



Decision

Cost pass through

AusNet Services' 2019-20 bushfire natural disaster event

November 2020

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1. Summary of our assessment

On 27 May 2020 AusNet Services submitted a cost pass through application seeking recovery of actual and expected costs as a result of bushfires that occurred from November 2019 through to February 2020.

AusNet Services submitted that the bushfires caused direct damage to AusNet Services' assets, and indirect damage from burning trees falling across power lines. Specifically, AusNet Services submitted that in total 1,000 km of AusNet Services' power lines were affected, resulting in the need to replace: 325 poles; 680 cross-arms, spiral vibration dampers at 400 sites; 12 distribution transformers; surge arrestors, conductors and conductor fittings. AusNet Services' response to the bushfires also included patrolling 2,000 spans of conductor to identify damage and clear vegetation.¹

In addition, AusNet Services stated that 7,000 customers were off supply as a result of the damage. Large mobile generators were installed and maintained at Mallacoota, Newmerella, Omeo and Corryong throughout January and February and a fleet of 100 small generators were deployed to support individual customers without power.²

For a cost 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 our current revenue determination for AusNet Services (in this case, a natural disaster event) – typically an event that is largely unavoidable and with unforeseeable timing, and
- that event must entail AusNet Services incurring materially higher costs in providing direct control services than it would have incurred but for the event.

AusNet Services' may then submit a pass through application. Its application must address certain matters, as specified in the NER.³

We must then make a determination on AusNet Services' 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 end users. In making our determination on AusNet Services' pass through application, we must have regard to certain matters. The requirements for:

- what constitutes a positive change event and an eligible pass through amount
- the matters that AusNet Services' pass through application must address; and
- the matters that we must consider in making our determination;

as well as our consideration of these requirements are set out in section 0 below.

¹ AusNet Services, Cost pass through application – 2020 summer bushfires, cover letter, May 2020, p. 1; AusNet Services, Attachment 7 to pass through application, May 2020; AusNet Services, Response to AER Information Request, 17 July 2020, p. 7.

² AusNet Services, Cost pass through application – 2020 summer bushfires, May 2020, pp. 1-2.

³ Cl. 6.6.1(a) of the Rules.

In summary, we are satisfied that the bushfires constituted a positive change event and that AusNet Services' pass through application addresses the matters required by the NER. Most notably that the bushfire event was not caused by AusNet Services; the costs incurred in providing direct control services as a result of the event meet the materiality threshold; and the costs of the bushfires were not already funded through insurance, self-insurance, or other regulatory allowances.

However, we are not satisfied that the pass through amount of \$14.71 million initially proposed by AusNet Services reflects the additional costs associated with the pass through event. We identified three errors in the calculation such that the proposed amount is overstated and does not reflect the increase in costs incurred solely as a consequence of the event.

- The first error involved duplication of \$267,857 of capex relating to corrective works in AusNet Services' calculations.
- The second error was an inconsistency between the inflation index used to deflate nominal \$2020 values to real \$2015 values and the index used to re-inflate back to \$2020 values (a process required within our Post-Tax Revenue Model and necessary for calculating the capital costs resulting from the bushfire event).
- The third error was the inclusion of fixed monthly contractor fees in the estimate of the costs incurred as a result of the bushfires, but not deducted in AusNet Services' calculation of only the incremental costs of the bushfires.

We raised this with AusNet Services and it agreed that the capex duplication, inflation adjustment inconsistency, and non-deduction of fixed monthly contractor fees were in error. As a result, AusNet Services submitted a revised pass through amount of \$13,850,164, based on opex and capex of \$13.7 million and \$6.9 million, respectively (compared to the \$14 million and \$7.5 million initially proposed by AusNet Services).⁴

We are satisfied that AusNet Services' revised estimates of opex and capex resulting from the bushfires are efficient. Further details on our assessment of the efficiency of the pass through amount is set out in section 4.

While we accept the level of AusNet Services' revised pass through amount (adjusted for updated revenue model inputs), we do not accept AusNet Services' proposed recovery of the pass through amount in the first six months of calendar year 2021. We consider it is not practically possible to recover the pass through amount in the first half of 2021 given the timing of the legislative changes that were necessary to allow for the recovery of costs in this period.⁵ Further, we consider that recovering the pass through amount in a six month period, would have a greater impact on the prices paid by end users. We therefore consider that the pass through amount should be recovered in the next regulatory period of 2021-26.

We note that electricity users in AusNet Services' Customer Forum have expressed a preference for a smoothed revenue profile across the 2021-26 regulatory control period.⁶ To

⁴ AusNet Services, revised Attachments 7 and 8 to pass through application, emailed to AER on 17 August 2020.

⁵ The *National Electricity Legislation Amendment Bill 2020* (Vic) received Royal Assent on 20 October 2020 and came into effect on 27 October 2020.

⁶ AusNet Services, AusNet Services 2021-2025 Electricity Distribution Price Review, Customer Forum Final Engagement Report, 31 January 2020, pp. 48-49.

maintain consistency with customers' expressed preference for a smoothed revenue profile, we have determined to smooth the recovery of the pass through amount across the five years of the 2021-26 regulatory control period.

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

Therefore, after:

- correcting the three calculation errors;
- updating revenue model calculations using final values from our determination for the first half of 2021;
- adjusting for the later timing of recovery and the time cost of money; and
- accepting the remainder of AusNet Services' proposed pass through;

we determine pass through amounts of:

- \$2,901,474 to be recovered in 2021-22
- \$3,038,023 to be recovered in 2022-23
- \$3,180,997 to be recovered in 2023-24
- \$3,330,700 to be recovered in 2024-25, and
- \$3,487,449 to be recovered in 2025-26.

We estimate that this cost pass through will increase customer bills over the 2021-26 period by about \$2 to \$3 per year for residential customers and by about \$13 to \$16 per year for small business customers.⁸

⁷ Cl. 6.6.1(j)(4) of the Rules.

⁸ Compared to estimated customer bills for 2021-22 based on our draft distribution determination for AusNet Services' 2021-26 regulatory control period.

2. Introduction

We received a cost pass through application from AusNet Services for additional expenditure associated with restoring supply and repairing damage to the network from bushfires between November 2019 and February 2020.

AusNet Services has proposed to recover \$14.71 million from consumers as a result of restoring supply and replacing damaged parts of their network.

2.1. Who we are and our role in this process

The AER is the economic regulator for electricity distribution and transmission services in the NEM. Our electricity-related powers and functions are set out in the National Electricity Law and NER.⁹

AusNet Services' revenues are regulated by the AER through five year distribution revenue determinations. The current revenue determination commenced on 1 January 2016 and will finish on 30 June 2021.

We are responsible for assessing pass through applications. Under the pass through provisions in the NER, a distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory control period, if predefined events occur as specified in the NER or as specified in a revenue determination.¹⁰

2.2. AusNet Services' application

On 27 May 2020 AusNet Services submitted a cost pass through application seeking recovery of actual and expected costs as a result of bushfires that occurred from November 2019 through to February 2020.

AusNet Services submitted that the bushfires caused direct damage to AusNet Services' assets, and indirect damage from burning trees falling across power lines. Specifically, AusNet Services submitted that in total 1,000 km of AusNet Services' power lines were affected, resulting in the need to replace: 325 poles; 680 cross-arms, spiral vibration dampers at 400 sites; 12 distribution transformers; surge arrestors, conductors and conductor fittings. AusNet Services' response to the bushfires also included patrolling 2,000 spans of conductor to identify damage and clear vegetation.¹¹

In addition, AusNet Services stated that 7,000 customers were off supply as a result of the damage. Large mobile generators were installed and maintained at Mallacoota, Newmerella,

⁹ 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.

¹⁰ Cl.6.6.1 of the Rules.

¹¹ AusNet Services, Cost pass through application – 2020 summer bushfires, cover letter, May 2020, p. 1; AusNet Services, Attachment 7 to pass through application, May 2020; AusNet Services, Response to AER Information Request, 17 July 2020, p. 7.

Omeo and Corryong throughout January and February and a fleet of 100 small generators were deployed to support individual customers without power.¹²

AusNet Services submitted that it expects to incur \$21.5 million of additional costs as a result of the bushfires (\$14 million of operating expenditure and \$7.5 million of capital expenditure).

AusNet Services' pass through application seeks recovery of costs it has incurred and is expected to incur through to the end of its current regulatory period, which runs from 1 January 2016 to 30 June 2021. AusNet Services' proposed to recover a pass through amount of \$14.71 million. This amount reflects the operating expenditure incurred and a portion of the capital expenditure incurred. The remainder of the incurred capital expenditure would be recovered in subsequent periods over the rest of the life of the assets.¹³

AusNet Services proposed to recover the pass through amount in the six month period of 1 January 2021 to 30 June 2021.¹⁴

2.3. Structure of this document

This document set out our determination, amongst other things, on the 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 assessment of the proposed pass through amount
- Section 4 sets out our assessment of the proposed recovery period of the eligible pass through amount
- Section 5 sets out assessment of the pass through application against the requirements in the NER, including whether the bushfires meet the definition of a pass through event in AusNet Services revenue determination and whether the materiality threshold in the NER is met.

¹² AusNet Services, Cost pass through application – 2020 summer bushfires, May 2020, pp. 1-2.

¹³ AusNet Services, Attachments 7 and 8 to pass through application, May 2020.

¹⁴ AusNet Services, Cost pass through application – 2020 summer bushfires, May 2020, p. 30.

3. Our determination

Having taken into account all the matters set out in this decision, we determine that a natural disaster pass through event has occurred for AusNet Services, for which we determine pass through amounts of:

- \$2,901,474 (\$nominal) to be recovered in 2021-22
- \$3,038,023 (\$nominal) to be recovered in 2022-23
- \$3,180,997 (\$nominal) to be recovered in 2023-24
- \$3,330,700 (\$nominal) to be recovered in 2024-25, and
- \$3,487,449 (\$nominal) to be recovered in 2025-26.

4. The efficiency of the pass through amount

In assessing a pass through application, we consider the efficiency of the proposed pass through amount. The NER requires us to take into account the need to ensure that AusNet Services' 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.¹⁵

We approach this efficiency assessment by ensuring:

- 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 AusNet Services
- That the costs incurred are the lowest possible to rectify the damage caused by the bushfires (that is, to maintain service levels before the bushfire event); and
- That 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 with new assets may result in lower future inspection and maintenance costs.

In section 1 we noted that there were three errors in the calculation of AusNet Services' initial proposed pass through amount of \$14,709,522.

We are satisfied that AusNet Services' revised estimates of opex and capex resulting from the bushfires are efficient. The subsections below set out our assessment of the efficiency of AusNet Services' opex and capex.

AusNet Services' revised pass through amount of \$13,850,164 was calculated from these opex and capex amounts using our revenue models¹⁶ for the 2016-21 regulatory period. Our models for this period constitute the models for the 2016-20 period, which were determined in 2015, and the models for the first half of 2021, reflecting our determination in October 2020 for that period for AusNet Services.¹⁷ As our regulatory determination for the first half of 2021 wasn't made at the time of AusNet Services' pass through application, AusNet Services used forecast values in this model.

We have updated the revenue models used in the calculation of the pass through amount to reflect our final regulatory determination for AusNet Services for the first half of 2021. From these values we estimate a pass through amount of \$13,855,316.

We then adjusted this amount to reflect the time cost of recovering the pass through amount in each of the five regulatory years in the 2021-26 regulatory control period rather than the next pricing period following the event (which is the first half of 2021).

Reflects only bushfire-related costs and not business-as-usual costs

¹⁵ Clause 6.6.1(j)(5) of the Rules.

¹⁶ Our Post-Tax Revenue Model (PTRM) and our Regulatory Asset Base Roll Forward Model (RFM).

¹⁷ AER, Final Decision Six Month Extension, 2021 Half Year Post Tax Revenue Model, October 2020.

We are satisfied that AusNet Services separately identified the costs it incurred as a result of the bushfires from its other business as usual costs of operating the distribution network.

AusNet Services described its process for isolating bushfire-related costs as follows:¹⁸

Six objects were created in SAP (Work Clearance Applications (WCAs)) specifically for the bushfires response and all Work Orders related to Bushfire response activities were assigned to one of these. Other business activities are assigned to their respective WCAs, and hence were not captured by the bushfire response WCAs.

Internal assessment and inspection teams had responsibility for identifying required work such as maintenance and vegetation clearing. Tasks were assigned to work orders which in turn are assigned to one of the 6 WCAs created for bushfire response work in SAP. The approach ensures that work assigned out is linked back against the appropriate WCA. The work orders were then issued to contractors...to carry out the required works. When contractors issue invoices to AusNet Services, the amounts are linked back to the originating Work Order. Hence, other works being performed by the contractors were not captured by these WCAs and thus separated from contractor costs associated with the bushfire event.

We note that AusNet Services' cost estimates are predominately based on actual incurred¹⁹ and audited costs. Details of work orders and work clearance applications from SAP extracts provided by AusNet Services indicate that the costs included in its pass through application relate only to activities that we would expect to occur following a bushfire event over and above business-as-usual activities. 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.

AusNet Services' initially proposed pass through amount included two cost components that were calculation errors (see section 1 for more detail). As such, these components of the overall proposed pass through amount are not costs incurred as a result of the bushfires.

The initial pass through proposal also erroneously included a business-as-usual fixed monthly contractor cost. AusNet Services initial estimate of the costs incurred as a result of the bushfire event included invoices from contractors, and those invoices included amounts for fixed, ongoing monthly support fees. These monthly support fees are fixed and are incurred by AusNet Services regardless of the scope of works that AusNet Services may request the contractor to undertake. They are therefore a business-as-usual cost and not an incremental cost of the pass through event.

¹⁸ AusNet Services, Response to AER information notice, 17 July 2020, p. 4.

¹⁹ AusNet Services submitted that the 'Asset Inspection – Ground' cost category was not fully incurred at the time of compiling its cost pass through estimate and is instead a forecast cost [AusNet Services, Response to AER Information Request, 17 July 2020, p. 4]. This cost category makes up less than 1 per cent of the total costs incurred as a result of the bushfire event [see: AusNet Services, Attachment 7 to pass through application, May 2020].

AusNet Services subsequently submitted a revised proposed pass through amount that corrected for these three errors. After correcting for these errors we are satisfied that AusNet Services isolated the costs it incurred as a result of the bushfires from its business as usual costs of operating the distribution network.

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

We are satisfied that the level of costs incurred as a result of the bushfires reflect efficient costs given the scope of works required (as set out in the section above).

AusNet Services' unit costs incurred align with benchmark costs based on AusNet Services' regulatory proposal for its 2021–26 regulatory control period. Our draft determination for AusNet Services' 2021–26 regulatory control period finds these aspects of its opex and capex forecasts to be efficient.²⁰

In addition, AusNet Services purchased a fleet of 100 small generators to provide customers without supply during the bushfire period. It may have been possible for AusNet Services to hire these assets rather than purchase them.

However, we consider that purchase of these generators was a prudent management approach given the AusNet Services' concerns about uncertainty over the duration of the bushfire period and individual customer outages, the limited number of units available for local hire, and demand pressures during the bushfire period.²¹ We acknowledge it was prudent that AusNet Services did not exhaust the local supply of generators for hire during the bushfire period, noting that AusNet Services had the ability, which local customers may not have, to access generators from a broader area and bring them into the required area. On this basis we are satisfied that the purchase of these generators reflects a prudent decision by AusNet Services.

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

We are satisfied that AusNet Services' pass through amount reflects deductions for an efficient level of partially-offsetting savings that are expected to occur as a result of works undertaken by AusNet Services to repair its network.

In estimating its proposed pass through amount, AusNet Services' estimated the amount of business-as-usual costs that would be avoided as a result of its works to rectify bushfire damage. AusNet Services estimated that some future vegetation management, asset inspection, and asset replacement works could be deferred or avoided.

AusNet Services' estimate of the works that could be deferred or avoided was based on the asset condition before the bushfires, extent of works undertaken as a result of the bushfires, and forecasts of activity rates (such as vegetation management cycles, inspection cycles, and replacement rates of inspected assets) and unit costs following the bushfires.²²

²⁰ AER, Draft decision, AusNet Services distribution determination 2021 to 2026, attachment 5, capital expenditure, September 2020.

²¹ AusNet Services, Response to AER information notice, 17 July 2020, pp. 9-10.

²² AusNet Services, Response to AER information notice, 17 July 2020.

We are satisfied that AusNet Services' forecasts of activity rates and unit costs used in estimating its proposed pass through amount align with the forecasts in its regulatory proposal for the 2021–26 regulatory control period. As noted above, our draft determination for AusNet Services' 2021–26 regulatory control period finds these aspects of its opex and capex forecasts to be efficient. As a result, we are satisfied that AusNet Services' method for estimating expected cost savings results in appropriate deductions for savings to asset inspections, asset replacements, and vegetation management.

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

AusNet Services proposed that the pass through amount be recovered from end users in the first half of 2021.

We do not approve AusNet Services' proposal to recover the pass through amount in the first half of 2021. We consider it is not practically possible to recover the pass through amount in the first half of 2021 given the timing of the legislative changes that were necessary to allow for the recovery of costs in this period (referred to as 'regulatory years' in the NER). Further, we consider that recovering the pass through amount in a six month period would have a greater impact on the prices paid by end users.

The first half of 2021 is a new pricing period created through legislative changes made by the Victorian government in October 2020.²³ These legislative changes shift AusNet Services' regulatory years (including pricing periods) from calendar years to financial years.

Annual pricing for AusNet Services' distribution network services for the 2020 calendar year were determined in November 2019 prior to the legislative changes.²⁴ The first regulatory year for the 2021 to 2026 regulatory control period will be 2021-22. As a result, the existing regulatory control period was extended to cover the first half of 2021, which will bridge the prices in calendar year 2020 and those in financial year 2021-22.

The process for determining prices covering the period 1 January 2021 to 30 June 2021 for AusNet Services' distribution network services must be completed by mid-November 2020. This is necessary so that these network prices can be taken into account in retail prices.

The limited time between the legislative changes occurring in October 2020 and the determination of network prices in mid-November 2020 makes it impractical for recovery of the pass through amount to occur in the first half of 2021.

In addition, recovering the pass through amount in a six month regulatory year is a shorter recovery period than would otherwise occur. The NER provides that pricing periods (or regulatory years) are 12 months long. AusNet Services' proposal to compress the recovery of the cost pass through amount into a six month pricing period would have a greater impact on the prices paid by consumers.

For these reasons we do not approve AusNet Services' proposal to recover the pass through amount in the first half of 2021. Instead, we consider that the pass through amount should be recovered in the next regulatory control period, being 2021-26. We note that electricity users in AusNet Services' Customer Forum have expressed a preference for a smoothed revenue profile across the 2021-26 regulatory control period.²⁵ We took this preference into

²³ The *National Electricity Legislation Amendment Bill 2020 (Vic)* received Royal Assent on 20 October 2020 and came into effect on 27 October 2020.

²⁴ AER, Approved AusNet Services Pricing Proposal 2020, November 2019.

²⁵ AusNet Services, AusNet Services 2021-2025 Electricity Distribution Price Review, Customer Forum Final Engagement Report, 31 January 2020, pp. 48-49.

account in our draft decision for AusNet Services' 2021-26 distribution determination.²⁶ To maintain consistency with customers' expressed preference for a smoothed revenue profile, we have determined to smooth the recovery of the pass through amount across the five years of the 2021-26 regulatory control period.

²⁶ AER, Draft Decision, AusNet Services Distribution Determination 2021 to 2026, Attachment 1, Annual Revenue Requirement, September 2020, p. 9.

6. Requirements for determining a cost pass through

For a cost pass through to be determined there must be a positive change event that results in an eligible pass through amount. The requirements for a positive change event and an eligible pass through amount and our consideration of them are set out in the table below.

AusNet Services' may then submit a pass through application. Its application must address certain matters, as specified in the NER. These matters and our consideration of them are set out in the table below.

We must then make a determination on AusNet Services' 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. For the reasons set out in Table 1 below, we are satisfied that a positive change event has occurred, and that AusNet Services' pass through application specifies all the matters required by the NER.

In making our determination on AusNet Services' pass through application, we must take into account certain matters, as specified in the NER. In assessing a natural disaster pass through application, we will also have regard to certain matters set out in AusNet Services' distribution determination. These matters and our consideration of them are set out in Table 2 below. After having regard to all of the matters in Table 2 below and throughout this decision, we make the determination set out in section 1 above.

Table 1 Consideration of requirements for determining a cost pass through

#	Requirement of the NER	Our consideration
1.	Is the pass through event a regulatory change event, service standard event, tax change event, or retailer insolvency event? ²⁷	No
2.	Is the pass through event a contingent project or a trigger event associated with a contingent project? ²⁸	No
3.	Does the pass through relate to any other event specified in AusNet Services' 2016-20 distribution determination as a pass through event for that determination? ²⁹	Yes. We consider that the bushfires satisfy the natural disaster pass through event specified in AusNet Services' determination, which is defined as including fire, flood, or earthquake, provided the event was not a consequence of the acts or omissions of AusNet Services. ³⁰ We note that in response to the bushfires the Victorian Premier declared a state of disaster on 2 January 2020 for six local government areas in Eastern Victoria. ³¹

²⁷ Cl. 6.6.1(a1)(1) through 6.6.1(a1)(4) of the Rules; and chapter 10 of the Rules.

²⁸ See the definition of "positive change event" in chapter 10 of the Rules.

²⁹ Cl. 6.6.1(a1)(5) of the Rules.

³⁰ AER, Final Decision: AusNet Services 2016-20 Distribution Determination – Attachment 15 – Pass Through Events, May 2016, p. 7.

³¹ Premier of Victoria, Media Release - Government Declares A State Of Disaster, 2 January 2020, <https://www.premier.vic.gov.au/victorian-government-declares-state-disaster>.

4. **Was the pass through event a consequence of acts or omissions of AusNet Services?**³²

No, there is no evidence that AusNet Services' acts or omissions caused the bushfires.³³

Yes. See section 3 for our assessment of AusNet Services' increased costs. AusNet Services provided us with SAP extracts detailing the actual incurred increase in costs.

5. **Did the bushfire pass through event entail AusNet Services incurring materially higher costs in providing direct control services than it would have incurred but for the event?**³⁴

The NER defines a material change in costs³⁵ as a change in costs (as opposed to the revenue impact) that a DNSP has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, that exceeds 1% of the annual revenue requirement for that regulatory year. AusNet Services' annual revenue requirement for the 2020 regulatory year was \$669.3 million, 1% of which is \$6.7 million. We consider that an efficient amount of opex and capex incurred as a result of the bushfires is \$13.7 million and \$6.7 million respectively. Therefore, the costs incurred in providing direct control services as a result of the event exceed the materiality threshold.

AusNet Services submitted that the bushfires that damaged its network from late November 2019 to end of February 2020 were part of one natural disaster event. We agree.

We consider that the multiple bushfires can be considered one natural disaster event if they are sufficiently related and have the same underlying cause. If they occurred relatively closely in both time and geographic proximity, we consider this would also support treating them together.

6. **Does the pass through application relate to one event or multiple events?**

We are satisfied that the bushfires all had the same underlying cause. Namely, a combination of drought and hot and dry weather that led to their ignition and rapid expansion.

In addition, the bushfires that damaged AusNet Services' network all occurred over the same three month period and all occurred in the eastern Victorian region. Figures 4, 5, and 7 in AusNet Services' pass through application show the geographic proximity of the bushfires.

We note that fire fighting and emergency response authorities conducted a coordinated response to all the bushfires collectively,³⁶ and that the Victorian Premier collectively declared a state of disaster for all regions subject to the bushfires.³⁷

7. **Has the pass through event occurred?**

Yes. The bushfires occurred from late November 2019 to late February 2020, with a duration of about 90 calendar days.

We consider that the pass through event ended on 27 February 2020. This is the date that all significant bushfires burning in Victoria were declared by the Forest Fire Management Victoria and the Country Fire Authority to be contained, and the date that the last bushfire causing damage to AusNet Services' network ceased. We consider this to be the date on which the positive change event occurred.

As the bushfires event spans multiple days, we consider it is appropriate to adopt the end date of when the final bushfire causing damage to AusNet Services' network ceased as the date of the event, although we do not rule out that the beginning of a multiple-date event may be

³² AER, Final Decision: AusNet Services 2016-20 Distribution Determination – Attachment 15 – Pass Through Events, May 2016, p. 7.

³³ AusNet Services, Cost pass through application – summer 2020 bushfires, 27 May 2020, p. 14.

³⁴ That is, does it meet the definition of a “positive change event” as defined in chapter 10 of the Rules.

³⁵ For the purposes of a cost pass through.

³⁶ AusNet Services, Cost pass through application – 2020 summer bushfires, 27 May 2020, p. 13.

³⁷ Premier of Victoria, Media Release - Government Declares A State Of Disaster, 2 January 2020, <https://www.premier.vic.gov.au/victorian-government-declares-state-disaster>.

appropriate in some circumstances. This is because we consider establishing a natural disaster event requires there to be a direct relationship between the natural disaster and the service provider incurring materially higher costs. That is, the bushfires that are relevant are those that actually caused damage to AusNet Services' network. We note that the National Electricity Rules provide that AusNet Services must submit a pass through application within 90 business days (typically about 125 calendar days) of the event.³⁸ As noted above, the event itself lasted for about 90 calendar days. Adopting the end date allows AusNet Services the full 90 business days to prepare its pass through application after the full extent of the event is better known.

Adopting the end date as the date of the event also incentivises AusNet Services to focus on repairing its network, restoring supply to affected customers, and mitigating the impact of the bushfires during the 90 days of the event, rather than diverting attention to its pass through application.

<p>8. Did AusNet Services submit a written statement of its pass through application within 90 business days of the positive change event occurring?³⁹</p>	<p>Yes. AusNet Services submitted its written statement on 27 May 2020, 59 business days after the date on which the positive change event occurred (27 February 2020).</p>
<p>9. Did AusNet Services specify details of the positive change event, including the date on which the event occurred, in its written statement?⁴⁰</p>	<p>Yes. AusNet Services' written statement is available on our website.⁴¹</p>
<p>10. Did AusNet Services specify in its written statement the eligible pass through amount, the proposed positive pass through amount, and the amounts proposed to be recovered from customers in each regulatory year?⁴²</p>	<p>Yes. AusNet Services proposed an eligible, positive pass through amount of \$14.71 million, to be recovered from customers in the first six months of 2021 (which AusNet Services anticipated would become its own regulatory year through changes to the legislative framework).⁴³</p>
<p>11. Did AusNet Services specify in its written statement evidence of the actual and likely increase in costs that occurred as a consequence of the positive change event?⁴⁴</p>	<p>Yes. AusNet Services' pass through application (that is, its written statement) set out the costs it incurred and forecast to incur as a result of the bushfires, as well as how it calculated its proposed pass through amount.⁴⁵ In response to our information requests AusNet Services also provided further information detailing work orders and work clearance applications and SAP extracts evidencing the costs incurred solely as a consequence of the bushfires. AusNet Services also detailed how its forecast of the impact of the bushfires on future costs were estimated.⁴⁶</p>
<p>12. Was there a regulatory information instrument</p>	<p>No.</p>

³⁸ Cl. 6.6.1(c) of the Rules.

³⁹ Cl. 6.6.1(c) of the Rules.

⁴⁰ Cl. 6.6.1(c)(1) and 6.6.1(c)(2) of the Rules.

⁴¹ <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/ausnet-services-cost-pass-through-2019-20-bushfire-natural-disaster/initiation>

⁴² Cl. 6.6.1(c)(3), 6.6.1(c)(4), and 6.6.1(c)(5) of the Rules.

⁴³ AusNet Services, Cost pass through application – 2020 summer bushfires, 27 May 2020, p. 2.

⁴⁴ Cl. 6.6.1(c)(6) of the Rules.

⁴⁵ AusNet Services, build up of costs spreadsheet, Attachment 7 to AusNet Services cost pass through application – 2020 summer bushfires, May 2020; AusNet Services, regulatory models, Attachment 8 to AusNet Services cost pass through application – 2020 summer bushfires, May 2020.

⁴⁶ AusNet Services, build up of costs spreadsheet, Attachment 7 to AusNet Services cost pass through application – 2020 summer bushfires, May 2020.

	applicable to the pass through application? ⁴⁷	
13.	Is the pass through amount, in whole or in part, in respect of expenditure for a restricted asset? ⁴⁸	No. ⁴⁹

Table 2 Matters that the AER must take into account

#	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 AusNet Services' written statement. ⁵⁰	This decision sets out how we have taken into account the matters and proposals set out in AusNet Services' pass through application (written statement).
16.	We must take into account the increase in costs in providing direct control services resulting from the pass through event ⁵¹	<p>In making the pass through determination we must take into account the increase in costs in the provision of direct control services that, as a result of the positive change event, AusNet Services 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 3 above we set out our assessment of the costs incurred by AusNet Services as a consequence of the bushfires. We consider the costs incurred as well as partially-offsetting savings to future costs that we expect to occur as a result of works undertaken by AusNet Services to repair its network.</p> <p>AusNet Services deducted cost savings that it forecast to achieve up to the end of its 2016-20 regulatory period. AusNet Services forecast cost savings that would extend past the end of this period, but proposed that these savings be taken into account in our determination for its 2021-26 regulatory period. We consider this approach is appropriate. AusNet Services submitted that it would include these cost savings in its revised proposal for the 2021-26 regulatory period.⁵²</p>
17.	We must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the event ⁵³	<p>In making the pass through determination we must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the positive change event, including whether AusNet Services 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>AusNet Services' costs incurred (which make up the pass through amount) align with benchmark costs based on AusNet Services' regulatory proposal for its 2021–26 regulatory period, given the scope of works required (as set out in section 2.2 above). We note that our draft determination for AusNet Services' 2021–26 regulatory period finds these aspects of its opex and capex forecasts to be efficient. We also</p>

⁴⁷ Cl. 6.6.1(c)(7) of the Rules.

⁴⁸ Cl. 6.6.1(c1) and (d2) of the Rules.

⁴⁹ AusNet Services, Cost pass through application – 2020 summer bushfires, 27 May 2020, p. 27.

⁵⁰ Cl. 6.6.1(j)(1) of the Rules.

⁵¹ Cl. 6.6.1(j)(2) of the Rules.

⁵² AusNet Services, Cost pass through – 2020 summer bushfires, 27 May 2020, p. 24.

⁵³ Cl. 6.6.1(j)(3) of the Rules.

consider that there wasn't any act that AusNet Services failed to do to mitigate the risk of the event occurring.

<p>18. We must take into account the time cost of money</p>	<p>In making the pass through determination we must take into the time cost of money based on the allowed rate of return for AusNet Services for the regulatory control period in which the pass through event occurred.⁵⁴</p> <p>While we accept AusNet Services' revised pass through amount, we do not accept recovering the pass through amount in the first half of 2021. Instead, we determine that the pass through amount should be recovered across the 2021-26 regulatory control period.</p> <p>To account for this change in recovery timing, we have adjusted the pass through amount using AusNet Services' discount rate determined for the first half of 2021.</p>
<p>19. We must take into account the need to ensure that the pass through amount reflects only costs incurred solely as a consequence of the bushfires</p>	<p>In making the pass through determination we must take into account the need to ensure that AusNet Services 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.⁵⁵</p> <p>In section 3 above we set out our assessment of the costs incurred by AusNet Services as a consequence of the bushfires. We are satisfied that – after correcting for the capex duplication error, inflation adjustment error, and erroneous inclusion of a fixed monthly contractor fee – AusNet Services' proposed pass through amount reflects only costs incurred as a consequence of the bushfires.</p>
<p>20. The AER will have regard to whether AusNet Services has insurance against the event, and whether it is the level of insurance that an efficient and prudent network operator would obtain?⁵⁶</p>	<p>AusNet Services did not have insurance covering the bushfires. AusNet Services submitted that insurance cover for poles and wires is not available at economic rates, with cover costing about twenty times as much as that for property insurance.⁵⁷ We are satisfied that it was prudent and efficient for AusNet Services to not obtain bushfire insurance cover for its distribution network assets (this is discussed further at 20 below).</p>
<p>21. We must take into account costs already funded by customers through our five-yearly regulatory determinations</p>	<p>The National Electricity Rules provide that we must take into account whether the costs of the bushfires have already been factored into the calculation of the AusNet Services' annual revenue requirement for its 2016-20 regulatory control period or will be factored into the calculation of the annual revenue requirement for its 2021-26 regulatory control period.⁵⁸</p> <p>We provided revenue allowances in AusNet Services' 2016-20 distribution determination to fund AusNet Services 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.</p> <p>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 AusNet Services' 2016-20 distribution determination.</p> <p>We are satisfied that AusNet Services has accurately recorded the additional costs incurred as a result of the bushfires (see section 3).</p> <p>As well as causing additional costs, there may be partially-offsetting savings that are expected to occur as a result of works undertaken by</p>

⁵⁴ Cl. 6.6.1(j)(4) of the Rules.

⁵⁵ Cl. 6.6.1(j)(5) of the Rules.

⁵⁶ AER, Final Decision: AusNet Services 2016-20 Distribution Determination – Attachment 15 – Pass Through Events, May 2016, p. 7.

⁵⁷ AusNet Services, Cost pass through application – summer 2020 bushfires, 27 May 2020, pp. 29-30.

⁵⁸ Cl. 6.6.1(j)(7) of the Rules.

AusNet Services to repair its network. Therefore, some portion of the additional costs incurred as a result of the bushfires can be considered to have already been funded through cost savings in other areas, for which revenue allowances were provided in our 2016-20 determination.

AusNet Services did deduct a number of cost savings that it forecast to achieve following works undertaken to repair its network. We are satisfied that AusNet Services appropriately forecast these cost savings.

AusNet Services deducted cost savings that it forecast to achieve up to the end of its 2016-20 regulatory period. AusNet Services forecast cost savings that would extend past the end of this period, but proposed that these savings be taken into account in our determination for its 2021-26 regulatory period. We consider this approach is appropriate. AusNet Services submitted that it would include these cost savings in its revised proposal for the 2021-26 regulatory period.⁵⁹

22. We must take into account the extent to which AusNet Services' costs have already been funded by previous pass through determinations⁶⁰

There are no relevant previous pass through determinations.

23. We must take into account any other factors that we consider relevant

We published AusNet Services' pass through application on our website and sought submissions from interested stakeholders. No submissions were received.

We issued an information notice to AusNet Services under clause 6.6.1(e1) of the National Electricity Rules seeking further information on how AusNet Services estimated its proposed pass through amount. We received information in response to this notice on 17 July 2020. There were also several subsequent follow-up information requests. We have taken this information into account in our assessment of the efficiency of the positive pass through amount (see section 3 above).

⁵⁹ AusNet Services, Cost pass through – 2020 summer bushfires, 27 May 2020, p. 24.

⁶⁰ Cl. 6.6.1(j)(7A) of the Rules.