



# Pass through application 2025 storm event

May 2025

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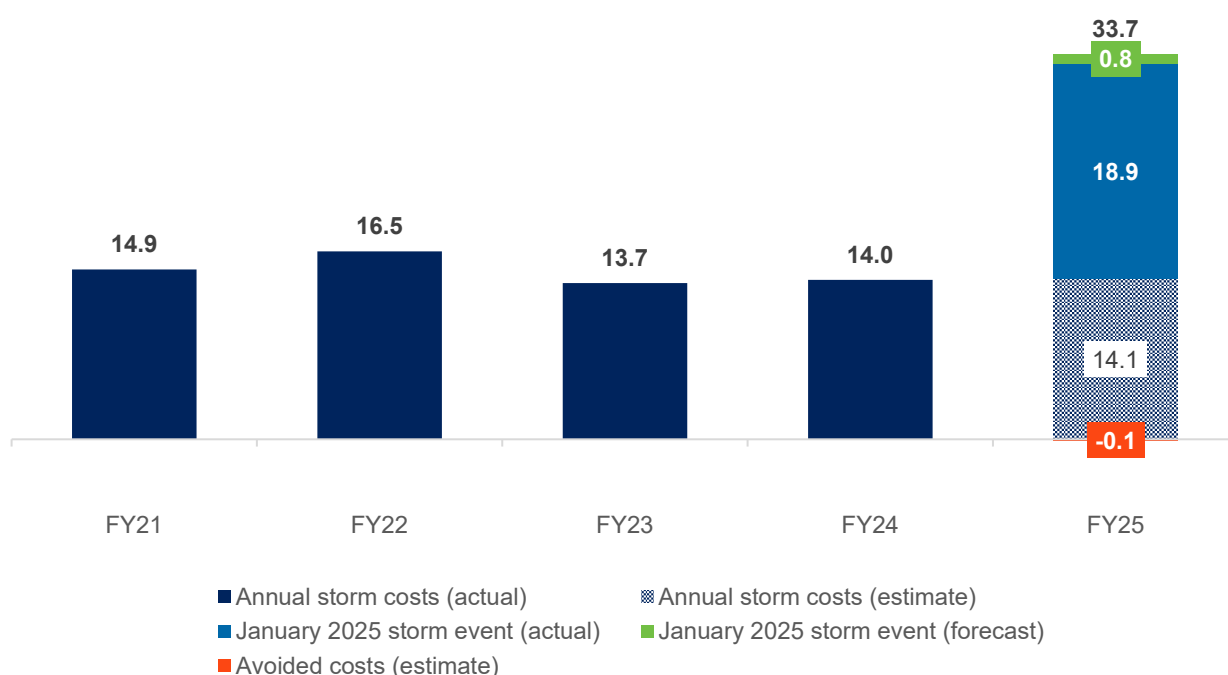
# Executive summary

This is an application under clause 6.6.1(a) of the National Electricity Rules (**NER**), which seeks approval from the Australian Energy Regulator (**AER**) to pass through the additional costs Ausgrid incurred in response to a major storm event between 15-17 January 2025. This January storm event falls within the definition of the 'Natural disaster event' as set out in the AER's final decision for Ausgrid's 2024-2029 regulatory period.

Ausgrid owns and operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that stretches from the Sydney CBD to the Upper Hunter. As the provider of an essential service, we recognise the important role we play, not just in our customers' lives, but in enabling a significant part of the Australian economy.

Figure 1 below shows the impact of the storm response costs incurred as a result of the January 2025 storm event. It shows that the cost impact was approximately 1.5 times the average annual expenditure in relation to storm response costs. Table 1 translates the storm costs we have incurred in FY25 in our proposed pass-through amount.

**Figure 1** Historical and FY25 storm response costs (\$m, real FY24)



**Table 1** Total costs caused by the January storm (real FY24, \$'000)

	Actual	Forecast	Avoided	Total
Capital expenditure	8,682	801	(146)	9,337
Operating expenditure	10,249	0	0	10,249
<b>Total</b>	<b>18,931</b>	<b>801</b>	<b>(146)</b>	<b>19,587</b>

Our proposed pass-through amount for the January 2025 storm event is \$19.6 million (real FY24).<sup>1</sup> This includes \$18.9 million in actual storm-related costs already incurred, along with \$0.8 million in associated forecasted expenditure for additional work needed to fully address the impacts of the event. We have deducted \$0.1 million in avoided costs (see section 3.3 for further details).

Our approach means that we are only seeking to recover the incremental expenditure we have incurred or will incur in relation to the storm event. Since these costs were not anticipated or included in the AER's determination for Ausgrid's 2024-29 regulatory period, approving our application will provide Ausgrid with an opportunity to recover the efficient costs needed to maintain a safe, reliable, and secure distribution network for our customers.

## Our response to storms

Storms can have a significant impact on our network. The damaging winds that they produce can bring down poles, distribution spans and other electricity assets. In this state, these assets can present serious safety hazards to both the community and essential workers. The damage also results in outages on our network, causing significant inconvenience and disruption for our customers.

We plan for storm seasons and take advice from weather experts about each forthcoming season. Budgeting and planning for storms is, however, becoming increasingly difficult, as the rise in global mean temperatures leads to more extreme weather.

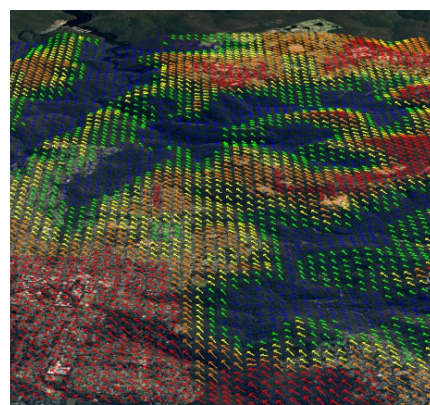
When storms or other extreme weather events occur, we act as quickly as possible to respond to storms on our network, so that we maintain a safe and secure energy network service at a level of reliability our customers' value. Our priority is the safety and wellbeing of our customers and other members of the public, as well as our staff and contractors who work to repair the damage often in very challenging conditions. Responding to major events that impact our network, clearing safety hazards and restoring power are among the most important services we provide.

### Windstorm threat: How we are improving our modelling

During the January 2025 storm wind speeds of up to 120km/h were measured at Bureau Of Meteorology weather stations within our operating area. Wind would have been higher in parts of our network due to geographic factors.

Since our 2024-29 determination, we have improved our modelling of wind risk, including how to consider geography to identify where wind risks will be greatest. This will help us translate climate change models to the windspeeds experienced at asset locations, so that we can prioritise locations for investment.

**We would welcome the opportunity to present this modelling to the AER.**



*Modelling of how wind varies due to geography in a region impacted by the January storms.*

<sup>1</sup> Since the storm event occurred in January 2025, we adjusted the expenditure to real 2023-24 values, using half a year of the actual 2023-24 Consumer Price Index.

# 1 About us and this application

Ausgrid owns and operates the network of substations, powerlines, underground cables, and power poles that delivers power to communities in large parts of Greater Sydney, the Central Coast and the Hunter.

We build, operate and maintain this distribution network with a focus on providing a safe, reliable and efficient energy supply to over 4 million Australians. Our vision is simple; for our communities to have the power in a resilient, affordable and sustainable future.

## 1.1 Regulatory framework

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

To seek approval from the AER to pass through those costs, the NER requires a DNSP to submit a written statement to the AER within 90 business days of the relevant positive change event occurring,<sup>2</sup> or such longer period as agreed to by the AER.<sup>3</sup>

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

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

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<sup>2</sup> Clause 6.6.1(c), NER.

<sup>3</sup> Clause 6.6.1(k), NER.

In making this decision, the AER must consider the factors listed in clause 6.6.1(j) of the NER. In addition, the National Electricity Law (**NEL**) requires the AER, in exercising its economic regulatory functions and powers, to do so in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (**NEO**).

The NEL also specifies the revenue and pricing principles.<sup>4</sup> Of relevance to this application is the principle that a regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control services and complying with a regulatory obligation or requirement or making a regulatory payment.

## 1.2 Structure of this Regulatory Proposal

This application comprising this document and its attachments, is our written statement to the AER to recover a positive pass through amount of \$19.6 million (real FY24). This application was submitted to the AER on or before 26 May 2025, being within 90 business days of the relevant positive change event which commenced on 15 January 2025 and continued until 17 January 2025, in accordance with NER clause 6.6.1(c). Therefore, the requirement to submit the written statement by the requisite date is satisfied.

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

- Chapter 2 describes the January storm and why it falls within the definition of a natural disaster event;
- Chapter 3 explains the cost impact of the January storm, and the method used to calculate the pass through amount in accordance with the NER requirements.
- Chapter 4 summarises the pass through amount and shows that it meets the materiality threshold.
- Chapter 5 discusses the prudence and efficiency of our response to storm events, including the January storm.
- Chapter 6 provides a compliance checklist.

In this application, unless otherwise specified:

- historical and forecast expenditure is presented in real 2023-24 dollars
- all dollars for regulatory years:
  - up to and including 14 March 2025 are actuals,
  - 15 March 2025 to 30 June 2025 are forecast/estimates, and
  - 1 July 2025 onwards are forecasts.
  - our revenue building-blocks from the post-tax revenue model (**PTRM**) are presented in end-year (to 30 June) nominal dollars, and
  - the allocation of costs to these services is in accordance with our Cost Allocation Methodology (**CAM**).

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<sup>4</sup> Section 7A, National Electricity Law.

## 2 Positive change pass through event

### 2.1 Event summary

Between 15-17 January, Ausgrid was impacted by a 'squall line storm'. A *squall line storm* is a convective weather system of thunderstorms in a long line formation often associated with a cold front. The squall line was forecast to last four days (Figure 2.1), with the actual activity across the 3 days of activity shown in Figure 2.2

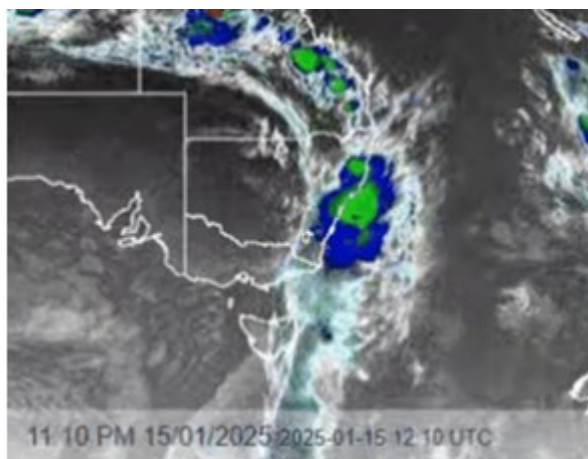
During the squall line storm, wind gusts reached 117 km/h at Kurnell, in Sydney's South, and 120 km/h at Williamtown (north of Newcastle). There were almost 74,000 lightning strikes recorded within 100km of Sydney's CBD. The severe storm activity continued through to 17 January when winds of up to 110 km/h impacted a wider area.

**Figure 2.1 WeatherZone storm event warning**

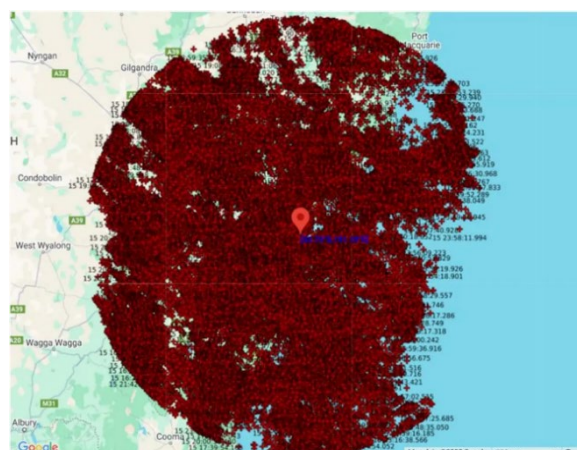


**Figure 2.2 Squall line storm event**

#### Storm event



#### Volume of lightning strikes



**Note: we have provided a time series of the storm with this application, which demonstrates the path of the storm over 15-17 January (see Attachment 3).**

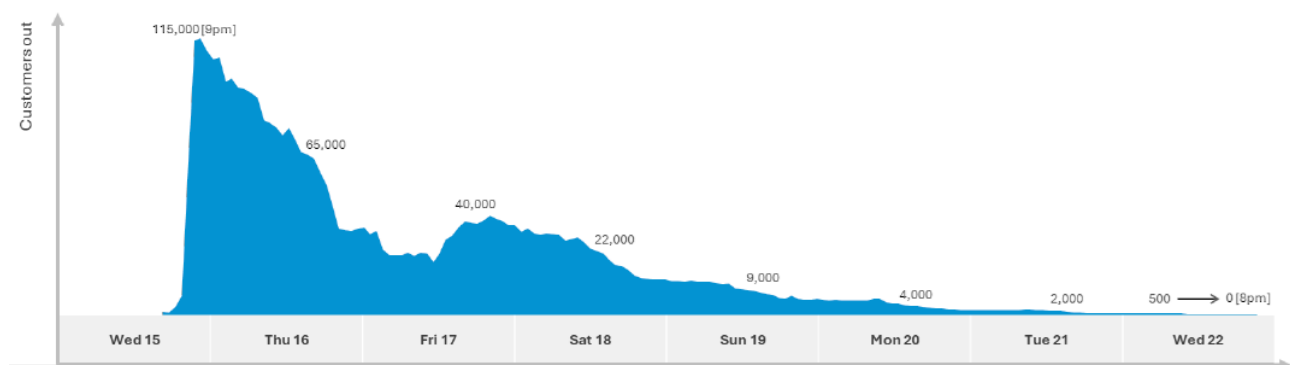
Temporally, the impacts to Ausgrid's network corresponded to the peaks of the squall line's lightning and wind activity. During the initial periods of lightning and wind, the storm knocked out power to over 140,000 customers, with the heaviest damage felt in Northern Sydney and Port Stephens. By the 17 January, as the storm impacted a wider area, power was knocked out to a further 70,000 customers mostly across the Sydney basin and Central Coast.



**Figure 2.3** Examples of damage to Ausgrid's network as a result of the January storm



**Figure 2.4** Customers off supply because of the January storm



Squall line storm events are difficult to respond to because of their fluctuating nature. Because squall line storms impact over several days and move location, they create challenges with logistics. Ausgrid deployed 1,016 FTE equivalent staff to respond to the emergency by Thursday 16 January, with levels exceeding 900 FTEs until Friday 17 January and Saturday 18 January. The number of FTEs was maintained above 700 FTEs until supply was restored to all customers on Wednesday 22 January.



## 2.2 Natural disaster event

The AER's final decision for Ausgrid's 2024-29 regulatory period included a natural disaster pass through event, which is defined as follows:

Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2024–29 regulatory control period that changes the costs to Ausgrid in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:

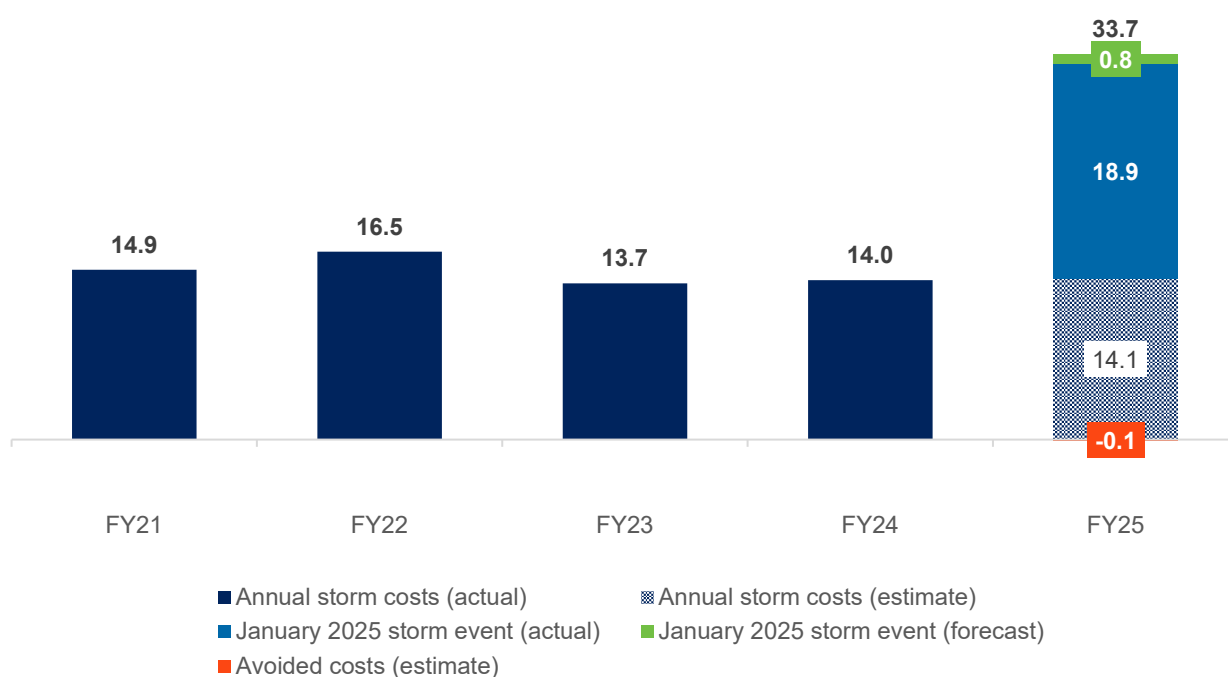
- a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or
- b) not a consequence of any other act or omission of the service provider.

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

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

For Ausgrid to recover the costs associated with the storm event in January 2025, it is necessary to show that the storm event falls within the definition of a 'natural disaster', as set out above. Ausgrid notes that although the event definition does not specifically refer to storms, it provides examples of 'natural disasters' without limitation. The definition of the natural disaster refers to its cost impact on Ausgrid, noting that it 'changes the costs to Ausgrid in providing direct control services'. To address that aspect of the definition, the figure below shows the significant cost impact of the event compared to Ausgrid's typical annual expenditure in relation to storm response, being approximately 1.5 times the annual expenditure.

**Figure 2.5 Historical and FY25 storm response costs (\$m, real FY24)**



In assessing whether a natural disaster has occurred and defining its scope, the AER has stated that it will consider how governments have responded.<sup>5</sup> This approach was reinforced in a recent decision for AusNet Services, which outlined three key factors that the AER will consider when determining whether a natural disaster event has taken place. These factors are whether the storm event was:<sup>6</sup>

1. responded to by State and Federal Governments as a natural disaster
2. unexpected
3. caused severe damage to property.

In line with these considerations, Ausgrid notes that the NSW government activated its Disaster Recovery Funding Arrangements to support communities affected by the January storms.<sup>7</sup> The activation of similar funding by the Victorian government appears to have been a key factor in the AER's determination that a natural disaster event had occurred in AusNet Services' recent pass-through application.<sup>8</sup> We also note the following statements from the Minister for Energy and the Minister for Emergency Services, which comment on the severity of the storm impact on electricity customers:

Minister for Energy, Penny Sharpe said:<sup>9</sup>

"It has been a massive task to restore power to hundreds of thousands of homes and businesses since these wild storms hit, and we thank the SES volunteers and energy crews who have worked around the clock to make it happen.

"This important but difficult work is still going. There are customers who are still without power, and we know that is incredibly difficult. Crews are working as hard as possible to reconnect everyone."

Minister for Emergency Services, Jihad Dib said:<sup>10</sup>

"The situation is challenging for communities and emergency responders, but we have also seen the best in people and from our incredible emergency response volunteers and personnel.

"The NSW State Emergency Service and other first responders, including Fire and Rescue NSW, the NSW Rural Fire Service and VRA Rescue NSW, have made a mammoth effort to help communities get back on their feet during these difficult times.

"The NSW Government is working with councils and communities to provide support where it is needed, with joint federal and state funding already available for some LGAs and assessments well underway for others."

Ausgrid considers that these statements together with the significant impact on our customers and network demonstrate that the January storm falls within the definition of a natural disaster event.

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<sup>5</sup> AER, Final Decision, Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029), Attachment 15, April 2024, p. 4.

<sup>6</sup> AER, [Determination February 2024 storm cost pass through: AusNet Services](#), November 2024, p. 13.

<sup>7</sup> NSW Government Ministerial release, [Repairing damage and restoring power after two waves of storms](#), 20 January 2025.

<sup>8</sup> AER, [Determination February 2024 storm cost pass through: AusNet Services](#), November 2024, p. 13.

<sup>9</sup> Penny Sharpe, [Ministerial release](#), 20 January 2025.

<sup>10</sup> Jihad Dib, [Ministerial release](#), 20 January 2025.

## 3 Costs impact of the January storm

In this section, we explain our approach to determining the cost impact of the January storm. We explain that we have adopted an incremental cost approach, consistent with the NER requirements and previous pass-through applications. We also explain the capital and operating expenditure activities undertaken and the resulting incremental costs incurred or expected to be incurred, noting that further works are required to fully rectify the impact of the storm.

### 3.1 Summary of the cost impact and incremental approach

The total costs incurred in responding to the January storm event amount to \$19.6 million, comprising \$9.3 million in capital expenditure and \$10.2 million in operating expenditure.

Table 3.1 provides a more detailed cost breakdown. It includes our actual costs incurred so far as well as a forecasted \$0.8 million in additional costs required to fully address the storm's impact. Additionally, our proposal has been adjusted by \$0.1 million to account for avoided expenditure. This adjustment reflects the cost of replacing assets during the January storm event, for which we had already received an allowance in our 2024-29 determination.

**Table 3.1 Total costs caused by the January storm (real FY24, \$'000)**

	Actual	Forecast	Avoided	Total
Capital expenditure	8,682	801	(146)	9,337
Operating expenditure	10,249	0	0	10,249
<b>Total</b>	<b>18,931</b>	<b>801</b>	<b>(146)</b>	<b>19,587</b>

In assessing the cost impact of the January storm, we have adopted an incremental cost approach to labour and materials costs, as explained below. Our approach to calculating actual, forecast and avoided costs is explained in more detail in section 3.3.

#### Labour costs

To identify the incremental labour costs incurred as a result of the storm, we have considered how internal labour should be costed compared to contracted labour that is engaged to address the storm damage and restore supply to customers.

It is not uncommon for Ausgrid to redirect staff from business as usual (**BAU**) activities to respond to storm events. Typically, the scale of such work; the number of staff involved; and the duration of activities is relatively modest. In these cases, the cost impact can be accommodated under our pre-existing revenue allowance approved by the AER in our distribution determination. However, the scope and magnitude of the January storm does not allow for this type of redeployment.

Our approach to estimating the incremental internal labour costs is consistent with the approach adopted in previous storm cost pass through applications, which have been approved by the AER.<sup>11</sup> This approach costs internal labour on an hourly basis accordingly to a fully absorbed rate, including on-costs.

This approach recognises that additional work is required above the level expected in the revenue determination, and it is appropriate to recognise this cost impact. Similarly, we have included the costs of additional contracted labour engaged to respond to the January storm. As explained in section 2.1, the level

<sup>11</sup> AER, Final decision: Ausgrid 2015 storm pass through, December 2015, p.15-16



of FTEs reached a peak within 24 hours of the storm event and were maintained above 700 FTEs until all supplies were restored. Ausgrid considers the level of resource commitment to be prudent and efficient, noting that it was kept under review by the incident planner, the incident controller and logistics teams.

From a regulatory perspective, we consider it appropriate to capture the costs of internal and external labour on a consistent basis. This approach ensures that network businesses have incentives to balance the use of internal and external resources to minimise the total costs to customers. An approach that treated internal labour differently to external labour may inappropriately encourage storm responses to be addressed by external labour, potentially leading to higher costs for customers.

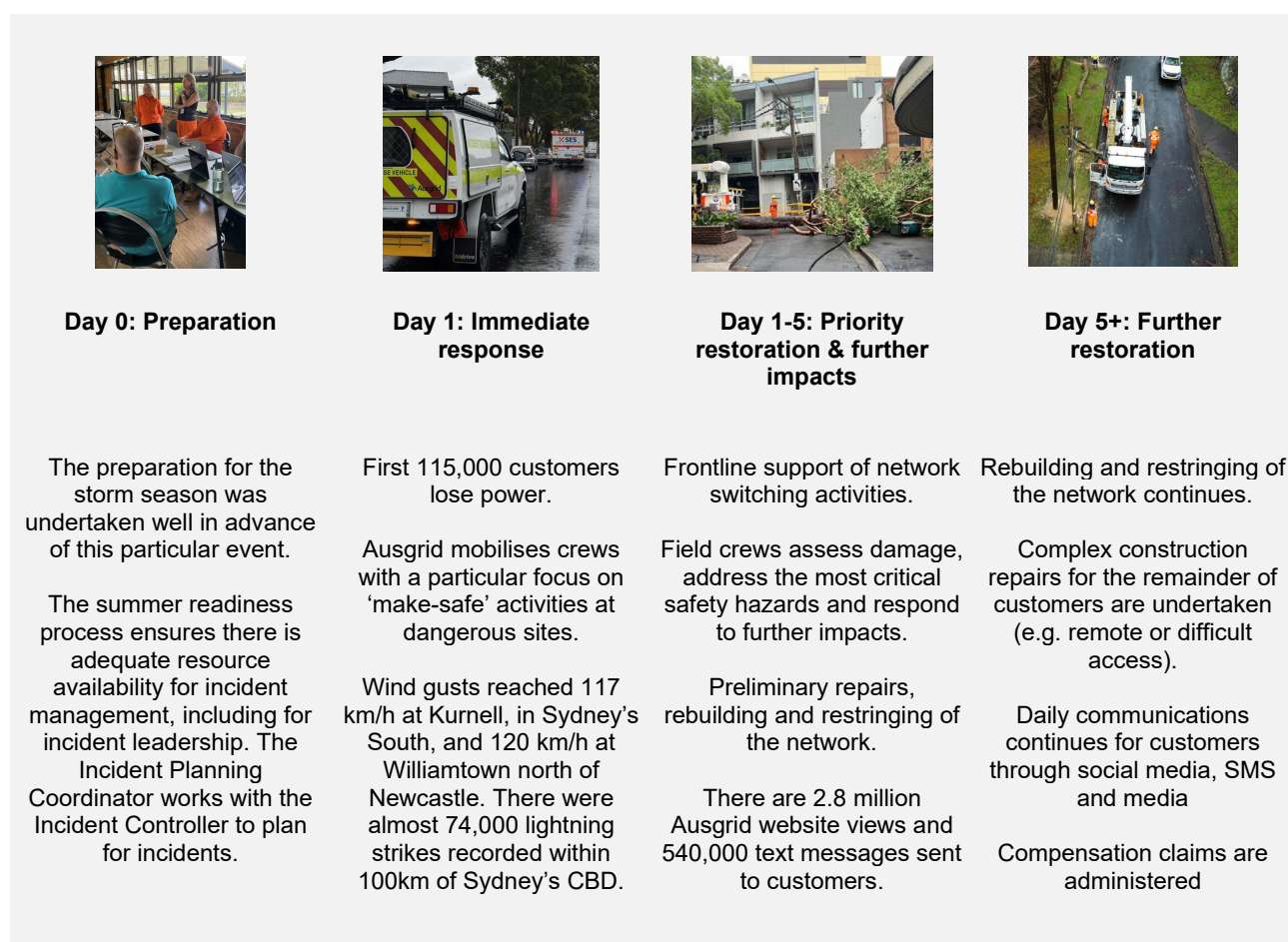
## Materials

Our assessment of incremental material costs associated with storm damage reflects the actual costs incurred, rather than the forecast unit rates in the 2024-29 determination. Our view is that this approach is consistent with the NER requirements, which require Ausgrid to identify the incremental costs arising from the storm event.

### 3.2 Scope and timeline of the storm response

As already noted, we took immediate action to respond to the impact of the January storm. In particular, more than 1,000 FTE equivalent staff were deployed within a few hours of the storm impacting our network. The supply restoration activities continued for approximately 1 week. The figure below summarises the event timeline and our response.

**Figure 3.1 Event timeline and Ausgrid's response**



The network assets affected by the storm, which led to incremental capital expenditure, are summarised in the figure below.

**Figure 3.2 Summary of network impacts**

- Over **5,400** hazards reported
- **52** poles replaced
- **400** large vegetation jobs
- **614** service lines replaced
- **3,000 km** of high voltage lines inspected for hazards
- **1,000s** of spans of overhead wires restrung or replaced

The volume of assets repaired or replaced due to storm damage during the January storm is outlined below:

- **Pole replacement**

We replaced 52 poles during the January storm.

Our overhead network comprises poles, electrical equipment and electrical conductors. Poles provide structural support for the overhead conductors and accessories, so that a safe clearance is maintained from the ground, buildings, infrastructure, vegetation and vehicles. Poles are also used to support pole mounted substations and other equipment used to operate and control the network.

Poles typically fail during storms when they, or the distribution spans they hold up, are struck by a tree, branches or other debris. The replacement of a pole on our network requires significant labour and materials components, and traffic control may be required. Failure to replace a pole when it has fallen, or its structural integrity has been undermined, puts the community at risk of harm. These safety risks must be addressed by Ausgrid when severe storms occur.

- **Service wire replacement**

The January storm required the replacement of 614 services wires. Service wires provide a physical connection between an Ausgrid pole (or mains) and a customer's connection point.

There are heightened safety risks associated with overhead service wires. Service wires traverse public land and private property. If they are brought down during a storm, they will typically fall in these areas that are highly accessible to the community. This highlights why the safety of our customers necessarily becomes Ausgrid's priority when we are responding to storm damage.

- **Mains / conductors**

We replaced 13.7km of overhead conductors as a result of the January storms at voltages ranging from 240V to 132kV.

The primary function of overhead conductors is to safely distribute electricity from sub-transmission supply points to customers. They present significant safety risks when damaged during severe storm activity. Contact with failed live electrical conductors which have fallen to the ground or are suspended at a reachable height may cause injury (electric shock or burns) or a fatality. They can also cause fires and damage to property and the natural environment.

- **Pole top structures**

We replaced 233 pole top structures in response to damaged caused by the January storm. Pole top structures include cross arms and braces, insulators, lightning arrestors and other components. The

primary function of pole top structures is to maintain safe horizontal electrical clearances of overhead conductor.

Damage to a pole top structure can lead to the overhead conductors falling and coming into contact with the ground, buildings, vegetation, vehicles or members of the community. Damage to a pole top structure can also lead to electrical assets encountering other live overhead conductors and equipment supported by the same pole.

The table below summarises the volume for each asset category and the associated costs incurred in the January storm.

**Table 3.2 Incremental capital expenditure caused by the January 2025 storm (\$real FY24, '000)**

	Volume	Cost impact \$'000
Service wire replacement	614	839
Mains / conductors	165 (13.7km)	4,591
Pole top structures (crossarms)	233	1,437
Pole replacement	52	1,325
Other equipment	58	4,91
<b>Total</b>		<b>8,682</b>

In relation to operating expenditure, we incurred the following asset-related operating expenditure during the January storm, as follows:

- **Network repair work**

Network repair work is primarily driven by fallen trees and vegetation impacting the network. This can cause minor damage which can be repaired without the capitalised replacement of the asset.

The January storm also generated strong wind gusts which can result in 'blowouts', which occur when wind forces cause powerline conductors to deviate horizontally, creating a sag away from their centre. Blowouts pose a risk to the community if they cause powerlines to fall to the ground or hang at a reachable height.

To mitigate these hazards, our field crews conducted inspections in areas severely affected by the winds and, where necessary, undertook repair works to restore the network to an operational state.

- **Fallen trees and vegetation**

As a result of the storm, we incurred additional costs from engaging tree trimmers to remove fallen vegetation from electricity assets and infrastructure. This work was necessary to commence repairs to or replacement of damaged network assets. This formed an important part of our initial restoration strategy of cut away and make safe. Tree trimming of this nature is specialised work that requires specific skill sets to undertake safely. Vegetation management contractors were engaged based on existing contractual arrangements with fixed prices for emergency works.



- **Network safety and restoration**

Network safety and restoration captures the labour costs required to address safety issues and restore supply, but are not attributable to network asset repair or vegetation clearance activities. The network safety and restoration work is essential to bring the network and the services it provides to pre-storm levels.

- **Customer claims**

The impact of the storm on our customers is reflected in the financial claims that we receive for losses caused, most typically in relation to frozen food. As a result of the January storm, the customer claims that were paid by Ausgrid equated to \$2.5 million.

The operating expenditure for each of the four elements described above is summarised in Table 3.3.

**Table 3.3 Incremental operating expenditure caused by the January storm (real FY24, \$'000)**

	Cost impact \$'000
Network repair work	5,224
Fallen trees and vegetation	717
Network safety and restoration	1,810
Customer claims	2,499
<b>Total</b>	<b>10,249</b>

### 3.3 Assessment of actual and future costs

The calculation of the pass through amount includes:

- the actual costs incurred to date in responding to the event; and
- the future costs that are expected to be incurred to rectify the remaining network issues caused by the event.

In calculating these amounts, an adjustment is made to remove 'avoided costs'. These costs relate to the savings that Ausgrid will make where assets were planned to be replaced during the current regulatory period, but have now been replaced because of the storm. The pass through amount has been reduced by \$0.1 million (real FY24) to account for these savings.

We discuss the actual costs and the future costs below.

#### Actual costs

The actual costs incurred in response to the January storm event have been subject to an independent verification. PwC undertook this task and their report provided as an attachment to this application.

Actual costs were recorded using our SAP accounting systems. This typically involved field crews and other staff booking their time to 'workorder' cost codes. Materials were also booked to the relevant cost codes along with contracted services.

## Future costs

It is not efficient or practical to repair all network damage that is identified after a major storm event.

At some sites our field crews will undertake temporary 'make safe' measures with plans to return at a later date to conduct full repairs or replacement. This means that, at the time of developing this pass through application, there are future costs which Ausgrid will incur when our field crews return to a site to complete the remaining works required to rectify the adverse consequences of the event.

The NER allows for future costs to be approved as part of a cost pass through application if there is 'evidence of the... likely increase in costs'.<sup>12</sup> The cost increase must also be directly related to the 'eligible pass through amount in respect of the positive change event'.<sup>13</sup>

For the January storm event, any work that was only temporarily remediated during storm and remains unfinished by 14 March 2025 is classified as further work. The costs to be recovered for these works are determined through the following process:

- Applying a representative unit rate for each job flagged as 'further work' in our systems.
- Subtracting the costs already incurred to calculate the remaining costs for each open job.
- Identifying exceptions where the scope of work does not have a representative unit rate, with the costs for these exceptions being assessed individually.

At the time of developing this application, there were 98 open workorders in our SAP accounting systems which formed the basis for calculating our likely future costs. The bulk of these related to repair works on network assets (e.g. poles, conductors) to 'make safe' as a temporary solution until they are wholly replaced in the remaining months of FY25. The total value of these future costs is \$0.8 million (real FY24).

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<sup>12</sup> NER, clause 6.6.1(c)(6)(i)

<sup>13</sup> NER, clause 6.6.1(c)(3) & (6)(i)

## 4 Eligible pass through amount

Our application is required to provide specific information regarding the 'eligible pass through amount'. The required information, including information about the materiality of the costs, are set out below.

### 4.1 Pass through amount

Our application seeks to pass through \$19.6 million we incurred in responding to the January storm, as explained in section 3.1.

The building block revenue impact of these incremental costs is set out in Table 4.1 below.

**Table 4.1 Building block costs for eligible pass through amount (\$m, nominal)**

	FY25	FY26	FY27	FY28	FY29
Return on capital	0.00	0.58	0.60	0.61	0.63
Return of capital	0.00	-0.07	-0.07	-0.06	-0.06
Opex	10.52	0.00	0.01	0.01	0.01
Tax	0.00	0.00	0.00	0.00	0.00
Revenue requirement (unsmoothed)	10.52	0.49	0.52	0.54	0.56
Revenue requirement (smoothed)	0.00	0.00	6.35	6.35	1.73

When smoothing the revenue, we aimed to align the X factor values with the revenue profile approved by the AER as part of the FY26 annual rate of return update. This approach considers the AER's guidance for DNSPs to target an X factor near 3% in the final year of the regulatory period.

### 4.2 Materiality of costs

We can only pass through the costs of the January storms if the event has led to us 'incurring materially higher costs in providing direct control services'.<sup>14</sup> The NER defines the term 'materially' as a 'change in costs (as opposed to the revenue impact)' that 'exceeds 1% of the annual revenue requirement for the Distribution Network Service Provider for that regulatory year'.<sup>15</sup>

The table below sets out this calculation. It shows that the January storm led to a change in our costs of \$19.6 million (real, FY24) and that, when measured against our 2024-25 annual revenue requirement, this amount exceeds the 1% materiality threshold in the NER.

<sup>14</sup> NER, Chapter 10 – Definition of 'positive change event'.

<sup>15</sup> NER, Chapter 10 – Definition of 'materially'.



**Table 4.2 Building block costs for eligible pass through amount**

Change in costs from the January storms (\$m, FY24)	19.6
AER revenue allowance for the 2024/25 regulatory year (\$m, FY24)	1,636
Materiality (%)	1.20%

#### **4.3 Exclusion of contingent projects and expenditure for restricted assets**

We confirm that the proposed pass through amount does not relate to a contingent project or a restricted asset.

## 5 Prudence and efficiency

The NER requires the AER to consider the efficiency of our ‘decisions and actions’<sup>16</sup> in relation to a pass through event. This must include ‘whether we failed to take any action that could have been reasonably taken to reduce the magnitude of the eligible pass through amount’.<sup>17</sup>

We address this requirement by providing information on the governance measures we employ to efficiently manage risk; the foreseeability of the storm event; and the prudence and efficiency of our approach to insurance.

### 5.1 Governance procedures and practices

When storms occur that affect our network, the safety and wellbeing of our customers and staff are necessarily the highest priority and must be considered when assessing the ‘decisions and actions’ we made in relation to the January storm.

In terms of assessing the efficiency of these actions and decision, the NER directs the AER to focus on how we managed the risk presented by the positive change event.<sup>18</sup> We therefore set out the main governance measures we employ which are our Incident Response Management Plan, Vegetation Management practices and internal processes targeted at promoting safety.

#### Application of Incident Response Management Plan (IRMP)

Ausgrid’s IRMP recognises the impact of storms on our customers when major network interruptions occur and sets out arrangements designed to deliver ‘optimal, efficient and speedy management of resources to restore [network] supplies as quickly as possible’.<sup>19</sup>

The Incident Response Management Plan was activated promptly in the January storm event. The storm began at 7:30pm on Wednesday 15<sup>th</sup> January, and by 8:15pm it had become clear that the extent of the damage required emergency protocols to be activated. By 8:30pm the Emergency Duty Manager had been notified, and by 9:00pm the first Incident Management Team had convened. This team consisted of operational, customer and logistical leaders to ensure a holistic response. The prompt activation of the Incident Management Team meant that the efforts were efficiently and prudently coordinated, and many efficiency improvements were achieved in comparison to previous storms. An example was the improved onboarding of crews from Essential Energy, where coordination of their work was undertaken prior to their arrival, to ensure these additional crews were able to work effectively. This was also due to other preparatory work in advance of the storm, including a new Memorandum of Understanding between the parties.

The response activities initially focused on safety to customers and staff, including hazard identification, feeder patrols, network isolation and ‘cut away, make safe’ works on or near our network assets. Once an area was made safe, damaged assets could then be rectified. The business processes for storm repairs are also detailed in our IRMP, which meant that our field crews had readily available information on how to safely and efficiently perform typical storm restoration work.<sup>20</sup>

#### Vegetation management policies

The most significant cause of damage to our network during the January storm was tree and branch falls from vegetation. We have governance measures in place to efficiently manage these risks. This is through the application of the Industry Safety Steering Committee’s (ISCC) *Guide for the Management of Vegetation near Electricity Supply Infrastructure* (ISCC3 Industry Guideline) and our Network Standard 179 (NS179).

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<sup>16</sup> NER, clause 6.6.1(j)(3).

<sup>17</sup> NER, clause 6.6.1(j)(3).

<sup>18</sup> NER, clause 6.6.1(j)(3).

<sup>19</sup> Ausgrid, Incident Response Management Plan, April 2020, p. 6.

<sup>20</sup> Ausgrid, Incident Response Management Plan, April 2020, p. 5.

The purpose of the ISSC3 Industry Guideline is to provide a minimum standard for the management of vegetation in the vicinity of electricity supply infrastructure in NSW. It does this by setting out the obligations that Ausgrid is required to meet with regard to:

- the safety of the public, and persons near or working on the network including the maintenance of electrical safety clearances;
- the protection of property and our electricity assets;
- protection of the environment, including protection from ignition of fires; and
- continuity of electricity supply.<sup>21</sup>

To achieve these outcomes the ISSC3 Industry Guidelines set out a 'deterministic standard of hazard management vegetation requirements'.<sup>22</sup> The ISSC3 Industry Guideline states that these 'deterministic standards' are based on the 'current industry understanding of the vegetation hazard reduction requirements in order to manage the risk to a level that is consistent with overall community expectations regarding public safety, environmental amenity and operational efficiency'.<sup>23</sup>

We give effect to the requirements in ISSC3 Industry Standard via an internal policy known as NS179. We can provide this policy together with the ISSC3 Industry Standard to the AER on request. In our view, the application of ISSC3 Industry Standard and NS179 reflects 'good industry practice' which, as per the AER's *Expenditure Forecast Assessment Guideline*, aligns to the AER's expectations of a prudent and efficient electricity distributor.<sup>24</sup> It follows that in assessing the actions and decisions we made in managing vegetation near our network, it is reasonable for the AER to find that the governance measures we employed ahead of the January storm were prudent and efficient.

### Electricity Network Safety Management System (ENSMS)

The safe operation of our electricity distribution network is governed by the *Electricity Supply Act 1995 (the Act)*. We must also comply with the *Electricity Supply (Safety and Network Management) Regulation 2014 (the Regulation)* which, among other things, requires us to put in place an Electricity Network Safety Management System (**ENSMS**).

We established an ENSMS in 2019 that meets the requirements of AS5577 – *Electricity Network Safety Management Systems (AS5577)*. Our ENSMS provides that we will act in a way so that network safety risks are eliminated so far as is reasonably practicable (**SFAIRP**) and if not reasonably practicable to do so, then reduced as low as reasonably practicable (**ALARP**). Reasonably practicable means that which is, or was at a particular time, reasonably able to be done to ensure safety, taking into account and weighing up all relevant matters including:

- a) the likelihood of the hazard or the risk occurring;
- b) the degree of harm that might result from the hazard or the risk;
- c) what is known, or ought to reasonably be known, about the hazard or risk, and about the ways of eliminating or minimising the risk;
- d) the availability and suitability of ways to eliminate or minimise the risk; and
- e) after assessing the extent of the risk and the available ways of eliminating or minimising the risk, the cost associated with the available ways of eliminating or minimising the risk, including whether the cost is grossly disproportionate to the risk.

Our compliance obligations in relation to the ENSMS, the Act and the Regulation provides confidence that network risks were being managed in accordance with good industry practice prior to the commencement of the January storm. Recently, IPART directed an independent audit to evaluate Ausgrid's planning, implementation, and review processes in line with AS 5577-2013 (Electricity Network Safety Management

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<sup>21</sup> ISCC, *Guide for the Management of Vegetation near Electricity Supply Infrastructure*, 2016, p. 8.

<sup>22</sup> ISCC, *Guide for the Management of Vegetation near Electricity Supply Infrastructure*, 2016, p. 17.

<sup>23</sup> ISCC, *Guide for the Management of Vegetation near Electricity Supply Infrastructure*, 2016, p. 17.

<sup>24</sup> AER: *Explanatory Statement Expenditure Forecast Assessment Guideline*, November 2013, p. 82.

Systems), focusing on whether safety risks from supply interruptions were managed to an "So Far As Is Reasonably Practicable" (SFAIRP) standard. The audit confirmed that Ausgrid had established robust risk identification and treatment processes, including a Formal Safety Assessment (FSA) that considered historical and foreseeable events, such as extreme weather and climate change.

Notably, the IPART directed audit found that Ausgrid's compliance obligations and proactive risk management practices ensured that the January storm's impact was not worsened by any deficiencies in network or vegetation management. This demonstrates that the ENSMS effectively supports network resilience and public safety during supply disruptions. Therefore, the impact of the storm was not exacerbated by any action or inaction in relation to network or vegetation management.

## 5.2 Insurance considerations

In accepting a 'natural disaster event' as a nominated pass through event in our 2024-29 distribution determination, the AER's Final Decision confirmed that, when assessing a natural disaster event pass through application, the AER will have regard to, among other things:

- whether Ausgrid holds insurance against the event; and
- the level of insurance that an efficient and prudent Distribution Network Service Provider (**DNSP**) would obtain in respect of the event.

Ausgrid does not hold insurance cover for damage caused to the poles and wires of our electricity network from natural disasters. Past reviews have confirmed that insuring the poles and wires against natural disasters is neither efficient nor prudent. There are several key reasons for this conclusion:

- The insurance caps available are extremely low compared to both the overall value of our network assets and the potential loss exposure from a major natural disaster event.
- The premium costs for even limited coverage are significant relative to the payout cap, and deductibles are typically high.
- In the event of a claim, we expect premiums to increase significantly, reflecting the insurer's reassessment of risk.

In its recent storm pass through application, AusNet Services noted:<sup>25</sup>

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

We have received the same advice from our brokers. We also note that other DNSPs across the National Electricity Market face similar challenges and make similar insurance decisions. Our informal discussions with peer DNSPs confirm that Ausgrid's position is consistent with broader industry practice.

Accordingly, consistent with the AER's Final Decision and established industry practice, Ausgrid submits that we have acted prudently and efficiently in not holding insurance cover for damage to our poles and wires caused by the January 2025 storm event.

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<sup>25</sup>

AusNet, [Cost pass through application: September 2024 storms](#), December 2024, p. 16.

## 6 Compliance checklist

The table below provides a checklist showing that this pass through application complies with the NER pass through provisions, set out in clause 6.6.1 and cross-references the location of the relevant information in the application.

**Table 6.1 Compliance checklist**

NER CI	Requirement	Information provided	Reference
<b>6.6.1(a1)</b>	Identification as a pass through event. An event allowing for pass through of costs may be specified in the distribution determination.	The application explains that the January storm event meets the 'natural disaster' event specified in Ausgrid distribution determination.	Sections 2.1 and 2.2.
<b>6.6.1(a)</b>	A DNSP may seek AER approval for the pass through for a positive change event. To qualify as a positive change event the DNSP must have incurred materially higher costs (NER defined) in providing direct control services.	The application confirms that Ausgrid incurred materially higher costs in providing direct control services, and accordingly the event qualifies as a positive pass through event.	Sections 3.1, 4.1 and 4.2.
<b>6.6.1(c)</b>	A DNSP must submit a statement within 90 business days of the relevant positive change event occurring.	This requirement has been met as this application has been lodged on or before 26 May 2025.	Section 1.2.
<b>(c)(1)</b>	The statement must specify: <ul style="list-style-type: none"> <li>The details of the positive change event.</li> </ul>	The details of the positive change event, including the impact on customers and network assets are provided in this application.	Section 2.1.
<b>(c)(2)</b>	<ul style="list-style-type: none"> <li>The date on which the positive change event occurred</li> </ul>	The event commenced on 15 January and continued until 17 January.	Section 2.1.
<b>(c)(3)</b>	<ul style="list-style-type: none"> <li>The eligible pass through amount, being the increase costs in the provision of direct control services as a result of the positive change event</li> </ul>	The application provides detail on the sources of cost increases and the cost attributed for each, which constitutes the eligible pass through amount.	Chapter 3 and section 4.1.
<b>(c)(4)</b>	<ul style="list-style-type: none"> <li>The positive pass-through amount proposed.</li> </ul>	The application proposes a positive pass through amount.	Section 4.1.
<b>(c)(5)</b>	<ul style="list-style-type: none"> <li>The amount proposed to be passed through in the regulatory year in which the event occurred in and in subsequent regulatory years.</li> </ul>	The application proposes amounts to be passed through in relation to FY25. The impact on the building block calculations are also provided, noting that the revenue recovery will not commence until FY27.	Sections 3.1 and 4.1.



NER CI	Requirement	Information provided	Reference
(c)(6)(i)	Evidence of: <ul style="list-style-type: none"> <li>the actual and likely increases</li> </ul>	The application shows the impact of the storm event compared to average annual expenditure on storm responses.	Section 2.2 and PWC report.
(6)(ii)	<ul style="list-style-type: none"> <li>that the costs occur solely as a consequence of the positive change event</li> </ul>	<p>The application describes the data sources and processes to determine the costs solely occurring as a consequence of the positive change event.</p> <p>An audit report on the records is also provided.</p>	Sections 3.1 and PWC report.
(6)(iii)	<ul style="list-style-type: none"> <li>relates to the circumstances where the cause of costs is a retailer insolvency event</li> </ul>	Not applicable.	N/A
(c)(7)	<ul style="list-style-type: none"> <li>other information as required under any relevant regulatory instrument</li> </ul>	Not applicable.	N/A
(6)(c1)	<ul style="list-style-type: none"> <li>relates to the pass through amount including expenditure for a restricted asset</li> </ul>	Not applicable.	N/A

## 7 List of attachments

Name of attachment	Overview
Ausgrid - Storm pass through application - Cover letter - May 2025	CEO cover letter
Ausgrid - Attachment 1 - Storm cost pass through application - Updated PTRM - May 2025	Updated PTRM calculating Ausgrid's 2024-29 revenue including the proposed storm pass through amount
Ausgrid – Attachment 2 - Storm cost pass through application – PwC report – May 2025	Independent verification of the January 2025 storm cost impacts
Ausgrid - Attachment 3 – Storm pass through application – Time series video of event – May 2025	Demonstrates the storm was a single event over 15-17 January