



# **Determination**

## **Storm cost pass through**

### **Ausgrid**

December 2020

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## Overview

On 31 July 2020, Ausgrid submitted a cost pass through application (“Ausgrid’s application”) to the Australian Energy Regulator (AER). Ausgrid’s application relates to unanticipated operating expenditure (opex) and capital expenditure (capex) costs incurred by Ausgrid as a consequence of storms that occurred on 26 November 2019, January 2020<sup>1</sup> and over a number of days (6–9 and 17–18) in February 2020, causing damage to its network.<sup>2</sup>

On 10 August 2020, we published Ausgrid’s application on our website and invited stakeholder submissions. No submissions were received.

Under the National Electricity Rules (NER), Ausgrid is able seek the approval of the AER to pass through to network users a positive pass through amount in respect of certain events (referred to in the NER as *positive change events*).<sup>3</sup> A cost pass through application must address specified matters.<sup>4</sup>

If the AER determines that a positive change event has occurred in respect of a cost pass through application, the AER is required to determine (within a specified timeframe):

- the approved pass through amount, and
- how much of that amount should be passed through to Distribution Network Users in the regulatory year, and each regulatory year after that, in which the positive change event occurred,

taking into account the matters referred to in clause 6.6.1(j) of the NER.<sup>5</sup>

This determination sets out our assessment of Ausgrid’s application and addresses those requirements, as set out in clause 6.6.1 of the NER.

We have determined that Ausgrid’s application pertains to aggregated costs from separate storm events that occurred during the period from November 2019 to February 2020 (inclusive). We do not consider that the November 2019, January 2020 and two February 2020 storms should be treated as a single natural disaster based on the information provided to us. The storms in each of the three months were the result of factually and temporally distinct underlying weather systems that should be more appropriately treated as separate events.

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<sup>1</sup> Ausgrid did not provide information regarding the specific date or the weather system underlying the January 2020 storm. The NSW Government natural disaster declarations make reference to 15 January 2020.

<sup>2</sup> Ausgrid, *Ausgrid pass through application 2019–20 storm season*, 31 July 2020, p. 11.

<sup>3</sup> NER, cl. 6.6.1(a). A positive change event is: (a) a pass through event, other than a retailer insolvency event, which entails the Distribution Network Service Provider incurring materially higher costs in providing direct control services than it would have incurred but for that event, but does not include a contingent project or an associated trigger event; or (b) a retailer insolvency event. A pass through event is those events specified in clause 6.6.1(a1).

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

<sup>5</sup> NER, cl. 6.6.1(d); see section 3.2.

Consequently, the November 2019, January 2020 and 17–18 February 2020 storms do not meet the materiality threshold under the NER.<sup>6</sup>

We are satisfied that the 6–9 February 2020 storm meets the definition of a natural disaster pass through event, and that the materiality threshold to constitute a positive change event has been met.

Based on our assessment of the relevant factors listed in clause 6.6.1(j) of the NER, we determine an approved pass through amount for Ausgrid of \$26.3 million (\$ nominal).<sup>7</sup> We are satisfied this amount reflects the prudent and efficient costs that were incurred by Ausgrid as a result of the 6–9 February 2020 storm.

We determine that Ausgrid can pass through this amount to its consumers through higher network charges over the remaining three years of the current 2019–24 regulatory control period, as set out in Table 1. The resulting revenue impact totals \$19.0 million (\$ nominal, smoothed) for the 2019–24 regulatory control period.

**Table 1 AER – Incremental revenue over the 2019–24 regulatory control period (\$ nominal)**

Financial Year	Incremental revenue (\$ million, smoothed)
2021–22	6.3
2022–23	6.3
2023–24	6.4

We estimate that the approved cost pass through amount will add approximately \$2 per year to residential consumer bills, and \$11 per year to small business consumer bills, over the remaining three years of Ausgrid’s 2019–24 regulatory control period. However, average annual bills are expected to fall overall due to larger estimated bill reductions under our existing 2019–24 determination for Ausgrid, as set out in Table 2.

<sup>6</sup> That being (in short) 1 per cent of Ausgrid’s annual revenue requirement in 2019–20; see sections 4.1.1 and 4.1.2.2.

<sup>7</sup> Relevant control room costs have been deducted from this approved pass through amount; see section 4.1.2.1.

**Table 2 AER’s estimated consumer bill impact arising from the approved cost pass through amount (\$ nominal)**

	2020–21	2021–22	2022–23	2023–24
Residential annual bill, 2019–24 AER determination	1,462 <sup>a</sup>	1,457	1,456	1,455
Annual change <sup>c</sup> (%)		-0.3%	-0.1%	-0.1%
Residential annual bill, with approved pass through amount	1,462 <sup>a</sup>	1,459	1,459	1,457
Annual change <sup>c</sup> (%)		-0.2%	-0.1%	-0.1%
<b>Incremental change in bills (\$)</b>		<b>2</b>	<b>2</b>	<b>2</b>
Small business annual bill, 2019–24 AER determination	7,240 <sup>b</sup>	7,216	7,211	7,205
Annual change <sup>c</sup> (%)		-0.3%	-0.1%	-0.1%
Small business annual bill, with approved pass through amount	7,240 <sup>b</sup>	7,228	7,223	7,216
Annual change <sup>c</sup> (%)		-0.2%	-0.1%	-0.1%
<b>Incremental change in bills (\$)</b>		<b>11</b>	<b>11</b>	<b>11</b>

Source: AER analysis; AER, *Final determination, Default Market Offer Prices 2020–21*, April 2020, p. 24; AEMC *Residential electricity price trends report 2019 – NSW*, December 2019.

- (a) Annual bill for 2020–21 is sourced from our final determination on Default Market Offer Prices for 2020–21, and reflects the average consumption of 3,900 kWh for residential consumers in Ausgrid’s distribution region.
- (b) Annual bill for 2020–21 is sourced from our final determination on Default Market Offer Prices for 2020–21, and reflects the average consumption of 20,000 kWh for small business consumers in Ausgrid’s distribution region.
- (c) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2020–21 bill amounts in proportion to yearly expected revenue, divided by forecast energy as provided by Ausgrid at the 2019–24 determination. Actual bill impacts will vary depending on electricity consumption and tariff class.

## Structure of determination

This document sets out our determination, amongst other things, on whether a cost pass through event has occurred, the pass through amount, the time period for the recovery of the pass through amount, and our reasons for the determination.

It is structured as follows:

- Section 1 – Determination
- Section 2 – Background to AER’s role and Ausgrid’s application
- Section 3 – Relevant regulatory requirements
- Section 4 – Reasons for our determination.

# 1 Determination

We consider that Ausgrid's application, as submitted on 31 July 2020, establishes that a pass through event has occurred in respect of the 6–9 February 2020 storm only, being a natural disaster pass through event as specified in Ausgrid's 2019–24 revenue determination.

We are satisfied that the 6–9 February 2020 storm constitutes a positive change event as defined under the NER. In particular, we are satisfied Ausgrid incurred a material increase in the costs of providing direct control services in the 2019–20 regulatory year as a result of this pass through event.

We have determined the approved pass through amount to be \$26.3 million (\$ nominal). We are satisfied this amount reflects the prudent and efficient costs that were incurred by Ausgrid as a result of the 6–9 February 2020 storm.

We determine that this amount be passed through in, and will therefore increase smoothed revenues (\$ nominal) for, the remainder of the 2019–24 regulatory control period as follows:

- \$6.3 million to be recovered in 2021–22
- \$6.3 million to be recovered in 2022–23
- \$6.4 million to be recovered in 2023–24.

In making this determination, we have considered the factors set out in clause 6.6.1(j) of the NER.<sup>8</sup>

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<sup>8</sup> See section 3.2.

## 2 Background to the AER's role and Ausgrid's application

This section sets out the AER's role in assessing cost pass through applications from distribution businesses, as well as information on Ausgrid's application.

### 2.1 Who we are and our role in process

The AER is the economic regulator for electricity distribution and transmission services in the National Electricity Market (NEM). Our electricity-related powers and functions are set out in the National Electricity Law (NEL) and NER.<sup>9</sup>

The AER regulates Ausgrid's revenues through five-year distribution revenue determinations. Ausgrid's current revenue determination for the 2019–24 regulatory control period runs from 1 July 2019 to 30 June 2024.

We are responsible for assessing cost pass through applications.<sup>10</sup> Under the NER, a distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if pre-defined events occur as specified in the NER or as specified in a revenue determination.<sup>11</sup>

In accordance with the timeframes in the NER, the AER must make a determination on Ausgrid's application by no later than 16 December 2020<sup>12</sup> (see section 3.3).

### 2.2 Ausgrid's application

On 31 July 2020, Ausgrid submitted a cost pass through application to the AER.<sup>13</sup> The application relates to costs incurred in restoring electricity supply and repairing damage to its network as a consequence of storms that occurred in November 2019, January 2020 and on two occasions in February 2020.

Ausgrid's application seeks to pass through \$37.6 million in costs incurred over 2019–20.<sup>14</sup> Ausgrid's application apportions total incurred costs to capex

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<sup>9</sup> In addition to regulating transmission and distribution in the NEM and the Northern Territory, we also monitor the wholesale electricity market to ensure suppliers comply with the legislation and rules, taking enforcement action where necessary, and regulate retail energy markets in Queensland, NSW, South Australia, Tasmania (electricity only) and the ACT.

<sup>10</sup> NER, cl. 6.6.1.

<sup>11</sup> NER, cl. 6.6.1(a).

<sup>12</sup> The AER issued two information notices under NER clause 6.6.1(e1) seeking further information on the scope of works and associated costs required post storms. Ausgrid responded to our second information request under clause 6.6.1(e1) on 20 October 2020. Accordingly, the AER has within 40 business days from that date to make a determination on Ausgrid's application.

<sup>13</sup> Ausgrid was granted a time extension to submit its cost pass through application under clause 6.6.1(k) of the NER. See <https://www.aer.gov.au/node/71672> for more information.

<sup>14</sup> Ausgrid, *Ausgrid's 2019–20 storms pass through application*, pp. 6–7, 36.



(\$16.8 million) and opex (\$20.8 million), covering works such as asset replacement, network repair work, tree trimming, and network safety and restoration services.

Ausgrid refers to the severe weather conditions that occurred in November 2019, January 2020 and on the two occasions in February 2020 as part of a “2019–20 storm season”, which ran from 1 October 2019 to 31 March 2020.

Ausgrid’s application considered the separate storms, which impacted its network over a four-month period, to be a single natural disaster event and attributed the preceding NSW drought as the common underlying cause for this event.<sup>15</sup> Ausgrid considered that the nature of the incremental costs to its business from each storm, as well as the proximity of the storms, were factors in support of these storms being regarded as a single event.<sup>16</sup>

Ausgrid submitted that NSW drought stress had a significant impact on tree health in the period leading up to the storms, resulting in the vegetation surrounding its network becoming more susceptible to tree and branch falls.<sup>17</sup>

Ausgrid submitted that the 2019–20 storm season caused widespread damage to its overhead network, triggering numerous supply faults particularly at low voltage level, and at its peak around 140,000 customers were without power.<sup>18</sup> Specifically, Ausgrid received 169,200 phone calls to its fault line, resulting in the deployment of 868 field crew and 440 external contractors to assist in, or repair network damage. Ausgrid replaced 168 distribution poles, 1,005 service wires, 488 cross arms and 2,686 conductor spans.<sup>19</sup>

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<sup>15</sup> *ibid.*, pp. 15, 28–29.

<sup>16</sup> *ibid.*, pp. 15, 28–29.

<sup>17</sup> Ausgrid, *Attachment A – Western Sydney University – Expert Report*, July 2020.

<sup>18</sup> Ausgrid, *Ausgrid’s 2019–20 storms pass through application*, p. 25.

<sup>19</sup> *ibid.*

## 3 Relevant regulatory requirements

The pass through mechanism recognises that an efficient revenue allowance cannot account for certain types of matters that are uncertain and outside the control of the business, and which cannot be prevented or mitigated by prudent operational risk management. A cost pass through enables a network service provider to recover (or pass through) the costs of defined unpredictable, high-cost events that are not factored into our five-year revenue determination for the business.

The NER includes the following prescribed pass through events for all Distribution Network Service Providers (DNSPs):

- a regulatory change event
- a service standard event
- a tax change event
- a retailer insolvency event
- any other event specified in a determination as a pass through event (nominated pass through event).

This determination relates to a nominated pass through event, being a natural disaster event as specified in Ausgrid's 2019–24 revenue determination.

In making our pass through determination, the AER must take into account the matters in clause 6.6.1(j) of the NER, which are outlined in section 3.2 below and addressed in our assessment in section 4.

### 3.1 Assessment approach

When assessing Ausgrid's pass through application, we must determine whether a "positive change event" has occurred.

A positive change event for a DNSP is defined under Chapter 10 of the NER as:

"a pass through event...which entails the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for that event..."

This assessment is done with reference to the NER and the current AER determination applicable to Ausgrid, which is our distribution determination for the 2019–24 regulatory control period.

As part of this process, we also determine the materiality of the proposed pass through amount. Clause 6.6.1(d) of the NER provides that if the AER determines that a positive change event has occurred, the AER must determine:

- the approved pass through amount, and
- the amount that should be passed through to Distribution Network Users in the regulatory year, and each regulatory year after that, in which the positive change event occurred,

taking into account the matters referred to in clause 6.6.1(j) of the NER.

### **3.2 Relevant factors**

As required under clause 6.6.1(j) of the NER, in assessing Ausgrid's application and making this determination, we must take into account the following relevant factors (which are summarised below):

- a) the matters and proposals set out in Ausgrid's cost pass through application;
- b) the increase in costs in the provision of direct control services as a result of the positive change event;
- c) the efficiency of Ausgrid's decisions and actions in relation to the risk of the positive change event, including whether Ausgrid failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount and whether Ausgrid has taken or omitted to take any action that increased the magnitude of the amount;
- d) the time cost of money based on the allowed rate of return;
- e) the need to ensure that Ausgrid only recovers any actual or likely incremental costs that are solely as a consequence of the pass through event;
- f) whether the costs have already been or will be factored into the calculation of Ausgrid's annual revenue requirement in an existing or future distribution determination;
- g) the extent to which costs are the subject of a previous pass through determination made by the AER; and
- h) any other factors the AER considers relevant.

The key factors are discussed below.

### **3.3 Timing matters**

Clause 6.6.1(c) of the NER requires that, to seek the approval of the AER to pass through a positive pass through amount, a DNSP must submit to the AER a written statement specifying a range of details relating to the event within 90 business days of the relevant positive change event occurring.

The AER must make its determination within the timeframe specified in clause 6.6.1(e) of the NER. That is, within 40 business days from the later of the date the AER received Ausgrid's cost pass through application and the date it received any additional information required by it through a notice issued under clause 6.6.1(e1) of the NER.

On 24 March 2020, Ausgrid requested an extension to submit an application for the pass through as it would not be able to fully account for the increase in costs associated with the storms until the end of the 2019–20 financial year.<sup>20</sup>

On 5 May 2020, under clause 6.6.1(k) of the NER, we extended the timeframe for Ausgrid to submit its cost pass through application to 1 August 2020. The AER was satisfied that the difficulty of assessing or quantifying the effect of the relevant pass through events justified the extension of the usual 90 business day period.

We received Ausgrid's pass through application on 31 July 2020.

Following our initial assessment of Ausgrid's application, we issued two information notices to Ausgrid (on 27 August and 6 October 2020) under clause 6.6.1(e1) of the NER, requesting further information on the scope of works and associated costs.

We received Ausgrid's response to our second information notice on 20 October 2020. Accordingly, we are required to make this determination by 16 December 2020.

### **3.4 What we considered in making this determination**

We have made our determination in accordance with clause 6.6.1 of the NER.

In making our determination, we have:

- considered the application and supporting information we received from Ausgrid
- where the material Ausgrid submitted was unclear or incomplete, sought further information and clarification from Ausgrid and had regard to its responses
- undertaken our own analysis to verify the information Ausgrid provided
- considered the relevant factors set out in clause 6.6.1(j) of the NER.

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<sup>20</sup> Ausgrid, *Letter – Request to extend time period for submission of a potential pass through application*, 24 March 2020. Available here <https://www.aer.gov.au/node/71672>.

## 4 Reasons for determination

The sections below set out the reasons for our determination.

### 4.1 Occurrence of a natural disaster

The first step in our assessment is to determine whether a pass through event has occurred. A pass through event is defined in clause 6.6.1(a1) of the NER as one of the following events:

- a) a regulatory change event;
- b) a service standard event;
- c) a tax change event;
- d) a retailer insolvency event; and
- e) any other event specified in a distribution determination as a pass through event for the determination (nominated pass through event).

Ausgrid submitted that the storms qualify as a natural disaster pass through event, which is provided for in its 2019–24 revenue determination.

A natural disaster event is defined in Ausgrid’s 2019–24 revenue determination as:<sup>21</sup>

“Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2019–24 regulatory control period that increases the costs to Ausgrid in providing direct control 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:

- whether Ausgrid has insurance against the event,
- the level of insurance that an efficient and prudent NSP would obtain in respect of the event,
- whether a relevant government authority has made a declaration that a natural disaster has occurred.”

#### 4.1.1 Treating multiple storms as a single event

Ausgrid submitted that the multiple storms that occurred over the four-month period from November 2019 to February 2020 (inclusive) were part of one single event, relying on the proximity of each of the storms to one another, the NSW Government’s natural disaster declarations, and the preceding 2019 NSW drought to link the storms together.

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<sup>21</sup> AER, *Final Decision, Ausgrid 2019–24 Distribution Determination*, April 2019, pp. 46–47.

Based on the information provided to us, we are not satisfied that the multiple storms set out in Ausgrid's application can be attributed to a common underlying cause. Each of the storms were caused by different underlying weather systems/conditions: a cold front in November 2019; an East Coast Low during 6–9 February 2020; and a thunderstorm system during 17–18 February 2020.<sup>22</sup>

While the preceding NSW drought may have intensified the severity and damage caused by each of the storms, we consider this is relevant only to the costs incurred by Ausgrid as a result of the event. The preceding drought conditions were not the cause of the storms and do not demonstrate a sufficient relationship between the occurrence of each of the storms for the purposes of considering whether the storms constitute a single natural disaster. Further, each of the storms were temporally distinct.

We note that Ausgrid's application stated that the Commonwealth Minister for Agriculture, Drought and Emergency Management declared disaster assistance for NSW following the storms and floods,<sup>23</sup> and that the NSW Government made natural disaster declarations covering the relevant storms (one covering the November 2019 storm, and one covering the January and February 2020 storms).<sup>24</sup>

While a government declaration assists in determining whether a natural disaster has occurred and informs the scope of such a disaster, it is only one of the factors the AER will have regard to in assessing a cost pass through application.

Having regard to all of the matters in this determination, we consider that the November 2019, January 2020 and two February 2020 storms are more appropriately regarded as separate events.

For the purpose of a cost pass through, a DNSP must also satisfy the materiality threshold set out in the NER, which is (in short) 1 per cent of its annual revenue requirement (see section 4.1.2.2). Ausgrid's annual revenue requirement in 2019–20 is \$1,192.8 million (\$ nominal, unsmoothed), 1 per cent of which is \$11.9 million.

Based on Ausgrid's application, we consider the additional costs incurred by Ausgrid in providing direct control services as a result of each of the 26 November 2019, January 2020 and 17–18 February 2020 storms do not meet the materiality threshold and, therefore, fail to meet the definition of a positive change event (see Table 3).

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<sup>22</sup> Ausgrid, *Ausgrid's 2019–20 storms pass through application*, pp. 17, 20–21.

<sup>23</sup> *ibid.*, p. 16.

<sup>24</sup> The Hon David Littleproud MP (Minister for Agriculture, Drought and Emergency Management), Disaster assistance following severe storms across NSW, media release, Parliament House, Canberra, 2 December 2019; The Hon David Littleproud MP (Minister for Agriculture, Drought and Emergency Management), Extension of disaster assistance for NSW following severe storms and flood, media release, Parliament House, Canberra, 25 February 2020; The Hon David Littleproud MP (Minister for Agriculture, Drought and Emergency Management), Extension of disaster assistance for NSW following storms and flood in February 2020, media release, Parliament House, Canberra, 10 April 2020; NSW Government, *Natural Disaster Declarations 2019–20*. Available here <https://www.emergency.nsw.gov.au/Pages/publications/natural-disaster-declarations/2019-2020.aspx>

**Table 3 Ausgrid’s estimate of costs incurred due to storms**

	November 2019	January 2020	6–9 February 2020	17–18 February 2020
Ausgrid storm costs (\$m, nominal)	\$8.3m	\$1.1m	\$27.0m	\$1.2m
Materiality (% of annual revenue requirement)	0.7%	0.1%	2.3%	0.1%

Source: AER analysis.

### 4.1.2 Natural disaster event

We consider the 6–9 February 2020 storm satisfies the definition of a natural disaster pass through event as specified in Ausgrid’s determination. In particular, the storm was unexpected, caused severe damage and required a government response.

The 6–9 February 2020 storm increased the costs to Ausgrid in providing direct control services and the event was not a consequence of an act or omission of Ausgrid – it was outside of Ausgrid’s control, and it was unforeseeable.

We note that the NSW Government made natural disaster declarations for storms occurring from 15 January and 26 February 2020 onwards, which captures the January and February storms (the subject of Ausgrid’s application). In addition, the Commonwealth Minister for Agriculture, Drought and Emergency Management made statements regarding disaster assistance following floods and storms in February 2020.<sup>25</sup>

#### 4.1.2.1 Effect of the event could not be prevented or mitigated

We consider the decisions and actions of Ausgrid in response to the event were efficient<sup>26</sup> and that the event could not have been prevented or mitigated through prudent operational risk management.<sup>27</sup>

Although Ausgrid has measures in place to deal with inclement weather more generally, severe storms can and do have impacts on the network that cannot readily be mitigated beforehand.

Relevant government authorities declared the effects of the 2020 storms as a natural disaster, as discussed above. We accept that prudent operational risk management would not have prevented or mitigated the event.

Ausgrid submitted that it has governance procedures and practices to efficiently manage its exposure to risks that it faces as an owner and operator of a distribution network, as well as its approach to storms.

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<sup>25</sup> Media release (Hon David Littleproud MP) – Ausgrid application. p. 16.

<sup>26</sup> The AER must take into account any factors it considers relevant: NER, cl 6.6.1(j)(8).

<sup>27</sup> The AER must take into account the efficiency of the DNSP’s decisions and actions in relation to the risk of the positive change event: NER, cl 6.6.1(j)(3).

In particular, Ausgrid submitted it has in place preventative and mitigation controls aimed at reducing the consequences of storm events, mainly through:

- asset and vegetation management
- an incident management system
- a storm response plan
- insurance.

The above measures formed the response framework by which Ausgrid coordinated and prioritised activities across its network to restore customer supply in response to the 6–9 February 2020 storm. We are satisfied that Ausgrid’s actions, decisions and measures were efficient to mitigate the cost impact from this storm.

#### **4.1.2.2 Material change in costs**

For a cost pass through to be determined, there must be a positive change event. In short, a pass through event that results in the DNSP incurring materially higher costs in providing direct control services than it would have incurred but for the event.

The NER defines “materially” as:<sup>28</sup>

“For the purposes of the application of clause 6.6.1, an event results in a DNSP incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the DNSP has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the annual revenue requirement for the DNSP for that regulatory year.”

The pass through costs sought by Ausgrid as a result of the 6–9 February 2020 storm are 2.3 per cent of its annual revenue requirement in 2019–20 (see Table 3). After accounting for the downward adjustment we have made in section 4.2.1 for control room costs, we are satisfied that Ausgrid has correctly calculated the pass through amount, and that the amount exceeds the materiality threshold. We are therefore satisfied that a positive change event occurred in respect of the 6–9 February 2020 storm.

#### **4.1.3 Positive change event**

If we are satisfied that a pass through event has occurred, we must determine whether the pass through event qualifies as a “positive change event”. That is, whether Ausgrid incurred materially higher costs in providing direct control services than it would have incurred but for the pass through event.

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<sup>28</sup> NER, Chapter 10, Glossary.



As discussed in section 4.1.2 above, we consider that a pass through event has occurred, in the form of a natural disaster event.

We agree with Ausgrid that this pass through event materially increased its costs in providing direct control services. Therefore, the 6–9 February 2020 storm natural disaster pass through event constitutes a positive change event.

#### **4.1.4 Timing of Ausgrid’s application**

Clause 6.6.1(c) of the NER requires a DNSP to submit a pass through application to us within 90 business days of the positive change event occurring.

In view of the AER’s extension of the timeframe in which Ausgrid had to submit its application under clause 6.6.1(k) of the NER, and Ausgrid submitting its application on 31 July 2020, we consider that Ausgrid has submitted its application within the allowable timeframe (see section 3.3).

## **4.2 Assessment of the pass through amount**

Clause 6.6.1(c)(3) of the NER requires Ausgrid to specify the eligible pass through amount.

The eligible pass through amount is defined in the NER to mean “the increase in costs in the provision of direct control services that, as a result of that positive change event, the DNSP has incurred and is likely to incur (as opposed to the revenue impact of that event)” until the end of the regulatory control period in which the positive change event occurred.

Ausgrid submits that it incurred \$27.0 million (\$ nominal) in additional costs in responding to the 6–9 February 2020 storm (in 2019–20), of which \$12.4 million relates to capex and \$14.6 million relates to opex. These costs include hazard reduction, incident management, network repair work (including replacing poles, service wires and cross arms), tree trimming and spotting. The allocation between capex and opex has been made according to Ausgrid’s approved cost allocation method.

In considering Ausgrid’s application and the eligible pass through amount, we took into account those factors set out in clause 6.6.1(j) of the NER.

## 4.2.1 Assessment of costs incurred

We have determined the incremental capex and opex for the 6–9 February 2020 storm (Table 4).

**Table 4 AER – approved incremental capex and opex for the 6–9 February 2020 storm (\$ million, nominal)**

	\$ million, nominal
Capital expenditure	12.1
Operating expenditure	14.2

During a major event, additional staff and hours may be incurred by a service provider as work that is otherwise conducted as business-as-usual is displaced to a later date for completion, creating a backlog. For example, a pass through event could require additional time to be incurred by control room staff in coordinating restoration efforts, or field staff in restoring fallen power lines. As part of our assessment, we investigate whether any adjustments need to be made for time that is not attributed to the pass through event.

In this instance, Ausgrid advised that while the control room operators worked additional hours, there was no backlog that required addressing.<sup>29</sup> Consequently, Ausgrid states the 6–9 February 2020 storm costs capture normal time control room costs of \$0.7 million, which are not incremental costs. We also note the cost of the control room operators is already included in Ausgrid’s revenue at the 2019–24 determination.

We agree that the work performed by control room operators in normal hours may not create a backlog that needs to be addressed at a later date. Therefore, we have deducted the control room costs from the pass through amount.

## 4.3 Calculation of the approved pass through amount

The approved pass through amount is \$26.3 million (\$ nominal) as at 11 December 2020.

The resulting revenue impact totals \$19.0 million (\$ nominal, smoothed) for the 2019–24 regulatory control period – this largely reflects the recovery of pass through opex, with pass through capex being mostly recovered over future regulatory control periods. We determine that this amount be passed through by Ausgrid to its consumers over the next three regulatory years of the 2019–24 regulatory control period, as proposed by Ausgrid.

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<sup>29</sup> Ausgrid, *Response to Information Request 002*, received on 20 October 2020, p. 4.

We consider this approach will minimise volatility in Ausgrid's revenue requirements while still allowing it to recover its efficient costs in a timely manner.

## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
DNSP	Distributor network service provider
Capex	Capital expenditure
Opex	Operating expenditure
NEL	National Electricity Law
NER or Rules	National Electricity Rules
NSW	New South Wales
NEM	National Energy Market