

# Determination September 2024 storm cost pass through

AusNet Services

March 2025

© Commonwealth of Australia 2025

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

### **Important notice**

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Email: [aerinquiry@aer.gov.au](mailto:aerinquiry@aer.gov.au)  
Tel: 1300 585 165

AER reference: 17837500

### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	March 2025	29

## Contents

<b>Summary of our assessment</b> .....	<b>1</b>
<b>1 Introduction</b> .....	<b>3</b>
1.1 Who we are and our role in this process .....	3
1.2 AusNet Services' application .....	3
1.3 Structure of determination .....	5
<b>2 Determination</b> .....	<b>6</b>
<b>3 Relevant regulatory requirements and assessment approach</b> .....	<b>7</b>
3.1 Timing matters .....	8
3.2 NER requirements.....	8
<b>4 Reasons for determination</b> .....	<b>14</b>
4.1 Occurrence of a natural disaster .....	14
4.2 Positive change event .....	15
4.3 Timing of AusNet Services' application .....	15
4.4 Assessment of the pass through amount .....	16
4.5 Timing of cost pass through recovery.....	24
<b>Glossary</b> .....	<b>26</b>

## Summary of our assessment

Under the National Electricity Rules (NER), during a regulatory control period AusNet Services (electricity distribution) (AusNet Services) can apply to pass through to its customers, in the form of higher or lower network charges, costs it incurs as a result of pre-defined exogenous events. These events are called cost pass through events, and can include a natural disaster event.

On 23 December 2024, AusNet Services submitted a cost pass through application (AusNet Services' application) to the AER, seeking to recover costs it incurred as a result of the storm experienced in Victoria from the late evening on 1 September to 2 September 2024 (the September 2024 storm). AusNet Services stated that this weather event caused severe damage to its network, including fallen and damaged powerlines, power poles and transformers because of fallen trees and branches. This, in turn, caused widespread power outages throughout AusNet's distribution network affecting 180,000 customers, around 20% of AusNet Services' customer base.<sup>1</sup>

AusNet Services proposed a pass through capex and opex amount of \$18.7 million (\$June 2021). This amount included emergency response and network restoration costs, as well as approximately \$6.0 million related to Guaranteed Service Level (GSL) payments. The Electricity Distribution Code of Practice requires Victorian distributors to make GSL payments to customers who receive a level of service worse than a specific threshold or level. GSL payments are an acknowledgement of the inconvenience a customer experiences when their distributor does not meet a GSL.<sup>2</sup> Some AusNet Services' customers who were impacted by the September 2024 storm were entitled to receive GSL payments in accordance with the major event day (MED) interruption provision of the revised Electricity Distribution Code.<sup>3</sup>

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

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

taking into account the matters referred to in clause 6.6.1(j) of the NER.<sup>4</sup>

We published AusNet Services' application on our website on 30 January 2025 and invited stakeholder submissions. We received one submission, which we discuss in section 4.4.3.

---

<sup>1</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 3 and p. 7.

<sup>2</sup> <https://www.esc.vic.gov.au/electricity-and-gas/information-for-electricity-and-gas-consumers/guaranteed-service-level-payments-energy-outages>

<sup>3</sup> The revised code introduced a MED payment of \$90 per customer. See: Essential Services Commission, [Final decision - Electricity Distribution Code review – customer service standards](#), 16 November 2020 (amended on 22 December 2020), p. 61.

<sup>4</sup> NER, cl. 6.6.1(d).

We are satisfied that the September 2024 storm event meets the definition of a natural disaster pass through event as set out in AusNet Services' 2021–26 revenue determination. We are also satisfied that the materiality threshold to constitute a positive change event has been met and that AusNet Services may recover the prudent and efficient incremental costs incurred as a direct result of the September 2024 storm.

As part of our review, we sought additional detailed cost information from AusNet Services to support its proposed incremental costs. In response, AusNet Services submitted a revised cost build up which excluded \$0.6 million in costs which were not directly related to the September 2024 storm event. This resulted in a lower proposed pass through capex and opex amount of \$18.1 million (\$June 2021).

Based on our consideration of the factors set out in clause 6.6.1(j) of the NER, we determine to allow the pass through of costs proposed by AusNet Services as amended in its response to our information request. However, we have amended AusNet Services' proposed nominal to real dollar conversion factors in its cost build up model. This amendment has increased the revised proposed pass through capex and opex by \$1.6 million from \$18.1 million to \$19.7 million (\$June 2021). This is further discussed in section 4.4.1. These capex and opex amounts are then recovered through an approved amount of incremental revenue.

Our determination is for an approved pass through amount (incremental revenue) of \$12.9 million (\$nominal, smoothed) to be recovered over the final year of the 2021–26 regulatory control period (2025–26) and the first year of the 2026–31 regulatory control period (2026–27), as follows:

- \$6.3 million to be recovered in 2025–26
- \$6.6 million to be recovered in 2026–27.

We note the approved pass through amount is higher than AusNet Services' proposed amount in nominal terms. This is because we amended the nominal to real dollar conversion factors in AusNet Services' cost build up model and applied an adjustment to account for the time value of money to spread the cost recovery over 2 regulatory years. This is discussed in sections 4.4.1 and 2, respectively.

We estimate that the approved cost pass through amount will add approximately \$5 to the average AusNet Services residential customer's bills and \$18 to the average small business' bills each year from 1 July 2025 to 30 June 2027.<sup>5</sup>

---

<sup>5</sup> AusNet Services' bill impact analysis is based on revenue per customer, while our analysis is based on revenue per unit of energy delivered. We consider that our standard revenue per unit of energy delivered approach is appropriate for businesses operating under a revenue cap. We have conducted our bill impact analysis in a consistent manner across our regulatory decisions.

# 1 Introduction

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

AusNet Services proposed to recover \$12.5 million (\$nominal, smoothed) from electricity users through an increase in distribution prices.<sup>6</sup> However, in response to our request for additional information, AusNet Services revised this amount to \$11.6 million (\$nominal, smoothed), including \$5.8 million in the final regulatory year from 1 July 2025 to 30 June 2026 and the remainder (\$5.8 million) in the first year of the 2026–31 regulatory period. For simplicity, reference to “AusNet Services’ cost pass through application” in this document refers to the revised costs and revenues to be recovered submitted by AusNet Services in response to our request for additional information.

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

## 1.1 Who we are and our role in this process

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

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

We are responsible for assessing cost pass through applications.<sup>7</sup> Under the NER, a distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if predefined events occur as specified in either the NER or in its respective revenue determination.<sup>8</sup>

## 1.2 AusNet Services’ application

On 23 December 2024, AusNet Services submitted a cost pass through application seeking to recover the costs it has incurred as a result of the September 2024 storm in Victoria.<sup>9</sup>

---

<sup>6</sup> [AusNet Services distribution cost pass through - September 2024 storm | Australian Energy Regulator \(AER\)](#)

<sup>7</sup> NER, cl. 6.6.1.

<sup>8</sup> NER, cl. 6.6.1(a).

<sup>9</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024.

AusNet Services submitted that in the late evening on 1 September and continuing until 2 September, Victoria experienced an extreme storm that caused widespread damage to many households, businesses and infrastructure. This weather event caused severe damage to AusNet Services’ distribution network, including fallen and damaged powerlines, power poles and transformers because of fallen trees and branches. This, in turn, caused widespread power outages throughout AusNet’s distribution network affecting 180,000 customers, around 20% of AusNet Services’ customer base.<sup>10</sup>

AusNet Services initially stated it incurred \$18.7 million (\$June 2021) in incremental costs as a result of the September 2024 storm. It subsequently revised this amount to \$18.1 million in response to our request for additional information. The revised incremental costs are apportioned as follows:

- \$8.1 million in capital expenditure (capex) covering emergency capital works
- \$3.9 million in operating expenditure (opex) for emergency corrective works and vegetation management
- \$6.0 million in opex for GSL payments required to be made to eligible AusNet Services customers who experienced supply interruptions greater than 12 hours as a result of the storm.<sup>11</sup>

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

**Table 1: AusNet Services – costs related to the September 2024 storm (\$June 2021, million)**

\$million, (June 2021)	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Opex excluding GSL	-	-	-	3.9	-	3.9
GSL payments (opex)	-	-	-	6.0	-	6.0
Capex	-	-	-	8.1	-	8.1
<b>Total expenditure</b>	-	-	-	<b>18.1</b>	-	<b>18.1</b>

Source: AusNet Services, *September 2024 storm cost pass through application*, December 2024 (as amended in AusNet Services’ response to the AER’s request for additional information).

Note: '0.0' and '-0.0' represent small nonzero numbers and '-' represents zero.

AusNet Services submitted the revenue impact of the revised incremental costs incurred as a result of the event is \$11.1 million (\$nominal, unsmoothed) or \$11.6 million (\$nominal, smoothed). The initial incremental costs of \$18.7 million (\$June 2021) had a revenue impact of \$12.5 million (\$nominal, smoothed).

<sup>10</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 3 and p. 7.

<sup>11</sup> Since 1 July 2021, the Victorian GSL scheme has included a \$90 payment for customers off supply for more than 12 hours on a major event day. See Clause 14.6 of the [Electricity Distribution Code of Practice](#) (version 2). The Code of Practice does not provide for distributors to be excused from making MED GSL payments.

## 1.3 Structure of determination

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

The decision is structured as follows.

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



## 2 Determination

Based on our consideration of all the matters set out in this determination, we consider that AusNet Services' application, as submitted on 23 December 2024, establishes that a pass through event has occurred in respect of the September 2024 storm, being a natural disaster pass through event as specified in AusNet Services' 2021–26 revenue determination.

Our assessment against the requirements of a positive change event is summarised in section 3 (Table 3). We are satisfied that the September 2024 storm constitutes a positive change event as defined under the NER. In particular, we are satisfied that AusNet Services incurred a material increase in the costs of providing direct control services in the 2024–25 regulatory year as a result of this pass through event.

Our determination is to approve a positive pass through amount of \$12,851,403 (\$nominal, smoothed), to be recovered over two regulatory years, commencing from the last year of the 2021–26 regulatory control period (i.e. 2025–26) and the first regulatory year of the 2026–30 regulatory control period (i.e. 2026–27) as follows:

- \$ 6,296,939 (\$nominal) to be recovered in 2025–26
- \$ 6,554,464 (\$nominal) to be recovered in 2026–27.

We have amended AusNet Services' revised cost build up model to reflect the relevant nominal to real dollar conversion factors. We also applied an adjustment to account for the time value of money as required under the NER.<sup>12</sup> The above values are presented in nominal terms rather than real terms as at June 2021.

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

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

---

<sup>12</sup> Cl. 6.6.1(j)(4) of the NER.

### 3 Relevant regulatory requirements and assessment approach

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

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

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

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

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

“a pass through event...which entails the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for that event...”<sup>13</sup>

We undertake this assessment with reference to the NER and the revenue determination applicable to AusNet Services when the September 2024 storm occurred, which is AusNet Services’ distribution determination for the 2021–26 regulatory control period.<sup>14</sup>

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

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

---

<sup>13</sup> NER, chapter 10.

<sup>14</sup> See: <https://www.aer.gov.au/node/72919>

### 3.1 Timing matters

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

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

We extended the time of our review in accordance clause 6.6.1(e1) of the NER. We requested additional information from AusNet Services, which was provided by AusNet Services on 18 February 2025. We have made this determination within the extended timeframe from this date.

### 3.2 NER requirements

For a cost pass through to be determined, there must be a positive change event that results in an eligible pass through amount. AusNet Services can then submit a pass through application, that must address certain matters specified in the NER.<sup>15</sup> We make a determination on AusNet Services’ cost pass through application, and determine the approved pass through amount and the regulatory years in which that pass through amount is to be recovered.<sup>16</sup> For the reasons set out in Table 2 below, we are satisfied that a positive change event has occurred, and that AusNet Services’ application relating to the September 2024 storm specifies the necessary matters required by the NER.

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

Requirement of the NER	Our consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event? <sup>17</sup>	No.
Is the pass through event a contingent project or a trigger event associated with a contingent project? <sup>18</sup>	No.
Does the pass through relate to any other event specified in AusNet Services’ 2021–26 distribution determination as a pass through event for that determination? <sup>19</sup>	Yes. We consider that the September 2024 storm event satisfies the natural disaster pass through event specified in AusNet Services’ determination, which is defined as including cyclone, fire, flood, or other event, provided the event was not a consequence of the acts or omissions of the service provider.

<sup>15</sup> NER, cl. 6.6.1(c).

<sup>16</sup> NER, cl. 6.6.1 (d).

<sup>17</sup> NER, cll. 6.6.1(a1)(1) through 6.6.1(a1)(4); and chapter 10.

<sup>18</sup> See the definition of “positive change event” in chapter 10 of the NER.

<sup>19</sup> NER, cl. 6.6.1(a1)(5)

Requirement of the NER	Our consideration
Was the pass through event a consequence of acts or omissions of AusNet Services? <sup>20</sup>	No, there is no evidence that AusNet Services' acts or omissions caused the September 2024 storm.  As discussed in section 4.1.1.2, we have reviewed the material submitted by AusNet Services.
Did the September 2024 storm pass through event entail AusNet Services incurring materially higher costs in providing direct control services than it would have incurred but for the event? <sup>21</sup>	Yes. As discussed in section 4.2, we consider the additional costs incurred by AusNet Services in providing direct control services as a result of the September 2024 storm meet the materiality threshold.  AusNet Services' annual revenue requirement (unsmoothed) for the 2024–25 regulatory year during which the storm occurred was \$709.1 million (\$ nominal), 1% of which is \$7.1 million. We consider that an efficient amount of opex and capex incurred as a result of the September 2024 storm in that year exceeds this amount, and therefore the increase in costs incurred in providing direct control services as a result of the event exceeds the materiality threshold.
What is the date on which the positive change event occurred?	For the purpose of complying with 6.6.1(c), AusNet Services submitted that the storm occurred in the late evening on 1 September and continuing until 2 September 2024. <sup>22</sup>  We accept this identified date, noting the Victorian and Federal Governments recognised a period including this date in providing assistance packages to affected individuals and communities. <sup>23</sup>
Did AusNet Services submit a written statement of its pass through application within 90 business days of the positive change event occurring? <sup>24</sup>	Yes. As discussed in section 4.3, AusNet Services submitted its written statement on 23 December 2024. We consider that AusNet Services submitted its written statement within the allowed timeframe.
Did AusNet Services specify details of the positive change event, including the date on which the event occurred, in its written statement? <sup>25</sup>	Yes. AusNet Services' written statement is available on our website. <sup>26</sup>

<sup>20</sup> AER, *Final decision AusNet distribution determination - Attachment 15 - Pass through events* - April 2021, p. 4.

<sup>21</sup> That is, does it meet the definition of a “positive change event” as defined in chapter 10 of the Rules.

<sup>22</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 3 and p. 6.

<sup>23</sup> <https://www.disasterassist.gov.au/Pages/disasters/victoria/victorian-storms-25-august-2024.aspx>, viewed 20 February 2025.

<sup>24</sup> NER, cl. 6.6.1(c).

<sup>25</sup> NER, cll. 6.6.1(c)(1) and 6.6.1(c)(2).

<sup>26</sup> <https://www.aer.gov.au/industry/networks/cost-pass-throughs/ausnet-services-distribution-cost-pass-through-september-2024-storm>

Requirement of the NER	Our consideration
Did AusNet Services specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year? <sup>27</sup>	<p>Yes. AusNet Services initially proposed a positive pass through amount of \$12.1 million (\$nominal, unsmoothed) or \$12.5 million (\$nominal, smoothed). It subsequently revised this amount in response to our request for additional information. AusNet Services' then proposed a revised positive pass through amount of \$11.1 million (\$nominal, unsmoothed) or \$11.6 million (\$nominal, smoothed) to be recovered from consumers in the final year of the 2021–26 regulatory control period (2025–26) and the first year of the 2026–31 regulatory control period (2026–27).</p> <p>Following the adjustments discussed in section 4.4, we determine that an approved pass through amount of \$12.9 million (\$nominal, smoothed) is to be recovered over two regulatory years.</p>
Did AusNet Services specify in its written statement evidence of the actual and likely increase in costs that occurred solely as a consequence of the positive change event? <sup>28</sup>	Yes. AusNet Services' pass through application (that is, its written statement) set out the costs it incurred as a result of the September 2024 storm, as well as how it calculated its proposed pass through amount.
Was there a regulatory information instrument applicable to the pass through application? <sup>29</sup>	No.
Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset? <sup>30</sup>	No.

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

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

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

<sup>27</sup> NER, cl. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5).

<sup>28</sup> NER, cl. 6.6.1(c)(6).

<sup>29</sup> 6.6.1(c)(7).

<sup>30</sup> NER, cl. 6.6.1(c1) and (d2).

Relevant factors under cl. 6.6.1(j)	AER consideration
AusNet Services' written statement. <sup>31</sup>	
We must take into account the incremental increase in costs in providing direct control services resulting from the pass through event. <sup>32</sup>	In section 4.4 below we set out our assessment of the costs incurred by AusNet Services due to the September 2024 storm. We have considered the costs that AusNet Services incurred as a result of the event as well as the likely cost savings to AusNet Services' business-as-usual activities as a result of its expenditure related to the September 2024 storm.
We must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the event. <sup>33</sup>	<p>In making this determination, we must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the positive change event, including whether AusNet Services has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount, or omitted to take any action where such action has increased the magnitude of the amount.</p> <p>Based on our review of the information available, we did not find evidence suggesting that AusNet Services' decisions and actions in relation to the risk of the positive change events were inefficient.</p> <p>There does not appear to be any action that AusNet Services has failed to take, that it could reasonably have taken, to materially reduce the magnitude of the storm repair costs or MED GSL payments, or that it took or omitted to take which has increased the magnitude of these payments.</p> <p>Therefore, we do not consider that AusNet Services' actions increased the magnitude of the pass through amount.</p>
We must take into account the time cost of money. <sup>34</sup>	<p>In making this determination, we must take into account the time cost of money based on the allowed rate of return for AusNet Services for the years in which the pass through amount is to be recovered.</p> <p>To account for the recovery of the pass through amount over two years commencing from 2025–26, we have used the nominal weighted average cost of capital, as determined in AusNet Services' 2021–26 distribution determination, incorporating the annual update on return on debt for 2024–25, as well as a forecast inflation of 2 per cent to calculate the approved pass through amount in nominal terms.</p>
We must take into account the need to ensure that the pass through amount reflects only costs incurred	We have examined the costs proposed by AusNet Services in its initial application and issued a request for additional information. Following our request for further detailed cost information, AusNet identified costs which were not incurred as a result of the event, and

<sup>31</sup> NER, cl. 6.6.1(j)(1).

<sup>32</sup> NER, cl. 6.6.1(j)(2).

<sup>33</sup> NER, cl. 6.6.1(j)(3).

<sup>34</sup> NER, cl. 6.6.1(j)(4).

Relevant factors under cl. 6.6.1(j)	AER consideration
solely as a consequence of the event. <sup>35</sup>	we have removed those costs. We found no evidence to suggest that the remaining costs included in AusNet Services’ application were not solely incurred because of the September 2024 storm.
The AER will have regard to whether AusNet Services has insurance against the event, and whether it is the level of insurance that an efficient and prudent network operator would obtain? <sup>36</sup>	<p>AusNet Services submitted that none of the costs in this application is related to insured structures. AusNet Services also submitted that it did not have insurance covering poles and wires of its network, and the insurance was limited to structures such as substations and buildings. AusNet Services stated that not insuring poles and wires is consistent with the practice of other network businesses. It explained that obtaining this insurance product is difficult and expensive as few insurers are willing to provide this high-risk product. The associated premiums would consequently result in consistently high network charges for customers.<sup>37</sup></p> <p>We note that this approach to managing this risk is generally consistent with comparable peer NEM networks including those also impacted by other natural disasters (e.g., bushfires). As such, we are satisfied that it was prudent and efficient for AusNet Services to not hold insurance cover for its poles and wires assets.</p>
We must take into account whether the costs of the pass through event have already been factored into the calculation of the Distribution Network Service Provider’s annual revenue requirement for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the Distribution Network Service Provider’s annual revenue requirement for a subsequent regulatory control period <sup>38</sup>	<p>We do not consider the costs, including GSL payments, that AusNet Services is proposing to recover have already been factored into AusNet Services’ annual revenue requirement for the regulatory control period in which the pass through event occurred (i.e. 2021–26).</p> <p>We include forecast GSL payments in annual revenue allowances when determining total opex forecast as part our distribution revenue determinations. However, GSL payments for events similar to the September 2024 storm (major event days) were not accounted for in our 2021–26 determination. The costs of defined unpredictable, high-cost events are not factored into our five-year revenue determinations, but rather are typically recovered through the cost pass through framework under the NER. The September 2024 storm was such an event.</p>
We must take into account the extent to which AusNet Services’ costs have already been funded by	AusNet Services submitted that it undertook temporary solutions to re-establish supply to some customers. This included deploying

<sup>35</sup> NER, cl. 6.6.1 (j)(5).

<sup>36</sup> AER, *Final decision AusNet distribution determination - Attachment 15 - Pass through events* – April 2021, p. 4.

<sup>37</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, pp. 15-16.

<sup>38</sup> NER, cl. 6.6.1(j)(7).



Relevant factors under cl. 6.6.1(j)	AER consideration
previous pass through determinations. <sup>39</sup>	<p>mobile generators and working directly with local councils to set up community hubs in some areas.<sup>40</sup></p> <p>There is no evidence to suggest that costs included in AusNet Services' application have already been funded by previous pass through determinations.</p>
We must take into account any other factors that we consider relevant. <sup>41</sup>	<p>The other factors we took into account in our assessment of AusNet Services' application are set out below.</p> <p>The AER must exercise its power in a manner that will or is likely to contribute to the achievement of the National Electricity Objective.</p> <p>The AER may take into account the revenue and pricing principles set out in section 7A of the NEL.<sup>42</sup> In this matter, the principle that a regulated network service provider should be provided with a reasonable opportunity to recover efficient costs is applicable.</p> <p>We also considered the final report of the review commissioned by the Minister for Energy and Resources directly following the storm in February 2024.<sup>43</sup> While the matters considered during this review were not directly linked to our cost pass through review, we note that this touched on the MED GSL payments. The final report of this review was critical of the MED GSL payment regime as the payments were considered too small, not timely, and not a direct monetary payment.<sup>44</sup> The report noted the regulatory framework allows MED GSL costs to be passed through to customers if approved by the AER, but that this does not incentivise distribution businesses to respond effectively to prolonged power outages because they are not financially accountable.</p> <p>The final report observed that the MED GSL should be reviewed by the Essential Services Commission (ESC) to determine an appropriate value given the likelihood of more frequent prolonged power outages and in the context of the recommended Extended Loss of Supply Support Payment Scheme (ELOSS Scheme).<sup>45</sup></p>

Source: AER analysis.

<sup>39</sup> NER, cl. 6.6.1(j)(7A).

<sup>40</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 15.

<sup>41</sup> NER, cl. 6.6.1(j)(8).

<sup>42</sup> NEL, s. 16(2)(b).

<sup>43</sup> A major storm occurred in Victoria on 13 February 2024 causing extensive damage to AusNet Services' distribution and transmission networks. Following this weather event, the Victorian state government commissioned the Network Outage Review to inquire and make recommendation on the operational response of AusNet Services distribution and transmission businesses, among other things. For more details, please see: [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#).

<sup>44</sup> [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 9.

<sup>45</sup> [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 37.



## 4 Reasons for determination

The sections below set out the reasons for our determination.

### 4.1 Occurrence of a natural disaster

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

A natural disaster event is defined in AusNet Services' 2021–26 revenue determination as:<sup>46</sup>

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

*(a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or*

*(b) not a consequence of any other act or omission of the service provider.*

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

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

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

#### 4.1.1 Natural disaster event

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

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

For example, disaster assistance, jointly funded by the Australian and Victorian Governments under the Commonwealth-State Disaster Recovery Funding Arrangements (DRFA), was made available to communities impacted by storms in Victoria that commenced on 25 August 2024.<sup>47</sup>

---

<sup>46</sup> AER, Final decision AusNet distribution determination - Attachment 15 - Pass through events - April 2021, pp. 17-18.

<sup>47</sup> <https://www.disasterassist.gov.au/Pages/disasters/victoria/victorian-storms-25-august-2024.aspx>

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

## 4.2 Positive change event

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

The NER defines “materially” as:

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

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

**Table 4: AER – Materiality assessment of the September 2024 storm event (\$million, nominal)**

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Opex	-	-	-	11.71	-	11.71
Capex	-	-	-	9.58	-	9.58
Total expenditure	-	-	-	21.29	-	21.29
Approved unsmoothed revenue	744.02	699.45	699.61	709.08	685.33	3,537.50
Materiality (%)	-	-	-	3.00%	-	-

Note: Opex and capex are inclusive of overheads and exclusive of deductions.

## 4.3 Timing of AusNet Services’ application

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

We consider the storm event as defined to have occurred in September 2024. We received AusNet Services’ pass through application on 23 December 2024, which was within the 90 business days provided for in the NER.

Following our initial assessment of AusNet Services' application, we issued a notice on 4 February 2024 requesting additional information from AusNet Services under clause 6.6.1(e1) of the NER. This clause provides that the 40 business day period in which the AER must assess a cost pass through application does not commence until the AER receives the requested information. AusNet Services provided the requested additional information on 18 February 2025.

## 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,<sup>48</sup> including the need to ensure that AusNet Services only recovers any actual or likely increment in costs, to the extent that such an increment is solely as a consequence of the pass through event,<sup>49</sup> and that AusNet Services does not recover costs that have or will be factored into AusNet Services' annual revenue requirement.<sup>50</sup>

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

- the pass through amount reflects only those costs incurred as a result of the September 2024 storm natural disaster event, and not costs incurred as a result of other positive change events, business-as-usual costs, or costs of increasing the scope of network services provided by AusNet Services
- the costs incurred are prudent and efficient costs required to rectify the damage caused by the storm;
- the pass through amount reflects only the incremental cost of the September 2024 storm, taking into account deductions for actual and expected cost savings that will occur as a result of works undertaken to address the storm damage. For example, the replacement of older assets damaged by the storm with new assets may result in lower future inspection and maintenance costs, which should be deducted from the costs to be passed through;
- any issues raised by stakeholders in submissions we receive as part of our consultation processes are considered and addressed.

### 4.4.1 Incremental revenue and pass through amount calculations

We are satisfied that AusNet Services' revised estimates of the increase in capex and opex costs due to the September 2024 storm, accounting for the identified avoided costs, are prudent and efficient. Our reasons for this are discussed below. However, we have amended AusNet Services' nominal to real dollar conversion factors in its revised cost build up model. As such, our determination of the approved incremental revenue for the September 2024 storm event is \$12.6 million (\$nominal, smoothed). Table 5 sets out our determination on the incremental revenue.

---

<sup>48</sup> NER, cl. 6.6.1(j).

<sup>49</sup> NER, cl. 6.6.1(j)(5).

<sup>50</sup> NER, cl. 6.6.1(j)(7).

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

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Return on capital	-	-	-	-	0.40	0.40
Return of capital (regulatory depreciation)	-	-	-	-	0.00	0.00
Operating expenditure	-	-	-	11.71	-	11.71
Net tax amount	-	-	-	-	-	-
Incremental annual revenue requirement (unsmoothed)	-	-	-	11.71	0.40	12.11
<b>Incremental annual expected revenue (smoothed)</b>	-	-	-	-	<b>12.59</b>	<b>12.59<sup>a</sup></b>

Source: AER analysis.

a) The total incremental revenue to be recovered over two regulatory years (2025–26 and 2026–27) is \$12.85 million (\$nominal) after accounting for the time value of money.

Note: '0.00' and '-0.00' represent small nonzero numbers and '-' represents a zero value.

AusNet Services' revised application included \$18.1 million (\$June 2021) of additional capital and operating costs (total expenditure or totex) required as a result of the September 2024 storm.<sup>51</sup> However, we have amended AusNet Services' proposed nominal to real dollar conversion factors in its cost build up model to reflect the expected inflation rate as approved in the Post Tax Revenue Model (PTRM) for the 2021–26 regulatory control period.

We note that AusNet Services has applied actual CPI rates<sup>52</sup> as the deflators to convert the nominal incurred costs to real dollar terms for PTRM input purposes. However, we consider the conversion factors used in the cost build up model should be consistent with the expected inflation rate in the PTRM. This is to ensure that the nominal incremental revenue calculated in the PTRM and recovered at the annual pricing stage through the C-factors are consistent with the nominal costs actually incurred. AusNet Services has agreed with our suggested amendment.<sup>53</sup> This amendment has increased the proposed total expenditure by \$1.6 million (\$June 2021), all else being equal.

As a result, we approve a total incremental expenditure of \$19.7 million (\$June 2021) to ensure that the efficient costs required as a result of the September 2024 storm cost pass through are recovered, as shown in Table 6 below.

<sup>51</sup> AusNet Services' initial application included \$18.7 million (\$June 2021) of additional capital and operating costs (total expenditure). Please see: [AusNet Services distribution cost pass through - September 2024 storm | Australian Energy Regulator \(AER\)](#)

<sup>52</sup> Except for 2021–22, where AusNet Services has applied the expected inflation rate for this year.

<sup>53</sup> AusNet Services, *Response to September 2024 storm event - deflator revision*, 24 February 2025

**Table 6: AER approved incremental capex and opex expenditure for the September 2024 storm cost pass through (\$million, June 2021)**

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Proposed cost pass through totex	-	-	-	18.05	-	18.05
Approved cost pass through totex	-	-	-	19.67	-	19.67
<b>Difference</b>	-	-	-	<b>1.62</b>	-	<b>1.62</b>

Source: AER analysis.

#### 4.4.2 Costs reflect only incremental September 2024 storm-related costs and not business-as-usual costs

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

AusNet Services stated that it has included only the incremental costs for those activities that were incurred solely as a result of the positive change event.<sup>54</sup> Some of these costs related to contractual arrangements with providers of field delivery services and vegetation management services, while others relate to AusNet Services own internal labour costs. AusNet Services' contractual arrangements include surge capacity for large scale events of this nature. For internal labour, AusNet Services established cost codes for each business unit to capture the incremental cost incurred as part of the storm recovery effort. AusNet Services noted that it did not include costs for office-based staff unless they received overtime for their role in the storm response, so that the pass through costs represent only incremental labour which is not captured in its existing opex allowance.<sup>55</sup>

AusNet Services' application also accounted for expected savings in the 2021–26 regulatory period from avoided works that would have been required in future years but were brought forward and carried out as part of the storm restoration activities. AusNet Services demonstrated the exclusion of such savings (\$0.2 million) in its cost build up model.<sup>56</sup> This includes:<sup>57</sup>

- replacement of assets as a result of damage caused by the storm that were due for end-of-life replacement within the current regulatory period, such that the work undertaken in the aftermath of the September 2024 storm will reduce future asset replacement activity
- the removal of hazardous trees that will no longer require clearing - this would have been required in future years and is part of the on-going cost of maintaining the network but was brought forward and carried out as part of the storm restoration activities.<sup>58</sup>

<sup>54</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 10.

<sup>55</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 11.

<sup>56</sup> The savings are already excluded from the \$18.1 million (\$2021, smoothed) referred to in section 1.2.

<sup>57</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 13.

<sup>58</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 13.

In relation to the MED GSL component of the proposed pass through costs, AusNet Services submitted that these costs were not funded through its 2021–26 period GSL opex forecast, which accounted for a historical level of expenditure not reflective of such events. The cost pass through regime is in place to manage unexpected, material costs of this nature when they occur, rather than consumers paying on an ongoing basis through higher capex and opex forecasts for each regulatory period. We are satisfied that AusNet Services demonstrated the MED GSL payments resulting from the September 2024 storm are incremental, and not already provided for in its 2021–26 GSL opex allowance.<sup>59</sup>

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

#### 4.4.3 Submissions from stakeholders

We received one submission, from Erne Energy, which did not support AusNet Services' application relating to the recovery of GSL costs. The key reasons include the following.

- Erne Energy considered it inappropriate that customers would fund their own compensation.<sup>60</sup> Erne Energy considered that DNSPs should self-fund any level of compensation that results from a prolonged outage.<sup>61</sup> This is because it considers that customers funding GSL compensation does not properly incentivise AusNet Services to improve its performance in the face of increasing severe weather events. Erne Energy stated that:

*...including allowance for GSL payments in DNSPs regulatory proposals still means that customers are funding their own compensation. 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.<sup>62</sup>*

- Erne Energy provided an analysis to demonstrate that AusNet Services' distribution network is relatively old, and therefore more vulnerable to poor performance in severe weather events compared to other DNSPs. Based on this Erne Energy submitted that the AER must consider how best to minimise the impact of prolonged outages that appear to particularly impact Ausnet Services' customers in Victoria. It suggested exploring the appropriate balance between geographically fixed resilience solutions and agile responsive resilience solutions, noting that severe weather events have increased in Victoria.<sup>63</sup> However, Erne Energy acknowledged that a change in the treatment of

---

<sup>59</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 13.

<sup>60</sup> Erne Energy, *Submission - AusNet Services distribution cost pass through – September 2024 storm: Application*, February 2025, p. 1.

<sup>61</sup> Erne Energy, *Submission - AusNet Services distribution cost pass through – September 2024 storm: Application*, February 2025, p. 1.

<sup>62</sup> Erne Energy, *Submission - AusNet Services distribution cost pass through – September 2024 storm: Application*, February 2025, p. 3.

<sup>63</sup> Erne Energy, *Submission - AusNet Services distribution cost pass through – September 2024 storm: Application*, February 2025, p. 3.



GSL (*in terms of costs recovery* – emphasis added) may require a rule change proposal to remove it as an allowable expenditure in both the NER and the Victorian Electricity Distribution Code.<sup>64</sup>

- Erne Energy also questioned why AusNet Services did not apply to the Essential Services Commission (ESC) for an exemption to pay GSL compensation for weather events that are likely to exceed the DNSP's daily unplanned interruption frequency threshold.<sup>65</sup>

We acknowledge Erne Energy's concern around the current approach to the recovery of MED GSL-related costs, specifically concerns about customers having to fund their own compensation and the lack of incentive for AusNet Services to improve its performance in the face of increasing severe weather events. We note these concerns echo aspects of final report of the review commissioned by the Minister for Energy and Resources following the storm that occurred in Victoria in February 2024.<sup>66</sup> The final report of this review was critical of the MED GSL payment regime as the payments were considered too small, not timely, and not a direct monetary payment.<sup>67</sup> The report noted the regulatory framework allows MED GSL costs to be passed through to customers if approved by the AER, but that this does not incentivise distribution businesses to respond effectively to prolonged power outages because they are not financially accountable.

As recognised in the submission, we agree that AusNet Services is allowed under the regulatory framework to recover these costs incurred as a result of a regulatory obligation. Erne Energy submitted that a change in the current approach to recover these costs may necessitate a rule change proposal to remove it as an allowable expenditure in both the NER and the Victorian Electricity Distribution Code of Practice. We also note that GSL payments are not intended to be compensation for the loss an outage causes. Rather, the GSL scheme acknowledges the inconvenience customers experience when their distributor does not meet the required service obligations and requires distributors to pay customers directly as a result.<sup>68</sup> Similarly, the GSL scheme is not designed to incentivise investment in the network.<sup>69</sup> While we expect that service providers are able to recover and restore energy to customers

---

<sup>64</sup> Erne Energy, Submission - AusNet Services distribution cost pass through – September 2024 storm: Application, February 2025, p. 4.

<sup>65</sup> Under the GSL scheme (version 12, clause 6.3.5 of the *Electricity Distribution Code*) applicable at the time of the June 2021 storm event, DNSPs could apply to the ESC for an exemption to make GSL payments for supply interruptions exceeding a mandated threshold. For more details see: Essential Services Commission, *Electricity Distribution Code*, January 2021.

<sup>66</sup> A major storm occurred in Victoria on 13 February 2024 causing extensive damage to AusNet Services' distribution and transmission networks. Following this weather event, the Victorian state government commissioned the Network Outage Review to inquire and make recommendation on the operational response of AusNet Services distribution and transmission businesses, among other things. For more details, please see: [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#).

<sup>67</sup> [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 9.

<sup>68</sup> Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 123.

<sup>69</sup> Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 62.

quickly after outages, we do not expect network businesses to invest in avoiding network outages beyond a prudent and efficient level. We expect that a prudent and efficient operator would still experience outages that result in GSL payments, which recognise the inconvenience experienced by affected customers, including in areas of the network that may be relatively more prone to outages than others.

We also acknowledge the concern around the vulnerabilities of electricity networks to natural disaster events such as the September 2024 storm. We recognise that policy and rule makers, and other stakeholders, continue to discuss the resilience of electricity networks, including long term effects of changing weather patterns on the operation of (and investments in) electricity networks. These wider issues are beyond the scope of our consideration of the September 2024 storm cost pass through application.

In regard to the issue raised that AusNet Services had not applied for an exemption to making the GSL payments associated with the September 2024 storm event as it had sought to do in relation to previous events (e.g., the June 2021 storm), we note that version 12 of the Electricity Distribution Code, which was in effect at the time of the June 2021 storm event, has since been reviewed and amended. Under version 12 of the GSL scheme, DNSPs could apply to the ESC for an exemption to make GSL payments for supply interruptions exceeding a mandated threshold. However, this clause was removed from the scheme and it was not open to AusNet Services to seek an exemption from making GSL payments in relation to the September 2024 storm. As stated in section 4.4.4.1, since 1 July 2021, the GSL scheme includes a \$90 payment for customers off supply for longer than 12 hours on a MED.<sup>70</sup>

Based on our review of the information available, as noted above, we have not identified that AusNet Services has taken, or failed to take, any specific action to materially contribute to the extent of the MED GSL costs arising from the September 2024 storm event. Our review of MED GSL payments is further discussed in section 4.4.4.1 below.

#### **4.4.4 The September 2024 storm-related costs reflect the prudent and efficient costs required as a result of the event**

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

We consider the decisions and actions of AusNet Services in response to the event were efficient, and that the September 2024 storm event could not have been prevented or mitigated through prudent operational risk management. AusNet Services has in place an emergency response protocol which guides preventative, and mitigation controls aimed at reducing the consequences of crisis events. This emergency response protocol forms the

---

<sup>70</sup> The Electricity distribution Code of Practice defines ‘major event day a day classified as a Major Event Day by the Institute of Electrical and Electronic Engineers (IEEE) standard 1366-2012: IEEE Guide for Electric Power Distribution Reliability Indices, where the “reporting period” referred to in that classification comprises a regulatory year. See The Electricity distribution Code of Practice version 28, p. 15; : Essential Services Commission, Final decision - Electricity Distribution Code review – customer service standards, 16 November 2020 (amended on 22 December 2020), p. iv.



response framework by which AusNet Services coordinates and prioritises activities across its network to restore customer supply following major storm events.

AusNet Services submitted that, in preparing for and responding to the September 2024 event, it implemented several learnings from responding to past events which enabled it to deliver a more efficient and effective response to this event, including:

- standing up its response team earlier and with additional resources
- uplifting its community outreach, including use of its first Emergency Management Mobile Assistance (EMMA) vehicle
- deploying generators into communities ahead of the storm event.<sup>71</sup>

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

We have also reviewed the revised cost build up model provided by AusNet Services. We found that the cost build up relied on the allocation of some base cost items between routine works and storm recovery works in order to identify the incremental costs to be included in the pass through amount. This aspect of the cost build up model indicates that AusNet Services was not able to uniquely capture the cost of storm related works. As a result, AusNet Services relied on an approximation to apportion costs between routine works and storm-related works (notably supplier costs). While we consider AusNet Services has likely identified appropriate costs for pass through, including by taking a conservative approach in some aspects of the apportionment process, we consider in future AusNet Services should follow good industry practice to design and implement procedures that uniquely capture an auditable set of cost records that do not rely on apportionment or other methods to extract relevant storm response costs from works activities. For example, this could involve creating a unique job number for the storm response and capturing all relevant costs such as supplier costs against the unique job number.

AusNet Services' cost build up model shows, as stated in section 1.2, the costs relating to:

- capital expenditure (capex) covering emergency capital works, and
- operating expenditure (opex), the bulk of which are the major event day (MED) GSL payments to its customers and the remainder, emergency corrective works and vegetation management.<sup>72</sup>

---

<sup>71</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 3.

<sup>72</sup> Since 1 July 2021, the GSL scheme has included a \$90 payment for customers off supply for more than 12 hours on a major event day. See Clause 14.6 of [Electricity Distribution Code of Practice](#) (version 2). The Code of Practice does not provide for distributors to be excused from making MED GSL payments.

While we accept the underlying costs, we have amended AusNet Services' proposed nominal to real dollar conversion factors in its cost build up model to reflect the expected inflation rate as approved in the PTRM (discussed in section 4.4.1).

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

#### **4.4.4.1 Major Event Day (MED) Guaranteed Service Level (GSL) payments**

The Electricity Distribution Code requires Victorian distribution businesses to make GSL payments to customers who receive a level of service worse than a specific threshold or level.<sup>73</sup>

Since 1 July 2021, the GSL scheme includes a \$90 payment for customers off supply for longer than 12 hours on a MED.<sup>74</sup> AusNet Services identified 77,736 customers eligible for MED payments in relation to the September 2024 storm.<sup>75</sup> These payments are made by way of a credit to a future electricity bill.

The GSL scheme acknowledges the inconvenience and potential damage customers experience when their distributor does not meet the required service obligations and requires distributors to pay customers directly as a result.<sup>76</sup> It is not designed to incentivise investment in the network; that is, it is not an incentive scheme.<sup>77</sup>

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

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

---

<sup>73</sup> See <https://www.esc.vic.gov.au/electricity-and-gas/information-for-electricity-and-gas-consumers/guaranteed-service-level-payments-energy-outages>

<sup>74</sup> The Electricity distribution Code of Practice defines 'major event day a day classified as a Major Event Day by the Institute of Electrical and Electronic Engineers (IEEE) standard 1366-2012: IEEE Guide for Electric Power Distribution Reliability Indices, where the "reporting period" referred to in that classification comprises a regulatory year. See [The Electricity distribution Code of Practice version 28](#), p. 15; : Essential Services Commission, [Final decision - Electricity Distribution Code review – customer service standards](#), 16 November 2020 (amended on 22 December 2020), p. iv.

<sup>75</sup> AusNet Services, *September 2024 storm cost pass through application*, December 2024, p. 3.

<sup>76</sup> Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 123.

<sup>77</sup> Essential Services Commission, *Electricity Distribution Code review – customer service standards - Final decision 16 November 2020 (amended on 22 December 2020)*, December 2020, p. 62.

processes and governance during and following the event to support prompt and safe restoration of supply.

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

Based on our review of the information available, we have not identified that AusNet Services has taken, or failed to take, any specific action to materially contribute to the extent of the MED GSL costs arising from the September 2024 storm event. As noted above, we recognise that AusNet Services implemented a number of measures based on lessons from previous events which enabled it to deliver a more efficient and effective response to this event. We expect that AusNet Services will continue to implement further improvements in responding to this type of event, to ensure customer outage times (and therefore MED GSL payments) are not unnecessarily extended following storm events.

For this cost pass through application, we consider that the MED GSL payments relating to the September 2024 represent a regulatory cost that AusNet Services has incurred. Including the GSL payments in AusNet Services cost pass through amount is therefore consistent with the revenue and pricing principles set out in section 7A of the NEL.<sup>78</sup>

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

We note that the final report of the independent review commissioned by the Minister for Energy and Resources directly following a previous storm in February 2024 observed that (Observation 4) the MED GSL should be reviewed by the Essential Services Commission (ESC) to determine an appropriate value given the likelihood of more frequent prolonged power outages.<sup>79</sup> Going forward, we will monitor any changes to GSL scheme obligations and reflect them accordingly in our future reviews of relevant cost pass through applications.

## 4.5 Timing of cost pass through recovery

In its application, AusNet Services proposed to recover half of the incremental revenue arising from its cost pass through application over the final year (2025–26) of the 2021–26 regulatory control period and the other half in the first year (2026–27) of the 2026–31 regulatory control period.

---

<sup>78</sup> A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in making a regulatory payment; NEL, s. 16(2)(b).

<sup>79</sup> [February 2024 Storm and Power Outage Event Independent Review of Transmission and Distribution Businesses Operational Response Final Report](#), p. 37.

Given the timing of this determination, we accept AusNet Services' proposal to recover the cost pass through amount over this two-year period. That is, the approved cost pass through amount will be recovered across both the 2021–26 and 2026–31 regulatory control periods. We are satisfied that this approach will minimise volatility in AusNet Services' revenues and prices, while still allowing it to recover its efficient costs in a timely way.

Our approved cost pass through amount will add approximately \$5 to the average residential customer's bills and \$18 to the average small business's bills each year from 1 July 2025 to 30 June 2027.

# Glossary

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

---