

# Draft Decision

## AusNet Services electricity transmission determination 2027 to 2032

(1 April 2027 to 31 March 2032)

### Attachment 4 Pass through events

June 2026

© Commonwealth of Australia 2026

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

**Important notice**

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
 GPO Box 3131  
 Canberra ACT 2601  
 Email: [aerinquiry@aer.gov.au](mailto:aerinquiry@aer.gov.au)  
 Tel: 1300 585 165

AER reference: AER24009262

**Amendment record**

Version	Date	Pages
1	30 June 2026	16

# Contents

<b>4</b>	<b>Pass through events .....</b>	<b>1</b>
4.1	Draft decision .....	1
4.2	AusNet’s proposal .....	1
4.3	Assessment approach.....	5
4.4	Interrelationships.....	6
4.5	Reasons for draft decision.....	7
	<b>Glossary.....</b>	<b>13</b>

## 4 Pass through events

During the regulatory control period AusNet can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its costs caused by pre-defined exogenous events. These events are called cost pass through events and may be positive (increasing regulated revenue) or negative (decreasing revenue). 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.<sup>1</sup>

The National Electricity Rules (NER) prescribe the following pass through events for all transmission determinations:<sup>2</sup>

- a regulatory change event
- a service standard event
- a tax change event
- an insurance event.

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

### 4.1 Draft decision

Our draft decision is to:

- accept the insurance coverage, insurer credit risk, natural disaster, terrorism, and Victorian Minister’s order events
- not accept AusNet’s new proposed VicGrid direction event.

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

### 4.2 AusNet’s proposal

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

---

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

<sup>2</sup> NER, cl. 6A.7.3(a1).

<sup>3</sup> NER, cl. 6A.7.3(a1)(5).

**Table 4.1 AusNet’s nominated pass through events**

Proposed event	AusNet’s proposed definition
<b>Pre-existing pass through events</b>	
Insurance coverage event	<p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> <li>1. AusNet Services:               <ol style="list-style-type: none"> <li>(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</li> <li>(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</li> </ol> </li> <li>2. AusNet Services incurs costs:               <ol style="list-style-type: none"> <li>(a) beyond a relevant policy limit for that policy or set of insurance policies; or</li> <li>(b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</li> </ol> </li> <li>3. The costs referred to in paragraph 2 above materially increase the costs to AusNet Services in providing prescribed transmission services.</li> </ol> <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> <li>• For the purposes of this insurance coverage event: 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of AusNet Services, where those movements mean that it is no longer possible for AusNet Services 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.</li> <li>• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:               <ol style="list-style-type: none"> <li>(i) the limit not been exhausted; or</li> <li>(ii) those costs not been unrecoverable due to changed circumstances.</li> </ol> </li> <li>• A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which AusNet Services was regulated; and</li> <li>• AusNet Services will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of AusNet Services in relation to any aspect of AusNet Services’ network or business; and</li> <li>• AusNet Services 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</li> </ul>

Proposed event	AusNet’s proposed definition
	<p>by a related party of AusNet Services in relation to any aspect of AusNet Services’ network or business.</p> <p>Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6A.7.3(j), the AER will have regard to:</p> <ul style="list-style-type: none"> <li>(i). the relevant insurance policy or set of insurance policies for the event</li> <li>(ii). the level of insurance that an efficient and prudent TNSP would obtain, or would have sought to obtain, in respect of the event;</li> <li>(iii). any information provided by AusNet Services to the AER about AusNet Services’ actions and processes; and</li> <li>(iv). any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.</li> </ul>
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of AusNet Services becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, AusNet Services:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</li> </ul> <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"> <li>(i). AusNet Services’ attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer’s track record, size, credit rating and reputation; and</li> <li>(ii). in the event that a claim would have been covered by the insolvent insurer’s policy, whether AusNet Services had reasonable opportunity to insure the risk with a different provider.</li> </ul>
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 2027–32 regulatory control period that changes the costs to AusNet Services in providing prescribed transmission services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) not a consequence of any other act or omission of the service provider.</li> </ul> <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"> <li>(i). whether AusNet Services has insurance against the event;</li> <li>(ii). the level of insurance that an efficient and prudent NSP would obtain in respect of the event.</li> </ul>

Proposed event	AusNet’s proposed definition
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"> <li>1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and</li> <li>2. changes the costs to AusNet Services in providing prescribed transmission services.</li> </ol> <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"> <li>(a) whether AusNet Services has insurance against the event;</li> <li>(b) the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and</li> <li>(c) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.</li> </ol>
Victorian Minister’s order event	<p>The Victorian Minister’s order event occurs if each of the following conditions are satisfied:</p> <ol style="list-style-type: none"> <li>(a) the relevant Victorian Minister makes an order under section 16Y(1) of the National Electricity (Victoria) Act 2005 (Vic) (Order);</li> <li>(b) complying with the Order, increases the cost to AusNet Services of providing prescribed transmission services and AusNet Services is unable to recover such costs from any other prevailing cost recovery arrangements.</li> </ol>
<b>New proposed pass through event</b>	
VicGrid direction event	<p>The VicGrid direction event occurs if each of the following conditions are satisfied:</p> <ol style="list-style-type: none"> <li>(a) VicGrid directs AusNet to carry out an augmentation of the declared shared network, or any part of the shared network, in accordance with section 50C(1)(a) of National Electricity (Victoria) Law (as defined in the National Electricity (Victoria) Act 2005); and</li> <li>(b) complying with the direction, increases the cost to AusNet Services of providing prescribed transmission services.</li> </ol>

Source: AusNet, *TRR 2027 - 2032 Regulatory Proposal*, 31 Oct 2025, pp. 183-190.

## 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.<sup>4</sup>

Our assessment approach is guided by the National Electricity Objective (NEO)<sup>5</sup> and the Revenue and Pricing Principles (RPPs).<sup>6</sup> 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.<sup>7</sup> 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 the network by the service provider
- ability of a service provider to invest in its network
- incentive for 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.<sup>8</sup>

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

- a) whether the event proposed is an event covered by a category of *pass through event* specified in clause 6A.7.3(a1)(1) to (4);
- 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:

---

<sup>4</sup> NER, cl. 6A.6.9 and 6A.7.3.

<sup>5</sup> The NEO is defined in s. 7 of the NEL.

<sup>6</sup> The revenue and pricing principles are set out in s. 7A of the NEL.

<sup>7</sup> NEL, s. 7A(2).

<sup>8</sup> NEL, s. 7; AEMC, *Cost pass through arrangements for Network Service providers, Rule Determination*, 2 August 2012, p. 6.

<sup>9</sup> NER, Chapter 10, definition of 'nominated pass through event considerations'.

- 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.<sup>10</sup>

...that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after ascertaining the most efficient allocation of risks between a network service provider (NSP) and end consumers.<sup>11</sup>

This protects the incentive regime under the NER by limiting erosion of a service provider's incentives to use market-based mechanisms to mitigate the cost impacts that would arise. This also promotes the efficient investment in, and efficient operation and use of, network services for the long-term interests of consumers with respect to price.<sup>12</sup>

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.<sup>13</sup>

## 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.<sup>14</sup> This requires us to balance the incentives in the various parts of our decision.

---

<sup>10</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 19.

<sup>11</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 20.

<sup>12</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 8.

<sup>13</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p. 18.

<sup>14</sup> NEL, s. 16(1)(c).

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 only accept nominated pass through events where we are satisfied that event avoidance, mitigation, commercial insurance and self-insurance under approved forecasts of prudent and efficient opex and capex are either unavailable or inappropriate.<sup>15</sup>

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.<sup>16</sup> This is reflected in the materiality threshold that applies to cost pass through applications.<sup>17</sup>

Cost pass through amounts approved in a regulatory control period are added to (or in the case of a negative pass through deducted from) forecast opex and capex for the purpose of calculating efficiency carryover amounts under the Efficiency Benefit Sharing Scheme and Capital Expenditure Sharing Scheme.<sup>18</sup>

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.<sup>19</sup>

## 4.5 Reasons for draft decision

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

- 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

---

<sup>15</sup> AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, pp. 19–20.

<sup>16</sup> AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Rule Determination*, 29 November 2012, p. 186.

<sup>17</sup> NER, *Chapter 10, definition of 'materially'*.

<sup>18</sup> AER, *Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013, p. 7; AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, April 2023, p. 3.

<sup>19</sup> NER, cl. S6.2.1(e)(1)(ii).

- 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.

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

These cost pass through events are the same as those included in its 2022–27 determination.<sup>20</sup>

The Victorian Government made a submission relating to the proposed VicGrid direction event. It submitted that there is a risk that an overly broad pass-through mechanism could have unintentional consequences in dampening incentives for efficient expenditure and engaging in efficient joint planning with cost implications for consumers. It also noted its support for the AER thoroughly scrutinising the scope of the proposal, and ensuring any pass through event is narrowly defined so that it only covers truly unforeseeable directions, and is not used to pass costs to customers for works that should reasonably be anticipated through the Victorian Transmission Plan and Integrated System Plan processes.<sup>21</sup>

We accept the definitions proposed by AusNet for insurance coverage, insurer credit risk, terrorism, natural disaster and Victorian Minister’s order pass through events, as these are consistent with the NER criteria, and with our recent determinations for other network service providers.<sup>22</sup>

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

**Table 4.2 AER pass through event definitions for the draft decision**

Event	AER draft decision definition
<b>Pre-existing pass through events</b>	
Insurance coverage event	An insurance coverage event occurs if: <ol style="list-style-type: none"> <li>1. AusNet Services:               <ol style="list-style-type: none"> <li>(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</li> <li>(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</li> </ol> </li> </ol>

<sup>20</sup> AER - *Final decision - AusNet Services transmission determination 2022–27 - Attachment 13 - Pass through events* – January 2022. The proposed *Victorian Minister’s order event* was called the *Victorian Energy Minister’s power to direct augmentation event* in the 2022–27 decision.

<sup>21</sup> Hon Lily D’Ambrosio MP, *Submission - AusNet Services 2027–32 electricity transmission revenue proposal*, March 2026.

<sup>22</sup> We have made a minor changes to the definitions for a typographical correction – this does not impact the definition of the event, and is marked up below.

Event	AER draft decision definition
	<p>2. AusNet Services incurs costs:</p> <p>(a) beyond a relevant policy limit for that policy or set of insurance policies; or</p> <p>(b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and</p> <p>3. The costs referred to in paragraph 2 above materially increase the costs to AusNet Services in providing prescribed transmission services.</p> <p>For the purposes of this insurance coverage event:</p> <ul style="list-style-type: none"> <li>• <del>For the purposes of this insurance coverage event:</del> 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of AusNet Services, where those movements mean that it is no longer possible for AusNet Services 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.</li> <li>• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: <ul style="list-style-type: none"> <li>(i) the limit not been exhausted; or</li> <li>(ii) those costs not been unrecoverable due to changed circumstances.</li> </ul> </li> <li>• A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which AusNet Services was regulated; and</li> <li>• AusNet Services will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of AusNet Services in relation to any aspect of AusNet Services' network or business; and</li> <li>• AusNet Services will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of AusNet Services in relation to any aspect of AusNet Services' network or business.</li> </ul> <p>Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6A.7.3(j), the AER will have regard to:</p> <ul style="list-style-type: none"> <li>(i). the relevant insurance policy or set of insurance policies for the event</li> <li>(ii). the level of insurance that an efficient and prudent TNSP would obtain, or would have sought to obtain, in respect of the event;</li> <li>(iii). any information provided by AusNet Services to the AER about AusNet Services' actions and processes; and</li> <li>(iv). any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.</li> </ul>

Event	AER draft decision definition
Insurer credit risk event	<p>An insurer credit risk event occurs if an insurer of AusNet Services becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, AusNet Services:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</li> </ul> <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"> <li>(i). AusNet Services' attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and</li> <li>(ii). in the event that a claim would have been covered by the insolvent insurer's policy, whether AusNet Services had reasonable opportunity to insure the risk with a different provider.</li> </ul>
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 2027–32 regulatory control period that changes the costs to AusNet Services in providing prescribed transmission services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) not a consequence of any other act or omission of the service provider.</li> </ul> <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"> <li>(i). whether AusNet Services has insurance against the event;</li> <li>(ii). the level of insurance that an efficient and prudent NSP would obtain in respect of the event.</li> </ul>
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"> <li>1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and</li> <li>2. changes the costs to AusNet Services in providing prescribed transmission services.</li> </ol> <p>Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:</p>

Event	AER draft decision definition
	<p>(a) whether AusNet Services has insurance against the event;</p> <p>(b) the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and</p> <p>(c) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.</p>
Victorian Minister's order event	<p>The Victorian Minister's order event occurs if each of the following conditions are satisfied:</p> <p>(a) the relevant Victorian Minister makes an order under section 16Y(1) of the National Electricity (Victoria) Act 2005 (Vic) (Order);</p> <p>(b) complying with the Order, increases the cost to AusNet Services of providing prescribed transmission services and AusNet Services is unable to recover such costs from any other prevailing cost recovery arrangements.</p>

Source: AusNet, *TRR 2027 - 2032 Regulatory Proposal*, 31 Oct 2025, pp. 183–190, AER Analysis.

#### 4.5.1 VicGrid Direction event

We do not consider that AusNet's newly proposed VicGrid direction event meets the nominated pass through event NER considerations set out in in section 4.3.<sup>23</sup> Table 4.3 summarises our assessment against the NER considerations.

**Table 4.3 Assessment of VicGrid direction event**

NER consideration	VicGrid direction event
<b>(a) Already covered by an existing event?</b>	Yes – there are two existing cost recovery mechanisms available to AusNet for augmentation work directed by VicGrid (previously AEMO).
<b>(b) Clearly identified?</b>	Yes
<b>(c) Could prudent provider prevent / mitigate?</b>	Yes – cost recovery mechanisms are already provided in the NER, and have not changed for the 2027–32 regulatory period. We also consider that expenditure caused by VicGrid's direction of augmentation work can be mitigated by prudent planning and consultation with VicGrid and the Victorian Government in first instance.
<b>(d) Insurable?</b>	No

Source: AER analysis

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

#### VicGrid direction event

Ausnet proposed this nominated cost pass through to provide a more flexible and simplified cost recovery pathway for VicGrid directed augmentation projects arising in the current

<sup>23</sup> NER, cl. 6.5.10(b); *Chapter 10: Glossary, definition of 'nominated pass through event considerations'*.

regulatory period. AusNet stated that it is not possible to predict with any certainty whether existing cost recovery mechanisms for efficient augmentation costs will remain appropriate or available in all cases.

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

- Cost recovery mechanisms for this type of event have been contemplated and already exist within the NER. These have not changed from when augmentation planning was AEMO's responsibility. The proposed cost pass through event would circumvent the existing arrangements.
- The proposed event creates uncertainty about the existing cost recovery mechanisms under the rules – that is, payment is made under contract to the provider of the augmentation service prior to their inclusion in the regulatory asset base in a revenue reset. VicGrid ultimately sets the transmission use of system charges for Victoria.<sup>24</sup> In setting these charges, it includes the cost of paying for augmentation contracts, so AusNet is compensated within the period. It is not clear whether such payments would be suspended or not occur if the assets were paid for by an earlier cost pass through.
- It heightens the risk of potential double counting across the multiple cost recovery mechanisms available to AusNet for VicGrid directed events. It is not clear what steps are in place to mitigate this outcome.

Our draft decision is to not accept AusNet's proposed nominated VicGrid direction event as a cost pass through event. Should AusNet seek to repropose the event in its revised proposal, we would expect it would address the concerns expressed above, and also consult with key stakeholders such as VicGrid and the Victorian Government to explore solutions including the suitability and interaction of the cost pass through event with the existing cost recovery arrangements.

---

<sup>24</sup> VicGrid, *Revenue Methodology for Victoria's electricity transmission system*, March 2026.

# Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
EBSS	efficiency benefit sharing scheme
NEL	national electricity law
NEO	national electricity objective
NER	national electricity rules
opex	operating expenditure
RAB	regulatory asset base
RPP	revenue and pricing principles

---