

Final decision

AusNet Services electricity distribution
determination

1 July 2026 – 30 June 2031

Attachment 4 – Pass through events

April 2026

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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 efficient 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 final decision on the nominated pass through events to apply to AusNet for the 2026–31 regulatory control period.

4.1 Final decision

Our final decision is to:⁴

- not accept AusNet's new proposed electrification event, and
- accept AusNet's remaining events: natural disaster, insurer credit risk, insurance coverage, terrorism, and retailer insolvency events, as proposed by AusNet in its initial proposal and accepted in our draft decision.⁵

Our reasons for not accepting the new proposed electrification event are set out in section 4.4 of this attachment.

Our reasons for accepting the other nominated pass through events and our final decision event definitions (which are the same as those provided by AusNet in its initial proposal and accepted in our draft decision) are set out in our draft decision attachment.⁶

¹ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 2 ([1.4]).

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).

⁵ AER - *Attachment 4 - Pass through events - Draft decision - AusNet Services distribution determination 2026-31* - September 2025.

⁶ AER - *Attachment 4 - Pass through events - Draft decision - AusNet Services distribution determination 2026-31* - September 2025, pp. 9–13.

4.2 AusNet’s revised proposal

AusNet accepted our draft decision to include five nominated pass through events proposed in its initial proposal, including the natural disaster, insurer credit risk, insurance coverage, terrorism, retailer insolvency events.⁷ These cost pass through events are the same as those included in our 2021–26 determination for AusNet,⁸ and also consistent with our recent determinations for other network providers.⁹

AusNet did not accept our draft decision to not include its new proposed electrification pass through event, and proposed the revised electrification event set out in Table 4-1. Key revisions included changes to the initial proposal event definition (highlighted in Table 4-1), which AusNet submits address the AER’s concerns detailed in our draft decision regarding the lack of clarity and measurability of the initial proposal event.¹⁰

Table 4-1 AusNet’s electrification nominated pass through event

Pass through event	AusNet’s definition
Electrification event	<p>An electrification event occurs if:</p> <p>A material driver of gas-to-electricity substitution arises, due to:</p> <ul style="list-style-type: none"> (a) The Commonwealth Government or the Government of Victoria introduces, amends or announces a policy, program, initiative, scheme or other measure, which is expressly directed at accelerating electrification of gas-powered appliances, processes or end-uses; and/or (b) a material market or industry development occurs – including the withdrawal, closure or substantial reduction in availability of gas supply options, or other private enterprise action that has the practical effect of accelerating customer substitution away from gas towards electricity. <p>As a result of the material driver in (a) and/ or (b), AusNet incurs or will incur a material increase in costs to meet or manage the actual or expected demand, relative to the assumptions set out in AusNet’s 2026-2031 regulatory proposal.</p>

⁷ AusNet Services, ASD - AusNet - EDPR Revised Proposal 2026-31 - December 2025, p. 261.

⁸ AER - Final decision - AusNet Services distribution determination 2021–26 - Attachment 15 - Pass through events - April 2021, pp. 15.16–15.19.

⁹ 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.

¹⁰ AusNet Services, ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025, pp. 264– 265.

Pass through event	AusNet’s definition
	<p>In assessing an electrification event, the AER will have regard to whether, as a result of the material drivers in (a) and/or (b), for two consecutive years:</p> <ol style="list-style-type: none"> <li data-bbox="703 383 1401 663">I. AusNet records system-level maximum demand above the POE10 (10% probability of exceedance) winter maximum demand forecasts approved in the 2026-31 distribution determination, which suggests a sudden and unexpected increase in electricity demand (since POE10 forecasts should only be exceeded once every ten years on average); and <li data-bbox="703 663 1401 763">II. Victorian Tariff V gas consumption volumes (such data is available from AEMO) has experienced year-on-year declines.

Source: AusNet Services, *ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025*; AusNet Services, *Response to AER information request IR#059 - nominated cost pass through event – electrification*, 19 December 2025.

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.¹¹

Our assessment approach is guided by the National Electricity Objective (NEO)¹² and the Revenue and Pricing Principles (RPPs).¹³ The RPPs include that the service provider should be provided with a reasonable opportunity to recover at least the efficient costs of providing services and complying with regulatory obligations.¹⁴ The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency and balance the risks of under and over investment.¹⁵

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.¹⁶

¹¹ NER, cls. 6.5.10(b), 6.6.1.

¹² The NEO is defined in s. 7 of the NEL.

¹³ The revenue and pricing principles are set out in s. 7A of the NEL.

¹⁴ NEL, s. 7A(2).

¹⁵ NEL, ss. 7(a), 7A(3)

¹⁶ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 6 ([2.4]).

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' as defined,¹⁷ which are as follows:¹⁸

- 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.¹⁹

... 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.²⁰

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.²¹

¹⁷ NER, cl. 6.5.10(b).

¹⁸ NER, Chapter 10, definition of nominated pass through event considerations.

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

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

²¹ 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.²²

4.3.1 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.²³ This requires us to balance the incentives in the various parts of our decision.

For systematic 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.²⁴

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.²⁵ This is reflected in the materiality threshold that applies to cost pass through applications.²⁶

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

²² AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

²³ NEL, s. 16(1)(c).

²⁴ AEMC 2012, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

²⁵ AEMC 2012, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Position Paper*, 29 November 2012, p. 186.

²⁶ NER, Chapter 10: Glossary, definition of 'materially'.

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

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.

4.4 Reasons for decision

4.4.1 Electrification event

A summary of our assessment of AusNet’s new proposed electrification nominated cost pass through event against the NER considerations in section 4.3 is set out in Table 4-2.

Table 4-2 Assessment of AusNet’s revised pass through event

Pass through event considerations	Electrification event
(a) Already covered by NER?	No
(b) Clearly identified?	No – broad, ambiguous and hard to measure
(c) Could prudent provider prevent/mitigate?	Yes – through augex and demand forecasts and joint planning
(d) Insurable?	No
Other comments	Electrification is likely to occur gradually and is being managed via augex and demand forecasts. The AER has not accepted similar events proposed by other DNSPs.

Source: AER analysis.

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

4.4.1.1 Electrification event

AusNet proposed a revised version of the electrification event it included in its initial proposal, and which we did not accept in our draft decision.²⁷ Key revisions included changes to the initial event definition (highlighted above in Table 4-1), which AusNet submitted address the our concerns detailed in the draft decision regarding the lack of clarity and measurability of the initial proposal event.²⁸ These changes:

- expand the event definition beyond a ‘government announces a new or amended policy, program, initiative, scheme or other measure’, to a ‘government introduces, amends or announces a policy, program, initiative, scheme or other measure’ that is ‘expressly directed at accelerating electrification of gas-powered appliances, processes or end-uses’.

²⁷ AER - Attachment 4 - Pass through events - Draft decision - AusNet Services distribution determination 2026-31 - September 2025.

²⁸ AusNet Services, ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025, pp. 264–265.

- expand the event definition beyond a ‘government announces a new or amended policy, program, initiative, scheme or other measure’, to include a ‘material market or industry development’, ‘including the withdrawal, closure or substantial reduction in availability of gas supply options, or other private enterprise action that has the practical effect of accelerating customer substitution away from gas towards electricity’.
- add two defined impact measures, based on changes in electricity and gas market demand, which the AER should have regard to.

AusNet further provided information contesting the AER’s draft decision reasoning supporting our view that electrification is likely to occur relatively gradually over the next 5 to 10 years, and be manageable using alternative tools. AusNet submitted that ‘accelerated electrification poses a credible risk of unexpected, near-term cost impacts on our network.’²⁹ This information included:

- ‘Data points’ that AusNet submits demonstrate that electrification is already occurring faster than the AER assumes. These include:³⁰
 - Recent residential gas consumption data, which AusNet submits demonstrates that over the last 3 years its customers have begun moving away from gas faster than the AER’s relatively gradual trajectory, and more rapidly than was estimated in AusNet’s application to re-open the 2023-2028 Gas Access Arrangement Review.³¹
 - Recent winter nighttime electricity peak data, that AusNet submits demonstrates that electricity peaks have risen materially in the last three years due to electrification occurring now, not gradually over a decade.
- ‘Emerging trends’ that AusNet submits demonstrate that electrification is unpredictable and cannot be fully mitigated or managed by relying on customer diversity, augex and demand forecasts, or joint planning. These include:³²
 - Electrification pressures first manifest on AusNet’s 60,000 LV substations that average 12 customers per substation where diversity is limited. This means electrification by a few households on a street can increase peak loading and create an immediate augmentation need.
 - Upgrades to these LV networks cannot be planned or managed with precision as the scale and location of any required upgrade depends on the pace and clustering of customer electrification within an area.
 - Feeder rearrangement is not a viable mitigation tool on LV networks so electrification-driven increases in peak load will require direct augmentation, rather than reconfiguration.

AusNet submitted that while it will continue to use joint planning, forecasting, operational measures and incremental upgrades to manage emerging constraints, these tools may not fully address increases in peak demand caused by a rapid uplift in electrification above forecast levels. AusNet argued that the electrification event is needed to ensure that it will be

²⁹ AusNet Services, *ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025*, pp. 261–265.

³⁰ AusNet Services, *ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025*, pp. 261–265.

³¹ <https://www.aer.gov.au/industry/registers/access-arrangements/AusNet-services-access-arrangement-2023-28-variation-proposal/proposal>

³² AusNet Services, *ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025*, pp. 262–265.

able to fund the timely augmentation needed to maintain existing reliability standards in this case.³³

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

- We do not consider that the revised event definition addresses our concerns around the event being poorly defined and immeasurable.
 - The expansion of the definition to include any non-government related market, industry development, or other private enterprise action significantly broadens the event definition, and does not address the NER requirements that an event be ‘clearly defined’.
 - The addition of the two impact measures, based on defined changes in electricity and gas market demand, does not clarify or measure the causal event as required under the NER. Instead, it defines what AusNet considers is a material impact or result of the event.
- We do not consider that the new data points and emerging trends provided by AusNet materially change our view that electrification will likely occur relatively gradually over the next 5 to 10 years, and be manageable using alternative tools.
 - AusNet has not provided substantive data or analysis that demonstrates that electrification is a material driver of the recent changes to residential gas consumption and winter nighttime electricity peak demand it points to. We note that the changes could be due to many factors other than accelerating electrification, including, for example, recent mild winters, industrial shutdown due to recent high energy costs, changing demographics with different energy preferences, and the shift to working from home.
 - While we agree that electrification pressures are likely to first manifest on the LV network where customer diversity is lowest, we disagree that this is likely to trigger rapid, material and unforeseeable augmentation that cannot be managed using existing tools. This is because:
 - Customer diversification in most LV areas is significant enough to ensure that the take up of electrification will be relatively gradual, including because of the number of houses in a given street on gas or already electrified, the age of the gas appliances in the area, and the significant costs of electrification for the customer.
 - Forecasting, planning and existing tools can be reliably used by AusNet to direct augex to priority areas and manage electrification. Feeder rearrangement and other operational actions remain viable mitigation tools in some cases. DNSPs either have visibility or can readily gain better visibility on what households are doing to improve forecasting and management of areas that are more likely to face constraints from electrification.
- Overall, we consider the new information provided by AusNet does not change our view provided at the draft decision that:

³³ AusNet Services, *ASD - AusNet - EDPR Revised Proposal 2026 - 31 - December 2025*, p. 265.

- Electrification will most likely manifest as a small uplift in demand over years as gas consumers move from gas to electricity. 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). We expect most gas consumers to move to electrical appliances as their existing gas appliances reach end of life and require replacement.
- The impact on the network will, therefore, likely be dispersed over the consumer base and progressive over years. 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 timing spanning multiple years.
- We also consider the cost pass through mechanism is not the appropriate mechanism to manage these types of costs.
 - AusNet is already seeking to manage electrification through its revised augex proposal, which includes an allowance for customer driven electrification.³⁴
 - AusNet is also seeking to manage electrification costs through its revised maximum demand forecast included in the output growth component of the trend used to forecast its total opex. This also includes an allowance for electrification.³⁵
- 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.³⁶
 - In our 2021-26 draft decision for AusNet³⁷ and CitiPower,³⁸ we rejected two similar proposed new nominated cost pass through events for the unexpected rise in electricity demand as a result of a government policy announcement related 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

³⁴ Refer to our augex assessment in the capex component for AusNet Services determination in attachment 2.

³⁵ Refer to our maximum demand assessment in the opex component for AusNet Services determination in attachment 3.

³⁶ AER, *Draft Decision Attachment 5 – Capital expenditure – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023, pp. 23–26.

³⁷ AER, *Draft decision – AusNet Services distribution determination 2021-26 – Attachment 15 – Pass through events*, September 2020, pp 16–17.

³⁸ AER, *Draft decision – CitiPower distribution determination 2021-26 – Attachment 15 – Pass through events*, September 2020, pp 21–22.

to accrue slowly and that the behaviour of gas consumers was too uncertain to extrapolate to any sudden and aggressive electrification decisions.³⁹

For the reasons outlined above, our final decision is to not accept AusNet’s proposed new nominated pass through event for electrification as it does not meet the NER considerations.

³⁹ AER, *AusNet 2023-28 Access arrangement variation proposal – Final Decision*, May 2025, pp. 1 – 2.

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
