



Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review - Revised Regulatory Proposal

Attachment 08-03

Response to the draft decision - Pass Through Events



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Abbreviations

AER	Australian Energy Regulator
current regulatory period	2021-26 regulatory control period
JEN	Jemena Electricity Networks (Vic) Ltd
NER	National Electricity Rules
next regulatory period	2026-31 regulatory control period

Overview

Jemena Electricity Network's Risk Management Framework

When preparing our regulatory submission for the 2026-31 regulatory control period (**next regulatory period**), Jemena Electricity Networks (Vic) Ltd (**JEN**) forecasts the costs of delivering our customers' desired level of service and the associated revenue we require to deliver it. We forecast these costs to the best of our ability however, like all forecasts, the outcomes will vary. Many external factors, for example, natural disasters, shifts in Government policy and changes in the operation of the electricity market, are difficult to predict and could have a material impact on our customers and our business over the regulatory control period (**regulatory period**).

To address these uncertainties, the regulatory framework permits Distribution Network Service Providers (**DNSPs**) to seek adjustments to their regulatory allowances in through pass through events.

The role of cost pass throughs

For certain unlikely but highly impactful events which could arise within a regulatory period, it may be more efficient to "pass through" the associated cost impacts via the cost pass through mechanism included in the National Electricity Rules (**NER**), rather than cost the risk of these events into our network planning. This mechanism allows DNSPs to change their funding requirements in response to these events, subject to the Australian Energy Regulator's (**AER**) approval. By including this mechanism, the NER ensures DNSPs are not encouraged to include large, speculative allowances in our expenditure forecasts to ensure against events that may not occur. This helps the prudence and efficiency of our forecasts which translates to better price outcomes for customers as:

- if the event leads to materially lower costs for JEN, this reduction will be passed on to customers; and
- costs arising from high impact, low probability events will only be passed on to customers if/when the event occurs.

Section 10 of the NER specifies a list of cost pass through events, namely:

- Regulatory change events
- Service standard change events
- Tax change events
- Retailer insolvency events.¹

Nominated cost pass through events

In addition to the four cost pass through events specified by the NER, the framework also allows network service providers to nominate additional pass through events if they believe the events satisfy the required conditions.² Following a review of our risk management processes and systems, JEN proposes to retain the nominated pass through events as approved in the regulatory determination covering the 2021-26 regulatory period (**current regulatory period**), namely;

- Insurer credit risk event
- Insurer coverage risk event
- Natural disaster event
- Terrorism event

¹ As the National Energy Customer Framework (**NECF**) has not been adopted in Victoria, the retailer insolvency event in clause 6.6.1(a1)(4) of the NER does not currently apply to the Victorian DNSPs.

² NER, cl 6.5.10.

- Retailer insolvency event.

These events were accepted by the AER in its draft decision. JEN accepts these nominated events and does not propose any variation to the nominated events in this revised regulatory proposal.

1. Nominated pass through events

In our initial regulatory proposal, we sought to carry forward the nominated pass through events from the current period determination. These events were accepted by the AER in its draft decision. JEN accepts these nominated events and does not propose any variation in this revised regulatory proposal.

For completeness, we reproduce these approved nominated events below.

1.1 Nominated pass through events

Table 1-1 below sets out the nominated pass through events which we propose to apply into the next regulatory period.

Table 1-1: Proposed nominated pass through events

Event	Proposed Definition
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> 1. Jemena: <ol 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. Jemena incurs costs: <ol style="list-style-type: none"> a) beyond a relevant policy limit for that policy or set of insurance policies; or b) that are unrecoverable under that 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 Jemena in providing direct control services. <p>For the purposes of this insurance coverage event:</p> <p>'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of Jemena, where those movements mean that it is no longer possible for Jemena 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> <ol 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:</p>

	<ul style="list-style-type: none"> i. an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Jemena was regulated; and ii. Jemena 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 Jemena in relation to any aspect of Jemena's network or business; and iii. Jemena 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 Jemena in relation to any aspect of Jemena'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"> i. the relevant insurance policy or set of insurance policies for the event; 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 Jemena to the AER about Jemena'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.
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of Jemena becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Jemena:</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. Jemena'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 Jemena had reasonable opportunity to insure the risk with a different provider.
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 2021–26 regulatory control period that changes the costs to Jemena in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was:</p>

	<p>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</p> <p>b) not a consequence of any other act or omission of the service provider.</p> <p>Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:</p> <ol style="list-style-type: none"> whether Jemena has insurance against the event; and 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> <ol style="list-style-type: none"> 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 changes the costs to Jemena 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> <ol style="list-style-type: none"> whether Jemena has insurance against the event; ii. the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and 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> <ol style="list-style-type: none"> 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 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 charges') are modified in respect of this retailer insolvency event in the same manner as those terms</p>

	<p>are modified in respect of the retailer insolvency event prescribed in the NER from time to time.</p>
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	<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>
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