

Determination

AusNet Services

**Victorian Emergency Backstop
Mechanism Cost Pass Through**

August 2024

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Summary of our assessment

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

On 2 February 2024, AusNet submitted a cost pass through application to the Australian Energy Regulator (AER), seeking to recover costs incurred in response to the Victorian Government introducing the Victorian Emergency Backstop Mechanism (VEBM).¹ The VEBM requires all new and replacement solar systems connected to distribution networks to be able to be remotely interrupted or curtailed when directed by Australian Energy Market Operator (AEMO) in a minimum system load event to maintain whole of system security.

AusNet submitted that it expects to incur total costs of \$29.6 million (\$2021) across capital and operating expenditure to comply with the VEBM, and is seeking to recover costs by increasing its revenue allowance by \$17.6 million (nominal, smoothed) for the 2021–26 period.

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

- the approved pass through amount, and
- how much of that amount should be passed through to distribution network users in the regulatory year, and each regulatory year after that, in which the positive change event occurred, taking into account the matters referred to in clause 6.6.1(j) of the NER.⁴

In making our determination on AusNet's pass through application, we must have regard to certain matters specified in the NER.²

We published AusNet's cost pass through application on 28 February 2024, and sought submissions from interested stakeholders. No submissions were received.

We are satisfied that the event described in AusNet's cost pass through application meets the definition of a service standard event in the NER. The VEBM is being implemented by the Victorian Government by altering AusNet's distribution licence through two ministerial orders. The new licence conditions together introduce new minimum service standards for embedded generating units connecting to the network, and materially alter the nature and scope of direct control services provided by AusNet.

Further, we consider the additional costs incurred and forecast to be incurred by AusNet to comply with the VEBM meet the materiality threshold for pass through in 2023–24. As such, we consider that a positive change event has occurred.

However, we are not satisfied that AusNet's proposed pass through costs of \$29.6 million (\$2021) reflect only the actual and likely increase in costs the AusNet will incur within the current regulatory period solely as a consequence of the service standard event. Specifically,

¹ Cl. 6.6.1(a) of the NER.

² Cl. 6.6.1(j) of the NER.

we are not satisfied that costs associated with the Distributed Energy Resources Management System (DERMS) optimisation module are necessarily required to meet the new licence conditions. We consider that these costs are related to functionality in excess of what is required for AusNet to comply with the VEBM obligations. We have therefore excluded these costs from our calculation of the approved pass through amount. We also identified a minor error in AusNet's cost build up model and amended AusNet's application of CPI to escalate costs. We have made adjustments to the total pass through costs to reflect our changes. These adjustments have decreased the pass through amount by \$0.4 million (nominal, smoothed), from \$17.6 million (nominal, smoothed) to \$17.2 million (nominal, smoothed). Our adjustment is discussed in greater detail in section 4.4 of this report.

We are satisfied that the remainder of AusNet's proposed positive pass through amount reflects an incremental increase in costs attributable to the pass through event, and is consistent with an efficient response to comply with the VEBM requirements.

Our determination is to approve a positive pass through amount of \$17.2 million (nominal, smoothed) to be recovered in the final year of the current regulatory period (2025–26).

The approved pass through amount reflects the recovery of the opex incurred along with the return on and return of capital within the current regulatory period. The capital costs incurred will continue to be recovered over the life of the assets in future regulatory control periods.

We estimate that the approved cost pass through amount will add approximately \$14 (nominal) to average residential consumer bills in the 2025-26 year.

1 Introduction

We received a cost pass through application from AusNet for additional expenditure associated with costs incurred in response to the Victorian Government introducing the VEBM.

As a result, AusNet proposed to recover additional revenues of \$17.6 million (nominal, smoothed) from its customers in the current regulatory control period.

1.1 Who we are and our role in the process

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

The AER regulates AusNet's revenues through five year distribution revenue determinations. The current revenue determination runs from 1 July 2021 to 30 June 2026.

We are responsible for assessing pass through applications. Under the pass through provisions in the NER, a distribution business may apply to us to seek the recovery of additional costs incurred during a regulatory control period arising from predefined events, specified in either the NER or in its revenue determination.³

1.2 AusNet's application

On 2 February 2024, AusNet submitted a cost pass through application to the AER, seeking to recover costs it has incurred and expects to incur in response to the Victorian Government introducing the VEBM.

The VEBM requires all new and replacement solar systems connected to distribution networks to be able to be remotely interrupted or curtailed when directed by AEMO in a minimum system load event to maintain whole of system security.

The VEBM is to be implemented by altering AusNet's distribution licence conditions in two stages:

- Stage 1, applying to new and replacement solar embedded generating units greater than 200 kW (Ministerial Order gazetted on 11 October 2023 and effective 25 October 2023)
- Stage 2, applying to new and replacement solar embedded generating units 200kW and below (Ministerial Order gazetted on 31 January 2024 and initially effective 1 July 2024). On 21 June 2024 the Victorian Government amended the VEBM to delay commencement of stage 2 until 1 October 2024.

³ Cl. 6.6.1 of the NER.

The key drivers of the incremental costs for AusNet associated with implementing the VEBM are:

- upgrades to ICT systems, including building a distributed energy resources management system (DERMS) and utility server, and integrating these into current systems. This will enable systems to communicate and enable remote control of inverters
- software licence costs
- cyber security, including designing and implementing solutions that meet cybersecurity requirements
- change management, including developing and formalising new business processes, documentation and training
- developing the customer product in line with new requirements, managing installer and stakeholder interactions, and managing customer experience
- setting up processes for authentication of devices for secure communication.

The majority of AusNet's proposed costs are based on contract costs or supplier quotes. Other costs are built up through an internal labour effort model. AusNet expects to incur total costs of \$29.6 million (\$2021) across capital and operating expenditure.

Table 1 shows the additional opex and capex costs that AusNet has incurred, and expects to incur, over its current 2021–26 regulatory control period as a result of the VEBM.

Table 1 AusNet's proposed expenditure relating to the VEBM

\$million, (June 2021)	2021–22	2022–23	2023–24	2024-25	2025–26	Total
Opex expenditure	-	-	1.54	2.59	2.63	6.77
Capex expenditure	-	-	19.47	3.27	0.12	22.86
Total expenditure	-	-	21.01	5.86	2.75	29.62

Source: AusNet - Cost pass through application.

AusNet claimed confidentiality over a number of the documents it submitted to us in support of its cost pass through application detailing its market sensitive cost information.⁴ This included cost details which may compromise a competitive tender process and negotiation positions. We have reviewed and accepted AusNet's confidentiality claims.

⁴ However, AusNet provided a public version of its application, which is available on our website [here](#).

2 Determination

Based on our consideration of the matters set out in this decision, we consider that AusNet's application establishes that a pass through event has occurred in respect to the introduction of the VEBM, being a service standard event. Our assessment against the requirements of a positive change event is summarised in section 5 (Tables 5 and 6).

We are satisfied that the VEBM constitutes a positive change event as defined under the NER. In particular, we are satisfied that AusNet has incurred a material increase in costs in the 2023-24 regulatory year as a result of this pass through event.

Our determination is to approve a positive pass through amount of \$17.2 million (nominal, smoothed) to be recovered in 2025-26, the final year of AusNet's regulatory control period, through the X-factor set in the PTRM.

In making this determination, we have taken into account relevant factors in the NER, including:⁵

- the matters and proposals set out in AusNet's service standard event cost pass through application
- the incremental costs incurred by AusNet as a consequence of the positive change event
- the efficiency of AusNet's decisions and actions in relation to the positive change event, and
- whether the costs of the pass through event have already been factored into AusNet's revenue for the 2021–26 regulatory control period.

Sections 4 and 5 set out our assessment of AusNet's cost pass through application and the positive pass through amount.

⁵ Cl. 6.6.1 of the NER.

3 Relevant regulatory requirements and assessment approach

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

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

“a pass through event...which entails the DNSP incurring materially⁶ higher costs in providing direct control services than it would have incurred but for that event...”⁷

AusNet submitted that the introduction of the VEBM represented a service standard event which imposes new minimum service standards regarding connection of embedded generation up to 30MVA; and alters the scope of the direct control services provided by AusNet.

We undertake our assessment with reference to the NER and the revenue determination applicable to AusNet when the service standard event occurred, which is AusNet’s distribution determination for the 2021–26 regulatory control period.

As part of this process, we examine whether AusNet’s application has addressed matters specified in clause 6.6.1(c) of the NER (see section 5 below (Table 5 and Table 6)). We also determine the materiality of the proposed pass through amount.

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

- the approved pass through amount, and
- the amount that should be passed through to distribution network users in the regulatory year, and each regulatory year after that, in which the positive change event occurred, taking into account the factors referred to in clause 6.6.1(j) of the NER.

3.1 Timing matters

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

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

⁶ Materially higher costs means the costs incurred or likely to be incurred in any regulatory year of a regulatory control period, as a result of that event, exceed 1% of the maximum allowed revenue for that year.

⁷ NER, chapter 10.

4 Reasons for determination

The sections below set out the reasons for our determination.

4.1 Occurrence of service standard event

The first step in our assessment is to assess whether a pass through event has occurred.

AusNet submitted that the VEBM Ministerial Orders qualify as a service standard event⁸, which is provided for and defined as follows in the NER:

A legislative or administrative act or decision that:

(a) *has the effect of:*

(i) substantially varying, during the course of a regulatory control period, the manner in which a Transmission Network Service Provider is required to provide a prescribed transmission service, or a Distribution Network Service Provider is required to provide a direct control service; or

(ii) imposing, removing or varying, during the course of a regulatory control period, minimum service standards applicable to prescribed transmission services or direct control services; or

(iii) altering, during the course of a regulatory control period, the nature or scope of the prescribed transmission services or direct control services, provided by the service provider; and

(b) materially increases or materially decreases the costs to the service provider of providing prescribed transmission services or direct control services.

The VEBM is being implemented by the Victorian Government by altering AusNet's distribution licence through two ministerial orders. These new licence conditions together introduce new minimum service standards for embedded generating units connecting to the network, and materially alter the nature and scope of direct control services provided by AusNet. We are therefore satisfied that AusNet's cost pass through meets the requirements for a service standard event.

4.2 Positive change event

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

The NER defines "materially" as follows:

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

⁸ NER, Chapter 10.

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.

We consider the additional costs incurred and forecast to be incurred by AusNet as a result of the VEBM meet the materiality threshold in 2023-24, as demonstrated in Table 2 below.

Table 2 Materiality assessment of AusNet VEBM cost pass through

	2021–22	2022–23	2023–24	2024-25	2025–26	Total
AER Opex expenditure (\$million 2021)	-	-	1.53	2.56	2.60	6.69
AER Capex expenditure (\$million 2021)	-	-	18.04	2.79	0.12	20.94
AER Total expenditure (\$million 2021)	-	-	19.57	5.35	2.72	27.64
Approved unsmoothed revenue (\$million 2021)	-	-	657.75	648.38	613.60	1,919.73
Materiality (%)	-	-	2.97	0.83	0.44	1.44

Source: AER analysis.

4.3 Timing of AusNet’s application

The NER requires a DNSP to submit a cost pass through application to us within 90 business days of the positive change event occurring.

We consider that the positive change event occurred on 31 January 2024, being the date the final stage two ministerial order was gazetted. We received AusNet’s cost pass through application on 2 February 2024, which was within 90 business days of the positive change event occurring.

Following our initial assessment of AusNet application, we issued three information notices to AusNet under clause 6.6.1(e1) of the NER, requesting further information on the scope of works and associated costs.

The first information notice was issued on 20 March 2024 and we received AusNet’s response on 10 April 2024. The second was issued on 1 May 2024 and we received AusNet response on 10 May 2024. The last information notice was issued on 1 July 2024. We received AusNet response to our information notice on 5 July 2024. Accordingly we are required to make this determination by 30 August 2024.

4.4 Assessment of the pass through amount

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

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

- the pass through amount reflects only those costs incurred as a result of the service standard event, and not business-as-usual costs, or costs of increasing the scope of network services provided by AusNet;
- the costs incurred are prudent and efficient costs required to comply with the VEBM obligations
- the pass through amount reflects only the incremental costs required in responding to the VEBM, taking into account any deductions for actual or expected cost savings.

We have adjusted AusNet proposed cost pass through amount to exclude costs associated with the DERMS Optimisation Module. We consider these costs are in excess of what is necessarily required to meet the VEBM Ministerial Orders. We have also fixed an error in the cost build up model and amended the proposed CPI conversion approach. We are satisfied that the remaining costs AusNet has incurred, and is forecast to incur, are costs incurred solely as a consequence of the VEBM and are likely to be prudent and efficient in the circumstances. These costs have been demonstrated to be incremental costs and separate to the business as usual costs of operating the distribution network.

Our determination on the approved incremental revenue for the Victorian Emergency Backstop Mechanism is set out below in Table 3.

Table 3 AER approved incremental revenue resulting from the VEBM (\$million, nominal)

\$million, nominal	2021–22	2022–23	2023–24	2024-25	2025–26	Total
Return on capital	-	-	-	0.9	0.8	1.7
Return of capital (regulatory depreciation)	-	-	-	3.6	4.2	7.8
Operating expenditure	-	-	1.6	2.8	2.9	7.3
Net tax amount	-	-	-	-	-	-
Incremental annual revenue requirement (unsmoothed)	-	-	1.6	7.3	7.9	16.8
Incremental annual expected revenue (smoothed)	-	-	-	-	17.2	17.2

Source: AER analysis

4.4.1 Incremental revenue and pass through amount calculations

AusNet's application included \$29.6 million (\$2021) of additional capital and operating costs (total expenditure or totex) required to address the VEBM. We assessed AusNet's proposed costs, and requested further information in regard to incurred and forecast costs in the current period. After reviewing AusNet responses, we have reduced the proposed additional costs by \$2.0 million (\$2021) to ensure that only actual and likely costs needed to directly comply with the VEBM are recovered, as shown in Table 4 below. Our reasoning is explained further below.

Table 4 AER approved incremental capex and opex expenditure for the VEBM

\$million, (June 2021)	2023-24	2024-25	2025-26	Total
Proposed cost pass through totex	21.01	5.86	2.75	29.62
Approved cost pass through totex	19.57	5.35	2.72	27.64
Difference	-1.45	-0.51	-0.03	-1.99

Source: AER analysis

DERMS Optimisation Module

AusNet proposed costs for a DERMS (Distributed Energy Resources Management System) Optimisation Module.

The Stage 2 licence conditions state that “the licensee must operate a utility server capable of remotely interrupting and curtailing electricity generation by an emergency backstop enabled relevant solar microgeneration unit connected to the licensee’s distribution system”⁹. As such the licence conditions do not appear to require optimisation of capacity (as opposed to interruption or curtailment).

We issued an information request to AusNet under clause 6.6.1(e1) of the NER, requesting further information on the DERMS Optimisation Module. In response to our information request AusNet stated: “the Optimisation module designs instructions in a way that optimises the response to ensure all available generation capacity is utilised efficiently.... In the absence of the Optimisation module, there would need to be a manual input of the curtailment methodology for all curtailable DER into the Gateway and Operations module, which would be both manually onerous and result in a less efficient outcome.” We are of the view that this is in reference to the additional work required to perform optimisation in enacting the VEBM only if optimisation, as opposed to interruption or curtailment, is required.

We understand that the DERMS Optimisation Module will likely provide benefits and efficiencies in the longer term for both AusNet and its customers. Nonetheless, unlike the other costs identified by AusNet in its pass through application, in our view this does not appear to represent a cost that AusNet must necessarily incur as a result of the change in service standards associated with the VEBM.

One of the factors we must have regard to in making a cost pass through decision under the NER is the need to ensure the DNSP only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of the pass through event.¹⁰ In this case, the costs should solely be as a consequence of the obligation to comply with the Stage 1 and Stage 2 Ministerial Orders for the delivery of the VEBM.

While many of the new functions, capabilities and system integration costs included in AusNet’s pass through application will or may also be used for additional purposes

⁹ Victorian Government Gazette, Ministerial Order Specifying Licence Condition, 31 January 2024

¹⁰ Cl. 6.6.1(j)(5) of the NER.

associated with integrating consumer energy resources into the network in the future, in the context of this pass through determination we must consider whether these are necessary at this time to deliver the functionality required under the VEBM Ministerial Orders.

Based on the information provided to us by AusNet, and our review of the Ministerial Orders and associated VEBM consultation documentation, we consider that the inclusion of the DERMS Optimisation Module is not a cost AusNet must incur in the provision of direct control services solely as a result of the pass through event. While this module may provide benefits in the longer term it appears to provide functionality in excess of that required for compliance with the VEBM, with a likelihood it may not be required or provide limited benefit in the short term.

The cost pass through framework requires that we only pass through costs to consumers through this determination that are directly related and solely incurred in order to comply with the change in service standard imposed through the VEBM Ministerial Orders. We therefore consider the costs and benefits of this optimisation functionality are better considered outside the pass through context as part of ongoing engagement with consumers and supported through a cost benefit analysis. For example, AusNet may consider, based on its assessment of costs and benefits, that this is a priority investment it will seek to make within its existing regulatory allowance for the 2021–26 period, or consider it further in development of its investment plans for the 2026–31 regulatory period.

Cost build up model and PTRM

We issued an information request to AusNet under clause 6.6.1(e1) of the NER, requesting confirmation of an error we discovered in the cost build up model as well as confirmation of a change in the CPI conversion calculation. In AusNet's response they confirmed the error and the AER's alternative approach to the CPI conversion calculation, and provided an updated cost build up model. This resulted in minor changes to the total approved costs.

4.4.2 Costs represent the prudent and efficient costs to comply with the VEBM

In order to assess the efficiency of the opex and capex costs identified by AusNet in its cost pass through application, we have examined the scope of actions and works AusNet has undertaken and planned in response to the VEBM service standard event. We considered the necessity of the works, and the basis of cost estimates. We reviewed the cost model provided by AusNet and issued information notices to obtain further details to ensure that the proposed costs were incremental to existing allowances, and efficient in the context of the new VEBM obligations.

Excluding the costs associated with the DERMS Optimisation Module and minor changes to the cost build up model, we are satisfied AusNet has demonstrated prudence in identifying the scope of necessary works to comply with the VEBM Ministerial Orders. We are satisfied that the costs AusNet has incurred, and the estimated costs it expects to incur, as a result of the need to comply with the VEBM are likely to reflect efficient costs in the circumstances.

4.5 Timing of cost pass through recovery

AusNet proposed to recover the incremental revenue arising from its cost pass through application over the remaining two years (2024-25 and 2025-26) of its 2021–26 regulatory control period. Due to the timing of this determination, it is not possible to now amend

AusNet's allowed revenue for the 2024-25 regulatory year. As a result, the approved pass through amount will be recovered in the final year of the current period (2025-26).

5 NER requirements

For a cost pass through to be determined, there must be a positive change event that results in an eligible pass through amount. AusNet can then submit a pass through application, that must address certain matters specified in the NER.¹¹ We make a determination on AusNet's cost pass through application and determine the approved pass through amount and the regulatory years in which that pass through amount is to be recovered.¹²

For the reasons set out in Table 5 below, we are satisfied that a positive change event has occurred, and that AusNet's application relating to the VEBM specifies the necessary matters required by the NER. Additionally, after consideration of the factors set out in Table 6 below, we are satisfied the appropriate pass through amount is \$17.2 million (nominal, smoothed), to be recovered in 2025-26, the final year of AusNet's 2021–26 regulatory control period.

Table 5 Requirements for determining a positive change event has occurred

Requirement of the NER	Our consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event? ¹³	Yes
Is the pass through event a contingent project or a trigger event associated with a contingent project? ¹⁴	No
Did the Victorian Emergency Backstop Mechanism cost pass through event entail AusNet incurring materially higher costs in providing direct control services than it would have incurred but for the event? ¹⁵	Yes. As discussed in section 4.2, we consider the additional costs incurred by AusNet as a result of the VEBM meet the materiality threshold. AusNet's annual revenue requirement (unsmoothed) for the 2023–24 regulatory year was \$657.75 million (\$2021), 1% of which is \$6.58 million (\$2021). We consider that the efficient amount of opex and capex incurred as a result of the VEBM in 2023-24 (\$19.57 million, \$2021 unsmoothed) exceeds this amount, and therefore the increase in costs incurred as a result of the event is material.
What is the date on which the positive change event occurred?	The VEBM is comprised of 2 stages, the first gazetted on 11 October 2023 and the second on 31 January 2024. AusNet has submitted that these two stages combine to create one event that occurred when stage 2 was gazetted. We agree with AusNet that the positive change event occurred on 31 January 2024.
Did AusNet submit a written statement of its pass through application within 90 business days of the positive change event occurring? ¹⁶	Yes. AusNet submitted its application on 2 February 2024 which is within the allowed timeframe.
Did AusNet specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year? ¹⁷	Yes. AusNet proposed an eligible positive pass through amount of \$17.6 million (nominal, smoothed) to be recovered from consumers in 2024–25 and 2025–26, the last two years of the current regulatory control period.

¹¹ NER, cl. 6.6.1(c).

¹² NER, cl. 6.6.1 (d).

¹³ NER, cl. 6.6.1(a1)(1) through 6.6.1(a1)(4); and chapter 10.

¹⁴ See the definition of "positive change event" in chapter 10 of the NER.

¹⁵ That is, does it meet the definition of a positive change event as defined in chapter 10 of the NER.

¹⁶ NER, cl. 6.6.1(c).

¹⁷ NER, cl. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5).

Did AusNet specify in its written statement evidence of the actual and likely increase in costs that occurred solely as a consequence of the positive change event? ¹⁸	Yes. AusNet's pass through application set out the costs it incurred as a result of the VEBM, as well as how it calculated its proposed pass through amount.
Was there a regulatory information instrument applicable to the pass through application? ¹⁹	No
Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset? ²⁰	No

Table 6 Factors that the AER is to consider under the NER when determining a positive pass through amount

Relevant factors under cl. 6.6.1(j)	AER consideration
In making the pass through determination we must take into account the matters and proposals set out in AusNet's written statement. ²¹	This decision sets out how we have taken into account the matters and proposals set out in AusNet's pass through application (written statement).
We must take into account the incremental increase in costs resulting from the pass through event. ²²	In section 4.4 above we set out our assessment of the costs incurred and likely to be incurred by AusNet as a consequence of the VEBM service standard event.
We must take into account the time cost of money. ²³	To account for the recovery of the pass through amount in 2025–26, we have used the nominal rate of return, as determined in AusNet 2021–26 distribution determination reflecting the most recent return on debt update in the approved PTRM.
We must take into account the need to ensure that the pass through amount reflects only costs incurred solely as a consequence of the VEBM. ²⁴	We have investigated the costs proposed by AusNet in its proposal and response to our subsequent information requests. We are satisfied that the costs included in our approved pass through amount were solely incurred because of the VEBM.
We must take into account whether the costs of the pass through event have already been factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the Distribution Network Service Provider's annual revenue requirement for a subsequent regulatory control period ²⁵	We do not consider the costs that AusNet has proposed to recover have been factored into AusNet's annual revenue requirement for the regulatory control period in which the pass through event occurred (i.e. 2021-26).
We must take into account the extent to which AusNet costs have already been funded by previous pass through determinations. ²⁶	There is no evidence to suggest that costs included AusNet application have already been funded by previous pass through determinations.
We must take into account any other factors that we consider relevant. ²⁷	There are no other factors we took into account in our assessment of AusNet's application.

¹⁸ NER, cl. 6.6.1(c)(6).

¹⁹ NER, 6.6.1(c)(7).

²⁰ NER, cl. 6.6.1(c1) and (d2).

²¹ NER, cl. 6.6.1(j)(1).

²² NER, cl. 6.6.1(j)(2).

²³ NER, cl. 6.6.1(j)(4).

²⁴ NER, cl. 6.6.1 (j)(5).

²⁵ NER, cl. 6.6.1(j)(7).

²⁶ NER, cl. 6.6.1(j)(7A).

²⁷ NER, cl. 6.6.1(j)(8).

Glossary

Term	Definition
AER	Australian Energy Regulator
Capex	Capital Expenditure
DERMS	Distributed Energy Resources Management System
DNSP	Distribution Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Energy Rules
NSP	Network Service Provider
Opex	Operating Expenditure
AEMO	Australian Energy Market Operator
VEBM	Victorian Emergency Backstop Mechanism
AER	Australian Energy Regulator