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Contact Officer: David Monk  
Contact Phone: [REDACTED]

25 February 2026

Fiona McAnally  
Head of Regulation  
Ausgrid  
GPO Box 4009  
Sydney NSW 2001

By email: [REDACTED]

Dear Fiona,

**Re: AER Determination – Ausgrid January 2025 Storm Cost Pass Through Application**

I am writing to advise you of the Australian Energy Regulator's (AER) assessment of Ausgrid's cost pass through application, submitted on 19 May 2025, in relation to the storm event which occurred between 15 and 17 January 2025.

In accordance with clause 6.6.1 of the National Electricity Rules (NER), the AER has determined that a positive change event has not occurred in relation to the January 2025 storm. We consider that while the January 2025 storm was a natural disaster event, the eligible pass through amount does not meet the materiality threshold required under the NER.

That is, the January 2025 storm was not a cost pass through event which resulted in Ausgrid incurring materially higher costs. Ausgrid is therefore not able to apply to the AER under clause 6.6.1(a) to pass through a positive pass through amount to distribution network users in relation to this event.

Details of the AER's assessment against the relevant factors in the NER are set out in the following attachments. If you have any queries in relation to this matter, please contact David Monk at [REDACTED].

Yours sincerely



Kami Kaur  
General Manager  
Network Expenditure

Sent by email on: 25.02.2026

## Attachment A: Reasons for determination

### 1. Occurrence of a natural disaster pass through event

Ausgrid's 2024–29 revenue determination defines a natural disaster pass through event as follows:<sup>1 2</sup>

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

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

We are satisfied that the 15-17 January 2025 storm event meets this definition and was not a consequence of any act or omission of Ausgrid.

### 2. Positive change event and interpretation of materiality threshold

Clause 6.6.1(a) of the NER provides that a distribution network service provider may seek the approval of the AER to pass through a positive pass through amount if a positive change event occurs. A positive change event is defined in the NER as:

*a pass through event, other than a retailer insolvency event, which entails the Distribution Network Service Provider incurring **materially** higher costs in providing direct control services than it would have incurred but for that event, ...<sup>3</sup>*

The definition of ‘materially’ for cost pass through purposes in chapter 10 of the NER states:

*For the purposes of the application of clause 6.6.1, an event results in a Distribution Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Distribution Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, **exceeds 1% of the annual revenue requirement** for the Distribution Network Service Provider for that regulatory year<sup>4</sup>*

Ausgrid submitted its initial cost pass through application for the 15–17 January 2025 storm on 19 May 2025. In this application, Ausgrid proposed an eligible pass through amount of \$19.6 million (\$2024), comprising \$10.25 million in opex and \$9.34 million in capex, offset by \$0.15 million in avoided capex. This proposed eligible pass through amount met the materiality threshold for cost pass through purposes as defined in the NER, representing 1.2% of unsmoothed revenue in the 2024–25 regulatory year.

Following an information request, on 24 October 2025 Ausgrid submitted an amended estimate of incremental costs, proposing an 18% reduction in the eligible pass through amount (from \$19.6 million to \$16.1 million) due to:

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<sup>1</sup> Cl. 6.6.1(a1)(5) of the NER.

<sup>2</sup> [AER - Final Decision Attachment 15 - Pass through events - Ausgrid - 2024–29 Distribution revenue proposal - April 2024 | Australian Energy Regulator \(AER\)](#)

<sup>3</sup> National Electricity Rules (Version 217), Chapter 10, Glossary, p. 1454.

<sup>4</sup> National Electricity Rules (Version 217), Chapter 10, Glossary, p. 1434.

- Correction of errors – removal of labour records dated from before the storm event (246 records totalling \$123,950)
- Adoption of the AER’s established approach for overheads – amending the labour cost build-up to include only the incremental variable component (25%) of allocated overheads, resulting in a \$3.4 million reduction in labour costs (from \$12 million to \$8.6 million).

Ausgrid noted that its revised proposed eligible pass through amount did not exceed the 1% materiality threshold when assessed against unsmoothed revenue, but was marginally above 1% when assessed against smoothed revenue for the 2024–25 regulatory year (Table 1).

**Table 1: Materiality- initial and amended application**

Event	Application Date	Pass through costs (capex and opex, \$2024)	Materiality (% of revenue in 2024–25)
January 2025 storm	Initial – 19 May 2025	\$19.6 million	1.2% (unsmoothed revenue)
	Amended – 24 October 2025	\$16.1 million	0.98% (unsmoothed revenue) 1.07% (smoothed revenue)

Ausgrid submitted in its information request response that:

*It could be argued that smoothed revenue is the correct and more economically meaningful basis for assessing materiality under clause 6.6.1 of the NER, as it reflects the actual annual revenue profile used to set customer prices and assess cash flow impacts.<sup>5</sup>*

As mentioned above, under the NER, the materiality of pass through costs must be assessed against the annual revenue requirement. This is a defined term in the NER. The annual revenue requirement is defined as:

*An amount representing revenue for a Distribution Network Service Provider, for each regulatory year of a regulatory control period, calculated in accordance with Part C of Chapter 6.*

We calculate the annual revenue requirement for each year of a regulatory period in accordance with Part C of chapter 6 of the NER. The annual revenue requirement refers to unsmoothed revenue. This is set out in Ausgrid’s 2024–29 regulatory determination (Attachment 1 – Annual revenue requirement) and in the AER’s post tax revenue model. In contrast, the smoothed revenue is derived using the X-factors under the CPI-X methodology and is the expected revenue, not the annual revenue requirement. As stated in Ausgrid’s 2024–29 revenue determination:

*Our final decision includes a determination of Ausgrid’s annual revenue requirement (ARR) (unsmoothed revenue) and annual expected revenue (smoothed revenue) across the 2024–29 period....The ARR is the sum of the various building block costs for each year of the regulatory control period.<sup>6</sup>*

We therefore consider that the correct basis for assessing materiality in accordance with the NER is against the annual revenue requirement (unsmoothed revenue). Assessing materiality

<sup>5</sup> Ausgrid, *Information Request #2 response*, 24 October 2025.

<sup>6</sup> Overview, *Final Decision – Ausgrid Electricity Distribution Determination 2024–29*, p.11.

against the annual revenue requirement is the AER's standard approach and has been consistently applied in cost pass through determinations, including for natural disaster events for Ausgrid and other DNSPs.<sup>789</sup>

### 3. Customer claim costs

Both Ausgrid's initial and revised proposals included costs of \$2.5 million in customer claims for food spoilage resulting from prolonged outages during the storm event. The AER considers that the customer claim costs incurred in relation to this event should be excluded from any eligible pass through amount under the NER cost pass through framework for the following reasons:

- customer claim costs of this nature are voluntary. Ausgrid is not required to incur such costs under the NER or any jurisdictional instrument. We do not consider such costs are required to meet the opex objectives under the NER.
- a jurisdictional GSL scheme already provides for payments to be made to customers in certain circumstances, in recognition of the inconvenience caused by long duration outages. Ausgrid is not required to make GSL payments in relation to outages that commence on a major event day.
- some home and contents insurance policies generally available in the market include coverage of food spoilage in such circumstances, with no excess payable.
- providing compensation for food spoilage following outages caused by severe weather events does not appear to be common industry practice. We have not identified a similar scheme currently in operation in the NEM. We note many DNSPs explicitly advise customers that compensation payments will not be provided in such circumstances.<sup>10</sup> The cost of this event is therefore higher, all else being equal, than an otherwise identical event impacting a different network.
- the customer claim costs account for a material proportion (15.6%) of the total revised pass through costs, and therefore significantly increase the magnitude of the proposed pass through amount. Having regard to the relevant factor in NER cl. 6.6.1(j)(3), we consider Ausgrid's decisions and actions have increased the magnitude of the proposed pass through amount to the extent of and due to the payment of customer claim costs.
- Ausgrid has incurred customer claim costs as a result of its business decision to provide for a compensation scheme of this nature, over and above jurisdictional service standards. Having regard to the relevant factor in NER cl. 6.6.1(j)(5), we consider Ausgrid has therefore not incurred these costs solely as a result of the pass through event (noting other networks do not incur such costs for similar natural disaster events).
- Ausgrid's supporting information indicates the majority of customer claims were accepted and paid without supporting documentation or an audit process to verify the authenticity and validity of claims. It is therefore not clear that scheme payments and costs were necessarily incurred efficiently.

### 4. Materiality assessment

Excluding the \$2.5 million customer claim costs from the eligible pass through amount for the reasons outlined above further reduces the materiality of the efficient costs incurred as a result of the event (0.83% of unsmoothed revenue in 2024-25), as shown in **Table 2**.

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<sup>7</sup> [AER Determination - Ausgrid storm cost pass through - December 2020](#)

<sup>8</sup> [AER Determination - TasNetworks Dx - Cost pass through – August-September 2024 storm - October 2025](#)

<sup>9</sup> [AER Determination Letter to Energex - South East Queensland Storms 2024-25](#)

<sup>10</sup> For example: [Essential Energy](#), [Energex](#), [SA Power Networks](#), [AusNet](#), [TasNetworks](#), [Power and Water](#).

**Table 2: AER – Materiality assessment (\$million, nominal)**

Costs	2024-25	2025-26	2026-27	2027- 28	2028-29	Total
Eligible pass through opex	4.3	-	-	-	-	4.2
Eligible pass through capex	9.3	-	-	-	-	9.3
Total costs	13.6	-	-	-	-	13.6
AER approved unsmoothed revenues	1,636	-	-	-	-	1,636
<b>Materiality (%)</b>	<b>0.83%</b>	-	-	-	-	<b>0.83%</b>

This conclusion on the materiality of costs remains the case after accounting for any of the alternative estimates or approaches for calculating incremental labour costs (normal time labour plus overheads, or overtime and contractor delivery costs) identified by Ausgrid in its initial or revised cost estimate or in communication with the AER.<sup>11</sup>

We are therefore not satisfied that a positive change event has occurred in respect of the January 2025 storm.

## 5. AER Determination

As we are not satisfied that the increase in costs incurred by Ausgrid solely as a result of the event exceeds the materiality threshold required under the NER, we consider that while the January 2025 storm was a natural disaster event, it was not a positive change event as defined in Chapter 10 of the NER. That is, the January 2025 storm was not a cost pass through event which resulted in Ausgrid incurring materially higher costs in providing direct control services than it would have incurred but for that event.

Under clause 6.6.1(a) of the NER, a distribution network service provider may seek the approval of the AER to pass through to Distribution Network Users a positive pass through amount only if a positive change event occurs. The AER has therefore not determined an approved pass through amount in relation to this event.

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<sup>11</sup> Ausgrid, *Email to the AER*, 18 December 2025.

## Attachment B: Requirements for determining a positive change event has occurred

Requirement of the NER	Our consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event? <sup>12</sup>	No.
Does the pass through relate to any other event specified in Ausgrid's 2020–25 distribution determination as a pass through event for that determination? <sup>13</sup>	Yes. The 15–17 January 2025 storm event is a natural disaster pass through event as specified in Ausgrid's 2024–29 distribution determination. <sup>14</sup>
Was the pass through event a consequence of acts or omissions of Ausgrid?	There is no evidence that Ausgrid's acts or omissions caused the storm event. However, we consider Ausgrid's payment of customer claim costs significantly contributed to the costs of the event.
Did the pass through event entail Ausgrid incurring materially higher costs in providing direct control services than it would have incurred but for the event? <sup>15</sup>	No. We consider the efficient incremental costs (i.e. excluding customer claims costs) incurred by Ausgrid as a result of the storm event were not material. That is, costs did not exceed 1% of Ausgrid's annual revenue requirement in the 2024–25 year.
What is the date on which the positive change event occurred? <sup>16</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
Did Ausgrid submit a written statement within 90 business days of the positive change event occurring? <sup>17</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
Did Ausgrid specify details of the positive change event, including the date on which the event occurred, in its written statement? <sup>18</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
Did Ausgrid specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year? <sup>19</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
Did Ausgrid specify in its written statement evidence of the actual and likely increase in costs that occurred solely as a consequence of the positive change event? <sup>20</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset? <sup>21</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.

<sup>12</sup> NER, cl. 6.6.1(a1)(1) through 6.6.1(a1)(4); and chapter 10.

<sup>13</sup> NER, cl. 6.6.1(a1)(5).

<sup>14</sup> [AER - Final Decision Attachment 15 - Pass through events - Ausgrid - 2024–29 Distribution revenue proposal - April 2024](#)

<sup>15</sup> That is, does it meet the definition of a "positive change event" as defined in chapter 10 of the NER.

<sup>16</sup> NER, cl. 6.6.1(c)(2).

<sup>17</sup> NER, cl. 6.6.1(c).

<sup>18</sup> NER, cll. 6.6.1(c)(1) and 6.6.1(c)(2).

<sup>19</sup> NER, cll. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5).

<sup>20</sup> NER, cl. 6.6.1(c)(6)(i) and (ii).

<sup>21</sup> NER, cl. 6.6.1(c1) and (d2).

**Attachment C: Relevant factors under cl. 6.6.1(j) of the NER**

Requirement of the NER	Our consideration
We must take into account the matters and proposals set out in Ausgrid’s written statement. <sup>22</sup>	This decision sets out how we have considered the matters and proposals in Ausgrid’s pass through application (written statement).
We must take into account the increase in costs in providing direct control services resulting from the pass through event. <sup>23</sup>	This factor has not been considered for assessment because the storm event did not meet the definition of a “positive change event” in the NER.
We must take into account the efficiency of Ausgrid’s decisions and actions in relation to the risk of the event. <sup>24</sup>	<p>We are not satisfied that the customer claim costs incurred by Ausgrid following the storm event are efficient costs recoverable under the NER cost pass through framework.</p> <p>We must have regard to whether Ausgrid has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount, and whether Ausgrid has taken or omitted to take any action where such action or omission has increased the magnitude of the amount.</p> <p>We consider the incremental costs incurred for processing and payment of customer claims for food spoilage were avoidable and incurred by Ausgrid voluntarily. The customer claim costs account for a material proportion (15.6%) of the total revised pass through costs, and therefore significantly increase the magnitude of the proposed pass through amount. Having regard to the relevant factor in clause 6.6.1(j)(3) of the NER, we do not consider these costs should form part of any eligible pass through amount in respect of this event.</p>
We must take into account the time cost of money. <sup>25</sup>	N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.
We must take into account the need to ensure that the pass through amount reflects only costs incurred solely as a consequence of the storm event. <sup>26</sup>	<p>We do not consider that Ausgrid’s customer claims costs were incurred solely as a consequence of the storm event. These costs were discretionary, and were not required to be incurred to meet any of the expenditure objectives in the NER. We consider that Ausgrid incurred customer claim costs as a result of its business decision to provide for a compensation scheme of this nature, over and above jurisdictional service standards and regulatory obligations.</p> <p>Having regard to the relevant factor in clause 6.6.1(j)(5) of the NER, we consider Ausgrid has therefore not incurred these costs solely as a result of the pass through event. We do not consider these costs should form part of any eligible pass through amount in respect of this event.</p>

<sup>22</sup> NER, cl. 6.6.1(j)(1).

<sup>23</sup> NER, cl. 6.6.1(j)(2).

<sup>24</sup> NER, cl. 6.6.1(j)(3).

<sup>25</sup> NER, cl. 6.6.1(j)(4).

<sup>26</sup> NER, cl. 6.6.1(j)(5).

<p>The AER will have regard to whether Ausgrid has insurance against the event, and whether it is the level of insurance that an efficient and prudent network operator would obtain?<sup>27</sup></p>	<p>N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.</p>
<p>We must take into account whether the costs of the event have already been factored into Ausgrid’s annual revenue requirement for the current regulatory control period or will be factored into annual revenue for the next regulatory control period.<sup>28</sup></p>	<p>N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.</p>
<p>We must take into account the extent to which Ausgrid’s costs have already been funded by previous pass through determinations.<sup>29</sup></p>	<p>N/A. We do not consider the January 2025 storm event meets the definition of a <i>positive change event</i> in the NER.</p>

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<sup>27</sup> [AER - Final Decision Attachment 15 - Pass through events - Ausgrid - 2024–29 Distribution revenue proposal - April 2024](#)

<sup>28</sup> NER, cl. 6.6.1(j)(7).

<sup>29</sup> NER, cl. 6.6.1(j)(7A).