



Decision

Cost pass through

TransGrid's 2019-20 bushfire natural disaster event

May 2021

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Contents

Contents	3
1. Summary of our assessment.....	4
2. Introduction	7
2.1. Who we are and our role in this process	7
2.2. TransGrid's application.....	7
2.3. Structure of this document	9
3. Our determination	10
4. Reasons for determination	11
4.1. Occurrence of a natural disaster	11
4.1.1. Treating multiple bushfires as separate natural disaster pass through events	11
4.2. Positive change event	16
4.3. Timing of TransGrid's application	17
4.4. Assessment of the pass through amount	17
5. Timing for recovery of the cost pass through from end users	23
6. NER requirements and stakeholder submissions	24

1. Summary of our assessment

During the regulatory control period TransGrid 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. Such events are limited to circumstances where the business can recover potential costs of defined yet unpredictable, high cost events that are outside the control of the business.

On 13 November 2020, TransGrid submitted a cost pass through application seeking recovery of actual and expected costs as a result of bushfires in New South Wales (NSW) that occurred between September 2019 and February 2020, and in three distinct regions identified by TransGrid in its application (Northern NSW, Central NSW and Southern NSW/Snowy Mountains).

TransGrid submitted that the bushfires constituted a single natural disaster event that caused damage to parts of its network, affecting approximately 9 per cent of its transmission line route length and 2,781 transmission line structures comprising 1,822 steel lattice tower and pole structures, 596 wood poles structures and 263 concrete structures.¹ TransGrid also submitted that the smoke and soot from the bushfires impacted 32 of its substations, causing high levels of pollution-related discharge activity on equipment.

For a positive pass through to be determined there must be a positive change event. That is:

- A pass through event specified in either the National Electricity Rules (NER) or in TransGrid's current revenue determination² (in this case, a natural disaster event) – typically an event that is largely unavoidable and with unforeseeable timing, and
- That event must entail TransGrid to incur materially higher costs in providing prescribed transmission services than it would have incurred but for the event.

TransGrid may then submit a pass through application.³ Its application must address certain matters specified in the NER.⁴

We must then make a determination on TransGrid's pass through application and, if a positive change event occurred, determine the approved pass through amount and the regulatory years in which the pass through amount is to be recovered from electricity consumers. In making our determination on TransGrid's pass through application, we must have regard to certain matters, which are specified in the NER.⁵

Our consideration of these requirements is set out in section 6 below.

¹ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 2.

² AER, *Final Decision: TransGrid Transmission Determination 2018 to 2023 - Overview*, May 2018, p.37.

³ Cl. 6A.7.3(a) of the NER.

⁴ Cl. 6A.7.3(c) of the NER.

⁵ Cl. 6A.7.3(j) of the NER.

In summary, we have determined that the 2019–20 bushfires that are the subject of TransGrid’s application do not constitute a single natural disaster event. The key question we had to address is whether the bushfires in the Southern NSW/Snowy Mountains region are a separate natural disaster event to the bushfires in the Northern NSW and Central NSW regions. Having determined that the bushfires in the Southern NSW/Snowy Mountains region collectively constitute a single event that is separate from the bushfires in the other two regions, it is not necessary for us to determine whether the Northern NSW and Central NSW bushfires were separate events because even taken together they do not meet the materiality test.⁶

We made this decision by taking into account all relevant factors, including the extent of geographical and temporal proximity between the various bushfires that impacted TransGrid’s network, the commonality of the causes for the bushfires and any causal link between the bushfires. On balance, we consider that not all of the bushfires that impacted TransGrid’s network were sufficiently related and that it is more appropriate to characterise the Southern NSW/Snowy Mountains bushfires as a separate event, due to their geographical and temporal separation from the bushfires in the Central NSW and Northern NSW regions. Because only the costs related to the Southern NSW/Snowy Mountains bushfires satisfy the materiality threshold in the NER, we have found that only one positive change event occurred.

In relation to this positive change event, we are satisfied that TransGrid’s pass through application addresses the matters required by the NER. Most notably that the bushfire event was not caused by TransGrid; and the incremental costs that TransGrid incurred and expects to incur in providing prescribed transmission services as a result of the event meet the materiality threshold.

However, we are not satisfied that TransGrid’s proposed positive pass through amount of \$55.5 million (\$nominal), smoothed over 2021–22 and 2022–23, meets the requirements of the NER. Specifically, we are not satisfied that the labour support costs TransGrid has included in its calculation of incurred and forecast internal labour costs reflect costs that are incurred solely as a consequence of the bushfire event. Also, we are not satisfied that the unit cost of hazard tree removal proposed by TransGrid was sufficiently justified.

We are satisfied that the remainder of TransGrid’s proposed positive pass through amount reflects a necessary and efficient response to the bushfires, and an increase in the cost of providing the prescribed transmission service, incurred solely as a consequence of the bushfire event.

For the avoidance of doubt, the operating expenditure that TransGrid incurs within the current regulatory period as a result of the positive change event will not be assumed to be part of TransGrid’s recurrent opex requirements in the following regulatory period under our base-step-trend forecasting approach.

Due to the timing of this determination, we cannot accept TransGrid’s proposal to recover the pass through amount over the final two years of the current regulatory control period

⁶ Sections 4.1 and 4.2 explain why we determine that the Southern NSW/Snowy Mountains bushfires should be treated separately by region and why only the Southern NSW/Snowy Mountains bushfires meet the definition of a positive change event.

(2021–22 and 2022–23). Instead, we determine that TransGrid should recover the pass through amount over three regulatory years, commencing from the last year of the current regulatory control period (i.e. 2022–23, 2023–24 and 2024–25).

To account for the later recovery of the pass through amount, we have adjusted the level of the pass through amount to account for the time value of money.⁷

Our determination is to approve a positive pass through amount of \$49,834,875 (\$nominal), consisting of:

- \$15,663,472 (\$nominal) to be recovered in 2022–23
- \$16,593,229 (\$nominal) to be recovered in 2023–24, and
- \$17,578,174 (\$nominal) to be recovered in 2024–25.

The approved cost pass through amount is estimated to increase annual electricity bills by about \$2.5 per annum for residential customers and \$11.0 per annum for small business customers in NSW; and about \$2.1 per annum for residential customers and \$5.5 per annum for small business customers in the ACT over the period from 1 July 2022 to 30 June 2025.

⁷ Cl. 6A.7.3(j)(4) of the NER.

2. Introduction

We received a cost pass through application from TransGrid for additional expenditure associated with restoring supply and repairing damage to its network caused by the 2019–20 summer bushfires.

TransGrid has proposed to recover a pass through amount of \$55.5 million (\$nominal), smoothed over 2021-22 and 2022-23, from its customers as a result of an increase in costs incurred to restore supply and replace damaged parts of their network.

2.1. Who we are and our role in this process

We, the AER, are 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 the NER.⁸

TransGrid's revenues are regulated by the AER through five year transmission revenue determinations. The current revenue determination commenced on 1 July 2018 and will finish on 30 June 2023.

We are responsible for assessing pass through applications. Under the pass through provisions in the NER, a transmission business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if predefined events occur as specified in either the NER or their revenue determination.⁹

2.2. TransGrid's application

On 13 November 2020, TransGrid submitted a cost pass through application seeking recovery of incurred and expected costs as a result of the 2019–20 bushfires.

TransGrid identified 46 major bushfires in its network area and grouped them into three distinct bushfire regions:¹⁰

- Northern NSW, occurring from September 2019 to January 2020
- Central NSW, occurring from September 2019 to February 2020; and
- Southern NSW/Snowy Mountains, occurring from December 2019 to March 2020.¹¹

TransGrid submitted that the bushfires caused damage to parts of its network, affecting approximately 9 per cent of its transmission line route length and 2,781 transmission line structures comprising 1,822 steel lattice tower and pole structures, 596 wood poles

⁸ 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, New South Wales, South Australia, Tasmania (electricity only) and the ACT.

⁹ Cl.6A.7.3 of the NER.

¹⁰ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, pp. 50-53.

¹¹ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, pp. 1-2.

structures and 263 concrete structures.¹² TransGrid submitted that its substations were also impacted, two of which lost auxiliary power supplies and the smoke and soot from the bushfires impacted 32 of its substations, causing high levels of pollution-related discharge activity on equipment.

TransGrid proposed that the 2019-20 bushfires and their associated impact be recognised as a single positive change event. TransGrid noted that, as found in the NSW Bushfire Inquiry, the fires that affected its transmission network were burning at the same time, over the same period as fires burning in other parts of Australia, and with common underlying cause. In particular, the NSW Bushfire Inquiry Report found that:

- the fires in NSW overlapped with fires in the ACT, Queensland and Victoria, while there were also fires burning simultaneously in South Australia and Western Australia, and
- lightning was the suspected, immediate cause of ignition for the vast majority of the largest and most damaging fires across NSW in the 2019-20 season.

TransGrid also submitted that each inquiry relating to the bushfires regarded them as a single catastrophic event rather than individual and discrete bushfire events. The scale of the bushfire threat was reflected by the NSW Government declaring a State of Emergency across the entire state three times, lasting 7 days each time, on 11 November 2019, 19 December 2019 and 2 January 2020.

Table 1 shows the additional costs that TransGrid has incurred and expects to incur as a result of the 2019-20 bushfires with respect to each bushfire region.

Table 1: TransGrid’s actual and forecast bushfire-related costs (\$million, real 2017–18)

Bushfires (\$million, real 2017–18)	Actual costs	Forecast costs	Total costs
Central NSW	0.6	1.0	1.6
Northern NSW	0.9	1.8	2.7
Southern NSW/ Snowy Mountains	9.1	36.5	45.6
Total	10.6	39.2	49.8

In 2019-20, TransGrid incurred most of its bushfire-related costs in emergency response works, making the network safe and restoring network service. In the remaining regulatory period, TransGrid’s forecast bushfire-related costs primarily relate to repairing network assets damaged by the bushfires.

TransGrid proposes to recover a total positive pass through amount of \$55.5 million (\$nominal), to be smoothed over two financial years 2021–22 and 2022–23.

¹² TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 2.

2.3. Structure of this document

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

The decision is structured as follows:

- Section 3 sets out our determination on TransGrid's cost pass through application
- Section 4 sets out our reasons for the determination and our assessment of the proposed positive pass through amount
- Section 5 sets out our assessment of the proposed recovery period of the positive pass through amount
- Section 6 sets out our assessment of TransGrid's cost pass through application against the NER requirements, including whether the materiality threshold is met, and consideration of stakeholder submissions.

3. Our determination

Having taken into account all the matters set out in this decision, we determine that the 2019–20 bushfires in the Southern NSW/Snowy Mountains region which caused damage to TransGrid’s transmission network constitute a positive change event. Our assessment against the requirements of a positive change event is summarised in Table 5 (contained below in section 6).

Our determination is to approve a total positive pass through amount of \$49,834,875 (\$nominal), to be recovered over the following three regulatory years accordingly:

- \$15,663,472 to be recovered in 2022–23
- \$16,593,229 to be recovered in 2023–24, and
- \$17,578,174 to be recovered in 2024–25.

Our assessment of the positive pass through amount is set out in sections 4 and 5, and Table 6 (contained below in section 6).

4. Reasons for 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 6A.7.3(a1) of the NER as one of the following events:

- 1) a regulatory change event;
- 2) a service standard event;
- 3) a tax change event;
- 4) an insurance event;
- 5) any other event specified in a transmission determination as a pass through event for the determination;
- 6) an inertia shortfall event; and
- 7) a fault level shortfall event.

TransGrid submitted that the bushfires qualify as a natural disaster pass through event, which is provided for in its 2018–23 revenue determination, defined as follows:¹³

“Natural Disaster Event means any natural disaster including but not limited to fire, flood or earthquake that occurs during the 2018-19 – 2022-23 regulatory control period that increases the costs to TransGrid 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 TransGrid has insurance against the event, and
- ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event.”

4.1.1. Treating multiple bushfires as separate natural disaster pass through events

In this determination, we have considered the bushfires that impacted TransGrid’s network as three distinct natural disaster events.

TransGrid had identified multiple bushfires in its network area and grouped them into three distinct bushfire regions:¹⁴

- Northern NSW, occurring from September 2019 to January 2020
- Central NSW, occurring from September 2019 to February 2020; and

¹³ AER, *Final Decision: TransGrid Transmission Determination 2018 to 2023 - Overview*, May 2018, p.37.

¹⁴ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, pp. 50-53.

- Southern NSW/Snowy Mountains, occurring from December 2019 to March 2020.¹⁵

TransGrid proposed that the 2019–20 bushfires and their associated impact be recognised as a single natural disaster. TransGrid noted that as found in the NSW Bushfire Inquiry, the fires that affected its transmission network were burning at the same time, over the same period as fires burning in other parts of Australia, and with common underlying cause. In particular, the NSW Bushfire Inquiry Report found that:

- the fires in NSW overlapped with fires in the ACT, Queensland and Victoria, while there were also fires burning simultaneously in South Australia and Western Australia, and
- lightning was the suspected, immediate cause of ignition for the vast majority of the largest and most damaging fires across NSW in the 2019–20 season.

TransGrid also submitted that each inquiry relating to the bushfires regarded them as a single catastrophic event rather than individual and discrete bushfire events. The scale of the bushfire threat was reflected by the NSW Government declaring a State of Emergency across the entire state three times, lasting 7 days each time, on 11 November 2019, 19 December 2019 and 2 January 2020.

Table 2 outlines when the bushfires that affected TransGrid’s network were ignited and extinguished or contained.¹⁶

Table 2: Ignition and extinguishment dates of the bushfires that impacted TransGrid’s network

Bushfires	Ignited	Extinguished/ Contained
Northern NSW		
Mount Mckenzie Rd, Tenterfield	5 September 2019	17 September 2019
Sandy Creek, Wollomombi	26 September 2019	8 October 2019
Carrai Creek	16 October 2019	14 January 2020
Crestwood Dr, Port Macquarie	25 October 2019	23 January 2020
Wandsworth	6 November 2019	31 December 1969
Guyra Rd, Ebor	13 November 2019	4 December 2019
Meads Creek West	25 November 2019	21 January 2020
Hillville Rd Fire, Hillville	27 November 2019	25 December 2019
Jersey Bull Rd, Upper Orara	11 December 2019	3 January 2020

¹⁵ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, pp. 1-2.

¹⁶ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, pp. 1-2.

Central NSW

Charcoal Rd, South Maroota	6 September 2019	10 September 2019
Watagan Rd, Martinsville	25 October 2019	1 November 2019
Little Boree	23 November 2019	26 November 2019
Gretham Rd	25 November 2019	27 November 2019
Currowan 2	26 November 2019	8 February 2020
Upper Turon Rd, Palmers Oaky	3 December 2019	30 January 2020

Southern NSW/ Snowy Mountains

Tumut Common	20 December 2019	29 December 2019
Green Valley, Talmalmo	28 December 2019	18 February 2020
Clear Range	30 January 2020	1 March 2020
Calabash	2 February 2020	1 March 2020
Rolling Ground	3 February 2020	23 February 2020

We consider that multiple bushfires are capable of being considered a single natural disaster if they are sufficiently related and have the same cause. If they occurred relatively close together both in time and in geographic proximity, we consider this would support treating them as sufficiently related.

Bushfires are more likely to occur and have more severe consequences during extreme fire weather (a combination of strong winds, low humidity and high temperatures) and dry vegetation (such as that related to drought), together with an ignition source.¹⁷ However, this does not mean all bushfires ought to be considered as sufficiently related by virtue of having the same contributory factors or arising during common weather/climate conditions.

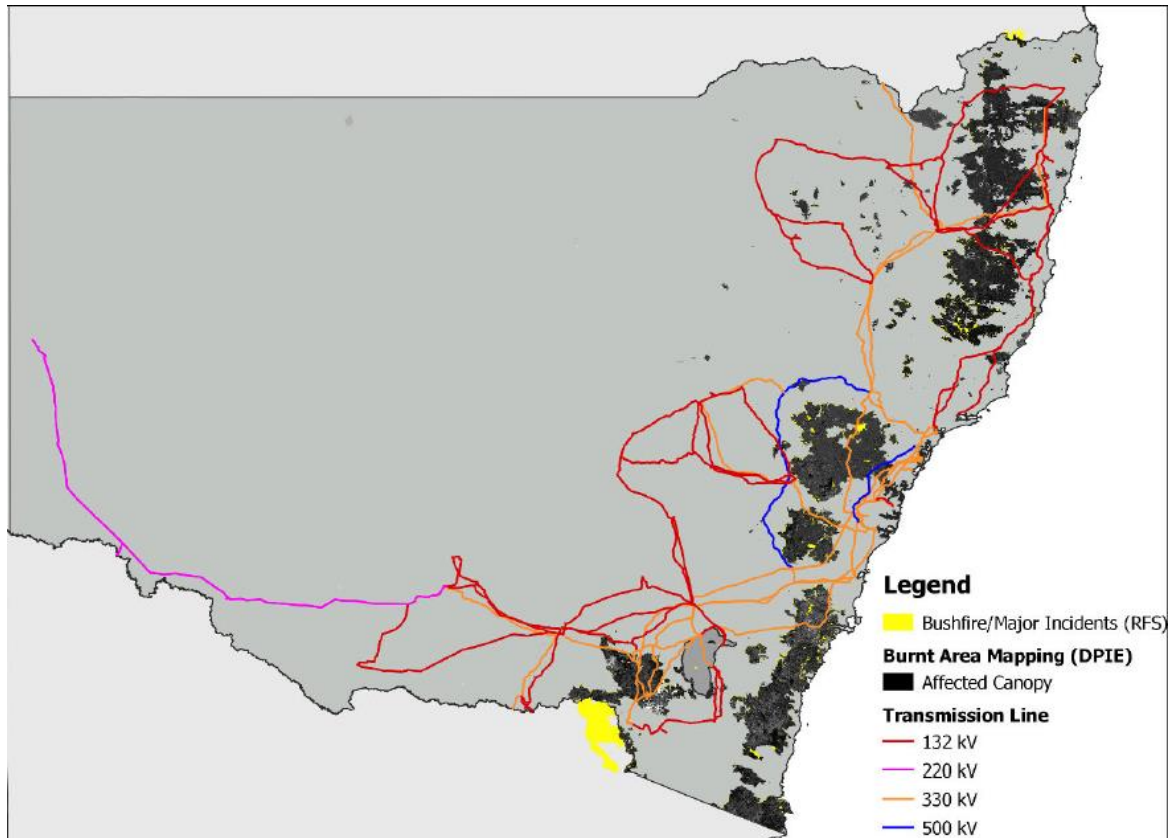
Whether multiple natural disasters of the same kind can be considered as a single natural disaster pass through event is a question of fact that must be determined on a case-by-case basis having regard to all the surrounding circumstances. Depending on the nature of the natural disasters, we consider cause, geographical and temporal proximity, as well as any other relevant factors, in determining whether they are sufficiently related and can be considered as a single pass through event.

Based on the information provided to us, we are not satisfied that all the bushfires included in TransGrid's application are sufficiently related to each other. We accept that the preceding drought in NSW and extreme fire weather played a significant role in the occurrence and severity of all the NSW bushfires. However, we consider that given the number of distinct bushfires that impacted TransGrid's network and the geographical separation of the bushfire clusters in Northern NSW, Central NSW and Southern NSW/Snowy Mountains regions, it is more appropriate to treat the bushfires as three, separate natural disasters for the purpose

¹⁷ See <https://www.csiro.au/en/research/natural-disasters/bushfires/2019-20-bushfires-explainer>.

of assessing whether a natural disaster event has occurred. Figure 1 shows the considerable distances between the bushfire clusters in NSW that impacted TransGrid's transmission network.

Figure 1 Map of 2019/20 bushfire burnt area within NSW and TransGrid's transmission network



Source: TransGrid's cost pass through application – A.2 2019-20 Bushfire Damage to TransGrid Network, figure 1.

In terms of the timing of the bushfires, the bushfires in the Southern NSW/Snowy Mountains region ignited and burned at a later, distinct period of time within the bushfire season, compared to those in the Northern NSW and Central NSW regions, as indicated in Table 2 above. This lends support to treating the bushfires in the Southern NSW/Snowy Mountains region separately from the other regions.

The duration of the bushfires in the Northern NSW and Central NSW regions overlapped to a considerable extent. While there may be an argument that the bushfires in the Northern NSW and Central NSW region could be treated as a single natural disaster on the basis of temporal proximity, we consider that the better assessment approach is to take into account all relevant factors in a holistic manner when determining whether the bushfires are sufficiently related, such as the underlying contributory factors, the causes of the fires, the geographical and temporal proximity, and any causal link between the bushfires.

We have also examined the ignition causes of the bushfires that impacted TransGrid's network, where the information has been available. According to the NSW Bushfire Inquiry final report, most of the major bushfires that occurred during the 2019–20 bushfire season

were caused by lightning. However, a common direct cause – such as lightning – does not mean that the bushfires are a single event if they are geographically and temporally separate.

We were able to match the NSW Bushfire Inquiry’s record with some of the bushfires that TransGrid included in its application. Not all the bushfires that impacted TransGrid’s network have identified ignition causes. Among the specific bushfires with identified ignition causes, the NSW Bushfire Inquiry final report indicated that at least two of the major bushfires that impacted TransGrid’s network were not ignited by lightning.¹⁸

We consider that bushfires within the same region were likely to have been ignited or fuelled by the same bushfire weather events that affected that particular geographical area at a particular time, and that some of the bushfires were likely started by embers from other fires in that area as well. The combined proximity of time and location of the bushfires within the specific region support an inference that they are sufficiently related.

However, the considerable distances between the bushfire regions identified by TransGrid break the nexus between the bushfires in our view. The bushfires in one region did not spread to another region, and it was unlikely that any of the bushfires in one region would merge with those in another region. The various Catastrophic Fire Danger forecasts issued during the bushfire season generally related to specific areas, rather than across the whole of NSW, indicating the geographical limits of local bushfire weather conditions.

We previously accepted multiple bushfires as a single natural disaster in our determinations for AusNet Services’ and Endeavour Energy’s 2019–20 bushfire cost pass through applications. We consider the surrounding circumstances of the bushfire events in those applications provided more support to the conclusion that those bushfire events were sufficiently related and had the same underlying cause.

As a comparison, the bushfires in East Gippsland in Victoria, which were the subject of AusNet Services’ cost pass through application, ignited on the same day by lightning because of high temperatures between 18 and 21 November 2019 and the preceding drought conditions.¹⁹ The bushfires burned at the same time and in the same geographical region.

With respect to the bushfires that affected Endeavour Energy’s network, although one bushfire (the Gaspers Mountain bushfire) started one month earlier than the other two (the Green Wattle Creek bushfire and the Currowan bushfire), they all burned at the same time, ignited by lightning, and were located within the Central NSW region.

Notwithstanding that there are similarities between TransGrid’s application and the bushfire cost pass through applications we have assessed in the past, we are not satisfied that it is appropriate to group a series of geographically distinct bushfires across a six-month time period as a single natural disaster pass through event. We consider it more appropriate to consider in TransGrid’s case that three natural disaster events have occurred during the 2019–20 bushfire season, each in a distinct part of NSW and for a substantive duration of

¹⁸ See Final Report of the NSW Bushfire Inquiry, 31 July 2020, p. 24. The suspected causes of the Hillville Road bushfire and the Mt Mackenzie Road bushfire were debris burning and power lines respectively.

¹⁹ <https://knowledge.aidr.org.au/resources/black-summer-bushfires-vic-2019-20/>

about three months. The key decision is that the Southern NSW/Snowy Mountains bushfires constitute a separate single event from the bushfires in the other two regions.

We note that the NSW Government had declared a State of Emergency across the entire state three times during the 2019–20 bushfire season. 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. The State of Emergency declarations were made for a purpose that was different to that of the pass through provisions in the NER, and should not determine how the AER defines the scope of a natural disaster event, or that those declarations warrant a finding that a single natural disaster had occurred under clause 6A.7.3(a1) of the NER.

We consider that each of the three groups of bushfires in TransGrid’s network satisfy the definition of a natural disaster pass through event. The events increased the costs to TransGrid in providing prescribed transmission services and they were not a consequence of an act or omission of TransGrid – it was outside TransGrid’s control and it was unforeseeable.

4.2. 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 TransGrid incurred materially higher costs in providing prescribed transmission services than it would have incurred but for the pass through event.

The NER defines “materiality” as:²⁰

“For the purposes of the application of clause 6A.7.3, an event (other than a network support event) results in a Transmission Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider 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 maximum allowed revenue for the Transmission Network Service Provider for that regulatory year.”

After accounting for the downward adjustments we discuss in section 4.4, we consider the additional costs incurred by TransGrid in providing prescribed transmission services as a result of the Southern NSW/Snowy Mountains bushfires, but not the Northern NSW or Central NSW bushfires, meet the materiality threshold, as demonstrated in We also note that combining the costs associated with the Northern NSW and Central NSW regions does not pass the materiality threshold required to meet the definition of positive change event.

Table 3 below. As such, only the natural disaster pass through event with respect to the Southern NSW/Snowy Mountains bushfires meets the definition of a positive change event.

²⁰ Chapter 10 of the NER, Glossary.

We also note that combining the costs associated with the Northern NSW and Central NSW regions does not pass the materiality threshold required to meet the definition of positive change event.

Table 3 Materiality assessment of TransGrid’s bushfire-related costs

\$million, nominal	2019–20	2020–21	2021–22
Northern NSW	0.71	1.41	0.08
Central NSW	0.39	0.93	0.05
Southern NSW/Snowy Mountains	8.16	8.65	27.52
Maximum allowed revenue (MAR)	759.5	779.5	828.2
Materiality (1%) – Northern NSW	0.09%	0.18%	0.01%
Materiality (1%) – Central NSW	0.05%	0.12%	0.01%
Materiality (1%) – Southern NSW/Snowy Mountains	1.07%	1.11%	3.32%

4.3. Timing of TransGrid’s application

The NER requires a Transmission Network Service Provider to submit a cost pass through application to us within 90 business days of the event occurring.

On 19 February 2020, TransGrid submitted a request to us under clause 6A.7.3(k) of the NER for an extension to submit its cost pass through application, because at that time, the bushfires were not extinguished and TransGrid was unable to ascertain the extent of damage and cost to its network until it had safe access to complete the necessary condition inspections. On 12 March 2020, we extended the timeframe by which TransGrid could submit its application to 13 November 2020, on the basis that the difficulty of assessing or quantifying the effect of the relevant pass through event justified the extension.

By lodging its cost pass through application on 13 November 2020, we consider that TransGrid has met the timeframe requirement stipulated under the NER.

4.4. Assessment of the pass through amount

In assessing a pass through application, the NER requires us to take into account a range of relevant factors,²¹ including the need to ensure that TransGrid only recovers any actual or likely increment in costs, to the extent that such an increment is solely as a consequence of the pass through event,²² and that TransGrid does not recover costs that have or will be factored into TransGrid’s maximum allowed revenues.²³

We approach this assessment by ensuring, amongst other factors, that:

- the pass through amount reflects only those costs incurred as a result of the bushfire event and not business-as-usual costs or costs of increasing the scope of network services provided by TransGrid;

²¹ Clause 6A.7.3(j) of the NER.

²² Clause 6A.7.3(j)(5) of the NER.

²³ Clause 6A.7.3(j)(6A) of the NER.

- the costs incurred are the lowest possible to rectify the damage caused by the bushfires (that is, to restore network service to the pre-bushfire levels); and
- the pass through amount reflects only the incremental cost of the bushfires, taking into account deductions for actual and expected cost savings that will occur as a result of works undertaken to address the bushfires. For example, the replacement of older assets damaged by the bushfires with new assets may result in lower future inspection and maintenance costs, which should be deducted from the costs to be passed through.

We are satisfied that TransGrid's estimates of the increase in opex and capex costs due to the bushfires, except for its labour support costs and its forecast vegetation management costs, are efficient.

We have determined the incremental capex and opex for the Southern NSW/Snowy Mountains bushfires (Table 4).

Table 4 AER approved incremental capex and opex for the Southern NSW/Snowy Mountains bushfires (\$ million, real 2017–18)

Incremental costs	\$ million, real 2017–18
Capital expenditure	0.8
Operating expenditure	39.4

The subsections below set out our assessment of the efficiency of the pass through amount.

Costs reflect only bushfire-related costs and not business-as-usual costs

We are satisfied that the costs TransGrid has incurred and is likely to incur, less the labour support costs and taking into account the adjustment we make for vegetation management costs, are costs incurred solely as a consequence of the bushfires, and that these costs have been demonstrated to be incremental costs separate to the business as usual costs of operating the transmission network.

TransGrid described the process it used for isolating the bushfire-related costs it incurred from its business as usual costs:²⁴

Our actual costs have been captured in a manner consistent with our business as usual (BAU) accounting framework. This involves the relevant costs for the bushfire work activities being booked to work orders created specifically to record the costs resulting from the 2019-20 NSW bushfire season. These work orders were linked to opex account codes relating to 'cost pass through' for the provision of prescribed transmission network services in our General Ledger.

This process ensured all incurred bushfire response costs were appropriately captured at a detailed level during the bushfire period and are able to be easily separated and distinguished from BAU network expenditure.

We are satisfied that the processes, controls and documentation TransGrid used to identify bushfire-related costs show that these costs relate only to activities that would be expected

²⁴ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 33.

to occur following a bushfire event. That is, the costs relate to restoring supply and returning to pre-existing levels of reliability, and not to:

- the ordinary provision of network services in non-bushfire-affected areas, or
- the ordinary provision of network services in bushfire affected areas after rectification of the bushfire damage, or
- expanding the scope of the network or network services.

Labour support costs

We have excluded 'support costs' from TransGrid's forecast internal labour costs in our calculation of the approved pass through amount because we are not satisfied that it reflects costs incurred solely as a consequence of the bushfires.

TransGrid has estimated internal labour costs for bushfire-remediation works on the premise that it would run the project as principal contractor and engage relevant contractors to deliver work. TransGrid submitted that activities covered by internal labour include contractor management, program management, principal contractor, safety compliance, environmental compliance, network switching and isolation, communications, commissioning supervision, engineering inputs and, design reviews and site auditing.²⁵

A significant component of TransGrid's internal labour cost estimate is 'support costs', which TransGrid has estimated to be about the same as normal and overtime labour rates:²⁶

Support Costs for FY2019-20(A) has been calculated using the actual Support Cost rate of 1.02. Support Costs actual and forecast for 2020-21 have been calculated using the budgeted Support Cost rate of 0.99, and a Support Cost rate of 0.96 for 2021-22(F) and 2022-23(F).

TransGrid explained that 'support costs' relate to allocated overhead costs, such as fleet, warehousing, human resources, legal, budgeting and reporting, procurement and information and communication technology costs, that are not directly incurred by the projects but are allocated in accordance with its cost allocation methodology.²⁷

Due to the limitation of its systems and processes, TransGrid is not able to separate the bushfire-related support costs from other unrelated support costs. It therefore applied a top-down method, which is based on a single percentage across all work, being the ratio of the total support costs, and the total costs across all its work programs.²⁸

TransGrid submitted that its staff that undertake bushfire-related repair works need access to vehicles, computers and other business resources and this incremental cost is only captured in the 'support costs' category.

We are not satisfied that there is sufficient evidence to show that the bushfire-related work did, or would, in fact result in an increase in overhead costs that go beyond business as

²⁵ TransGrid, *Expenditure Forecasting Methodology for 2019-20 Bushfires*, 13 November 2020, p. 59.

²⁶ TransGrid, *Expenditure Forecasting Methodology for 2019-20 Bushfires*, 13 November 2020, pp. 60-61.

²⁷ TransGrid, *Response to AER information request dated 18 December 2020*, 22 January 2021, pp. 9-10.

²⁸ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, p.15.

usual costs and that the 'support costs' represent real incremental costs incurred solely as a consequence of the bushfires. The 'support costs' were included in the internal labour cost estimate based on TransGrid's internal cost allocation method. While staff who undertake bushfire-related repair works may need access to vehicles, computers and other business resources, the more intensive use of existing business resources by a project does not necessarily result in an increase in overall costs to TransGrid.

Network and corporate overheads are business-as-usual costs factored in the calculation of TransGrid's maximum allowed revenues. We note that TransGrid's network and corporate overheads in 2019–20 were consistent with past trends and the base year expenditure that was used to forecast TransGrid's opex requirements in the current regulatory control period.²⁹

On balance, we consider that the 'support costs' are not sufficiently justified as an incremental cost incurred solely as a consequence of the bushfires and have excluded this cost category from the calculation of the approved pass through amount.

Vegetation management costs

TransGrid has proposed \$5.7 million (real \$2017–18) for forecast vegetation management costs, predominantly for the removal of identified hazard trees and repair of access tracks. We have instead included \$4.8 million (real \$2017-18) for forecast vegetation management costs in our calculation of the approved pass through amount.

We are satisfied that TransGrid's forecast volume of hazard trees that require management was reasonable. However, we are not satisfied that TransGrid's proposed hazard tree removal unit cost used to forecast vegetation management expenditure was derived on a reasonable basis.

TransGrid explained that its proposed unit rate is based on the mid-point between:

- the invoiced average cost of removing four urgent hazard trees on one of its transmission line in 2019–20, and
- its current contractor rate for removing a senescent tree.³⁰

TransGrid submitted that the removal of a bushfire damaged tree requires higher skilled arborists due to the structural instability of the tree and techniques required to safely manage the trees in the vicinity of the in-service transmission lines.³¹ However, TransGrid has not presented any information about how much more this may add to its contractors' costs.³² Taking into account the need to engage higher skilled arborists and the scale economies arising from undertaking a program of hazard tree removal, TransGrid estimated the unit cost of removing a hazard tree would be between the cost estimates of the two reference points above.

²⁹ See *TransGrid Category Analysis Regulatory Information Notice, 2015-16 to 2019-20*.

³⁰ TransGrid, *Response to AER information request dated 18 December 2020*, 22 January 2021, p.6.

³¹ TransGrid, *Response to AER information request dated 18 December 2020*, 22 January 2021, p.6.

³² TransGrid, *Email to the AER regarding TransGrid's response to AER information request dated 12 February 2021*, 9 March 2021.

TransGrid submitted that in addition to the typical crew of two to three men for standard hazard tree removal, the bushfire-impacted tree removal requires a qualified arborist and additional machinery like cranes, excavator, and feller-buncher.³³

We are not satisfied that the weight TransGrid has given to the invoiced average cost of removing four urgent hazard trees in deriving its unit cost estimate for hazard tree removal is appropriate. As acknowledged by TransGrid, the four hazard trees were removed under emergency conditions, which would have costed more than planned programs of hazard tree removal. There are likely additional costs associated with obtaining relevant environmental and stakeholder approvals.³⁴ Using a sample size of four trees that were removed under urgent emergency conditions at a specific location to estimate the unit cost rate for a hazard tree removal program of about 2,482 trees is not a reasonable forecasting approach in our view.

Also, TransGrid did not rely on the average of its current contractor rates of removing hazard trees (with a sample size of 256 trees) when estimating the hazard tree removal unit cost for its vegetation management program.³⁵ Instead, it relied on its highest current contractor rate available (which relates to the removal of a senescent tree) as the lower bound of its hazard tree removal unit cost estimate.

We consider that TransGrid has not provided sufficient evidence to substantiate the higher unit rate it proposed to forecast vegetation management costs in its application, compared to the current contractor rates it is paying for hazard tree removal. We also note that the use of heavy machinery to remove hazard trees is likely to have greater scale economies and contribute to lowering unit cost, despite its additional cost, compared to removing hazard trees manually.

In the absence of any cost information that demonstrates TransGrid's contractor cost rates increase as a result of employing higher skilled arborists and additional machinery, we consider that it is more reasonable to rely on TransGrid's current vegetation contractor rates as the basis of the forecast, which reflect market-tested costs likely to be incurred under non-emergency conditions. Weighing up all relevant factors, we have adopted TransGrid's highest contractor rate available (which relates to the removal of a senescent tree) as the unit cost to forecast TransGrid's hazard tree removal program costs.

The level of bushfire-related costs is lowest possible to maintain service levels

We have examined the scope of actions and works TransGrid has undertaken and planned in response to the bushfire event. In particular, we are satisfied that TransGrid has demonstrated prudence in identifying the scope of necessary repair works to manage network safety risk to tolerance levels or as low as reasonably practicable. We considered the necessity of the actions and works and their cost, and compared this to industry standards and costs. We are satisfied that the level of costs TransGrid has incurred and the

³³ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, p.7.

³⁴ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, p.7.

³⁵ TransGrid, *Response to AER information request dated 18 December 2020 – Attachment 3 breakdown of hazard tree pricing*, 22 January 2021.

estimates of costs it expects to incur as a result of the bushfires (other than in respect of the labour support costs) reflect efficient costs.

Adjustments for savings to business-as-usual costs resulting from the bushfire expenditure

We are satisfied that TransGrid's pass through amount reflects deductions for savings to business-as-usual costs resulting from its bushfire expenditure.

TransGrid has identified avoided routine vegetation management costs as a result of the 2019–20 bushfires. These avoided vegetation management costs have been deducted in estimating the incremental increase of TransGrid's vegetation management costs, both actual and forecast costs, as a consequence of the 2019–20 bushfire season.³⁶

TransGrid also further identified some replacement capex likely to be avoided as result of its repair work, which we have taken into account when determining the approved pass through amount.³⁷

TransGrid has provided its internal documents to demonstrate that its planned works have not materially changed and no further avoided costs would result from its bushfire expenditure. Its bushfire-related works do not displace any of TransGrid's maintenance work programs within the remaining regulatory control period. TransGrid explained that its bushfire rectification and repair works are focused on repairing just the specific damaged components from the 2019–20 bushfires, rather than assessing or addressing the whole asset. Its routine maintenance program is still required to address other maintenance requirements.³⁸

Based on the information TransGrid provided, we are satisfied that TransGrid's pass through amount reflects only the incremental cost of the bushfires, taking into account deductions for actual and expected cost savings that will occur as a result of works undertaken to address the bushfires.

³⁶ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 22.

³⁷ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, pp.3-4.

³⁸ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, p. 4.

5. Timing for recovery of the cost pass through from end users

In its application, TransGrid proposed the pass through amount be recovered from end users over the final two years of the current regulatory control period (FYs 2021–22 and 2022–23). This was proposed on the basis that our determination of its application would be made before 15 March 2021, the date on which it was legally required to publish its tariffs for FYs 2021–22.³⁹

Given the timing of this determination, we have determined that TransGrid should recover the approved pass through amount over a three year period commencing from 2022–23 (FYs 2022–23, 2023–24 and 2024–25). We consider that smoothing the recovery the pass through amount over a three year period will limit the impact on prices paid by end users.

³⁹ Cl. 6A.24.2(c)(1) of the NER.

6. NER requirements and stakeholder submissions

For a cost pass through to be determined there must be a positive change event that results in an eligible pass through amount. TransGrid can then submit a pass through application, which must address certain matters specified in the NER.⁴⁰ We make a determination on TransGrid's pass through application and determine the approved pass through amount and the regulatory years in which that pass through amount is to be recovered.⁴¹ For the reasons set out in Table 5 below, we are satisfied that a positive change event has occurred, and that TransGrid's pass through application specifies all the matters required by the NER.

In making our determination on TransGrid's approved pass through amount, we must take into account certain matters specified in the NER (see Table 6). Additionally, we have also taken into account the two stakeholder submissions we received on TransGrid's cost pass through application. Our consideration of them is set out in Table 6 below. After having regard to all of the matters in Table 6 below and throughout this decision, we make the determination set out in section 3 above.

Table 5 Requirements for determining a positive change event has occurred

#	Requirement of the NER	Our consideration
1.	Is the pass through event a regulatory change event, service standard event, tax change event, an insurance event, an inertia shortfall event or a fault level shortfall event?⁴²	No
2.	Is the pass through event a contingent project or a trigger event associated with a contingent project?⁴³	No
3.	Does the pass through relate to any other event specified in TransGrid's 2018–23 transmission determination as a pass through event for that determination?⁴⁴	Yes. As discussed in section 4.1.1, we consider that the bushfires in each of the three bushfire regions identified by TransGrid satisfy the definition of a natural disaster pass through event as specified in TransGrid's 2018–23 transmission determination.
4.	Was the pass through event a consequence of acts or omissions of TransGrid?⁴⁵	No, we have seen no evidence that TransGrid's acts or omissions caused the bushfires. ⁴⁶
5.	Did the bushfire pass through event entail TransGrid incurring materially higher costs in providing prescribed	Yes. As discussed in section 4.2, we consider the additional costs incurred by TransGrid in providing prescribed transmission services as a result of the Southern NSW/Snowy Mountains bushfires, but not the Northern NSW or Central NSW bushfires, meets the materiality threshold.

⁴⁰ Cl. 6A.7.3(c) of the NER.

⁴¹ Cl. 6A.7.3 (d) of the NER.

⁴² Cl. 6A.7.3 (a1)(1) – cl. 6A.7.3 (a1)(7) except for cl. 6A.7.3 (a1)(5) of the NER; and chapter 10 of the NER.

⁴³ See the definition of "positive change event" in chapter 10 of the NER.

⁴⁴ Cl. 6A.7.3 (a1)(5) of the NER.

⁴⁵ AER, *Final Decision: TransGrid Transmission Determination 2018 to 2023 - Overview*, May 2018, p.37.

⁴⁶ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 9.

	transmission services than it would have incurred but for the event? ⁴⁷	TransGrid's maximum allowed revenue for the 2019-20 regulatory year was \$759.5 million, 1% of which is \$7.6 million. We consider that an efficient amount of opex and capex incurred as a result of the bushfires in Southern NSW/ Snowy Mountains in 2019-20 were \$ 7.1 million and \$1.0 million respectively. Therefore, the increase in costs incurred in providing prescribed transmission as a result of the event exceed the materiality threshold.
6.	Does the pass through application relate to one natural disaster or multiple natural disasters?	<p>TransGrid submitted that the 2019-20 bushfires constituted a single natural disaster event that impacted its network in three operational areas.</p> <p>As discussed in section 4.1.1, we are not satisfied that all the bushfires in NSW that caused damage to TransGrid's network are sufficiently related to each other to treat them as one natural disaster.</p> <p>We consider that there had been three natural disaster pass through events in TransGrid's application.</p>
7.	The date on which the positive change event occurred.	For the purposes of complying with clause 6A.7.3(c)(2) of the NER, TransGrid nominated the final day of the statutory bushfire season in NSW - 31 March 2020 - as the effective date. We consider 1 March 2020 as the date on which the positive change event occurred. This is the date the final bushfire that caused damage to TransGrid's network was extinguished. ⁴⁸
8.	Did TransGrid submit a written statement of its pass through application within 90 business days of the positive change event occurring? ⁴⁹	Yes. As discussed in section 4.3, TransGrid submitted its written statement on 13 November 2020, following an extension of time by the AER under clause 6A.7.3(k) of the NER. We consider that TransGrid has submitted its written statement within the allowed timeframe.
9.	Did TransGrid specify details of the positive change event in its written statement? ⁵⁰	Yes. TransGrid's written statement is available on our website. ⁵¹
10.	Did TransGrid 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? ⁵²	Yes. TransGrid proposed an eligible pass through amount of \$55.5 million (nominal) and the same positive pass through amount to be recovered equally over two financial years, 2021-22 and 2022-23. ⁵³
11.	Did TransGrid specify in its written statement evidence of the actual and likely increase in costs incurred solely as a consequence of the positive change event? ⁵⁴	Yes. TransGrid's written statement sets out the costs it incurred and forecasts to incur as a result of the bushfires, as well as how it calculated its proposed pass through amount. ⁵⁵ However, as discussed in section 4.4, we are not satisfied that TransGrid has provided sufficient evidence of the actual and likely increase in overhead costs and are not satisfied they are incurred solely as a consequence of the positive change event. We have therefore excluded that proposed cost category in the approved pass through amount.

⁴⁷ That is, does it meet the definition of a "positive change event" as defined in chapter 10 of the NER.

⁴⁸ TransGrid, *Response to AER information request dated 12 February 2021*, 5 March 2021, pp. 1-2.

⁴⁹ Cl. 6A.7.3(c) of the Rules.

⁵⁰ Cl. 6A.7.3(c)(1) of the NER.

⁵¹ <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/transgrid-cost-pass-through-2019-20-bushfire-season>

⁵² Cl. 6A.7.3(c)(3), 6A.7.3 (c)(4), and 6A.7.3 (c)(5) of the NER.

⁵³ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 18.

⁵⁴ Cl. 6A.7.3 (c)(6) of the NER.

⁵⁵ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, pp. 13-17.

12.	Was there a regulatory information instrument applicable to the pass through application? ⁵⁶	No.
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Table 6 Relevant matters the AER must take into account to determine the pass through amount

#	Requirement of the NER	Our consideration
15.	In making the pass through determination we must take into account the matters and proposals set out in TransGrid's written statement.⁵⁷	This decision sets out how we have taken into account the matters and proposals set out in TransGrid's pass through application (written statement).
16.	We must take into account the increase in costs in the provision of prescribed transmission services resulting from the positive change event⁵⁸	<p>In making this determination, we must take into account the increase in costs in the provision of prescribed transmission services that, as a result of the positive change event, TransGrid incurred and is likely to incur until the end of the regulatory control period in which the positive change event occurred.</p> <p>In section 4.4 above we set out our assessment of the costs incurred by TransGrid as a consequence of the bushfires. We have considered the costs that TransGrid has incurred and is likely to incur as a result of the Southern NSW/Snowy Mountains bushfires, as well as the likely cost savings to TransGrid's business-as-usual activities as a result of its bushfire-related expenditure.</p>
17.	We must take into account the efficiency of TransGrid's decisions and actions in relation to the risk of the event⁵⁹	<p>In making this determination, we must take into account the efficiency of TransGrid's decisions and actions in relation to the risk of the positive change event, including whether TransGrid has failed to take any action that could reasonably be taken to reduce the magnitude of the eligible pass through amount, or omitted to take any action where such action has increased the magnitude of the amount.</p> <p>We do not have evidence to consider that TransGrid's decisions and actions in relation to the risk of the positive change event were inefficient. We do not consider that TransGrid's actions increased the magnitude of the amount.</p>
18.	We must take into account the time cost of money	<p>In making this determination, we must take into account the time cost of money based on the allowed rate of return for TransGrid for the regulatory control period in which the pass through event occurred.⁶⁰</p> <p>To account for the recovery of the pass through amount over three years commencing from 2022-23, we have used the nominal weighted average cost of capital (WACC), as determined in TransGrid's 2018-23 transmission determination, incorporating the annual update on return on debt in 2021-22, to calculate the approved pass through amount in nominal terms.</p>
19.	We must take into account the need to ensure that the pass through amount reflects only	In making this determination, we must ensure that TransGrid only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of the pass through event. ⁶¹

⁵⁶ Cl. 6A.7.3(c)(7) of the NER.

⁵⁷ Cl. 6A.7.3(j)(1) of the NER.

⁵⁸ Cl. 6A.7.3(j)(2) of the NER.

⁵⁹ Cl. 6A.7.3(j)(3) of the NER.

⁶⁰ Cl. 6A.7.3(j)(4) of the NER.

⁶¹ Cl. 6A.7.3(j)(5) of the NER.

costs incurred solely as a consequence of the bushfires

In section 4.4 above, we set out our assessment of the costs incurred by TransGrid as a consequence of the bushfires. We are satisfied that TransGrid's proposed pass through amount, less labour support costs and adjustments for vegetation management costs and avoided costs, reflects only those costs incurred solely as a consequence of the bushfires.

20. **The AER will have regard to whether TransGrid has insurance against the event, and whether it is the level of insurance that an efficient and prudent network operator would obtain?**⁶²

TransGrid did not have insurance covering the bushfires. TransGrid submitted that its decision not to insure its above ground transmission lines, poles, towers and pylons of its network during a natural disaster is because external insurance is unavailable on commercial terms. The key reasons for this include that:

- The insurance market, both domestically and internationally, is very limited and does not provide TransGrid with access to coverage on commercial terms, particular for assets in high bushfire risk locations. The increasing frequency and severity of bushfire events worldwide has contributed to the tightening of insurance markets for bushfire coverage for electricity networks in recent years.
- Where coverage is available, large premiums combined with a large policy excess have shown this class of business not to meet the risk for reward level.⁶³

TransGrid submits that it routinely reviews its insurance needs and can confirm that insurance cover for poles and wires in respect of a natural disaster remains unavailable on commercial terms, and therefore continues not to be an efficient approach to managing the risk of damage to or loss of these assets.

We note that this approach to managing this risk is generally consistent with comparable peer NEM networks including those also impacted by the 2019–20 bushfires. As such, we are satisfied that it was prudent and efficient for TransGrid to not obtain bushfire insurance cover for its poles and wires assets.

21. **We must take into account costs already funded by customers through our five-yearly regulatory determinations**

The NER provide that we must take into account whether the costs of the bushfires have already been factored into the calculation of the TransGrid's maximum allowed revenues for its 2018–23 regulatory control period.⁶⁴

We provided revenue allowances in TransGrid's 2018-23 transmission determination to fund TransGrid to inspect, maintain, and replace some of its assets. However, the bushfires resulted in the need for an additional, increased level of inspections, maintenance, and replacement above the levels forecast in our determination.

Costs incurred as a result of bushfires or other natural disasters can be funded through our regulatory determinations by providing allowances for self-insurance provisions. However, we did not provide allowance for self-insurance provisions in TransGrid's 2018-23 transmission determination.

After excluding the proposed labour support costs and all identified cost savings to business-as-usual works, and taking into account the downward adjustment we make to TransGrid's forecast vegetation management costs, we are satisfied that TransGrid proposed positive pass through amount reflect the additional costs it incurred or expects to incur as a result of the bushfires (see section 4.4).

22. **We must take into account the extent to which TransGrid's costs**

There are no relevant previous pass through determinations.

⁶² AER, *Final Decision: TransGrid Transmission Determination 2018 to 2023 - Overview*, May 2018, p.37.

⁶³ TransGrid, *Cost pass through application – 2019-20 bushfire season*, 13 November 2020, p. 56.

⁶⁴ Cl. 6A.7.3(j)(6A) of the Rules.

have already been funded by previous pass through determinations⁶⁵

23.

We must take into account any other factors that we consider relevant⁶⁶

We published TransGrid's pass through application on our website and sought submissions from interested stakeholders. We received submissions from the Public Interest Advocacy Centre (PIAC) and Red Energy. We have considered the issues raised in submissions in making this decision.

PIAC is unconvinced that the full amount sought in TransGrid's application should be allowed, and questions whether it is entirely additional to what was allowed in TransGrid's 2018-23 revenue determination. PIAC questions whether cost deductions ought to be made to expenditure categories other than routine vegetation management as a result of TransGrid's bushfire expenditures. PIAC also called for a review to consider how to better incorporate extreme weather events costs into the risk allocation and cost recovery frameworks of the NEM.

We sought information from TransGrid to assess whether there are potential efficiency gains and other cost deferrals as a result of TransGrid's bushfire remediation works. In response, TransGrid identified one further cost savings in replacement capital expenditure as a result of its repair works. TransGrid also provided its internal documents to demonstrate that its capital expenditure projects and planned maintenance works did not change materially pre-bushfires and post-bushfires, and therefore its bushfire-related expenditures have not resulted in any particular cost savings or displaced any planned expenditures.

We note that, whilst the proposed review about risk allocation and cost recovery frameworks of the NEM is outside the scope of this specific pass through decision, such matters are the subject of further and ongoing consideration by policy and rule makers.

Red Energy submitted that TransGrid's cost pass through should be varied in the same timeframe as the distribution network tariff resets such that the AER may account for it in determining the Default Market Offer (DMO). Red Energy also submitted that TransGrid's cost pass through should be smoothed to minimise impacts to consumers.

As discussed in section 5, our determination is to allow TransGrid to recover the approved pass through amount over three years commencing from FY 2022-23 to minimise bill impacts to consumers. The DMO for FY 2022-23 will in effect incorporate the approved pass through amount provided under this determination when TransGrid publishes its network tariff for FY 2022-23 by 15 March 2022.

We issued two information notices to TransGrid under clause 6A.7.3(e1) of the NER seeking further information on how TransGrid estimated its proposed pass through amount. We received information in response to the notices on 22 January 2021 and 5 March 2021. We have taken this information into account in our assessment of the efficiency and prudence of TransGrid's costs and what costs should be included in the approved pass through amount (see section 4.4 above).

⁶⁵ Cl. 6A.7.3(j)(6B) of the NER.

⁶⁶ Cl. 6A.7.3(j)(7) of the NER.