



# **Determination**

## **500kV**

### **Transmission Line**

#### **Tower Collapse cost**

#### **pass through**

**AusNet Services**

September 2020

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AER Reference: AER201648

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## Overview

On 10 July 2020, we received a cost pass through application for additional costs AusNet Services has incurred and will incur to restore transmission services and replace collapsed 500kV dual circuit transmission line towers as a result of extreme weather that occurred on 31 January 2020.<sup>1</sup>

AusNet Services submitted that the towers collapse event has resulted in a material increase in costs to AusNet Services, and constitutes a natural disaster event under the cost pass through provisions of the National Electricity Rules (the NER) and the AER's final decision on AusNet Services' transmission determination 2017 – 2022.

AusNet Services' restoration of the transmission line is estimated to cost \$25.8 million in 2020-21 dollars (\$23.5 million in 2016-17 dollars)<sup>2</sup>, and is not accounted for in its 2017 – 2022 transmission determination.

AusNet Services proposed that the positive pass through amount be recovered in the regulatory year ending March 2022. The pass through amount constitutes a small proportion of the actual costs, as the capital incurred was for long lived assets and will be recovered over 60 years. The pass through amounts to an increase in the annual transmission costs of \$2.3 million for the year ending March 2022.

The role of the AER, as the economic regulator of transmission network service providers (TNSPs) in the National Electricity Market, is to assess AusNet Services' application against the cost pass through requirements in clause 6A.7.3 of the NER. We must consider, with reference to the factors specified in the NER<sup>3</sup>, whether the pass through is justified and whether the relevant amounts have been correctly calculated.<sup>4</sup>

We have assessed AusNet Services' application under the framework provided by the NER. In particular, we have considered:

- the provisions of clause 6A.7.3
- the material provided in AusNet Services' application; and
- AusNet Services' 2017–22 revenue determination.

We consider that AusNet Services has correctly identified the positive pass through amount of \$2.3 million (\$2020-21). AusNet Services can adjust its maximum allowed revenue, in the year ending March 2022, by this amount in accordance with its revenue determination.

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<sup>1</sup> On 28 August 2020, AusNet Services revised the cost for the pass through application. This increased the costs by \$0.8 million to \$25.8 million, up from the \$25.0 million costs in the original application submitted on 10 July 2020.

<sup>2</sup> \$23.04 million capex and \$0.48 million opex in 2016-17 dollars.

<sup>3</sup> NER cl 6A.7.3(j).

<sup>4</sup> NER cl 6A.7.3(d).

# 1 Determination

We consider that AusNet Services has established that a positive change event has occurred. The positive change event is the occurrence of a convective downburst weather phenomenon on 31 January 2020, which caused the catastrophic failure of six towers and severe damage to a seventh tower, on the dual circuit Moorabool–Mortlake and Moorabool–Haunted Gully 500kV transmission lines near Cressy, in south western Victoria.

The NER require us to determine the amount that should be passed through to customers.<sup>5</sup> We base our determination on an assessment of the factors set out in clause 6A.7.3(j) of the NER.

We consider that AusNet Services has accurately calculated the effect of the positive change event on its business. Further, the pass through amount that it proposes to pass on to customers is appropriate and meets the rule requirements.

We determine under clause 6A.7.3(d) of the NER an approved pass through amount of \$2.3 million, to be passed through to transmission network users in the 2021–22 regulatory year ending March 2022, in accordance with the procedures set out in AusNet Services' 2017-22 revenue determination.<sup>6</sup>

The pass through will increase an average residential annual bill by about \$0.4 in 2021–22 from 2020-21.

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<sup>5</sup> NER cl 6A.7.3(d)(2).

<sup>6</sup> The revenue determination sets out that AusNet Services' maximum allowed revenue is arrived at by adding to or deducting from the allowed revenue the service target performance incentive scheme revenue increment (or decrement) and approved pass through amounts, AER, *Final Decision: AusNet Services Transmission Determination 2017–18 to 2021–22*, April 2017, Attachment 7, pp. 7-44.

## 2 Pass through events

During the regulatory control period, a service provider can apply to us to pass material changes in its costs arising from pre-defined exogenous events through to customers, in the form of higher or lower network charges. These events are called cost pass through events.<sup>7</sup> Positive pass throughs exist in the NER as a mechanism to allow service providers to recover their efficient costs incurred as a result of events that could not be forecast as part of their proposal that otherwise would have a significant financial effect on the ability of networks to invest in and operate their networks.<sup>8</sup>

In addition to the prescribed events in the NER, other (nominated) pass through events may be specified in a determination for a regulatory control period.<sup>9</sup>

AusNet Services' 2017–22 revenue determination includes the following nominated pass through events:<sup>10</sup>

- terrorism event
- insurance cap event
- natural disaster event; and
- insurer credit risk event.

AusNet Services' natural disaster event is defined as follows:<sup>11</sup>

Natural disaster event means any natural disaster including but not limited to fire, flood or earthquake that occurs during the 2017-22 regulatory control period and that increases the costs to AusNet Services in providing prescribed transmission services, provided the fire, flood or other event was not a consequence of the acts or omissions of the service provider.

Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:

- i. whether AusNet Services has insurance against the event; and
- ii. the level of insurance that an efficient and prudent NSP would obtain in respect of the event.

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<sup>7</sup> NER, cl. 6A.7.3(a1). Each of these prescribed events is defined in Chapter 10 (Glossary) of the NER.

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

<sup>9</sup> NER, cl. 6A.7.3(a1)(5).

<sup>10</sup> AER, *Final Decision: AusNet Services Transmission Determination 2017–22, Attachment 13, April 2017*, p. 13-6.

<sup>11</sup> AER, *Final Decision: AusNet Services Transmission Determination 2017–22, Attachment 13, April 2017*, p. 13-7.

### 3 AusNet Services' pass through application

If a positive change event occurs AusNet Services may seek the approval of the AER, under clause 6A.7.3(a) of the NER, to pass through to Transmission Network Users a positive pass through amount.

On 10 July 2020, we received a positive pass through application for additional costs AusNet Services incurred to restore transmission services and replace collapsed 500kV dual circuit transmission line towers as a result of extreme weather that occurred on 31 January 2020.<sup>12</sup> The application and its attachments are available on our website.<sup>13</sup>

#### 3.1 Background

AusNet Services' application relates to the collapse of 500kV dual circuit transmission line towers as a result of extreme weather that occurred on 31 January 2020. The transmission line traversing south western Victoria connects Moorabool Terminal Station (near Geelong) to the Heywood Terminal Station and the interconnector to South Australia, and to the Portland aluminium smelter.<sup>14</sup>

The impacted lines are identified as the Moorabool Terminal Station–Mortlake Power Station 500kV transmission line and the Moorabool Terminal Station–Haunted Gully Terminal Station 500kV transmission line.<sup>15</sup>

On 31 January 2020, severe thunderstorm conditions, gusty damaging winds, rain and lightning were reported in the area where the towers failed at the time of the incident.<sup>16</sup>

AusNet Services submitted that a report prepared by the Bureau of Meteorology (BOM) (provided as Attachment 3 to its pass through application) confirms the severity of the weather conditions in the vicinity of the towers that failed.<sup>17</sup> The specific weather event phenomenon that impacted the transmission line and caused collapse of the towers, appears to have been a localised storm event.<sup>18</sup> Given the significant impact of the event, the BOM investigated the meteorological aspects of the thunderstorm activity in the vicinity and produced a report on its findings. The BOM report concludes that a severe convective downburst near the towers contributed to the observed damage. It further states that the available evidence indicates the thunderstorm produced damaging winds (over 90 km/h) and potentially produced destructive winds (over 125 km/h).<sup>19</sup>

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<sup>12</sup> On 28 August 2020, AusNet Services revised the costs for the pass through application. This increased the costs by \$0.8 million to \$25.8 million, up from the \$25.0 million costs in the original application submitted on 10 July 2020.

<sup>13</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/ausnet-services-%E2%80%93-cost-pass-through-%E2%80%93-500kv-transmission-line-tower-collapse/initiation>

<sup>14</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 7.

<sup>15</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 7.

<sup>16</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 8.

<sup>17</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 8.

<sup>18</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 10.

<sup>19</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 10.

AusNet Services submitted that the failure of the transmission towers on this day is the only tower failure experienced on this or any other 500kV line in Victoria. The transmission line was designed and constructed in conformance to the applicable standards of the time, being the published standards of the Standards Association of Australia. AusNet Services submitted that there was no evidence of contributory factors such as poor asset condition.

AusNet Services conducts line and easement inspections at set intervals to identify and rectify defects in a timely manner. The towers had a condition assessment inspection in March 2019 with the overall tower condition classified as 'C2', which indicates that the towers were in a good condition and not affected by corrosion.<sup>20</sup> The major work undertaken to date has been surface treatment of the tower legs at ground level as they enter the footings, to prevent weakening through corrosion. AusNet Services noted that this treatment has been effective for the towers that collapsed.

AusNet Services concluded that the specific weather event phenomenon that impacted the transmission line, and caused six of the towers to collapse and the seventh to be severely damaged, appears to have been the localised storm event, specifically a severe convective 'downburst'.<sup>21</sup>

AusNet Services submitted that the impact of the meteorological event satisfies the meaning of 'natural disaster', as the event is an event occurring in nature and the event may be described as a disaster as the transmission line was destroyed and has required an immediate recovery strategy and costly permanent asset restoration plan.<sup>22</sup>

The first line was returned to service using a temporary Emergency Restoration System (ERS) on 17 February, and the second line on 3 March 2020.<sup>23</sup>

## 3.2 Calculation of the pass-through amount

AusNet Services has estimated the increased costs it has incurred, and is likely to incur, to restore transmission services and replace the failed towers as a consequence of the event. The increased costs total \$25.8 million (\$2020-21), comprising \$25.3 million in capex and \$0.5 million in opex.

AusNet Services proposed a positive pass through amount of \$2.3 million (smoothed nominal dollars) to be recovered in the regulatory year 1 April 2021 to 31 March 2022 with the remaining asset value rolled into the RAB from 1 April 2022.<sup>24</sup> This is consistent with the cost pass through provisions of the NER.

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<sup>20</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, pp. 8-9.

<sup>21</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, pp. 10-11.

<sup>22</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 12.

<sup>23</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 1.

<sup>24</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 23.



## 4 AER Assessment

We are satisfied that AusNet Services' pass through application establishes that a positive pass through event occurred.

We consider the additional actual and forecast capital expenditure and operating expenditure incurred by AusNet Services, in the 2020 and 2021 regulatory years, materially increased AusNet Services' costs in providing prescribed transmission services in the current regulatory control period.

We consider that AusNet Services has accurately calculated the effect of the positive change event on its business. Further, the pass through amount that it proposes to pass on to customers is appropriate and meets the rule requirements.

This section details the reasons supporting these conclusions.

### 4.1 Relevant dates

The NER provide that, for a positive change event, an application to us for a positive pass through amount must be made within 90 business days of the relevant event occurring.<sup>25</sup> We must make a determination on the event within 40 business days of the business providing details of the event and supporting evidence to us.<sup>26</sup> In the normal course of events, AusNet Services would need to submit a pass through application to the AER by 11 June 2020, being 90 business days from 31 January 2020.

AusNet Services made a proposal to the AER in April 2020 for an alternative to a pass through application. AusNet's proposal was to exclude the costs arising from the collapse of the towers from the Capital Efficiency Sharing Scheme (CESS), enabling AusNet Services to recover the majority of the costs, and absorb a small amount of the costs. The AER did not accept the CESS exemption as this was not consistent with the requirements of the scheme, but approved an extension under clause 6A.7.3(k) of the NER to allow any relevant pass through application to be submitted no later than 31 July 2020.<sup>27</sup>

We received AusNet Services' pass through application on 10 July 2020. The application has therefore satisfied the requirement in clause 6A.7.3(c) of the NER in relation to the time for submitting the written statement.

We sought additional information from AusNet Services for the purpose of making this determination on 13 August 2020, and received this information on 21 August 2020. Our information requests sought further information in relation to the economic analysis of service restoration options, tower rebuild cost components, and tower maintenance and inspection history. We reviewed the historical maintenance and inspection material and did not identify any concerns with AusNet Services proposed costs. We have therefore made this determination within 40 business days of receiving this additional information in accordance with clause 6A.7.3(e) of the NER.

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<sup>25</sup> NER cl 6A.7.3(c).

<sup>26</sup> NER cl 6A.7.3(e).

<sup>27</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 4.

## 4.2 Positive change event

We must determine that a positive change event has occurred in order to approve an amount to be passed through to energy consumers.<sup>28</sup>

A positive change event is defined in the NER as a pass through event which entails the TNSP incurring materially higher costs in providing prescribed transmission services than it would have incurred but for that event.

AusNet Services submits that the event meets the requirements to constitute a positive change event as:<sup>29</sup>

- the weather event causing the towers to collapse was a 'natural disaster', in the normal meaning of the phrase, and not a consequence of the acts or omissions of AusNet Services
- the event is not a contingent project or trigger event; and
- the event resulted in AusNet Services incurring materially higher costs in providing prescribed transmission services.

We are satisfied that the application meets the NER requirements to constitute a positive change event. The section below details the reasons that have led us to these conclusions.

### 4.2.1 Materiality

A cost pass through event results in a TNSP incurring materially higher costs if the change in costs (as opposed to the revenue impact) exceeds one per cent of maximum allowed revenue for the TNSP in any regulatory year. To satisfy the NER pass through event materiality threshold requirement of one per cent of MAR, AusNet Services has estimated that its costs must be greater than \$5.6 million in any one year.<sup>30</sup>

AusNet Services considers the drafting of the NER makes clear that materiality is not assessed by reference to the revenue impact of the positive change event and that it expressly distinguishes the 'costs' of the event from the 'revenue impact' of the event on the TNSP as the basis for the materiality assessment. If the revenue impact of the pass through event were used as a basis to measure materiality, AusNet Services estimates that in order to reach a materiality threshold of \$5.6 million of revenue in any one year, it would need to incur capital expenditure of about \$60-70 million.

AusNet Services submitted that unless the capex impact of the pass through event of the towers collapse is recovered through the cost pass through mechanism, it will incur a CESS penalty amounting to approximately one-third of its incurred expenditure, or about \$6.9 million (\$2021-22).

One issue in relation to the cost pass through materiality definition is how to interpret the term 'change in costs'. In previous cost pass through decisions, we have considered the

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<sup>28</sup> NER cl 6A.7.3(d).

<sup>29</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 7.

<sup>30</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 19.

change in costs could relate to the change in total capex costs or it could refer to the change in 'building block' costs i.e. the return on and return of the capex incurred, which is significantly lower than the total capex cost. These different interpretations result in different materiality thresholds, with the change in capex costs resulting in a lower threshold and the alternative interpretation of the return on and of capex costs resulting in a higher threshold.

Energy Networks Australia (ENA) made a submission in support of AusNet Services' approach to assessing materiality, arguing that applying the building block definition of costs creates an asymmetrical treatment of opex and capex and may create an inefficient bias towards opex solutions.

AusNet Services submitted that the costs it has incurred or is likely to incur as a result of the towers collapse constitutes a material increase in the cost of providing prescribed transmission services when compared to the annual revenue requirements determined by the AER for AusNet Services' 2017-22 regulatory control period.<sup>31</sup>

AusNet Services assessed the materiality of its 'costs' by comparing the additional opex and capex required as a result of the event to the annual revenue requirement for the relevant years in its current revenue determination, as shown in Table 1 below. Based on this interpretation, the one per cent materiality threshold is met.

**Table 1 Materiality of pass through costs (\$'million, nominal dollars)**

	2019-20	2020-21
Annual revenue requirement	556.61	566.79
Total capex and opex	8.1	17.6
Materiality against annual revenue requirement (per cent)	1.5%	3.1%

Source: AER analysis.

The AER's approach to assessing materiality, including its interpretation of 'costs', has developed over time. The AER's preferred interpretation of 'costs' was first set out in a 2011 decision on Ausgrid's Solar Bonus Scheme pass through application. Subsequent decisions have tended to consider this issue in similar terms.

The 2011 Ausgrid pass through application involved both opex and capex. The AER stated that its preferred approach was that building block costs should be used to determine the materiality of an event. However, the AER noted that an alternative interpretation that capex spent should be used was also open.

As part of a November 2012 rule change (which extended the one per cent materiality threshold from transmission services to distribution services), the network businesses asked the AEMC to clarify which type of costs should be considered for the materiality threshold.

<sup>31</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 21.

The AEMC stated that this is a matter of detail for the AER to decide with respect to each particular application.<sup>32</sup>

In October 2013, the AER rejected a negative pass through application from Powerlink on the basis that the event did not meet the materiality threshold for pass through. That decision stated that the AER's preferred interpretation of 'costs' for the purposes of assessing the materiality of pass through events was building block costs (return on and of capex, opex, and tax).

The AER published the capital expenditure incentive guideline, including the CESS, in November 2013. The CESS has been progressively applied to network service providers since that time. The interaction between the CESS and the cost pass through regime was considered in the AER's explanatory statement for the guideline, which stated that 'a network service provider would avoid an automatic CESS penalty for increased capex if we approved the capex as part of a pass-through event'.

On balance, we consider that for AusNet Services' application, the interpretation of 'costs' as total capex and opex costs is the appropriate interpretation.

This approach also avoids unintended incentive outcomes arising from the interaction between the cost pass through framework and opex and capex efficiency schemes under the NER, or creating an inefficient bias towards opex solutions for TNSPs responding to potential pass through events.

We have assessed materiality having regard to actual capex and opex incurred, and are satisfied that the costs associated with this positive pass through event (i.e. the change in costs as a result of the event) are material.

#### **4.2.2 Natural disaster event**

We must form a view on whether the event which led to the collapse of AusNet Services' transmission towers constitutes a 'natural disaster event' as defined in AusNet Services' transmission determination.

AusNet Services considers the weather event, causing the towers to collapse, to be a natural disaster and not a consequence of the acts or omissions of AusNet Services.<sup>33</sup>

The Bureau of Meteorology (BOM) produced a report on the meteorological aspects of the thunderstorm activity in the vicinity of the towers that failed, confirming the severity of the weather conditions. The failure of the transmission towers on this day is the only tower failure ever experienced on this or any other 500kV line in Victoria.<sup>34</sup>

We considered the evidence presented by AusNet Services, including the BOM report. While the scope of the event was geographically limited, it is reasonable to construe the event as falling within the definition of a natural disaster event as defined in AusNet Services' 2017–22 transmission determination. The weather event described in the BOM report as a

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<sup>32</sup> AEMC, Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Position Paper, 29 November 2012, p. 205.

<sup>33</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 7.

<sup>34</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 8.

'convective downburst' was severe and had significant consequences for critical elements of the NEM, including resulting in an extended outage of the Heywood interconnector. The damage caused by the event was not a consequence of acts or omissions of AusNet Services. An event causing a TNSP to rebuild 500kV transmission towers is very rare, and would not be typically provided for in a revenue determination through an ex ante allowance.

We are satisfied that the failure of six towers and the damage to one further tower, resulting in the loss of the two feeders, occurred at the time and location specified. This is confirmed by the BOM in its report.<sup>35</sup> The extreme storm activity on that day contributed to, and was the ultimate cause of, the destruction and damage of the towers.

Under clause 6A.7.3(j)(3) of the NER, we are required to consider whether the TNSP has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that positive change event.

There were no actions or omissions by AusNet Services at the time of the event that contributed to the event. There does not appear to be any activity by AusNet Services at the site nor was there a requirement for any activity at the site at or near the time of the event. The historical records of inspection and maintenance carried out on the towers did not identify any actions or omissions by AusNet Services that were likely to have contributed to the event.

We also consider that AusNet Services has satisfied the insurance aspects of the definition of natural disaster pass through event. AusNet Services does not have insurance against the costs of the event. Obtaining insurance cover for transmission lines from third party insurers is not an efficient approach to managing the risk of damage to, or loss of, these assets. We do not consider it is reasonable to expect that a prudent service provider in AusNet Services' position would maintain such insurance.

### **4.3 Assessment of costs likely to be incurred**

AusNet Services submitted that it has incurred, or is likely to incur, increased capex and opex costs of \$25.8 million as a consequence of the tower collapse cost pass through event.

AusNet Services is forecast to incur an additional \$0.5 million in operating expenditure (opex) and \$25.3 million in capital expenditure (capex), compared to the annual revenue requirement established in the Post Tax Revenue Model from the AER's 2017-2022 revenue determination because of the towers collapse.<sup>36</sup> The majority of costs occur in the regulatory years ending March 2020 and March 2021. Replacement of the towers is scheduled by November 2020 and dismantling of the Emergency Restoration System (ERS) and other associated works are due for completion by March 2021.<sup>37</sup>

We assessed the efficiency of the proposed pass through costs finding that:

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<sup>35</sup> BOM, Report into the meteorological aspects of severe thunderstorm impacts near Cressy, Victoria, 31st January 2020.

<sup>36</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, pp. 20-21.

<sup>37</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 20.

- the approach taken by AusNet Services to restore supply as soon as possible through the use of temporary structures, and then to restore the lines and towers on a permanent basis, was prudent and necessary.
- AusNet Services' use of existing panel suppliers from previous tender processes, and the transparency of subcontractor rates, support the efficiency of the costs incurred and forecast to be incurred.
- there were no actions or omissions by AusNet Services prior to or at the time of the event that contributed to the cost of the event.

The AER has determined in Table 2 the approved incremental capital and operating expenditure for the tower collapse cost pass through event.

**Table 2 Approved incremental expenditure (\$'million, 2020-21 dollars)**

	2019-20	2020-21	Total
Capital expenditure	7.74	17.54	25.28
Operating expenditure	0.48	0.04	0.52
Total	8.22	17.58	25.80

Source: AER analysis. Numbers may not add due to rounding.

### 4.3.1 Costs incurred solely as a consequence of the event

AusNet Services is required, under clause 6A.7.3(j)(5) of the NER, to recover only the actual or likely increase in costs that is solely attributable to the positive change event.

AusNet Services submitted that it has included only the incremental costs for those activities it incurred solely as a result of the positive change event, and captured the actual expenditures it incurred in a manner consistent with its accounting framework.<sup>38</sup> KPMG reviewed the financial records of AusNet's tower replacement works.<sup>39</sup> AusNet Services provided a confidential copy of KPMG's report to the AER. Further, AusNet Services submitted no work has been avoided or deferred as a result of the collapse of the transmission towers.<sup>40</sup>

We are satisfied that the costs reported reflect the actual and likely incremental costs incurred, and that KPMG has provided sufficient evidence that the costs reported are reflective of the work carried out.<sup>41</sup>

<sup>38</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>39</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>40</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>41</sup> This is a factor we must take into account when assessing the application under NER, cl 6A.7.3(c)(6).

We are also satisfied that the costs of the pass through event have not already been factored into the calculation of AusNet Services' maximum allowed revenues for the regulatory control period in which the pass through event occurred.<sup>42</sup>

#### **4.4 Effect of the event could not be prevented or mitigated**

We consider the decisions and actions of AusNet Services in response to the tower collapse cost pass through event were efficient and that the event could not have been prevented or mitigated through prudent risk operational management.<sup>43</sup>

AusNet Services owns an Emergency Restoration System (ERS), which is a set of temporary guyed mast structures and conductor attachment hardware held as a contingency in the case of catastrophic collapse of towers.<sup>44</sup> AusNet Services submitted that its strategy of establishing and maintaining the ERS for a tower failure incident provides cost-effective insurance against a prolonged loss of a transmission line and mitigates the economic impact of the event, demonstrating that it is efficient and prudent.<sup>45</sup>

AusNet Services appointed a delivery partner to undertake the emergency works and used market-tested unit rates agreed under the Strategic Portfolio Services Panel Agreement (SPSPA) to price the work.<sup>46</sup> AusNet Services submitted that the rapid and reliable temporary recovery of the transmission lines using the ERS allowed it to focus on planning the installation of the permanent towers.<sup>47</sup>

AusNet Services further submitted that investigative processes were triggered by the event in accordance with good practice and its own asset management system, and that its arrangements for the restoration project indicate that it is adopting efficient procurement and delivery approaches for each phase of work.<sup>48</sup>

We consider that the restoration process that involved providing a temporary connection using the ERS system, and the final solution involving replacing the seven failed and damaged towers, is appropriate. The approach taken by AusNet Services to restore supply on this critical element of the NEM as soon as possible, and then to restore the feeder on a permanent basis, was prudent and appropriate.

Furthermore, we are satisfied that the steps that Ausnet Services has taken, including using panel suppliers from previous tender processes and the transparency of subcontractor rates, supports the efficiency of the costs incurred and forecast to be incurred.

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<sup>42</sup> This is a factor we must take into account when assessing the application under NER, cl 6A.7.3(j)(6A).

<sup>43</sup> This is a factor we must take into account when assessing the application under NER, cl 6A.7.3(j)(3)

<sup>44</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 12.

<sup>45</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>46</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>47</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 24.

<sup>48</sup> AusNet Services, Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020, p. 25.

## 4.5 Time cost of money

Clause 6A.7.3(j)(4) of the NER requires us to take into account the time cost of money based on the rate of return for the provider. In calculating the total pass through amount, we have made an allowance for this. The time cost of money has been based on the most recent rate of return for AusNet Services, as set out in our 2017-22 Final Decision.<sup>49</sup> Since the return on debt is calculated using a trailing average approach, the updated return on debt value for 2021-22 now applies, consistent with the averaging period approved in our 2017-22 Final Decision for AusNet Services.

## 4.6 Calculation of the pass through amount

AusNet Services' proposed positive pass through amount is the change in its required revenues for the 2017-22 regulatory control period as a result of the positive change event, and incorporates the opex and return on and of capital arising from the incremental costs incurred in responding to the towers failure event, as well as the impact of the incremental costs on the cost of corporate income tax building block.<sup>50</sup>

AusNet Services is required under clause 6A.7.3(c)(5) of the NER to specify the amount that it proposes to pass through to customers in the year in which the positive change event occurred and each regulatory year after that.

AusNet Services has proposed a positive pass through amount of \$2.3 million (nominal dollars) in the regulatory year ending 31 March 2022.<sup>51</sup>

We consider that AusNet Services has correctly calculated the positive pass through amount, that is, it has incurred a higher than forecast cost in providing transmission services.

We consider that the positive pass through amount should be passed through to the network users as proposed by AusNet Services. This adjustment should occur in the regulatory year ending March 2022.

The remaining asset value will roll into AusNet Services' Regulated Asset Base from 1 April 2022.<sup>52</sup>

## 4.7 Stakeholder submissions

On 16 July 2020, we published AusNet Services' cost pass through application and sought written submissions from interested stakeholders.<sup>53</sup> We received three submissions during the consultation period, which ended on 31 July 2020.

The submissions from PIAC and the Central Victorian Greenhouse Alliance raised issues about the increasing frequency and severity of weather events in the context of climate

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<sup>49</sup> AER, *Final Decision: AusNet Services Transmission Determination 2017–22, Attachment 3, April 2017*, p. 3-8.

<sup>50</sup> AusNet Services, *Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020*, p. 26.

<sup>51</sup> AusNet Services, *Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020*, p. 27.

<sup>52</sup> AusNet Services, *Cost pass through application – 500kV Transmission Line Tower Collapse, July 2020*, p. 26.

<sup>53</sup> Before making a determination the AER may consult with the relevant TNSP and such other persons as the AER considers appropriate, on any matters arising out of the relevant pass through event, under NER cl 6A.7.3(i).



change, network planning and resilience, and the possible need for a broader review of risk allocation and cost recovery frameworks in the National Energy Market (NEM). Whilst these issues are outside the scope of this specific pass through decision, we note that such matters are the subject of further and ongoing consideration by policy and rule makers. For example, the Energy Security Board's 2020 report on the health of the NEM highlighted the importance of electricity system resilience, given extreme weather events will likely become more frequent and intense. AEMO modelling is also factoring in the increased risk of extreme temperatures impacting peak demand, and of drought affecting water supplies for hydro generation and cooling for thermal generation.

Energy Networks Australia made a submission in support of AusNet Services' approach to assessing materiality, arguing that applying the building block definition of costs creates an asymmetrical treatment of opex and capex and may create an inefficient bias towards opex solutions. For this decision, we have assessed materiality having regard to actual capex and opex incurred, and are satisfied that the costs associated with the positive pass through event (i.e. the change in costs directly attributable to this act of nature) are material.

## 4.8 Other considerations

Clause 6A.7.3(j) of the NER sets out a number of matters that we are required to take into account when making this determination:

- the matters and proposals set out in any statement given to the AER by the provider;
- the increase in costs in the provision of prescribed transmission services that, as a result of the positive change event, the provider has incurred and is likely to incur;
- the efficiency of the provider's decisions and actions in relation to the risk of the positive change event;
- the time cost of money based on the allowed rate of return for the provider for the regulatory control period in which the pass through event occurred;
- the need to ensure that the provider only recovers any actual or likely increment in costs;
- the amount of the approved pass through amount that should be passed through to transmission network users;
- whether the costs of the pass through event have already been factored into the calculation of the provider's maximum allowed revenues for the regulatory control period in which the pass through event occurred or will be factored into the calculation of the provider's maximum allowed revenues for a subsequent regulatory control period;
- the extent to which the costs that the provider has incurred and is likely to incur are the subject of a previous determination made by the AER under this clause 6A.7.3; and
- any other factors the AER considers relevant.

Sections 4.1 to 4.6 above set out our considerations of those matters relevant to clause 6A.7.3(j). We consider the outstanding matters not considered in sections 4.1 to 4.6 listed by clause 6A.7.3(j) below<sup>54</sup>:

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<sup>54</sup> NER cl 6A.7.3(j)(3)-(7).

- We consider that AusNet Services has behaved efficiently in its decisions and actions relating to the risk of the positive change event occurring.
- We consider that the costs to be recovered by AusNet Services due to this pass through event are solely attributable to the tower collapse event.
- We consider that the costs of the pass through event are defined as the difference between certain costs for which an allowance is made under the revenue determination, and the actual costs incurred. As such, the costs of the pass through event are, by definition, not factored into AusNet Services' maximum allowed revenue for the 2017–22 regulatory control period.
- We consider that the costs incurred relating to the pass through event under consideration are not the subject of any previous determination by us under clause 6A.7.3.
- We do not consider any other matters to be relevant.