

Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 4 – Pass through events

September 2025

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4 Pass through events

During the regulatory control period AusNet can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its costs caused by pre-defined exogenous events. These events are called cost pass through events. 'Positive' pass throughs allow AusNet to recover the efficient costs incurred as a result of events that could not be forecast as part of its proposal that otherwise would have a significant financial effect on its ability to invest in and operate its network.¹

The National Electricity Rules (NER) prescribe the following pass through events for all distribution determinations:²

- a regulatory change event
- a service standard event
- a tax change event
- a retailer insolvency event.

In addition to these prescribed events, other pass through events may be 'nominated' by a service provider for a regulatory control period.³ This attachment sets out our draft decision on the nominated pass through events to apply.

4.1 Draft decision

Our draft decision is to:

- accept the natural disaster, insurer's credit risk, insurance coverage, terrorism, and retailer insolvency events proposed by AusNet
- not accept AusNet new proposed major supply chain disruption, AEMO participant fee, or electrification events.⁴

Our reasons are set out in section 4.5, with our definitions of the accepted pass through events in Table 4.2.

4.2 AusNet's proposal

AusNet's proposed nominated pass through events are set out in Table 4.1.

¹ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 2.

² NER, cl. 6.6.1(a1)(1)–(4). Each of these prescribed events is defined in Chapter 10 (Glossary) of the NER.

³ NER, cl. 6.6.1(a1)(5).

⁴ This is one of the constituent decisions we must make under NER, cl 6.12.1(14).

Table 4.1 AusNet's nominated pass through events

Proposed event	AusNet's proposed definition
Pre-existing pass through events	
Natural disaster event	<p>Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2026-31 regulatory control period that changes the costs to AusNet in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> 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. <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i) whether AusNet has insurance against the event ii) the level of insurance that an efficient and prudent network service provider would obtain in respect of the event.
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of AusNet becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, AusNet:</p> <ul style="list-style-type: none"> a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy, or b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. <p>Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> i) AusNet attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation, and ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether AusNet had reasonable opportunity to insure the risk with a different provider.
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ul style="list-style-type: none"> 1) AusNet: <ul style="list-style-type: none"> a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or

Proposed event	AusNet's proposed definition
	<p>b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and</p> <p>2) AusNet incurs costs:</p> <p>a) beyond a relevant policy limit for that policy or set of insurance policies; or</p> <p>b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</p> <p>3) The costs referred to in paragraph 2 above materially increase the costs to AusNet in providing direct control services.</p> <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> • 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of AusNet, where those movements mean that it is no longer possible for AusNet to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies • 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: <ul style="list-style-type: none"> (1) the limit not been exhausted; or (2) those costs not been unrecoverable due to changed circumstances • A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which AusNet was regulated; and • AusNet will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of AusNet in relation to any aspect of AusNet' network or business; and • AusNet will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of AusNet in relation to any aspect of AusNet' network or business. <p>Note: for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(j), the AER will have regard to:</p> <ul style="list-style-type: none"> i) the relevant insurance policy or set of insurance policies for the event

Proposed event	AusNet's proposed definition
	<ul style="list-style-type: none"> ii) the level of insurance that an efficient and prudent DNSP would obtain, or would have sought to obtain, in respect of the event iii) any information provided by AusNet to the AER about AusNet's actions and processes, and iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
Terrorism event	<p>Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:</p> <ul style="list-style-type: none"> 1) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear), and 2) changes the costs to AusNet in providing direct control services. <p>Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> iii) whether AusNet has insurance against the event ii) the level of insurance that an efficient and prudent network service provider would obtain in respect of the event, and iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.
Retailer insolvency event	<p>Until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, retailer insolvency event has the meaning set out in the NER as in force from time to time, except that:</p> <ul style="list-style-type: none"> (a) where used in the definition of 'retailer insolvency event' in the NER, the term 'retailer' means the holder of a licence to sell electricity under the Electricity Industry Act 2000 (Vic); and (b) other terms used in the definition of retailer insolvency event in the Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the NER or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural

Proposed event	AusNet's proposed definition
	<p>meaning, or their technical meaning (as the case may be).</p> <p>For the purposes of this definition, the terms 'eligible pass through amount' and 'positive change event' where they appear in the NER (as well as any subordinate terms including, without limitation, 'retailer insolvency costs', 'failed retailer' and 'billed but unpaid charges') are modified in respect of this retailer insolvency event in the same manner as those terms are modified in respect of the retailer insolvency event prescribed in the NER from time to time</p> <p>Note: This retailer insolvency event will cease to apply as a nominated pass through event on commencement of the National Energy Customer Framework in Victoria.</p>
New proposed pass through events	
A Major Supply Chain Disruption Event	<p>A Major Supply Chain Disruption Event occurs if it:</p> <ol style="list-style-type: none"> 1. Involves a major disruption to the supply chain necessary to AusNet's operations arising because of, but not limited to, outbreak of war or pandemic, sanctions or trade restrictions, 2. which falls within no other category of pass through event; 3. that occurs during the regulatory control period; and <p>In assessing a Major Supply Chain Disruption Event, the AER will have regard to:</p> <p>(a) whether a declaration has been made by a relevant government authority in respect of an event which is causing or contributing to the major disruption to the supply chain; and</p> <p>(c) the difference in the forecast inflation used by the AER in its Final Decision and actual inflation, commodity prices and product price indexes (PPIs) reported by the Australian Bureau of Statistics during or following the major supply chain disruption.</p>
AEMO participant fee event	<p>An AEMO participant fees event occurs if, under clause 2.11.1, including for a Declared NEM Project, AEMO determines a portion of participant fees to be paid by NSPs, which materially increases the costs to AusNet in providing direct control services.</p>
Electrification event	<p>An electrification event occurs if:</p> <ol style="list-style-type: none"> 1. The Commonwealth Government or the Government of Victoria announces a new or amended policy, program, initiative, scheme or other measure, which is directed at accelerating electrification of transport, or gas-powered appliances or processes; and 2. The cost to AusNet to meet or manage the actual or expected demand materially increases as a result of the announcement, relative to the cost set out in AusNet's 2026-2031 regulatory proposal.

Proposed event	AusNet's proposed definition
	<p>In assessing an electrification event, the AER will have regard to whether, as a result of the announcement, there is:</p> <p>(a) a forecast increase in energy used by customers connected to AusNet's electricity distribution network, when compared to the forecasts set out in our 2026-31 regulatory proposal; or</p> <p>(b) an increase in the after diversity maximum demand (ADMD) applicable at the date we submit our regulatory proposal to the AER.</p>

Source: ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal - 31 Jan 2025, pp. 328-334.

4.3 Assessment approach

The NER set out how we must assess nominated pass through events, and how we must assess an application from a service provider to pass through changes in costs where an event occurs.⁵

Our assessment approach is guided by the National Electricity Objective (NEO)⁶ and the Revenue and Pricing Principles (RPPs).⁷ The RPPs include that the service provider should have a reasonable opportunity to recover at least the efficient costs of providing services and complying with regulatory obligations.⁸ The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency, and balance the risks of under and over investment.

In the context of pass through events, we have particular regard to the impact on price, quality, reliability and security of supply that may arise as a result of any change in the efficient operation of, and ability and incentive of, a service provider to invest in its network. This is a similar approach to that taken by the Australian Energy Market Commission (AEMC) when considering pass through event rule changes.”

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' as defined,⁹ which are as follows:¹⁰

- a) whether the event proposed is an event covered by a category of *pass through event* specified in clause 6.6.1(a1)(1) to (4) (in the case of a distribution determination) or clause 6A.7.3(a1)(1) to (4) (in the case of a *transmission determination*);
- b) whether the nature or type of event can be clearly identified at the time the determination is made for the service provider;

⁵ NER, cl. 6.5.10(b), 6.6.1.

⁶ The NEO is defined in s. 7 of the NEL.

⁷ The revenue and pricing principles are set out in s. 7A of the NEL.

⁸ NEL, s. 7A(2).

⁹ NER, cl. 6.5.10(b).

¹⁰ NER, Chapter 10, definition of 'nominated pass through event considerations'.

- c) whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;
- d) whether the relevant service provider could insure against the event, having regard to:
 - 1) the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or
 - 2) whether the event can be self-insured on the basis that:
 - i) it is possible to calculate the self-insurance premium; and
 - ii) the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide *network services*; and
- e) any other matter the *AER* considers relevant and which the *AER* has notified *Network Service Providers* is a nominated pass through event consideration.

The AEMC described the purpose of the nominated pass through event considerations as:

... to incorporate and reflect the essential components of a cost pass through regime in the NER. It was intended that in order for appropriate incentives to be maintained, any nominated pass through event should only be accepted when event avoidance, mitigation, commercial insurance and self-insurance are unavailable.¹¹

...that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after ascertaining the most efficient allocation of risks between a network service provider (NSP) and end consumers.¹²

This protects the incentive regime under the NER by limiting erosion of a service provider's incentives to use market-based mechanisms to mitigate the cost impacts that would arise. This also promotes the efficient investment in, and efficient operation and use of, network services for the long-term interests of consumers with respect to price.¹³

As a matter of good regulatory practice, we also take into account the desirability of consistency in our approach to assessing nominated pass through events across our electricity determinations and gas access arrangements.¹⁴

¹¹ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

¹² AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 20.

¹³ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

¹⁴ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

4.4 Interrelationships

The pass through mechanism is not the only way service providers can manage their risks under a distribution or transmission determination. It is interrelated with other parts of this decision, in particular with the forecast operating and capital expenditure (opex and capex) and rate of return included in our revenue determination. We must specify and take account of these interrelationships.¹⁵ This requires us to balance the incentives in the various parts of our decision.

For systemic risks, service providers are compensated through the allowed rate of return. Service providers also face business-specific, or residual, risks. Service providers are compensated for the prudent and efficient management of these risks through the forecast opex and capex we include in our revenue determination for strategies such as:

- prevention (avoiding the risk)
- mitigation (reducing the probability and impact of the risk)
- insurance (transferring the risk to another party)
- self-insurance (putting aside funds to manage the likely costs associated with a risk event).

An efficient business will manage its risk by employing the most cost-effective combination of these strategies. In order to maintain appropriate incentives under our determinations, we consider the prescribed matters in the definition of nominated pass through event considerations such as event avoidance, mitigation, commercial insurance and self-insurance under approved forecasts of prudent and efficient opex and capex are either unavailable or inappropriate.¹⁶

In general, in respect of unforeseen costs that are relatively minor, a service provider should manage them by using up its existing expenditure allowance, or reprioritising or substituting its projects, to avoid seeking cost recovery through the pass through mechanisms.¹⁷ This is reflected in the materiality threshold that applies to cost pass through applications.¹⁸

Cost pass through amounts approved in a regulatory control period are added to (or in the case of a negative pass through deducted from) forecast opex and capex for the purpose of calculating efficiency carryover amounts under the Efficiency Benefit Sharing Scheme and Capital Expenditure Sharing Scheme.¹⁹

¹⁵ NEL, s. 16(1)(c).

¹⁶ AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

¹⁷ AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Rule Determination*, 29 November 2012, p. 186.

¹⁸ NER, *Chapter 10, definition of 'materially'*.

¹⁹ AER, *Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013, p. 7; AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, April 2023, p. 3.

Any capex that has already been recovered in a regulatory control period by way of a cost pass through cannot be recovered again in the roll-forward of the regulatory asset base for the next regulatory control period.²⁰

4.5 Reasons for draft decision

4.5.1 Natural disaster, insurer's credit risk, insurance coverage, terrorism, and retailer insolvency events

We consider that AusNet proposed natural disaster, insurer's credit risk, insurance coverage, terrorism, and retailer insolvency events meet the nominated pass through event considerations set out in the NER, including that:²¹

- the proposed events are not covered by an existing category of pass through event
- the nature of the events are clearly identifiable at this time
- a prudent service provider could not reasonably prevent an event of that nature or type from occurring or substantially mitigate its cost impact and could not insure (or self-insure) against the events on reasonable commercial terms.

With regard to the latter point, while AusNet could take steps to reduce its risk exposure to these events, expenditure beyond a certain level aimed at completely eliminating the risk is likely to be imprudent or inefficient. In that context, sharing the risk between AusNet and its customers is appropriate and more likely to be in the long-term interests of consumers with respect to price.

The cost pass through events proposed by AusNet are the same as those included in its 2021–26 determination,²² and also consistent with our recent determinations for other network providers.²³

No stakeholder submissions were received on AusNet's nominated cost pass through events.

We accept the definitions proposed by AusNet for natural disaster, insurer's credit risk, insurance coverage, and terrorism pass through events, as these are consistent with the NER criteria, and with our recent determinations for other network service providers.

Table 4.2 sets out the accepted nominated pass through events for the draft decision.

²⁰ NER, cl. S6.2.1(e)(1)(ii).

²¹ NER, cl. 6.5.10(b); *Chapter 10: Glossary, definition of 'nominated pass through event considerations'*.

²² AER - *Final decision - AusNet Services distribution determination 2021–26 - Attachment 15 - Pass through events* - April 2021, pp. 15.16–15.19.

²³ For example, AER, *Final Decision Attachment 15 – Pass through events – Ausgrid – 2024-29 Distribution revenue proposal*, April 2024, pp. 4–6; AER, *Final Decision Attachment 15 – Pass through events – Endeavour Energy – 2024-29 Distribution revenue proposal*, April 2024, pp. 2–4.

Table 4.2 AER pass through event definitions for the draft decision

Proposed event	AusNet's proposed definition
Natural disaster event	<p>Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2026-31 regulatory control period that changes the costs to AusNet in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> 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. <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> iv) whether AusNet has insurance against the event <p>the level of insurance that an efficient and prudent network service provider would obtain in respect of the event.</p>
Insurer's credit risk event	<p>An insurer credit risk event occurs if an insurer of AusNet becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, AusNet:</p> <ul style="list-style-type: none"> a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy, or b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. <p>Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> iii) AusNet attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation, and iv) in the event that a claim would have been covered by the insolvent insurer's policy, whether AusNet had reasonable opportunity to insure the risk with a different provider.
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ul style="list-style-type: none"> 3) AusNet: <ul style="list-style-type: none"> a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and

Proposed event	AusNet's proposed definition
	<p>4) AusNet incurs costs:</p> <p>a) beyond a relevant policy limit for that policy or set of insurance policies; or</p> <p>b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</p> <p>5) The costs referred to in paragraph 2 above materially increase the costs to AusNet in providing direct control services.</p> <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> • 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of AusNet, where those movements mean that it is no longer possible for AusNet to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies • 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: <ul style="list-style-type: none"> (3) the limit not been exhausted; or (4) those costs not been unrecoverable due to changed circumstances • an insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which AusNet was regulated; and • AusNet will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of AusNet in relation to any aspect of AusNet's network or business; and • AusNet will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of AusNet in relation to any aspect of AusNet's network or business. <p>Note: for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(j), the AER will have regard to:</p> <ul style="list-style-type: none"> v) the relevant insurance policy or set of insurance policies for the event vi) the level of insurance that an efficient and prudent DNSP would obtain, or would have sought to obtain, in respect of the event

Proposed event	AusNet's proposed definition
	<p>vii) any information provided by AusNet to the AER about AusNet's actions and processes, and</p> <p>any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.</p>
Terrorism event	<p>Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:</p> <ul style="list-style-type: none"> 6) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear), and 7) changes the costs to AusNet in providing direct control services. <p>Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:</p> <ul style="list-style-type: none"> v) whether AusNet has insurance against the event ii) the level of insurance that an efficient and prudent network service provider would obtain in respect of the event, and <p>whether a declaration has been made by a relevant government authority that a terrorism event has occurred.</p>
Retailer insolvency event	<p>Until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, retailer insolvency event has the meaning set out in the NER as in force from time to time, except that:</p> <ul style="list-style-type: none"> (c) where used in the definition of 'retailer insolvency event' in the NER, the term 'retailer' means the holder of a licence to sell electricity under the Electricity Industry Act 2000 (Vic); and (d) (b) other terms used in the definition of retailer insolvency event in the Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the NER or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural meaning, or their technical meaning (as the case may be). <p>For the purposes of this definition, the terms 'eligible pass through amount' and 'positive change event' where they appear in the NER (as well as any subordinate terms including, without limitation, 'retailer insolvency costs', 'failed retailer' and 'billed but unpaid</p>

Proposed event	AusNet's proposed definition
	<p>charges') are modified in respect of this retailer insolvency event in the same manner as those terms are modified in respect of the retailer insolvency event prescribed in the NER from time to time</p> <p>Note: This retailer insolvency event will cease to apply as a nominated pass through event on commencement of the National Energy Customer Framework in Vict</p>

Source: AusNet Services - *Attachment 15: Pass through events, Final decision, 2021–26*, pp. 15.16-15.19.

4.5.2 Major supply chain disruption, electrification, or AEMO participant fee events

We do not consider that AusNet's newly proposed major supply chain disruption, electrification, or AEMO participant fee events meet the nominated pass through event NER considerations set out in in section 15.3.²⁴ Table 4.3 summarises our assessment of each of the nominated cost pass through events against the NER considerations.

Table 4.3 Assessment of AusNet's new proposed pass through events

NER consideration	Major supply chain disruption event	Electrification event	AEMO fee event
(a) Already covered by an existing event?	Yes - some types of events are likely covered by other pass through events	No	No
(b) Clearly identified?	No – broad, ambiguous and what constitutes 'a major disruption' is not specific	No – broad, ambiguous and hard to measure	Yes
(c) Could prudent provider prevent / mitigate?	Yes - depends on the type of event	Yes – through augex and demand forecast and joint planning	No
(d) Insurable?	Yes - depends on the type of event	No	No
Other comments	AER has not accepted similar events	AER has not accepted similar events, unlikely to manifest, and possibly accounted for elsewhere	Pending AEMO draft fee structure decision in September 2025

Source: AER analysis

A more detailed assessment of each new nominated pass through event is below.

Major supply chain disruption event

Ausnet submitted that, in the context of the global energy transition, there are events that could place pressure on, and increase the probability and impact of disruptions to its supply chains, materially affecting the availability and costs of materials, commodities and labour.²⁵ Ausnet therefore proposed a new nominated cost pass through event for instances where a major disruption to its supply chain occurs for reasons that include, but are not limited to, the

²⁴ NER, cl. 6.5.10(b); *Chapter 10: Glossary, definition of 'nominated pass through event considerations'.*

²⁵ AusNet Services, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal -31 Jan 2025, p. 332.

outbreak of war or pandemic, sanctions or trade restrictions, and this materially increase its costs.

Our draft decision is to not accept this pass through event for the following reasons:

- The event is not clearly specified. This event as defined may include any event that “involve[s] a major disruption to the supply chain necessary to AusNet’s operations [including] but not limited to, outbreak of war or pandemic, sanction or trade restrictions. Although the listed examples (war, pandemic, sanction or trade restrictions) can likely be clearly identified, the underlying ‘event’ is not clear as it is defined by its impact rather than its occurrence. The event as proposed could reasonably capture any event that has the consequence of disrupting Ausnet’s supply chain. We do not consider, therefore, that the nominated cost pass through event is clearly identifiable.
- As the event is ambiguous and broadly defined, some examples of the event are likely to be covered under existing nominated cost pass through events. For example, the ‘pandemic’ example included in the proposed pass through event definition could fall under the existing ‘natural disaster event’, and the ‘outbreak of war’ example could fall under the existing ‘terrorism’ event in certain circumstances. Therefore, we consider that the proposed nominated cost pass through event may be covered by existing categories of pass through events, in some circumstances.
- We consider that Ausnet is likely to be able to mitigate the impact of disruptions to its supply chain caused by some examples of the event, including through insurance and / or prudent planning. We consider that supply chain disruption costs can reasonably be considered a normal risk of doing business. Some causes of a supply chain disruption may be insurable, such as through business interruption insurance. A prudent business would also be expected to take some measures to manage significant risks to its supply chain, such as by diversifying or hedging their supply chains against significant supply risks.
- Our opex forecasting methodology captures, to a degree, fluctuations in DNSP price and labour inputs through the trend component of our opex forecast, which aims to be appropriately weighted and recognise relevant trends/risks over the regulatory period. Where input costs are impacted by a significant disruption to AusNet’s supply chain, the increase in costs can be considered in the revenue determination process through the trend component of our opex forecasting methodology.
- Not accepting this event is consistent with previous decisions. In its 2021-2026 proposal, CitiPower proposed an ‘act of aggression’ event to cover a broad range of instances related to international and non-international armed conflict, in addition to other acts of aggression that could disrupt its supply chain.²⁶ In our draft decision, we rejected this event as we considered the definition to be too broad and uncertain. We also considered that not all business risk can and should be eliminated, and that this is not the intent of the cost pass through mechanism.

Our draft decision is to not accept AusNet’s proposed nominated pass through event for major supply chain disruption as it does not meet the NER considerations. We consider that

²⁶ AER, *Attachment 15: Pass through events | Draft decision – CitiPower 2021–2026*, pp. 15.19-15.21.

the definition is too broad and not clearly specified. The overly broad definition also means that some examples of this type of event are likely already covered by existing pass through events, may be insurable, or Ausnet may be able to mitigate the impact of resulting disruptions to its supply chain.

Electrification event

AusNet submitted that over 2026–31, electrical demand on its network could materially increase as a result of accelerated consumer electrification habits due to the energy transition.²⁷ AusNet has proposed a new nominated cost pass through event for instances where the Victorian or federal government *announce* a new policy, initiative, scheme or other measure directed at accelerating electrification, and AusNet's costs materially increase in order to manage actual or expected demand.

Our draft decision is to not accept this pass through event for the following reasons:

- We have rejected similar network proposals related to electrification:
 - In our 2024-29 draft decision for Evoenergy, we rejected its contingent project for substation and feeder works related to unexpected accelerated electrification. We considered the trigger events for this project to be too broad and uncertain. This was supported by relevant submissions.²⁸
 - In our 2021-26 draft decision for AusNet²⁹ and CitiPower³⁰, we rejected two similar proposed new nominated pass through events for the unexpected rise in electricity demand as a result of a government policy announcement related to accelerating EV uptake. We considered that such an event was unlikely to occur, and were it to occur it could be largely managed and mitigated through joint planning, with any cost impacts being immaterial.
 - We rejected AusNet Gas Services' 2024 variation proposal for its 2023-28 access arrangement to increase its accelerated depreciation as a result of new Victorian policies related to increasing electrification and limiting gas supply. We found that any changes related to energy consumption as a result of such policies were likely to accrue slowly and that the behaviour of gas consumers was too uncertain to extrapolate to any sudden and aggressive electrification decisions.³¹
- From a technical perspective, we consider that:
 - Electrification will most likely manifest as a small uplift in demand over many years as gas consumers move from gas to electricity as the cost to move from gas to electricity will be material for most consumers (likely at least \$5,000 to \$10,000).

²⁷ AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal* -31 Jan 2025, p. 334.

²⁸ AER, *Draft Decision Attachment 5 – Capital expenditure – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023, pp. 23 – 26.

²⁹ AER, *Draft decision – AusNet Services distribution determination 2021-26 – Attachment 15 – Pass through events*, September 2020, pp 16 – 17.

³⁰ AER, *Draft decision – CitiPower distribution determination 2021-26 – Attachment 15 – Pass through events*, September 2020, pp 21 – 22.

³¹ AER, *AusNet 2023-28 Access arrangement variation proposal – Final Decision*, May 2025, pp. 1 – 2.

Hence, we would expect gas consumers to move to electrical appliances as their existing gas appliances reach end of life and require replacement.

- The impact to the network would therefore likely be dispersed over the consumer base and progressive over years (at least 5 to 10 in our view). Accordingly, the impact of such a process would likely be a small uptick in demand growth that may bring forward planned augmentation, which would be different in nature at different network locations, with varying timings. For example, at some locations feeder rearrangement may be needed, at others an additional transformer may be required at a zone substation, or LV or HV feeders may need to be augmented at another location – and all of this with different timings, spanning multiple years.
- We also consider the pass through mechanism is not the appropriate mechanism to manage these costs.
 - AusNet is already seeking to manage electrification through its augex proposal, which includes an allowance for customer driven electrification.³²
 - In line with the view of our demand consultant, Baringa, we also consider that AusNet may include any impacts for gas electrification in its demand forecasts in its revised proposal.³³

Our draft decision is to not accept AusNet's proposed new nominated pass through event for electrification as it does not meet the NER considerations. We do not consider that an announcement of a program, initiative or scheme is clearly defined and measurable, we consider any possible relationship between a government policy announcement (which could be easily amended or reversed) and network expenditure to be indirect, and difficult to ascertain the prudence and efficiency of any expenditure directly resulting from a specific policy. We consider that any potential cost impact of electrification could be largely mitigated by prudent planning, including through AusNet's augex and demand forecasts, and joint planning and consultation with government and other relevant stakeholders. We also consider any sudden, unexpected and material cost impacts arising from an electrification policy announcement to be unlikely over 2026–31. These considerations align with similar AER decisions in the past.

AEMO participant fee event

AusNet submitted that AEMO is currently consulting on its new market participant fee structure, to commence on 1 July 2026 and be in effect for the next 5 years.³⁴ AEMO currently only recovers NEM market participant fees from TNSPs, however as part of its current consultation for its new fee structure, it is also exploring the option of charging these fees to DNSPs. If AEMO does decide to charge market participant fees to DNSPs, AusNet would like to include a nominated pass through event in this instance, to recover these costs from consumers.

³² Refer to our augex assessment in the capex component for AusNet Services determination in attachment 2.

³³ Baringa, *AER - Victorian distribution demand – AusNet Services – Final report*, July 2025, p. 4.

³⁴ AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal* -31 Jan 2025, p. 333. AEMO's fee structure period is also under consultation, this time period may change as well.

At the time of preparing this draft decision, AEMO had not yet made a determination on whether participant fees would be charged to DNSPs. AEMO advised this will be set out in its draft determination on its new fee structure, due for publication in September 2025.

At this stage, the AER does not accept this new nominated pass through event. We consider that the uncertainty regarding AEMO's impending decision and the ability to include any fees in a revised revenue proposal may be preferable to the use of a pass through mechanism. We recommend Ausnet have regard to AEMO's draft fee structure released in September 2025, and factor this into its revised proposal (due in December 2025). If AEMO's draft decision is to charge participant fees to DNSPs in the future, we would prefer AusNet include these forecast fees in its revised revenue proposal to the extent possible, rather than recovering costs through the pass through mechanism. If AEMO does not decide to charge DNSP participant fees in its draft decision, then we do not consider this pass through event to be necessary.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
Capex	Capital expenditure
DNSP	Distribution network service provider
NEL	National electricity law
NEM	National electricity market
NEO	National electricity objective
NER	National electricity rules
NSP	Network service provider
Opex	Operating expenditure
RPP	Revenue and pricing principles
AER	Australian Energy Regulator