AUSTRALIAN ENERGY REGULATOR

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3 October 2025

[redacted]
GM Strategy and Regulation (Transmission)
AusNet Services
Level 31, 2 Southbank Boulevard
Southbank VIC 3006

Sent by email to: [redacted]

Dear Tom,

Re: AusNet Tx - PMU Pass through application

I am writing to advise you of the Australian Energy Regulator's (AER) assessment of AusNet Services' (Transmission) cost pass through application in relation to the AEMO-directed replacement of the Victorian High Speed Monitor (HSM) network with Phasor Measurement Units (PMUs).

In accordance with clause 6A.7.3 of the National Electricity Rules (NER), the AER has determined that a positive change event has occurred, and that AusNet Services (Transmission) may recover incremental revenue of $0.03 million ($nominal, smoothed) from network users over the final year (2026–27) of the 2022–27 regulatory control period via the X-factor for this year. This amount is consistent with the incremental capex set out in AusNet Services' proposal, adjusted for the 2026–27 return on debt updated weighted average cost of capital.

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 [redacted] at [redacted]

Yours sincerely

[redacted]

Kami Kaur

General Manager
Network Expenditure

Sent by email on: 03.10.2025

Attachment A: Reasons for determination

1. Occurrence of a regulatory change pass through event

This application is in respect of a regulatory change event under 6A.7.3 (a1)(1). A regulatory change event is defined as a change in a regulatory obligation or requirement that:

(a) falls within no other category of pass through event; and

(b) occurs during the course of a regulatory control period; and

(c) substantially affects the manner in which the Transmission Network Service Provider provides prescribed transmission services or the Distribution Network Service Provider provides direct control services (as the case requires); and

(d) materially increases or materially decreases the costs of providing those services.

This event relates to a notice issued by the Australian Energy Market Operator (AEMO) under clause 4.11.1(d) of the NER requiring AusNet Services to replace existing HSM remote monitoring equipment at 13 locations with phasor measurement units by 15 February 2027.

AEMO stated in its notice to AusNet Services that:

> *Compliance with this notice is a "regulatory obligation or requirement" for the purposes of the National Electricity (Victoria) Law and failure to comply is a Tier 3 civil penalty under the National Electricity (Victoria) Regulations.*

We are satisfied that the receipt of the AEMO notice satisfies the definition of a regulatory change event.

2. Positive change event

We are satisfied the regulatory change event meets the definition of a "positive change event" in the NER as AusNet Services will incur materially[1] higher costs in the 2026–27 regulatory year as a result of the event, as shown in **Table 1.**

Table 1: AER – Materiality assessment ($million, nominal)

Costs	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Approved pass through opex	-	-	-	-	-	-
Approved pass through capex (as incurred)	-	-	0.06	1.30	7.62	8.99
Total costs	-	-	0.06	1.30	7.62	8.99
AER approved unsmoothed revenues	570.72	573.68	579.59	590.75	620.10	2,934.84
Materiality (%)	**-**	**-**	**0.01%**	**0.22%**	**1.23%**	**-**

Source: AER analysis

[1] As defined in Chapter 10 of the NER (Glossary).

3. Timing of AusNet Services' application

The date on which the event occurred is 12 November 2024. This is the date contained in the written directions to AusNet Services from AEMO and occurs during the 2022–27 regulatory control period. A TNSP must submit an application within 90 business days of the relevant positive change event occurring. This application was submitted before 21 March 2025, within 90 business days of the event occurring.

4. Assessment of the pass through amounts

In assessing AusNet Services' pass through application, the NER requires the AER to consider a number of factors[2] to determine whether the proposed level of costs is prudent and efficient. Our assessment found that:

- the proposed pass through amount reflects only the incremental costs incurred as a consequence of the regulatory change event
- AusNet Services' decisions and actions in responding to the regulatory change event were likely to be prudent and efficient
- AusNet Services had not taken any action which had increased the magnitude of the pass through amount.

The need and scope for this investment is established by AEMO's notice.

AusNet Services' cost pass through application included a a cost build up model and an updated post-tax revenue model (PTRM).

We reviewed the cost estimates submitted by AusNet Services, along with the cost pass through documentation provided. We consider the proposed expenditure reasonably reflects prudent and efficient costs. The proposed unit cost for installation of the PMUs aligns with the expected costs set out in AEMO's cost benefit analysis, and with AusNet Services' historical installation costs for these units.

We therefore consider the forecast likely reflects the efficient costs for replacement of network monitoring equipment with PMUs at 13 sites, consistent with AEMO's notice to AusNet Services under clause 4.11.1(d) of the NER.

5. Approved pass through amount

Our determination is to approve total incremental costs of $7.4 million in capital expenditure as shown in **Table 2**.

Table 2: Incremental expenditure for the replacement of the Victorian High Speed Monitor network with Phasor Measurement Units ($Dec 2022 million)

Costs	AusNet Services application	AER determination
Operating expenditure	-	-
Capital expenditure	7.4	7.4
Total costs	**7.4**	**7.4**

Source: AER analysis

2 Cl. 6A.7.3 (j) of the NER.

The incremental revenue associated with these costs (the approved pass through amount) is detailed in **Table 3**.[3]

Table 3: AER approved incremental revenue resulting from the replacement of the Victorian HSM with PMUs ($million, nominal)

$million (nominal)	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Return on capital	-	-	-	0.00	0.06	0.06
Return of capital (regulatory depreciation)	-	-	-	–0.00	–0.03	–0.03
Operating expenditure	-	-	-	-	-	-
Revenue adjustments	-	-	-	-	-	-
Net tax allowance	-	-	-	-	-	-
Incremental annual building block revenue requirement (unsmoothed)	-	-	-	0.00	0.03	0.03
Incremental maximum allowed revenue (smoothed)	**-**	**-**	**-**	**-**	**0.03**	**0.03**

Source: AER analysis.

Note: Numbers may not add due to rounding.

6. Timing of cost pass through recovery

Our determination is to approve a positive pass through amount of $0.03 millon ($nominal, smoothed) to be recovered over the remaining regulatory year (2026–27) of the 2022–27 period. As the proposal relates to capital expenditure only, the total costs will be recovered across the long asset lives.

3 Modelling of incremental revenue reflects a number of corrections for issues identified in AusNet Services' initial application, addressed through: AusNet Services, *Response to Information Request*, 29 August 2025.

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

Requirement of the NER	AER consideration
Is the pass through event a regulatory change event, service standard event, tax change event, or insurance event?[4]	Yes. We are satisfied that AEMO's notice to AusNet Services under clause 4.11.1(d) of the NER imposes a regulatory obligation or requirement that substantially affects the manner in which AusNet Services provides prescribed transmission services.
Is the pass though event a contingent project or a trigger event associated with a contingent project?[5]	No.
Does the pass through relate to any other event specified in AusNet Services' 2022–27 transmission determination?[6]	No.
Did the pass through event entail AusNet Services incurring materially higher costs in providing prescribed transmission services than it would have incurred but for the event?[7]	Yes. AusNet Services expects to incur as a result of the storm event are material. The cost of replacing the PMUs in 2026–27 is $7.6 million or 1.23% of AusNet Services's approved $620.1 million revenue for that year.
What is the date on which the positive change event occurred?[8]	The date on which the event occurred is 12 November 2024. This is the date contained in the written directions to AusNet Services from AEMO.
Did AusNet Services submit a written statement of its pass through application within 90 business days of the positive change event occurring?[9]	Yes. This application was submitted before 21 March 2025, within 90 business days of the event occurring.
Did AusNet Services specify details of the positive change event, including the date the event occurred, in its written statement?[10]	Yes. AusNet Services's written statement included details of the positive change event, including the date on which the event occurred.
Did AusNet Services 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?[11]	Yes. AusNet Services proposed a positive pass through amount of $0.03 million ($nominal, smoothed)[12] to be recovered from consumers in 2026–27, the final year of the 2022–27 regulatory control period.
Did AusNet Services 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?[13]	Yes. AusNet Services' pass through application sets out the costs it expects to incur as a result of the event, as well as how it calculated its proposed pass through amount.[14]
Was there a regulatory information instrument applicable to the pass through application?[15]	No.

4 NER, cll. 6A.7.3(a1)(1) through 6A.7.3(e) (a1)(7); and chapter 10.

5 See the definition of "positive change event" in chapter 10 of the NER.

6 NER, cl. 6A.7.3(a1)(5)

7 That is, does it meet the definition of a "positive change event" as defined in chapter 10 of the Rules.

8 NER, cl. 6A.7.3(c)(2).

9 NER, cl. 6A.7.3(c).

10 NER, cll. 6A.7.3 (c)(1) and 6A.7.3(c)(2).

11 NER, cll. 6A.7.3(c)(3), 6A.7.3(c)(4), and 6A.7.3(c)(5).

12 Adjusted for the 2026–27 return on debt updated weighted average cost of capital.

13 NER, cl. 6A.7.3 (c)(6).

14 AusNet Services - Attachment 5b - 2025-2030 AusNet Services Cost Pass Through Post Tax Revenue Model.

15 NER, cl. 6A.7.3(c)(7).

Attachment C: Factors the AER is to consider in determining a pass through amount

Relevant factors under cl. 6A.7.3 (j)	AER consideration
In making the pass through determination we must take into account the matters and proposals set out in AusNet Services' written statement.[16]	This decision sets out how we have considered the matters and proposals in AusNet Services's pass through application (written statement).
We must take into account the incremental increase in costs in providing prescribed transmission services resulting from the pass through event.[17]	We are satisfied that the expenses to be incurred by AusNet Services in providing prescribed transmission services as a result of AEMO's notice are incremental to existing costs.
We must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the event.[18]	We are satisfied the decisions and actions taken in responding to the event were efficient, and the scope and cost of works to be undertaken is reasonable in the circumstances.
We must take into account the time cost of money.[19]	In making this determination, we must take into account the time cost of money based on the allowed rate of return for AusNet Services for the years in which the pass through amount is to be recovered. To account for the recovery of the pass through amount over one year, 2026–27, we have used the nominal weighted average cost of capital, as determined in AusNet Services' 2022–27 transmission determination, incorporating the annual update on return on debt for 2026–27, as well as a forecast inflation of 2.45 per cent to calculate the approved pass through amount in nominal terms.
We must take into account the need to ensure that the pass through amount reflects only costs incurred solely as a consequence of the event.[20]	We are satisfied the costs included in our approved pass through amount will be incurred due to the regulatory obligation embodied in AEMO's notice to AusNet Services requiring replacement of the Victorian High Speed Monitor network with Phasor Measurement Units.
We must take into account whether the costs of the pass through event have already been factored into the calculation of AusNet Services' annual revenue requirement for the regulatory control period in which the pass through event occurred or will be factored into the calculation of its annual revenue requirement for a subsequent regulatory control period[21]	We do not consider that the costs AusNet Services is proposing to recover have been included in its annual revenue requirement for either the current or the following regulatory control periods.
We must take into account the extent to which AusNet Services' costs have already been funded by previous pass through determinations.[22]	We do not consider that any of the proposed costs have been the subject of a previous pass through determination.

16 NER, cl. 6A.7.3(j)(1).
17 NER, cl. 6A.7.3(j)(2).
18 NER, cl. 6A.7.3(j)(3).
19 NER, cl. 6A.7.3(j)(4).
20 NER, cl. 6A.7.3(j)(5).
21 NER, cl. 6A.7.3(j)(6A).
22 NER, cl. 6A.7.3(j)(6B).