

25 February 2025

Clare Savage  
Chair  
Australian Energy Regulator  
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Melbourne  
Victoria 3001

Submitted via: [costpassthroughs@aer.gov.au](mailto:costpassthroughs@aer.gov.au)

Dear Ms Savage,

### **AusNet Services distribution cost pass through – September 2024 storm: Application**

Erne Energy welcomes the opportunity to provide a submission to the AER on Ausnet Services – Distribution cost pass through application covering the September 2024 storm.

The ongoing approach of Ausnet Services – Distribution of seeking to recover Guaranteed Service Level (GSL) payments to customers impacted by storms that damage the Ausnet Services’ distribution network is not appropriate.

While recognising that there is a material step change to GSL costs as a result of severe weather events when assessed against the allowance in the AER’s final decision on Ausnet Services’ 2021-2026 regulatory reset and that AER is obliged through the Rules to decide in Ausnet Services’ favour, it is not appropriate for Ausnet Services’ customers to fund their own compensation for prolonged outages related to Major Event Days (MEDs).

Customers funding GSL compensation does not properly incentivise Ausnet Services to be responsive to customers impacted by a prolonged outage or minimise the impacts of that outage<sup>1</sup>. Distribution Network Service Providers (DNSPs) should self-fund any level of compensation that results from a prolonged outage.

The Essential Service Commission (ESC) in Victoria has consumer protections during widespread unplanned outages and emergency management as a priority focus<sup>2</sup> and the intent of the GSL compensation scheme in Victoria is to promote DNSP accountability and improved performance:

*“The commission remains committed to ensuring electricity distributors uphold reliable service levels and pay customers in instances of service failures — promoting distributor accountability and improved delivery of essential services to Victorians.”<sup>3</sup>*

It is difficult to see how customers funding customer compensation payments for prolonged outages provides any incentive on Ausnet Services to improve their performance in the face of increasing severe weather events. Indeed, the number of severe weather outages impacting the Ausnet Services’ distribution network during the current regulatory period, including the June 2021 storm, suggests

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<sup>1</sup> <https://www.aer.gov.au/system/files/Energy%20Consumers%20Australia%20-%20Submission%20and%20Attachment%20on%20the%20Victorian%20EDPR%20Revised%20Proposal%20and%20Draft%20Decision%2021-26%20-%202020%20January%202021.pdf>

<sup>2</sup> <https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/compliance-activities/our-energy-compliance-and-enforcement-priorities>

<sup>3</sup> <https://www.esc.vic.gov.au/media-centre/new-consumer-resource-guaranteed-service-level-payment-scheme-distribution-energy-outages>

that Ausnet Services has not modified its approach within the period to minimise the impact of severe weather on its customers.

Additionally, DNSPs can include an allocation for GSL in their regulatory proposals. This still means that customers are funding their own compensation and that, as a result, GSL payments do not incentivise DNSPs to minimise the impacts of prolonged outages on customers. This requirement for customers to fund their own compensation, is further compounded by the fact that MEDs fall outside the Service Target Performance Incentive Scheme (STPIS), which means that DNSP performance during MEDs is ignored.

Ausnet Services' allocation for GSL in the 2021-2026 regulatory period was revised and updated following the Victorian government increasing the value of GSL payments. Ausnet Services' initial allocation of \$46.7 million was supported by the AER<sup>4</sup> and in response to the Victorian government changes Ausnet Services reduced this amount to \$16.1 million in its update<sup>5</sup>, with the AER allowing only \$13.4 million in its final decision<sup>6</sup>.

Ausnet Services' recovery of GSL payments in their cost pass through applications typically represent over 60 % of the cost of an event and in the 2021-2026 regulatory period has cost Ausnet Services' customers \$51 million, with an average of \$12.75 million for each MED-related outage. Including GSL compensation payments in cost pass through applications, increases the costs to customers of Ausnet Services. It appears as though the initial \$46.1 million allocation for GSL for the current regulatory period was a better estimate than the final decision of \$13.4 million. Regardless, customers should not be funding GSL payments. GSL payments, in the absence of any other incentive, should be a penalty on the DNSPs promoting approaches that minimise the impacts of severe weather outages.

In their cost pass through application of November 2021, covering the June 2021 storms, Ausnet Services included the GSL payments because the Victorian minister had issued an order<sup>7</sup> preventing Ausnet Services from being exempt from providing GSL payments to customers<sup>8</sup>. The order appears to apply only to the June 2021 storm (the relevant period) and so it is not immediately clear why Ausnet Services continues to pay GSL compensation for subsequent events that are likely to exceed the DNSP's daily unplanned interruption frequency threshold, welcome though those payments will have been to customers.

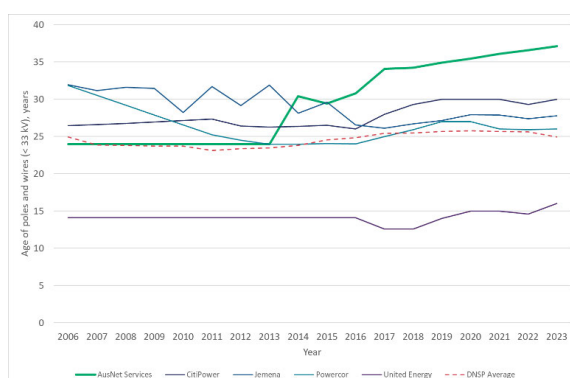


Figure 1: Average asset age for Victorian DNSPs (Green line = Ausnet Services)

<sup>4</sup> <https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20AusNet%20Services%20distribution%20determination%202021-26%20-%20Overview%20-%20September%202020.pdf>

<sup>5</sup> <https://www.aer.gov.au/system/files/AusNet%20Services%20-%20Revised%20Regulatory%20Proposal%20-%202021-26%20-%20December%202020.pdf>

<sup>6</sup> <https://www.aer.gov.au/system/files/AER%20-%20Final%20decision%20-%20AusNet%20Services%20distribution%20determination%202021%E2%80%9326%20-%20Overview%20-%20April%202021.pdf>

<sup>7</sup> <http://www.gazette.vic.gov.au/gazette/Gazettes2021/GG2021S636.pdf>

<sup>8</sup> <https://www.aer.gov.au/system/files/AusNet%20Services%20-%202020-21%20Storms%20disaster%20event%20cost%20pass%20through%20-%20Application%20-%20November%202021.pdf>

For supply interruptions that exceed the DNSP’s daily unplanned interruption frequency threshold, Ausnet Services can apply to the ESC for an exemption to pay GSL compensation but appears to have not sought that exemption given that the September 2024 storm is outside the relevant period for the November 2021 order.

Ausnet Services has one of the oldest distribution networks in the National Electricity Market (NEM)<sup>9,10</sup> and the oldest in Victoria (figure 1). The increasing age of Ausnet Services’ assets makes it vulnerable to poor performance in severe weather events (figure 2), with other Victorian DNSPs minimising outage impacts related to the same weather system<sup>11</sup>.

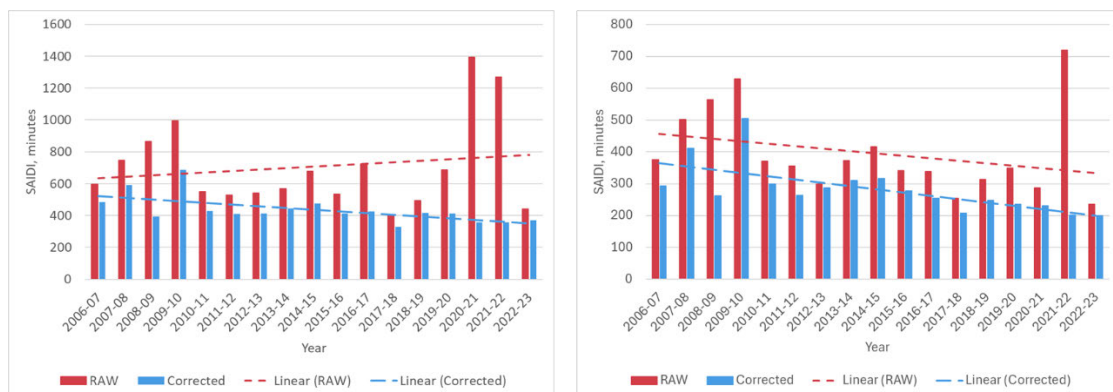


Figure 2: Raw and corrected SAIDI for Victorian DNSPs showing impact of MEDs. Left panel with Ausnet Services’ data showing **increasing minutes lost due to MEDs**, right panel without Ausnet Services’ data showing **decreasing minutes lost due to MEDs**.

Ausnet Services’ current 2026-2031 regulatory proposal must appropriately explore the balance between capital expenditure that would reduce the age of the network assets, adequately manage vegetation, which has a disproportionate impact on network assets in severe weather<sup>12</sup> but that can be effectively managed<sup>13</sup>.

The AER must also consider how best to minimise the impact of prolonged outages that appear to particularly impact Ausnet Services’ customers in Victoria through exploring the appropriate balance between geographically fixed resilience solutions and agile responsive resilience solutions, noting that severe weather events have increased in Victoria<sup>14</sup>.

DNSPs appear likely to have recourse to increased expenditure on “resilience” though the creation of new expenditure factors<sup>15</sup> and the Value of Network Resilience<sup>16</sup>. Both of these new expenditure opportunities are likely to significantly increase customer bills without delivering any improvement in consumer electricity resilience<sup>17</sup>.

The UK Distribution Network Operators (DNOs) are incentivised to maintain and improve network resilience through a range of schemes, with compensation to customers experiencing prolonged outages under the Guaranteed Standards of Performance (GSoP) representing a penalty that DNOs

<sup>9</sup> <https://www.aer.gov.au/system/files/2024-09/AER%20-%20Operational%20performance%20data%202024%20-%20Electricity%20Distribution%20Networks.xlsx>

<sup>10</sup> <https://energyconsumersaustralia.com.au/wp-content/uploads/report-consumer-electricity-resilience-jill-cainey.pdf>

<sup>11</sup> <https://energyconsumersaustralia.com.au/wp-content/uploads/report-consumer-electricity-resilience-jill-cainey.pdf>

<sup>12</sup> <https://www.energysafe.vic.gov.au/sites/default/files/2023-12/2023-safety-performance-report-on-victorian-electricity-networks.pdf>

<sup>13</sup> <https://assets.publishing.service.gov.uk/media/629fa8b1d3bf7f0371a9b0ca/storm-arwen-review-final-report.pdf>, page 7

<sup>14</sup> <https://energyconsumersaustralia.com.au/wp-content/uploads/report-consumer-electricity-resilience-jill-cainey.pdf>

<sup>15</sup> [https://www.aemc.gov.au/sites/default/files/2025-02/draft\\_determination.pdf](https://www.aemc.gov.au/sites/default/files/2025-02/draft_determination.pdf)

<sup>16</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/value-network-resilience-2024>

<sup>17</sup> <https://energyconsumersaustralia.com.au/wp-content/uploads/report-consumer-electricity-resilience-definition-jill-cainey.pdf>

must pay if performance standards are not met<sup>18</sup>. This means that the UK GSoP is funded by the business and not customers of the business.

It would be preferable if GSL payments were funded by the DNSP and not by customers, since

- Customer funded GSL represents the perverse outcome of customers funding their own compensation
- Customer funded GSL provides no incentive to the DNSP to minimise the impact of prolonged outages
- For Ausnet Services, GSL payments represent the bulk of a cost pass through application
- Ausnet Services appear particularly motivated to claim GSL payments in their cost pass through applications and appear over-represented in cost pass through applications (figure 3).

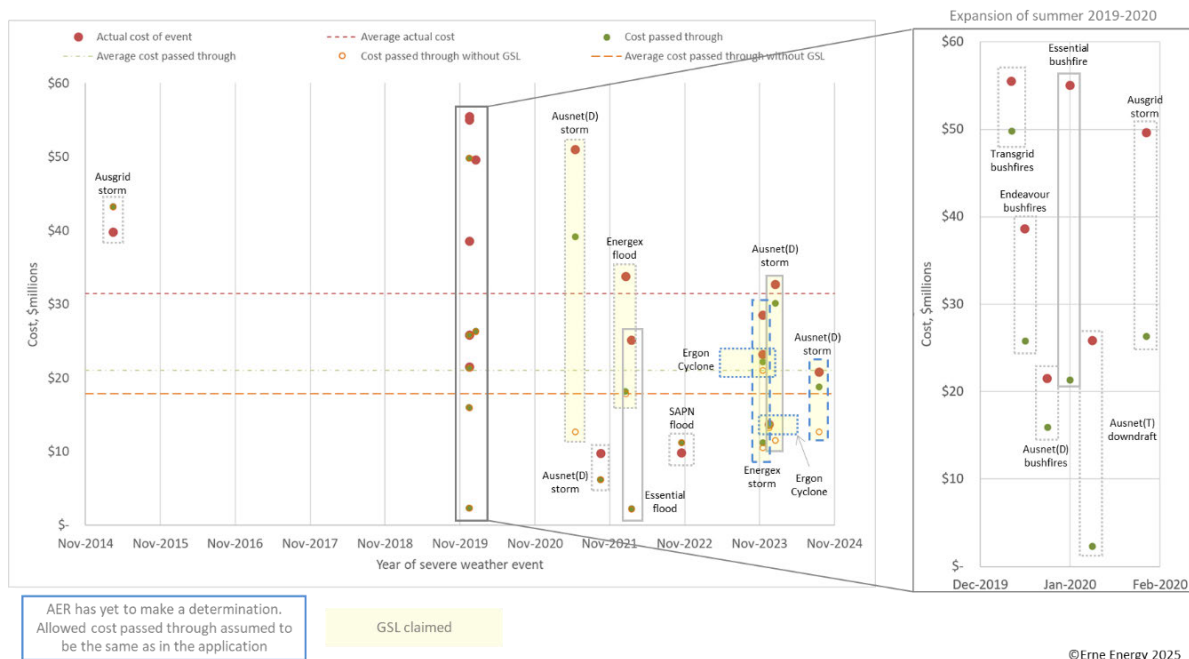


Figure 3: Cost pass through applications for the last decade showing actual cost, cost passed through to consumers and GSL claimed (based on AER 2022<sup>19</sup>)

This change in the treatment of GSL may necessitate a rule change proposal to remove it as an allowable expenditure in both the National Electricity Rules and the Victorian Electricity Distribution Code.

Many thanks for the opportunity to provide a submission to the Application. Please contact me if you need further information.

Yours Sincerely



Dr. Jill Caaney MBE

<sup>18</sup> <https://assets.publishing.service.gov.uk/media/629fa8b1d3bf7f0371a9b0ca/storm-arwen-review-final-report.pdf>

<sup>19</sup> <https://www.aer.gov.au/system/files/2022%20Electricity%20network%20performance%20report%20-%20July%202022.pdf>