

Draft decision

**CitiPower, Powercor and United Energy
electricity distribution determination**

1 July 2026 – 30 June 2031

Attachment 4 – Pass through events

September 2025

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4 Pass through events

This attachment sets out our draft decision for the nominated pass through events proposed by CitiPower, Powercor and United Energy (CPU). All three networks proposed the same nominated pass through events for the 2026-31 regulatory period on the same terms and with the same wording. This document sets out our assessment for all three businesses. A reference to CPU in this attachment should be taken as a reference to the respective proposal of each business. We have only referenced CitiPower's proposal for the wording of these pass through events. Positive pass throughs allow CPU 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

During the regulatory control period CPU can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its efficient costs caused by pre-defined exogenous events. These events are called cost pass through events.

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 to CPU for the 2026–31 regulatory control period.

4.1 Draft decision

Our draft decision is to:⁴

- not accept CPU's new proposed fault level, electrification and AEMO participant fee events, and
- accept CPU's remaining events: insurer credit risk, insurance coverage, natural disaster, terrorism and retailer insolvency, as proposed, because they align with our current definitions for these events.

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(n).

Our reasons are set out in section 4.5 and our draft decision definitions (which are the same as those provided by CPU for those nominated pass through events that are not new) are set out in Table 4.3.

4.2 CPU's proposal

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

Table 4.1 CPU's nominated pass through events

Pass through event	CPU's proposed definition
Pre-existing pass through events	
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of [CPU] becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, [CPU]:</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's credit risk pass through application, the AER will have regard to, among other things:</p> <ul style="list-style-type: none"> i. [CPU's] 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 [CPU] 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. [CPU]: <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 2. [CPU] incurs costs:

Pass through event	CPU's proposed definition
	<p>a) beyond a policy limit for the relevant insurance policy or set of insurance policies; or</p> <p>b) that are unrecoverable under the relevant insurance 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 [CPU] in providing direct control services.</p> <p>For the purpose of this insurance coverage event:</p> <p>'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of [CPU], where those movements mean that it is no longer possible for [CPU] 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.</p> <p>'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <ul style="list-style-type: none"> i. the limit not been exhausted; or ii. those costs not been unrecoverable due to changed circumstances. <p>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 [CPU] was regulated</p> <p>[CPU] 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 [CPU] in relation to any aspect of CitiPower's network or business; and</p> <p>[CPU] 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 [CPU] in relation to any aspect of CitiPower's network or business.</p> <p>Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(i), 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;

Pass through event	CPU's proposed definition
	<ul style="list-style-type: none"> ii. the level of insurance that an efficient and prudent distributor would obtain, or would have sought to obtain, in respect of the event; iii. any information provided by [CPU] to the AER about [CPU'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.
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 [CPU] 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 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"> 1. whether [CPU] has insurance against the event; 2. the level of insurance that an efficient and prudent NSP would obtain in respect of the event
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"> a) 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 b) changes the costs to [CPU] 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>

Pass through event	CPU's proposed definition
	<ul style="list-style-type: none"> i. whether [CPU] has insurance against the event; ii. the level of insurance that an efficient and prudent NSP 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 NER 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 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 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 Consumer Framework in Victoria.</p>
New proposed pass through events	
Fault level event	<p>A fault level event occurs if a transmission connection agreement for the connection of a new generating system, integrated resource system or synchronous condenser to the Victorian declared transmission system is entered into, which:</p> <ul style="list-style-type: none"> • will cause a part or parts of our distribution network to operate at fault levels exceeding the lower of:

Pass through event	CPU's proposed definition
	<ul style="list-style-type: none"> – the levels set out in Table 6 of the EDCoP, as applicable to the relevant part of the network based on its voltage level; or – the relevant Plant Limit; and • increases [CPU's] costs of providing direct control services. <p>For the purposes of this fault level event:</p> <p>'EDCoP' means the Victorian Electricity Distribution Code of Practice made by the Essential Services Commission Victoria under the Essential Services Commission Act 2001;</p> <p>'Plant Limits' means the Primary or Secondary Plant Limitation, retrieved from Zone Substation Plant Data Sheets or advised by the Plant and Stations team within the networks part of our business .</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 [CPU] to meet or manage the actual or expected demand materially increases as a result of the announcement, relative to the cost set out in [CPU's] 2026- 2031 regulatory proposal. <p>In assessing an electrification event, the AER will have regard to whether, as a result of the announcement, there is:</p> <ol style="list-style-type: none"> a) a forecast increase in energy used by customers connected to [CPU's] electricity distribution network, when compared to the forecasts set out in our 2026-31 regulatory proposal; or b) an increase in the after diversity maximum demand (ADMD) applicable at the date we submit our regulatory proposal to the AER. <p>For the purposes of this event, 'after diversity maximum demand' or 'ADMD' means the maximum demand that our electricity distribution network is capable of supplying in a particular area, expressed as an average per dwelling and set out in our technical standard DA411.</p>
AEMO participant fee event	<p>An AEMO participant fee event occurs if:</p> <ol style="list-style-type: none"> 1. during an AEMO Participant Fee Consultation process, including for a Declared NEM Project, AEMO

Pass through event	CPU's proposed definition
	<p>determines that distributors are required to pay participant fees or increases the fees required to be paid by distributors; and</p> <p>2. AEMO's determination will increase the cost of providing direct control services in the 2026–31 regulatory control period.</p> <p>For the purposes of this definition:</p> <p>'AEMO Participant Fee Consultation' means a consultation AEMO undertakes in accordance with clause 2.11 of the NER, and the corresponding determination.</p> <p>'Declared NEM Project' has the meaning given to that term in the NER.</p>

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.⁹

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' as defined,¹⁰ which are as follows:¹¹

⁵ NER, cll. 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 AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 6.

¹⁰ NER, cl. 6.5.10(b).

¹¹ NER, Chapter 10, definition of nominated pass through event considerations.

- 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;
- 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.¹²

... 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 service provider and end customers.¹³

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 promotes the efficient investment in, and efficient operation and use of, network services for the long-term interests of consumers with respect to price.¹⁴

¹² AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

¹³ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 20.

¹⁴ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

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.¹⁵

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.¹⁶ 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.¹⁷

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.¹⁸ This is reflected in the materiality threshold that applies to cost pass through applications.¹⁹

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

¹⁵ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

¹⁶ NEL, s. 16(1)(c).

¹⁷ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

¹⁸ AEMC 2012, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Position Paper*, 29 November 2012, p. 186.

¹⁹ NER, *Chapter 10: Glossary, definition of 'materially'*.

calculating efficiency carryover amounts under the Efficiency Benefit Sharing Scheme and Capital Expenditure Sharing Scheme.²⁰

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.²¹

4.5 Reasons for draft decision

4.5.1 Fault level, electrification and AEMO participant fee events

A summary of our assessment of each of CPU's new proposed nominated cost pass through events against the NER considerations in section 4.3 is below.

Table 4.2 Assessment of CPU's new proposed pass through events

Pass through event considerations	Fault level event	Electrification event	AEMO fee event
(a) Already covered by NER?	No	No	No
(b) Clearly identified?	Yes	No – broad, ambiguous and hard to measure	Yes
(c) Could prudent provider prevent/mitigate?	Yes – through joint planning	Yes – through augex, demand forecast and joint planning	No
(d) Insurable?	No	No	No
Other comments	AEMO advice suggests very unlikely to arise	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.

Fault level event

CPU submitted that different areas of its distribution network have been equipped to only handle fault levels up to a certain limit, in accordance with the historical generation load in those areas.²² CitiPower also submitted that AEMO and (possibly) other TNSPs may add new generation assets, including synchronous condensers, to the upstream transmission network in 2026–31, which could cause CPU fault levels to exceed their current limits

²⁰ AER, *Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013, p. 7; AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013, p. 6.

²¹ NER, cl. S6.2.1(e)(1)(ii).

²² CitiPower, CP ATT 10.01 – Managing uncertainty, January 2025, pp. 17 - 20.

depending on where the new generation assets are added. For example: if AEMO adds a generation asset on the Victorian transmission network in a historically low generation area, and if this increases fault levels above their current limit, then CPU may incur costs to make sure its distribution network, connecting to that part of the transmission network, can handle the higher fault levels. CPU proposed this pass through event to cover the costs it may incur in these circumstances.

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

- We have sought advice from AEMO about any upcoming generation assets that it may add to the Victorian transmission network over the next 5 years, which could have the effect of impacting current DNSP fault levels. AEMO has said:
 - while it may add generation assets to the Victorian transmission network, the purpose of these will be to maintain current fault levels, rather than increase them, especially above their current levels.
 - there has never been a circumstance where a transmission project has increased the fault levels of a downstream DNSP (this almost occurred once but ultimately did not go ahead for this reason).
 - there are current agreements in place between asset owners, the jurisdiction planner and DNSPs to handle and avoid instances where fault levels may exceed their current limits – and this is regarded as an absolute last resort between all parties.
- We consider that:
 - Fault levels at transmission terminal substations are a function of network configuration, impedances, network augmentation plans, as well as generation type and the pattern of generation determined by network location, operation and dispatch. These are matters that are largely managed by network planning and design and hence the timing and extent of fault level changes can be managed through good electricity industry practices.
 - There are a number of approaches to managing fault level changes such as the use of neutral impedances, line impedance management (e.g. Smartwires, etc.), network configuration, and generation constraints to manage operation and dispatch. The costs of these management practices is generally modest in comparison to other NSP capital works programs, and we would expect little or limited investment if fault level changes were, in the unlikely event, planned.

We therefore consider it is very unlikely that any transmission project would have the effect of raising fault levels above their specified limits for CPU over the 2026–31 period, and that if such a project were to occur, any impact (including cost) on the DNSP's fault levels could be largely or entirely mitigated through joint planning with the TNSP, AEMO and other stakeholders. Further, were any costs incurred by the DNSP to manage its fault levels as a result of such a project, these costs would likely be modest and immaterial. We therefore consider this nominated pass through event is preventable by prudent planning, and does not meet the nominated pass through event considerations in the NER.

Electrification event

CPU 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.²³ CPU has proposed a new nominated cost pass through event for instances where the Victorian or federal government announces a new policy, initiative, scheme or other measure directed at accelerating electrification, and CPU'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 not accepted 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.²⁴
 - In our 2021-26 draft decision for AusNet²⁵ and CitiPower²⁶, 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. AusNet Gas sought 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.²⁷
- 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. In contrast to CPU's view, we consider this to be a relatively slow process (even with subsidies) as the cost to move from gas to electricity will be material for most consumers (likely at least \$5,000 to \$10,000). Hence, we would expect most gas consumers to move to electrical appliances as their existing gas appliances reach end of life and require replacement.

²³ CitiPower, *CP ATT 10.01 – Managing uncertainty*, January 2025, pp. 21 - 23.

²⁴ AER, *Draft Decision Attachment 5 – Capital expenditure – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023, pp. 23 – 26.

²⁵ AER, *Draft decision – AusNet Services distribution determination 2021-26 – Attachment 15 – Pass through events*, September 2020, pp 16 – 17.

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

²⁷ AER, *AusNet 2023-28 Access arrangement variation proposal – Final Decision*, May 2025, pp. 1 – 2.

- The impact to the network would therefore likely be dispersed over the consumer base and progressive over time. 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.
 - CPU are already seeking to manage electrification through its augex proposal, which includes an allowance for customer driven electrification.²⁸
 - In line with the view of our demand consultant, Baringa, we also consider CPU may include any impacts for gas electrification in its demand forecasts in its revised proposal.²⁹
 - Identifying the nexus between a given policy announcement and specific incremental costs required to be incurred solely as a result of that policy (as opposed to other factors influencing electrification related costs) would be difficult.

Our draft decision is to not accept CPU'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 as any possible relationship between a government policy announcement (which could be amended or reversed) and network expenditure to be indirect, and therefore difficult to ascertain the prudent and efficient costs solely resulting from a specific policy. We consider that any potential cost impact of electrification could be largely mitigated by prudent planning, including through CPU'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

CPU (as well as 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.³⁰ AEMO currently 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, CPU proposed to include a nominated pass through event to recover these costs from consumers.³¹

²⁸ Refer to our augex assessment in the capex component for CitiPower's determination

²⁹ Baringa, AER - Victorian distribution demand – CitiPower – Final report, July 2025, p. 4.

³⁰ AEMO's fee structure period is also under consultation, this time period may change as well.

³¹ CitiPower, CP ATT 10.01 – Managing uncertainty, January 2025, pp. 24 - 25.

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 than the use of a pass through mechanism. We recommend CPU 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 CPU to 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.

4.5.2 Insurer credit risk, Insurance coverage, natural disaster, terrorism events and retailer insolvency events

We consider that CPU's proposed insurer credit risk, insurance coverage, natural disaster, terrorism and retailer insolvency pass through events meet the nominated pass through event considerations set out in the NER:³²

- 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 CPU 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 CPU 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 and definitions proposed by CPU are the same as those included in its 2021–26 determination, and are also consistent with our recent determinations for other network providers.

Table 4.3 sets out our draft decision on the nominated pass through events and event definitions for CPU's 2026–31 regulatory determinations.

³² NER, cl. 6.5.10(b); Chapter 10: Glossary, definition of 'nominated pass through event considerations'.

Table 4.3 AER pass through event definitions

Pass through event	Draft decision definition
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of [CPU's] becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, [CPU]:</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's credit risk pass through application, the AER will have regard to, among other things:</p> <ul style="list-style-type: none"> i. [CPU's] 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 [CPU] 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. [CPU]: <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 2. [CPU] incurs costs: <ul style="list-style-type: none"> a) beyond a policy limit for the relevant insurance policy or set of insurance policies; or b) that are unrecoverable under the relevant insurance policy or set of insurance policies due to changed circumstances; and 3. The costs referred to in paragraph 2 above materially increase the costs to [CPU] in providing direct control services. <p>For the purpose of this insurance coverage event:</p>

Pass through event	Draft decision definition
	<p>'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of [CPU], where those movements mean that it is no longer possible for [CPU] 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.</p> <p>'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <ul style="list-style-type: none"> i. the limit not been exhausted; or ii. those costs not been unrecoverable due to changed circumstances. <p>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 [CPU] was regulated</p> <p>[CPU] 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 [CPU] in relation to any aspect of CitiPower's network or business; and</p> <p>[CPU] 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 [CPU] in relation to any aspect of CitiPower's network or business.</p> <p>Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(i), 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; ii. the level of insurance that an efficient and prudent distributor would obtain, or would have sought to obtain, in respect of the event; iii. any information provided by [CPU] to the AER about [CPU'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.
Natural disaster event	Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs

Pass through event	Draft decision definition
	<p>during the 2026–31 regulatory control period that changes the costs to [CPU] 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 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 [CPU] has insurance against the event; ii. the level of insurance that an efficient and prudent NSP would obtain in respect of the event
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"> a) 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 b) changes the costs to [CPU] 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"> i. whether [CPU] has insurance against the event; ii. the level of insurance that an efficient and prudent NSP 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</p>

Pass through event	Draft decision definition
	<p>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 NER 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 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 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 Consumer Framework in Victoria.</p>

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
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