a \$90 payment for customers off supply for >12 hours on a Major Event Day (**MED**). For the September storm, we paid 77,736 MED payments to customers.

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

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

\$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Building block revenue				\$ 10.8	\$ 0.3	\$ 11.1

Source: AusNet.

Following the catastrophic February storm which impacted our network, we implemented several learnings which enabled us to deliver a more efficient and effective response to this event, including:

- Standing up our response team earlier and with additional resources
- Uplifted our community outreach, including use of our first Emergency Management Mobile Assistance (EMMA) vehicle
- Deploying generators into communities ahead of the storm event.

We are continuing to improve our response, including implementing the actions arising from the February 2024 storm event Post Incident Review.

AusNet has only one regulatory year in the current period to recover the pass through amount, regulatory year 2025-26 and we note that we have recently been approved pass through amounts for costs associated with complying the Victorian Emergency Backstop Mechanism (VEBM) and the February 2025 storm. We have considered the total impact of all pass through amounts on customers' bills and we propose to smooth the recovery over the remaining one year of this regulatory period and the first year of the next regulatory period. In the final regulatory year from 1 July 2025 to 30 June 2026, we propose to recover approximately \$5.7 million (\$2021), representing half of the proposed pass through amount. We are therefore seeking a decision from the AER by 18 March to feed in to our 2025-26 annual pricing process.

2. Cost pass through framework

2.1. Requirements under the framework

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

To seek approval from the AER to pass through those costs, the NER require a DNSP to submit a written statement to the AER within 90 business days of the relevant positive change event occurring¹, or such longer period as agreed to by the AER².

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

- the details of the positive change event;
- the date on which the positive change event occurred;
- the eligible pass through amount in respect of the positive change event;
- the positive pass through amount we are proposing in relation to the positive change event;
- the amount of the positive pass through amount that we propose should be passed through to distribution network users in the regulatory year in which, and each regulatory year after that in which, the positive change event occurred;
- evidence³:
 - of the actual and likely increase in costs referred to in clause 6.6.1(c)(3) of the Rules; and
 - that such costs occur solely as a consequence of the positive change event; and
- such other information as may be required under any relevant regulatory information instrument.

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

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

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

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

The NEL also specifies the revenue and pricing principles⁴. Of relevance to this application is the principle that a regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control services and complying with a regulatory obligation or requirement or making a regulatory payment⁵.

2.2. AusNet written statement

This application⁶, comprising this document and its attachments, is our written statement to the AER⁷ to recover a positive pass through amount of \$11.4 million (\$2021, smoothed). This application was submitted to the AER on or before 8 January 2025, being within 90 business days of the relevant positive change event occurring on 2 September 2024, in accordance with NER clause 6.6.1(c). Therefore, the requirement to submit the written statement by the requisite date is satisfied.

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

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

¹ Clause 6.6.1(c).

² Clause 6.6.1(k).

³ We have not recited clause 6.6.1(c)(6)(iii) as it relates to a retailer insolvency event and is not applicable.

⁴ Section 7A.

⁵ National Electricity Law, section 7A(2).

⁶ At times referred to in this document as 'statement' or 'application'. These terms should be read interchangeably and inclusive of all appendices and supporting attachments accompanying this application.

⁷ See clause 6.6.1(c) of the NER.

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

This application also addresses the matters listed in clause 6.6.1(j) of the NER which the AER must take into account in deciding the approved pass through amounts⁸.

As part of our application we have also provided:

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

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

3. Positive change pass through event

3.1. Event summary

This application relates to the extreme storm event which commenced in the late evening on the 1st September around 22:00 continuing until the 2nd September (**September storm**) which caused widespread damage to many households, businesses and infrastructure across Victoria.

Over the week commencing 26th August 2024 through to Monday 2nd September, Victoria experienced severe storm conditions including damaging winds, resulting in approximately 340,000 of our customers losing power. Prior to the evening of the 1st of September, the weather resulted in approximately 120,00 customer outages, with the 3 days preceding the September storm all being classified as Major Event Day (**MED**) days. While we incurred significant costs to respond to the extreme weather in late August prior to the September storm, we have not included these in this application, despite the period from 26th August being treated as a single emergency response event for AusNet. Rather, this application only includes costs associated with preparing for and responding to the severe weather event that occurred on the 1st and 2nd September.

The State Emergency Services (**SES**) experienced their busiest week for requests for assistance since 2021 and after the September storm they received 4,300 calls for help, with 2,800 calls for fallen trees⁹. Areas of our network, including Morwell, Emerald and Warragul were some of the areas where the SES received the most calls for assistance¹⁰.

The Bureau of Meteorology (**BOM**) and VicEmergency issued weather warnings on 1st and 2nd of September describing damaging winds in areas of our network. Overnight wind gusts were recorded at 146km/h at Wilson's Promontory at 2.29am, 141km/h at Mt Hotham at 5.52am, 131km/h at Falls Creek at 3.24am and 124km/h at Warragul at 3.16am.¹¹ The winds were likened to a category two or three cyclone by the Bureau of Meteorology¹².

Figure 1: VicEmergency Warnings on 2 September



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

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

⁹ ABS News, *Tens of thousands of homes without power as wild weather eases across Victoria* 2 September 2024, link: [Tens of thousands of homes without power as wild weather eases across Victoria \(ABC News\)](#)

¹⁰ [Wild weather with strong winds unleashes gusts up to 130km/h causing destruction across Melbourne | 7NEWS](#)

¹¹ [Bureau of Meteorology](#) – September 2024 - Daily Weather Observations

¹² ABC News, *As destructive winds die down, Victoria deals with the aftermath of violent storms* 3 September 2024, link: [As destructive winds die down, Victoria deals with the aftermath of violent storms - ABC News](#)

Approximately 180,000 of our customers were off supply following the September storm, around 20% of our total customer base. Over half of these customers were restored by 4pm of the 2nd of September, with some customers experiencing prolonged outages. All customers were restored by 8 September, 1 week after the event.

The extreme weather resulted in severe damage to our network, including fallen and damaged powerlines, power poles and transformers as a result of fallen trees and branches. This, in turn, caused widespread power outages throughout our network. The pictures below illustrate the extent of the damage that we had to address before crews could enter affected areas to assess damage and restore electricity supply to our customers as safely and quickly as possible. The most affected areas were Baw Baw Shire, South Gippsland and Latrobe Valley, with the towns of Moe and Warragul some of the worst impacted.

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



Source: AusNet

3.2. Natural disaster event

A 'pass through event' means, for a distribution determination, an event specified in clause 6.6.1 (a1).¹³ The clause specifies that each of the following are a pass through event:

- 1) a regulatory change event;
- 2) a service standard event;
- 3) a tax change event;
- 4) a retailer insolvency event¹⁴; and
- 5) any other event specified in a distribution determination as a pass-through event for the determination.

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

¹³ NER, cl 6.6.1(a1) and Chapter 10 (definition of 'pass through event').

¹⁴ This event definition is not applicable in Victoria as Victoria is not a NEEF jurisdiction.

The relevant distribution determination during which the September storm occurred is our 2021–26 determination.¹⁵ The AER's Final Decision confirmed that a 'natural disaster event' will apply to as a nominated pass through event for the 2021–26 regulatory period.

A 'natural disaster event' is defined as:

"any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2021–26 regulatory control period that changes the costs to AusNet Services in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:

- (a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or*
- (b) not a consequence of any other act or omission of the service provider".¹⁶*

3.3. Materiality

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

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

- **\$13.8m for Emergency response** by our internal teams and delivery partners during and after the event, including managing our emergency response, attending to network incidents and performing repair jobs, and vegetation management.
- **\$7.0m of Guaranteed Service Level (GSL) payments.** Since 1 July 2021 the scheme includes a \$90 payment for customers off supply for >12 hours on a Major Event Day (MED). For the September storm, we paid 77,736 MED payments to customers.

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

Table 2: Materiality of pass through

\$M (\$2021)	2023-24
2023-24 Annual revenue requirement (ARR) (smoothed)	\$666m
2023-24 Costs associated with the September Storm	\$19m
Materiality of the pass through	2.8%

Source: AusNet.

An increase in costs is material if the change in costs (as opposed to the revenue impact) that a DNSP has incurred, and is likely to incur, in any year of a regulatory period, as a result of the event, exceeds 1% of the annual revenue requirement (**ARR**) for the DNSP for that regulatory year¹⁷.

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

3.4. Exclusion of contingent projects and expenditure for restricted assets

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

¹⁵ Available at: <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2021-26/final-decision> (accessed 20/12/2021).

¹⁶ AER, AusNet Services distribution determination final decision 2021–26, Attachment 15 – Pass through events, pp. 15-17 to 15-18.

¹⁷ Definition of "materially", chapter 10 of the National Electricity Rules.

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

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

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

4. Costs incurred

Table 3 summarises the total cost incurred in response to the September storm. The table breaks down the costs between the drivers of capex and opex, which are described in this section. All expenditure was incurred in regulatory year 2024-25. A model demonstrating the cost build up is attached as Attachment 1.

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

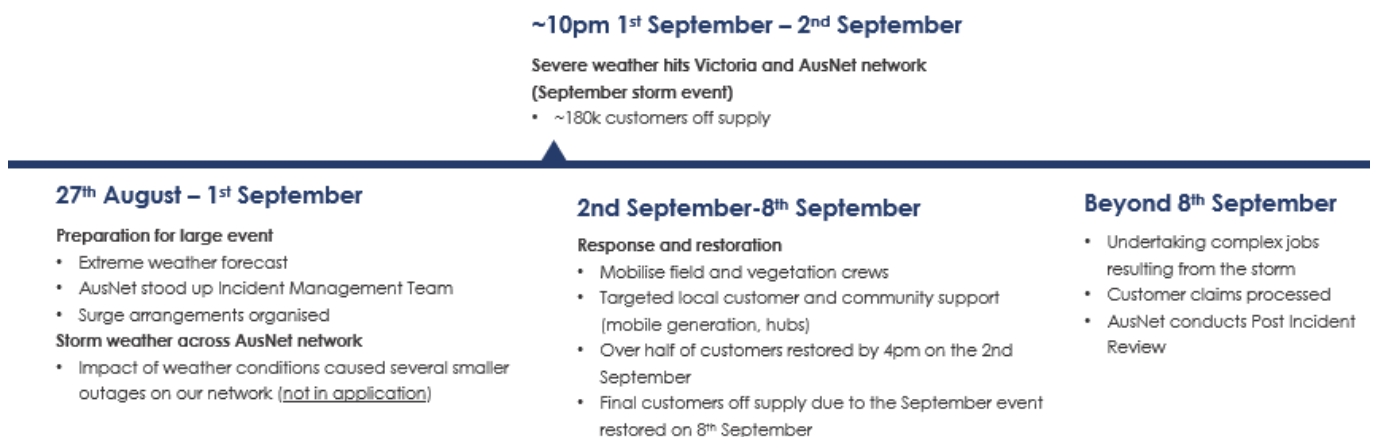
	Capex	Opex	Total
Internal Labour	\$ -	\$ 295,364	\$ 295,364
Contracts - emergency works	\$ 7,852,123	\$ 4,621,072	\$ 12,473,195
Contracts - vegetation management	\$ 389,044	\$ 259,363	\$ 648,407
GSLs		\$ 6,996,240	\$ 6,996,240
Other		\$ 393,444	\$ 393,444
Total	\$ 8,241,167	\$ 12,565,482	\$ 20,806,649

Source: AusNet.

4.1. Overview of costs resulting from the September storm

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

Figure 4: Event timeline and AusNet response



Source: AusNet.

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

Our actual costs to 30 November 2024 have been independently reviewed by Ernst & Young (Attachment 3). The independent review follows the same process as carried out for our previous storm pass through applications.

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

4.2. Internal labour involved in the emergency response

During the September 2024 event, AusNet stood up an incident response team (IMT), which included internal staff carrying out various roles and responsibilities. These roles are stood up as soon as the event occurs and are active until the event is finalised, with rostered staff filling in rotating shifts. Responding to an incident of this duration and scale required a whole-of-organisation response, in addition to the IMT, we had our Crisis Management Team (CMT),

control room, Customer and Community Engagement teams and other employees supporting our customer and community response during the event.

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

4.3. Inspection and restoration of supply

Our field delivery team is responsible for carrying out repairs and restoration work, including establishing temporary generation, to reconnect AusNet's customers. Our field delivery services are provided by a third-party contractor, [REDACTED] a fully integrated services provider with whom we have surge capacity arrangements for large scale events. AusNet also has access to additional surge delivery partners that support AusNet in delivery of other programs of work outside of the operations and maintenance contract delivered by [REDACTED] and mutual aid arrangements with other distribution businesses. AusNet was able to rapidly scale up fault field resources during the September 2024 event, with more than 450 field crews deployed across affected areas to repair damaged powerlines and poles.

Majority of the surge resources were provided by [REDACTED], with the remainder provided through surge resourcing, largely provided by [REDACTED]

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

Initial inspection

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

Restoration of supply

Once safe access was obtained, construction work could commence to clear vegetation, repair the network and replace damaged assets. Cost associated with this work are largely labour (contracts) and purchasing additional materials where necessary (e.g. poles, conductors). We also rolled-out some mobile generation to critical locations including Mirboo.

4.4. Vegetation management

Our network covers areas that are heavily treed and the September storm caused significant damage from fallen trees and power lines, including damage to our power lines and other assets. The September storm caused significant damage to vegetation in the Warragul, Cockatoo and surrounding areas, as well as significant impacts to the township of Moe. In these areas the damage was extensive, with trees uprooted and large branches failing and becoming airborne in the extreme conditions.

Vegetation management crews are responsible for clearing vegetation from AusNet's assets to enable repair work to be undertaken by the field delivery team. Vegetation crews attended to faults where trees and branches had damaged infrastructure or where trees were damaged to the extent that they posed a significant risk to the electrical network. Our vegetation management services are provided by two contracted service providers, with whom we have surge capacity arrangements for large scale events. During the September storm, dispatch of the vegetation management crews commenced on 2 September 2024, with the majority of the jobs being carried out during the week following the event, with some clean up works required over a longer period.

4.5. Guaranteed Service Level scheme

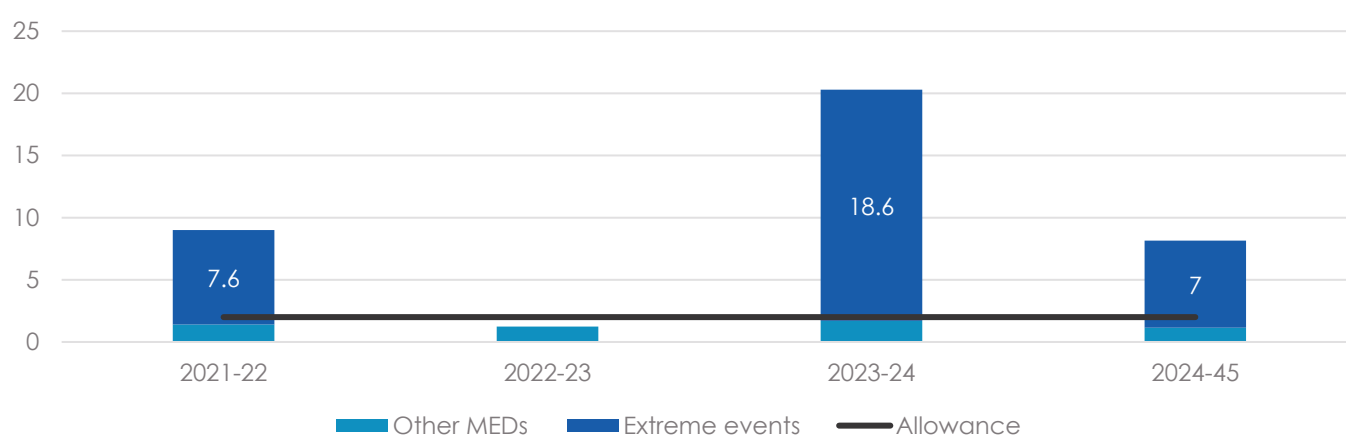
The Electricity Distribution Code of Practice (**Code of Practice**) requires Victorian distributors to make GSL payments to customers who receive a level of service that falls below a specific minimum threshold. GSL payments are designed to acknowledge the inconvenience and potential damage customers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

Since 1 July 2021, the GSL scheme has included a \$90 payment for customers off supply for more than 12 hours on a MED¹⁸. The Code of Practice does not make provision for distributors to be excused from making MED GSL payments.

For the September storm, we were required to pay 77,736 MED GSL payments to customers, costing \$7m (**MED Payment**). The MED Payment meets the cost pass through criteria for the following reasons:

- it was triggered by a natural disaster event, being the September storm event; and
- it is not funded through our 2021-26 GSL opex. This is because:
 - while our allowance included a MED component, the forecast was based on recasting historical outages from 2015-19, and the storm events in 2021 and 2024 were far more severe than any weather event that occurred in 2015-19; and
- our actual MED GSL expenditure almost perfectly matches the forecast, aside from the October 2021, February 2024 and September 2024 storm events, as shown in the charts below. Note that \$1.1m of MED GSLs was incurred during the extreme weather in the 3 days preceding the September Storm.

Figure 3: Actual MED GSLs (as incurred by mid-Dec 2024) v allowance (\$m, nominal)



Source: AusNet

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

4.6. Other costs

Additional costs sought in this pass through application include:

- customers communications uplift required in response to the storms, including:
 - **SMS:** Due to the volume of outages during the September storm, a large volume of notifications was required to customers off supply which resulted in a substantive increase in SMS messaging volumes to provide these customers with unplanned outage notifications and estimated restoration times. The September storm resulted in AusNet utilising significantly more message volumes than anticipated.
 - **Contact centre:** The size of the September storm meant that our contact centre experienced an unprecedented number of inbound calls.
- processing customer claims; and
- various other expenses required for the storm response such as fuel and meal costs.

¹⁸ Clause 14.6 of [Electricity Distribution Code of Practice \(version 2\)](#)

4.7. Offsetting savings in the 2021-26 regulatory period

As well as incurring additional costs, some work that would have been required in future years and is part of the on-going cost of maintaining the network was brought forward and carried out as a necessary part of the storm restoration activities. In particular, we expect some assets replaced as a result of damage caused are assumed to have been nearly due for end-of-life replacement and the work was undertaken in the aftermath of the September storm. Additionally, it is assumed removal of some hazardous trees will no longer require clearing in the near term.

This reduction in future work will reduce our costs during the 2021-26 regulatory period. We have adopted the same approach to quantifying this adjustment as was proposed and approved by the AER in our February Storm application. The forecast savings in this regulatory period are shown in Table 4 below.

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

	ESTIMATED SAVINGS
Capital replacement (capex)	\$150,412
Vegetation management (opex)	\$6,154

Source: AusNet.

5. Eligible and proposed pass through amount

5.1. Eligible pass through amount

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

The eligible pass through amount is the increase in costs incurred in the provision of direct control services as a result of the pass through event¹⁹. It covers all expenditure, including the capex and opex incurred and likely to be incurred, until either the end of the regulatory period in which the positive change event occurred or, if cost recovery is to continue into the next period, the end of that regulatory period.

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

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

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

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

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

\$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Distribution systems assets Capex				7.85		
Sep 2024 storm incremental Opex				10.82		
Total				18.67		

Source: AusNet.

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

\$ JUN 2021	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Return on capital					\$ 0.3	\$ 0.73
Return of capital					\$ 0.0	\$ 0.0
Operating expenditure				\$10.8		\$ 10.8
Revenue adjustments						
Tax						
Building block revenue				10.8	0.3	11.1

Source: AusNet.

5.3. Costs as a consequence of the positive change event

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

¹⁹ Definition of 'eligible pass through amount', chapter 10 of the National Electricity Rules.

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

As discussed in section 3, we have only included incremental costs in our application.

5.4. Prudency and efficiency of pass through amount

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

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

As outlined in our February 2024 storm cost pass through application, we have undertaken analysis to identify investment to mitigate the impact of future extreme weather events on our network and our customers. This has informed our 2026-31 revenue proposal to be submitted to the AER in January 2025, which will determine the efficient resilience investment we will make in the network in 2026-31

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

We routinely conduct Post Incident Reviews (PIR) of our operational responses to major events. Including the June and October 2021 and February 2024 storms, these have led to the following significant changes to our operational response. Specifically, following the February 2024 storm PIR we:

- **Stood up our response team earlier and with additional resources:** The early stand-up of teams ensured preparedness and swift action when needed. Additional resources allocated to improve response capabilities. These actions contributed to a shorter event tail – all customers were restored by Sunday 8th September.
- **Uplifted our community outreach**, including use of our first Emergency Management Mobile Assistance (EMMA) vehicle. Crewed by our Community Engagement team and other employee volunteers, the EMMA helped our customers with Wi-Fi access, to charge their devices, with information, and to navigate our outage tracker website.
- **Proactive customer communication and ensured our communication channels were able to manage the surge:**
 - Additional communication resources deployed to manage the increased demand.
 - Improved Estimated Time of Restoration (ETR) process,
 - The outage tracker was accessible online.
- **Deploying generators into communities ahead of the storm event:** Generators were dispatched early in some pre-planned locations, minimising delays in power restoration.
- **Use of Regional Response Teams** located in regional depots which improved local responsiveness.

The impact of these actions on the efficiency of our response, and the impact on our costs will be reflected in the actual costs we are seeking to pass through. We have identified opportunities to further improve our response and will implement these opportunities to continuously improve our response to significant events.

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

Insurance considerations

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

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

- (i) whether AusNet Services has insurance against the event; and
- (ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event²⁰.

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

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

- the insurance cap available is extremely low in comparison to the value of the assets and the value that may be impacted by one natural disaster event. The value (merit) is incomparable to the value of insuring assets located within our network;
- the premium for including this risk is a significant proportion of the payout cap, as is the deductible; and
- if a claim was made under such cover, it is expected that the premium would increase significantly. This reflects the insurer's assessment of the likelihood of this risk being realised.

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

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

5.5. Proposed positive pass through amount

Clause 6.6.1(c)(4) of the NER requires us to specify the positive pass through amount that we propose in relation to the positive change event. The positive pass through amount is defined as an amount not exceeding the eligible pass through amount. We propose a positive pass through amount of \$11.1 million (\$2021, unsmoothed). We have calculated the proposed positive pass amount as the change in our required revenues for the 2021-26 regulatory period due to the positive change event. That is, our proposed positive pass through amount incorporates the opex and return on capital and return of capital for the 2021-26 regulatory period arising from the incremental expenditure from the September storm.

The PTRM used to calculate the pass through amount with this application is provided as Attachment 2²¹.

5.6. Pass through amount in each regulatory year

Clause 6.6.1(c)(5) of the NER requires that we specify the amount that we propose to pass through to customers in the year, and each regulatory year after that, in which the positive change event occurred. We propose to smooth the recovery over the remaining one year of this regulatory period and the first year of the next regulatory period, and recover approximately \$5.7 million of the total proposed pass through amount of \$11.4 million (\$2021, smoothed) in the final regulatory year from 1 July 2025 to 30 June 2026. This represents half of the proposed pass through amount.

AusNet has only one regulatory year in the current period to recover the pass through amount, regulatory year 2025-26 and we note that we have also submitted 2 recent pass through application for costs associated with complying the Victorian Emergency Backstop Mechanism (VEBM) and February storm event. We have considered the total impact of all pass through amounts on customers bills.

This balances price impact with allowing us to better manage cash flow by more accurately matching costs (incurred in calendar year 2024) with revenue compared to recovery over a longer time period. This relatively quick

²⁰ AER, AusNet Services distribution determination final decision 2021-26, Attachment 15 – Pass through events, p. 15-18

²¹ This PTRM is based on the approved version of our PTRM model which incorporates the 2024-25 return on debt update and our VEBM pass through amount.

recovery also avoids disproportionately impacting future bills years after the event, considering there may be more cost pass through events in future years.

Table 7: Revenue per customer (\$2021)

	2021-22	2022-23	2023-24	2024-25	2025-26	% change from 2024-25
Current PTRM (including VEBM and 1/3 rd Feb storm)	\$ 839	\$ 908	\$ 803	\$ 792	\$ 794	0%
Revenue +100% storm recovery in 2025-26					\$ 808	2%
Revenue +50% recovery in 2025-26					\$ 801	1%
Revenue +33% recovery in 2025-26					\$ 799	1%

6. Attachments

ATTACHMENT

1 Sep 24 Storm Distribution Pass Through Build up of costs – Confidential

2 PTRM update

3. EY Independent review of AusNet's costs - Confidential

4. Confidentiality template

7. Compliance checklist

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




NER Clause	Requirement	Information provided	Section of application
6.6.1 (a1)	Identification as a pass through event An event allowing for pass through of costs may be specified in the distribution determination (sub 5)	The application confirms that the September storm is a 'natural disaster event' as specified in our 2021-2026 Determination	3.2
6.6.1 (a)	A DNSP may seek AER approval for the pass through for a positive change event To qualify as a positive change event the DNSP must have incurred materially higher costs (NER defined) in providing direct control services	The application confirms that AusNet incurred materially higher costs in providing direct control services, and accordingly the event qualifies as a positive pass through event	3.3
6.6.1 (c)	A DNSP must submit a statement (interchangeable term being application) within 90 business days of the relevant positive change event occurring	This application was submitted before the 8th of January 2025, and within 90 business days of the event occurring	2.2
6.6.1 (c)(1)	The statement must specify: • The details of the positive change event	The details of the positive change event, being the nature and impact on AusNet, is set out in the application	3.1
6.6.1 (c)(2)	• The date on which the positive change event occurred	As referenced above (see row 6.6.1 (c)) this date and its rationale is provided	2.2
6.6.1 (c)(3)	• The eligible pass through amount, being the increase costs in the provision of direct control services as a result of the positive change event	The application provides detail on the sources of cost increases and the cost attributed for each, which constitutes the eligible pass through amount	5.2
6.6.1 (c)(4)	• The positive pass-through amount proposed	The application proposes a positive pass through amount	5.5
6.6.1 (c)(5)	• The amount proposed to be passed through in the regulatory year in which the event occurred in subsequent regulatory years	We have proposed a recovery profile beginning with \$5.7m in regulatory year 2025-26 and the remainder early in 2026-27 in the upcoming period	5.6
6.6.1 (c)(6)(i)	Evidence of: • the actual and likely increases	Provided in build up of costs model and summarised in the application	Section 4 and supporting attachments
6.6.1 (c)(6)(ii)	• that the costs occur solely as a consequence of the positive change event	The application describes the data sources and processes to determine the costs solely occurring as a consequence of the positive change event	5.3

6.6.1 (c) (6) (iii)	<ul style="list-style-type: none"> relates to the circumstances where the cause of costs is a retailer insolvency event 	Not applicable. Noted in the application	2.1
6.6.1 (c) (7)	<ul style="list-style-type: none"> other information as required under any relevant regulatory instrument 	Not applicable. Noted in the application	2.2
(6) (c1)	<ul style="list-style-type: none"> relates to the pass through amount including expenditure for a restricted asset 	AusNet has explored this, as noted in the application.	3.4

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